MARSH & MCLENNAN COMPANIES, INC.
Form 10-Q
August 08, 2012
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q Filing

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2012

Marsh & McLennan Companies, Inc.

1166 Avenue of the Americas
New York, New York 10036
(212) 345-5000

Commission file number 1-5998
State of Incorporation: Delaware
I.R.S. Employer Identification No. 36-2668272

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting Company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting Company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer ¨

Non-Accelerated Filer ¨(Do not check if a smaller reporting company) Smaller Reporting Company ¨
Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
As of July 31, 2012, there were outstanding 544,195,564 shares of common stock, par value $1.00 per share, of the registrant.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements,” as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management's current views concerning future events or results, use words like “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “future,” “intend,” “plan,”

and similar terms, and future or conditional tense verbs like "could," "may," "might," "should," "will" and "would." For examp
we may use forward-looking statements when addressing topics such as: the outcome of contingencies; the expected impact of acquisitions and dispositions; pension obligations; market and industry conditions; the impact of foreign currency exchange rates; our effective tax rates; the impact of competition; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; changes in the composition or level of our revenues; our cost structure, dividend policy, cash flow and liquidity; future actions by regulators; and the impact of changes in accounting rules.

Forward-looking statements are subject to inherent risks and uncertainties. Factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements include, among other things:

- our exposure to potential liabilities arising from errors and omissions claims against us, particularly in our Marsh and Mercer businesses in the U.S. and the U.K.;
- our ability to make strategic acquisitions and dispositions and to integrate, and realize expected synergies, savings or strategic benefits from the businesses we acquire;
- changes in the funded status of our global defined benefit pension plans and the impact of any increased pension funding resulting from those changes;
- the impact of any regional, national or global political, economic, regulatory or market conditions on our results of operations and financial condition, including the European debt crisis and market perceptions concerning the stability of the Euro;
- the impact of changes in interest rates and deterioration of counterparty credit quality on our results related to our cash balances and investment portfolios, including corporate and fiduciary funds;
- the impact on our net income caused by fluctuations in foreign currency exchange rates;
- the impact on our net income or cash flows and our effective tax rate in a particular period caused by settled tax audits and expired statutes of limitation;
- the extent to which we retain existing clients and attract new business, and our ability to incentivize and retain key employees;
- our exposure to potential criminal sanctions or civil remedies if we fail to comply with foreign and U.S. laws and regulations that are applicable to our international operations, including import and export requirements, anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the UK Bribery Act 2010, local laws prohibiting corrupt payments to government officials, as well as various trade sanctions laws;
- the impact of competition, including with respect to our geographic reach, the sophistication and quality of our services, our pricing relative to competitors, our customers' option to self-insure or utilize internal resources instead of consultants, and our corporate tax rates relative to our competitors;
- the potential impact of rating agency actions on our cost of financing and ability to borrow, as well as on our operating costs and competitive position;
- our ability to successfully recover should we experience a disaster or other business continuity problem;
- our ability to maintain adequate physical, technical and administrative safeguards to protect the security of our data;
- changes in applicable tax or accounting requirements; and
- potential income statement effects from the application of FASB's ASC Topic No. 740 ("Income Taxes") regarding accounting treatment of uncertain tax benefits and valuation allowances, including the effect of any subsequent adjustments to the estimates we use in applying this accounting standard.

The factors identified above are not exhaustive. Marsh & McLennan Companies and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, we caution readers not to place undue reliance on the above forward-looking statements, which speak only as of the dates on which they are made. The Company undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which it is made. Further information concerning Marsh & McLennan Companies and its businesses, including information about factors that could materially affect our results of operations and financial condition, is contained in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" section of our most recently filed Annual Report on Form 10-K.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2012	2011	2012	2011
Revenue	$3,026	$2,928	$6,077	$5,812
Expense:				
Compensation and benefits	1,776	1,728	3,572	3,449
Other operating expenses	732	735	1,460	1,426
Operating expenses	2,508	2,463	5,032	4,875
Operating income	518	465	1,045	937
Interest income	6	5	12	12
Interest expense	(45)	(49)	(91)	(100)
Investment income (loss)	4	(6)	24	13
Income before income taxes	483	415	990	862
Income tax expense	144	129	297	257
Income from continuing operations	339	286	693	605
Discontinued operations, net of tax	(2)	3	(2)	15
Net income before non-controlling interests	337	289	691	620
Less: Net income attributable to non-controlling interests	8	7	15	13
Net income attributable to the Company	$329	$282	$676	$607
Basic net income per share – Continuing operations	$0.61	$0.51	$1.24	$1.08
– Net income attributable to the Company	$0.60	$0.51	$1.24	$1.10
Diluted net income per share – Continuing operations	$0.60	$0.50	$1.23	$1.06
– Net income attributable to the Company	$0.59	$0.50	$1.22	$1.09
Average number of shares outstanding – Basic	545	547	544	545
– Diluted	553	555	552	554
Shares outstanding at June 30,	544	541	544	541

The accompanying notes are an integral part of these consolidated statements.

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MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Net income before non-controlling interests	$337	$289	$691	$620
Other Comprehensive Income (loss), before tax:				
Foreign currency translation adjustments	(191)	64	(29)	237
Unrealized investment loss	—	(1)	(1)	(5)
Gain (loss) related to pension/post-retirement plans	120	58	134	(6)
Other comprehensive income (loss), before tax	(71)	121	104	226
Income tax expense (credit) on other comprehensive income (loss)	21	16	31	4
Other comprehensive income (loss), net of tax	(92)	105	73	222
Comprehensive income	245	394	764	842
Less: Comprehensive income attributable to non-controlling interest	(8)	(7)	(15)	(13)
Comprehensive income attributable to the Company	$237	$387	$749	$829

The accompanying notes are an integral part of these consolidated statements.

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MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions of dollars)	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$1,504	$2,113
Receivables		
Commissions and fees	2,905	2,676
Advanced premiums and claims	66	86
Other	238	249
	3,209	3,011
Less-allowance for doubtful accounts and cancellations	(107)	(105)
Net receivables	3,102	2,906
Current deferred tax assets	381	376
Other current assets	208	253
Total current assets	5,195	5,648
Goodwill and intangible assets	7,086	6,963
Fixed assets		
(net of accumulated depreciation and amortization of $1,535 at June 30, 2012 and $1,469 at December 31, 2011)	800	804
Pension related assets	140	39
Deferred tax assets	1,153	1,205
Other assets	828	795
	$15,202	$15,454

The accompanying notes are an integral part of these consolidated statements.

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MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
(Unaudited)

(In millions of dollars)	June 30, 2012	December 31, 2011
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$259	$260
Accounts payable and accrued liabilities	1,758	2,016
Accrued compensation and employee benefits	916	1,400
Accrued income taxes	111	63
Dividends payable	126	—
Total current liabilities	3,170	3,739
Fiduciary liabilities	4,449	4,082
Less – cash and investments held in a fiduciary capacity	(4,449)	(4,082)
	—	—
Long-term debt	2,663	2,668
Pension, post-retirement and post-employment benefits	1,574	1,655
Liabilities for errors and omissions	466	468
Other liabilities	985	984
Commitments and contingencies		
Equity:		
Preferred stock, $1 par value, authorized 6,000,000 shares, none issued	—	—
Common stock, $1 par value, authorized 1,600,000,000 shares, issued 560,641,640 shares at June 30, 2012 and December 31, 2011	561	561
Additional paid-in capital	1,053	1,156
Retained earnings	8,257	7,949
Accumulated other comprehensive loss	(3,115)	(3,188)
Non-controlling interests	71	57
	6,827	6,535
Less – treasury shares, at cost, 16,852,064 shares at June 30, 2012 and 21,463,226 shares at December 31, 2011	(483)	(595)
Total equity	6,344	5,940
	$15,202	$15,454

The accompanying notes are an integral part of these consolidated statements.

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Six Months Ended June 30, (In millions of dollars)	2012	2011
Operating cash flows:		
Net income before non-controlling interests	$691	$620
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization of fixed assets and capitalized software	133	133
Amortization of intangible assets	34	32
Provision for deferred income taxes	25	73
Gain on investments	(24)	(13)
Loss on disposition of assets	12	1
Stock option expense	20	12
Changes in assets and liabilities:		
Net receivables	(193)	(70)
Other current assets	(29)	(75)
Other assets	(37)	(145)
Accounts payable and accrued liabilities	(218)	148
Accrued compensation and employee benefits	(484)	(422)
Accrued income taxes	49	43
Other liabilities	68	64
Effect of exchange rate changes	19	(71)
Net cash provided by operations	66	330
Financing cash flows:		
Purchase of treasury shares	(100)	(235)
Proceeds from issuance of debt	248	—
Repayments of debt	(254)	(6)
Purchase of non-controlling interests	—	(21)
Shares withheld for taxes on vested units – treasury shares	(89)	(86)
Issuance of common stock	95	112
Payments of contingent consideration for acquisitions	(14)	—
Distributions of non-controlling interests	(4)	—
Dividends paid	(242)	(235)
Net cash used for financing activities	(360)	(471)
Investing cash flows:		
Capital expenditures	(149)	(142)
Net (purchases) sales of long-term investments	(8)	33
Proceeds from sales of fixed assets	1	1
Dispositions	2	1
Acquisitions	(129)	(113)
Other, net	(1)	(1)
Net cash used for investing activities	(284)	(221)
Effect of exchange rate changes on cash and cash equivalents	(31)	127
Decrease in cash and cash equivalents	(609)	(235)
Cash and cash equivalents at beginning of period	2,113	1,894
Cash and cash equivalents at end of period	$1,504	$1,659

The accompanying notes are an integral part of these consolidated statements.

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MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

For the Six Months Ended June 30, (In millions, except per share figures)	2012	2011
COMMON STOCK		
Balance, beginning and end of period	$561	$561
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	$1,156	$1,185
Change in accrued stock compensation costs	(79)	(85)
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax impact	(25)	(6)
Purchase of subsidiary shares from non-controlling interests	1	(2)
Balance, end of period	$1,053	$1,092
RETAINED EARNINGS		
Balance, beginning of year	$7,949	$7,436
Net income attributable to the Company	676	607
Dividend equivalents declared (per share amounts: $0.67 in 2012 and $0.64 in 2011)	(4)	(7)
Dividends declared – (per share amounts: $0.67 in 2012 and $0.64 in 2011)	(364)	(348)
Balance, end of period	$8,257	$7,688
ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS)		
Balance, beginning of year	$(3,188)	$(2,300)
Foreign currency translation adjustments	(15)	235
Unrealized investment holding losses, net of reclassification adjustments	(3)	(4)
Net changes under benefit plans, net of tax	91	(9)
Balance, end of period	$(3,115)	$(2,078)
TREASURY SHARES		
Balance, beginning of year	$(595)	$(514)
Issuance of shares under stock compensation plans and employee stock purchase plans	212	213
Purchase of treasury shares	(100)	(235)
Balance, end of period	$(483)	$(536)
NON-CONTROLLING INTERESTS		
Balance, beginning of year	$57	$47
Net income attributable to non-controlling interests	15	13
Distributions	(4)	(4)
Other changes	3	(3)
Balance, end of period	$71	$53
TOTAL EQUITY	$6,344	$6,780

The accompanying notes are an integral part of these consolidated statements.

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MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations

Marsh & McLennan Companies, Inc. (“the Company”), a global professional services firm, is organized based on the different services that it offers. Under this organizational structure, the Company’s two business segments are Risk and Insurance Services and Consulting.

The Risk and Insurance Services segment provides risk management and insurance broking, reinsurance broking and insurance program management services for businesses, public entities, insurance companies, associations, professional services organizations, and private clients. The Company conducts business in this segment through Marsh and Guy Carpenter.

In January 2012, Marsh acquired Alexander Forbes' South African brokerage operations, including Alexander Forbes Risk Services and related ancillary operations and insurance broking operations in Botswana and Namibia. In March 2012, Marsh acquired KSPH, LLC, a middle-market employee benefits agency based in Virginia, and Cosmos Services (America) Inc., the U.S. insurance brokerage subsidiary of ITOCHU Corp., which specializes in commercial property/casualty, personal lines, and employee benefits brokerage services to U.S. subsidiaries of Japanese companies. In June 2012, Marsh acquired Progressive Benefits Solutions, an employee benefits agency based in North Carolina, and Security Insurance Services, Inc., a Wisconsin-based insurance agency which offers property/casualty and employee benefits products and services to individuals and businesses.

The Consulting segment provides advice and services to the managements of organizations in the area of human resource consulting, comprising retirement and investments, health and benefits, outsourcing and talent; and strategy and risk management consulting, comprising management, economic and brand consulting. The Company conducts business in this segment through Mercer and Oliver Wyman Group.

In February 2012, Mercer acquired the remaining 49% of Yokogawa-ORC, a global mobility firm based in Japan, and Pensjon & Finans, a leading Norway-based financial investment and pension consulting firm. In March 2012, Mercer acquired REPCA, a France-based broking and advising firm for employer health and benefits plans.

On August 3, 2010, the Company completed the sale of Kroll, the Company's former Risk Consulting & Technology segment. With the sale of Kroll, along with previous divestiture transactions between 2008 and 2010, the Company has divested its entire Risk Consulting & Technology segment. The run-off of the Company’s involvement in the Corporate Advisory and Restructuring business (“CARG”), previously part of Risk Consulting & Technology, in which the Company has “continuing involvement” as defined in SEC Staff Accounting Bulletin Topic 5e, is now managed by the Company’s corporate departments. Consequently, the financial results of the CARG businesses are included in “Corporate” for segment reporting purposes.

2. Principles of Consolidation and Other Matters

The consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations for interim filings, although the Company believes that the information and disclosures presented are adequate to make such information and disclosure not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 (the “2011 10-K”).

The financial information contained herein reflects all adjustments consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the Company’s results of operations for the three and six-month periods ended June 30, 2012 and 2011.

Investment Income (Loss)

The caption “Investment income (loss)” in the consolidated statements of income comprises realized and unrealized gains and losses from investments recognized in current earnings. It includes, when applicable, other than temporary declines in the value of available for sale securities and the change in value of the Company’s holdings in certain private equity funds. The Company’s investments may include direct investments in insurance or

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consulting companies and investments in private equity funds. This line includes equity method gains/(losses) of $4 million and $(4) million for the three months ended June 30, 2012 and 2011, respectively, and $24 million and $14 million for the six months ended June 30, 2012 and 2011, respectively.

The Company has an investment in Trident II limited partnership, a private equity investment fund. At June 30, 2012, the Company's investment in Trident II was approximately $100 million, reflected in other assets in the consolidated balance sheet. The Company's maximum exposure to loss is equal to its investment plus any calls on its remaining capital commitment of $67 million. Since this fund is closed to new investments, none of the remaining capital commitment is expected to be called.

Income Taxes

The Company's effective tax rate in the second quarter of 2012 was 29.8% compared with 31.1% in the second quarter of 2011. These rates reflect non-U.S. earnings subject to tax at rates below the U.S. statutory rate, including the effect of repatriation. The effective tax rate for the first six months of 2012 and 2011 was 30% and 29.8%, respectively. The 29.8% effective tax rate for the first six months of 2011 includes a benefit from the effective settlement of the IRS audits for the tax years from 2006 to 2008. Excluding this benefit, the effective tax rate for the first six months of of 2011 was 31.4%.

The Company is routinely examined by tax authorities in the jurisdictions in which it has significant operations. The Company regularly considers the likelihood of assessments in each of the taxing jurisdictions resulting from examinations. When evaluating the potential imposition of penalties, the Company considers a number of relevant factors under penalty statutes, including appropriate disclosure of the tax return position, the existence of legal authority supporting the Company's position, and the advice of professional tax advisors.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in the tax return. The Company's gross unrecognized tax benefits increased to $176 million at June 30, 2012 from $143 million at December 31, 2011. Of the total unrecognized tax benefits at June 30, 2012 and December 31, 2011, $108 million and $102 million, respectively, represent the amount that, if recognized, would favorably affect the effective tax rate in a future period. It is reasonably possible that the total amount of unrecognized tax benefits will decrease between zero and approximately $50 million within the next twelve months due to settlement of audits and expiration of statutes of limitation.

3. Fiduciary Assets and Liabilities

In its capacity as an insurance broker or agent, the Company collects premiums from insureds and, after deducting its commissions, remits the premiums to the respective insurance underwriters. The Company also collects claims or refunds from underwriters on behalf of insureds. Unremitted insurance premiums and claims proceeds are held by the Company in a fiduciary capacity. Risk and Insurance Services revenue includes interest on fiduciary funds of $21 million and $22 million for the six-month periods ended June 30, 2012 and 2011, respectively. The Consulting segment recorded fiduciary interest income of $1 million for the the six-month period ended June 30, 2012 and $2 million for the same period in 2011. Since fiduciary assets are not available for corporate use, they are shown in the consolidated balance sheets as an offset to fiduciary liabilities.

Fiduciary assets include approximately $19 million and $62 million of fixed income securities classified as available for sale at June 30, 2012 and December 31, 2011, respectively. Unrealized gains or losses from available for sale securities are recorded in other comprehensive income until the securities are disposed of, mature or a loss is recognized as an other than temporary impairment. Unrealized gains, net of tax, were $0 million and $2 million at June 30, 2012 and December 31, 2011, respectively.

Net uncollected premiums and claims and the related payables amounted to $11 billion at June 30, 2012 and $9 billion at December 31, 2011. The Company is not a principal to the contracts under which the right to receive premiums or the right to receive reimbursement of insured losses arises. Net uncollected premiums and claims and the related payables are, therefore, not assets and liabilities of the Company and are not included in the accompanying consolidated balance sheets.

In certain instances, the Company advances premiums, refunds or claims to insurance underwriters or insureds prior to collection. These advances are made from corporate funds and are reflected in the accompanying consolidated balance

sheets as receivables.

Mercer manages approximately $17 billion of assets in trusts or funds for which Mercer's management or trustee

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fee is considered a variable interest. Mercer is not the primary beneficiary of these trusts or funds. Mercer's only variable interest in any of these trusts or funds is its unpaid fees, if any. Mercer's maximum exposure to loss of its interests is, therefore, limited to collection of its fees.

4. Per Share Data

Under the accounting guidance which applies to the calculation of earnings per share ("EPS") for share-based payment awards with rights to dividends or dividend equivalents, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation.

Basic net income per share attributable to the Company and income from continuing operations per share are calculated by dividing the respective after-tax income attributable to common shares by the weighted average number of outstanding shares of the Company's common stock.

Diluted net income per share attributable to the Company and income from continuing operations per share are calculated by dividing the respective after-tax income attributable to common shares by the weighted average number of outstanding shares of the Company's common stock, which have been adjusted for the dilutive effect of potentially issuable common shares (excluding those that are considered participating securities). The diluted EPS calculation reflects the more dilutive effect of either (a) the two-class method that assumes that the participating securities have not been exercised or (b) the treasury stock method. Reconciliation of the applicable income components used for diluted EPS and basic weighted average common shares outstanding to diluted weighted average common shares outstanding is presented below.

Basic EPS Calculation - Continuing Operations	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2012	2011	2012	2011
Net income from continuing operations	$339	$286	$693	$605
Less: Net income attributable to non-controlling interests	8	7	15	13
Net income from continuing operations attributable to the Company	331	279	678	592
Less: Portion attributable to participating securities	—	1	1	4
Net income attributable to common shares for basic earnings per share	$331	$278	$677	$588
Basic weighted average common shares outstanding	545	547	544	545

Basic EPS Calculation - Net Income	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2012	2011	2012	2011
Net income attributable to the Company	$329	$282	$676	$607
Less: Portion attributable to participating securities	—	2	1	4
Net income attributable to common shares for basic earnings per share	$329	$280	$675	$603
Basic weighted average common shares outstanding	545	547	544	545

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Diluted EPS Calculation - Continuing Operations	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2012	2011	2012	2011
Net income from continuing operations	$339	$286	$693	$605
Less: Net income attributable to non-controlling interests	8	7	15	13
Net income from continuing operations attributable to the Company	331	279	678	592
Less: Portion attributable to participating securities	—	1	1	4
Net income attributable to common shares for diluted earnings per share	$331	$278	$677	$588
Basic weighted average common shares outstanding	545	547	544	545
Dilutive effect of potentially issuable common shares	8	8	8	9
Diluted weighted average common shares outstanding	553	555	552	554
Average stock price used to calculate common stock equivalents	$32.31	$30.03	$32.13	$29.47

Diluted EPS Calculation - Net Income	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2012	2011	2012	2011
Net income attributable to the Company	$329	$282	$676	$607
Less: Portion attributable to participating securities	—	2	1	4
Net income attributable to common shares for diluted earnings per share	$329	$280	$675	$603
Basic weighted average common shares outstanding	545	547	544	545
Dilutive effect of potentially issuable common shares	8	8	8	9
Diluted weighted average common shares outstanding	553	555	552	554
Average stock price used to calculate common stock equivalents	$32.31	$30.03	$32.13	$29.47

There were 37.3 million and 41.4 million stock options outstanding as of June 30, 2012 and 2011, respectively.

5. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The following schedule provides additional information concerning acquisitions, interest and income taxes paid for the six-month periods ended June 30, 2012 and 2011.

(In millions of dollars)	2012	2011
Assets acquired, excluding cash	$131	$128
Liabilities assumed	(31)	(17)
Contingent/deferred purchase consideration	(18)	(13)
Net cash outflow for current year acquisitions	82	98
Deferred purchase consideration from prior years' acquisitions	47	15
Net cash outflow for acquisitions	$129	$113

(In millions of dollars)	2012	2011
Interest paid	$92	$100
Income taxes paid/(refunded)	$160	$(112)

The Company had non-cash issuances of common stock under its share-based payment plan of $181 million for each of the six-month periods ended June 30, 2012 and 2011. The Company recorded stock-based compensation expense related to equity awards of $80 million and $83 million for the six-month periods ended June 30, 2012 and

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2011, respectively.

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6. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the three and six-month periods ended June 30, 2012 and 2011 are as follows:

Three Months Ended June 30,	2012			2011		
(In millions of dollars)	Pre-Tax	Tax	Net of Tax	Pre-Tax	Tax	Net of Tax
Foreign currency translation adjustments	$(191)	$(14)	$(177)	$64	$—	$64
Unrealized investment gains (losses)	—	1	(1)	(1)	—	(1)
Pension/post-retirement plans:						
Amortization of losses (gains) included in net periodic pension cost:						
Prior service gains	(8)	—	(8)	(8)	(3)	(5)
Net actuarial losses	68	1	67	54	22	32
Subtotal	60	1	59	46	19	27
Foreign currency translation adjustments	60	33	27	12	(3)	15
Pension/post-retirement plans (gains) losses	120	34	86	58	16	42
Other comprehensive income (loss)	$(71)	$21	$(92)	$121	$16	$105

Six Months Ended June 30,	2012			2011		
(In millions of dollars)	Pre-Tax	Tax	Net of Tax	Pre-Tax	Tax	Net of Tax
Foreign currency translation adjustments	$(29)	$(14)	$(15)	$237	$2	$235
Unrealized investment gains (losses)	(1)	2	(3)	(5)	(1)	(4)
Pension/post-retirement plans:						
Amortization of losses (gains) included in net periodic pension cost:						
Prior service gains	(16)	(5)	(11)	(16)	(5)	(11)
Net actuarial losses	134	43	91	109	34	75
Subtotal	118	38	80	93	29	64
Foreign currency translation adjustments	16	5	11	(99)	(26)	(73)
Pension/post-retirement plans (gains) losses	134	43	91	(6)	3	(9)
Other comprehensive income (loss)	$104	$31	$73	$226	$4	$222

7. Acquisitions

During the first six months of 2012, the Company made five acquisitions in its Risk and Insurance Services segment and three in its Consulting segment. In January 2012, Marsh acquired Alexander Forbes' South African brokerage operations, including Alexander Forbes Risk Services and related ancillary operations and insurance broking operations in Botswana and Namibia. In March 2012, Marsh acquired KSPH, LLC, a middle-market employee benefits agency based in Virginia, and Cosmos Services (America) Inc., the U.S. insurance brokerage subsidiary of ITOCHU Corp., which specializes in commercial property/casualty, personal lines, and employee benefits brokerage services to U.S. subsidiaries of Japanese companies. In February 2012, Mercer acquired the remaining 49% of Yokogawa-ORC, a global mobility firm based in Japan, which was previously accounted for under the equity method, and Pensjon & Finans, a leading Norway-based financial investment and pension consulting firm. In March 2012, Mercer acquired REPCA, a France-based broking and advisory firm for employer health and benefits plans. In June 2012, Marsh acquired Progressive Benefits Solutions, an employee benefits agency based in North

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Carolina, and Security Insurance Services, Inc., a Wisconsin-based insurance agency which offers property/casualty and employee benefits products and services to individuals and businesses.

Total purchase consideration for the 2012 acquisitions was $183 million, which consisted of cash paid of $103 million, deferred purchase and estimated contingent consideration of $18 million, and cash held in escrow of $62 million at December 31, 2011 that was released in the first quarter of 2012. Contingent consideration arrangements are primarily based on EBITDA and revenue targets over two to four years. The fair value of the contingent consideration was based on projected revenue and earnings of the acquired entities. Estimated fair values of assets acquired and liabilities assumed are subject to adjustment when purchase accounting is finalized. The Company also paid $61 million of deferred purchase and contingent consideration related to acquisitions made in prior years.

The following table presents the preliminary allocation of the acquisition cost to the assets acquired and liabilities assumed, based on their fair values:

For the Six Months Ended June 30,	
(Amounts in millions)	2012
Cash (includes $62 million held in escrow at 12/31/11)	$165
Estimated fair value of contingent consideration	18
Total Consideration	$183
Allocation of purchase price:	
Cash and cash equivalents	$21
Accounts receivable, net	3
Property, plant, and equipment	2
Intangible assets	81
Goodwill	113
Other assets	5
Total assets acquired	225
Current liabilities	9
Other liabilities	33
Total liabilities assumed	42
Net assets acquired	$183

Prior Year Acquisitions

During 2011, the Company made seven acquisitions in its Risk and Insurance Services segment and five in its Consulting segment. In January 2011, Marsh acquired RJF Agencies, Inc., an independent insurance broking firm in the Midwest. In February 2011, Marsh acquired Hampton Roads Bonding, a surety bonding agency for commercial, road, utility, maritime and government contractors in the state of Virginia, and the Boston office of Kinloch Consulting Group, Inc. In July 2011, Marsh acquired Prescott Pailet Benefits, an employee benefits broker in the state of Texas. In October 2011, Marsh acquired the employee benefits division of Kaeding, Ernst & Co, a Massachusetts-based employee benefits, life insurance and financial planning consulting firm. In November 2011, Marsh acquired Gallagher & Associates, Inc., a property and casualty insurance agency based in Minnesota. In November 2011, Marsh acquired Seitlin Insurance, an insurance firm based in South Florida. These acquisitions were made to expand Marsh's share in the middle-market through Marsh & McLennan Agency.

In January 2011, Mercer acquired Hammond Associates, an investment consulting company for endowments and foundations in the U.S. In June 2011, Mercer acquired Evaluation Associates LLC, an investment consulting firm. In July 2011, Mercer acquired Mahoney Associates, a health and benefits advisory firm based in South Florida. In August 2011, Mercer acquired Censeo Corporation, a human resource consulting firm based in Florida. In December 2011, Mercer acquired Alicia Smith & Associates, a Medicaid policy consulting firm based in Washington, D.C.

Total purchase consideration for acquisitions made during the first six months of 2011 was $114 million which consisted of cash paid of $101 million and estimated contingent consideration of $13 million. Contingent consideration arrangements are primarily based on EBITDA and revenue targets over two to four years. The fair

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value of the contingent consideration was based on earnings projections of the acquired entities. Estimated fair values of assets acquired and liabilities assumed are subject to adjustment when purchase accounting is finalized. In the first six months of 2011, the Company also paid $15 million of deferred purchase consideration related to acquisitions made in prior years.

In the second quarter of 2011, Marsh purchased the remaining minority interest of a previously majority owned entity for total purchase consideration of $8 million and accounted for this acquisition under the guidance for consolidations and non-controlling interests. This guidance requires that changes in a parent's ownership interest while retaining financial controlling interest in a subsidiary be accounted for as an equity transaction. Stepping up the acquired assets to fair value or the recording of goodwill is not permitted. Therefore, the Company recorded a decrease to additional paid in capital in 2011 of $2 million related to this transaction.

In the first quarter of 2011, the Company also paid deferred purchase consideration of $13 million related to the purchase in 2009 of the minority interest of a previously controlled entity.

Pro-Forma Information

While the Company does not believe its acquisitions are material in the aggregate, the following unaudited pro-forma financial data gives effect to the acquisitions made by the Company during 2012 and 2011. In accordance with accounting guidance related to pro-forma disclosures, the information presented for current year acquisitions is as if they occurred on January 1, 2011. The pro-forma information adjusts for the effects of amortization of acquired intangibles. The unaudited pro-forma financial data is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved if such acquisitions had occurred on the dates indicated, nor is it necessarily indicative of future consolidated results.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share data)	2012	2011	2012	2011
Revenue	$3,030	$2,974	$6,092	$5,908
Income from continuing operations	$340	$289	$695	$605
Net income attributable to the Company	$330	$285	$678	$606
Basic net income per share:				
– Continuing operations	$0.61	$0.51	$1.25	$1.08
– Net income attributable to the Company	$0.60	$0.52	$1.24	$1.10
Diluted net income per share:				
– Continuing operations	$0.60	$0.50	$1.23	$1.06
– Net income attributable to the Company	$0.60	$0.51	$1.23	$1.09

The Consolidated Statements of Income for the three and six months ended June 30, 2012 include approximately $24 million of revenue and $6 million of net operating income and approximately $45 million of revenue and $8 million of net operating income, respectively, related to acquisitions made during 2012.

8. Dispositions

Summarized Statements of Income data for discontinued operations is as follows:

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(In millions of dollars, except per share figures)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Other discontinued operations, net of tax	$(2)	$—	$(2)	$—
Income (loss) from discontinued operations, net of tax	(2)	—	(2)	—
Disposals of discontinued operations	—	8	—	8
Income tax (credit) expense	—	5	—	(7)
Disposals of discontinued operations, net of tax	—	3	—	15
Discontinued operations, net of tax	$(2)	$3	$(2)	$15
Discontinued operations, net of tax per share				
– Basic	$(0.01)	$—	$—	$0.02
– Diluted	$(0.01)	$—	$(0.01)	$0.03

Discontinued operations for the six months ended June 30, 2011 primarily relates to an insurance recovery for legal fees incurred at Putnam prior to its sale and a tax recovery under the indemnity related to the Putnam sale.

9. Goodwill and Other Intangibles

The Company is required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The Company performs the annual impairment test for each of its reporting units during the third quarter of each year. The Company adopted new accounting provisions in the third quarter of 2011. Under this guidance, a company may first assess qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test. The Company considered numerous issues, which included the excess of fair value over carrying value in its most recent estimate of reporting unit fair values, whether significant acquisitions or dispositions occurred which might alter the fair values of its reporting units, macroeconomic conditions and their potential impact on reporting unit fair values, actual performance compared with budget and prior projections used in its estimation of reporting unit fair values, industry and market conditions, and the year over year change in the Company's share price.

Other intangible assets that are not deemed to have an indefinite life are amortized over their estimated lives and reviewed for impairment upon the occurrence of certain triggering events in accordance with applicable accounting literature.

Changes in the carrying amount of goodwill are as follows:

June 30, (In millions of dollars)	2012	2011
Balance as of January 1, as reported	$6,562	$6,420
Goodwill acquired	113	76
Other adjustments[(a)]	(32)	99
Balance at June 30,	$6,643	$6,595

(a) Primarily foreign exchange.

Goodwill allocable to the Company’s reportable segments is as follows: Risk & Insurance Services, $4.6 billion and Consulting, $2.0 billion.

Amortized intangible assets consist of the cost of client lists, client relationships and trade names acquired. The gross cost and accumulated amortization is as follows:

	June 30, 2012			December 31, 2011		
(In millions of dollars)	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Amortized intangibles	$747	$304	$443	$666	$265	$401

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Aggregate amortization expense for the six months ended June 30, 2012 and 2011 was $34 million and $32 million, respectively, and the estimated future aggregate amortization expense is as follows:

For the Years Ending December 31, (In millions of dollars)	Estimated Expense
2012 (excludes amortization through June 30, 2012)	$34
2013	64
2014	60
2015	57
2016	46
Subsequent years	182
	$443

10. Fair Value Measurements

Fair Value Hierarchy

The Company has categorized its assets and liabilities that are valued at fair value on a recurring basis into a three-level fair value hierarchy as defined by the FASB. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy, for disclosure purposes, is determined based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities recorded in the consolidated balance sheets at fair value are categorized based on the inputs in the valuation techniques as follows:

Level 1. Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market (examples include active exchange-traded equity securities, most U.S. Government and agency securities, money market mutual funds and certain other sovereign government obligations).

Level 2. Assets and liabilities whose values are based on the following:

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and

d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full asset or liability (for example, certain mortgage loans).

Level 3. Assets and liabilities whose values are based on prices, or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include private equity investments, certain commercial mortgage whole loans, and long-dated or complex derivatives including certain foreign exchange options and long-dated options on gas and power).

Valuation Techniques

Equity Securities & Mutual Funds - Level 1

Investments for which market quotations are readily available are valued at the sale price on their principal

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exchange, or official closing bid price for certain markets. If no sales are reported, the security is valued at its last reported bid price.

Other Sovereign Government Obligations, Municipal Bonds and Corporate Bonds - Level 2

The investments in this caption, primarily investments in Germany and France, are valued on the basis of valuations furnished by an independent pricing service. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities.

Interest Rate Swap Derivative - Level 2

The fair value of interest rate swap derivatives is based on the present value of future cash flows at each valuation date resulting from utilization of the swaps, using a constant discount rate of 1.6% compared to discount rates based on projected future yield curves (See Note 12).

Senior Notes due 2014 - Level 2

The fair value of the first $250 million of Senior Notes maturing in 2014 is estimated to be the amortized cost of those notes adjusted by the fair value of the interest rate swap derivative, discussed above. In the first quarter of 2011, the Company entered into two interest rate swaps to convert interest on a portion of its Senior Notes from a fixed rate to a floating rate. The swaps are designated as fair value hedging instruments. The change in the fair value of the swaps will be recorded on the balance sheet. The carrying value of the debt related to these swaps will be adjusted by an equal amount (See Note 12).

Contingent Consideration Liability - Level 3

Purchase consideration for some acquisitions made by the Company includes contingent consideration arrangements. Contingent consideration arrangements are primarily based on achieving EBITDA and revenue targets over two to four years. The fair value of contingent consideration is estimated as the present value of future cash flows that would result from the projected revenue and earnings of the acquired entities.

The following fair value hierarchy table presents information about the Company’s assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011.

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	Identical Assets (Level 1)		Observable Inputs (Level 2)		Unobservable Inputs (Level 3)		Total	
(In millions of dollars)	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11
Assets:								
Financial instruments owned:								
Mutual funds[a]	$131	$134	$—	$—	$—	$—	$131	$134
Money market funds[b]	194	226	—	—	—	—	194	226
Interest rate swap derivatives[c]	—	—	7	7	—	—	7	7
Total assets measured at fair value	$325	$360	$7	$7	$—	$—	$332	$367
Fiduciary Assets:								
State and local obligations (including non-U.S. locales)	$—	$—	$6	$13	$—	$—	$6	$13
Other sovereign government obligations and supranational agencies	—	—	13	47	—	—	13	47
Corporate and other debt	—	—	—	2	—	—	—	2
Money market funds	218	186	—	—	—	—	218	186
Total fiduciary assets measured at fair value	$218	$186	$19	$62	$—	$—	$237	$248
Liabilities:								
Contingent consideration liability[d]	$—	$—	$—	$—	$116	$110	$116	$110
Senior Notes due 2014[e]	—	—	257	257	—	—	257	257
Total liabilities measured at fair value	$—	$—	$257	$257	$116	$110	$373	$367

(a) Included in other assets in the consolidated balance sheets.
(b) Included in cash and cash equivalents in the consolidated balance sheets.
(c) Included in other receivables in the consolidated balance sheets.
(d) Included in accounts payable and accrued liabilities and other liabilities in the consolidated balance sheets.
(e) Included in long term debt in the consolidated balance sheets.

During the six-month period ended June 30, 2012, there were no assets or liabilities that transferred between Level 1 and Level 2 or between Level 2 and Level 3.

The table below sets forth a summary of the changes in fair value of the Company’s Level 3 liabilities for the six month period ended June 30, 2012 that represent contingent consideration related to acquisitions:

(In millions of dollars)	Fair Value, December 31, 2011	Additions	Payments	Revaluation Impact	Fair Value, June 30, 2012
Contingent consideration	$110	$18	$(14)	$2	$116

The fair value of the contingent liability is based on projections of revenue and earnings for the acquired entities that are reassessed on a quarterly basis. A 5% increase in the above mentioned projections would increase the liability by approximately $20 million. A 5% decrease in the above mentioned projections would decrease the liability by approximately $30 million.

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11. Retirement Benefits

The Company maintains qualified and non-qualified defined benefit pension plans for its U.S. and non-U.S. eligible employees. The Company's policy for funding its tax qualified defined benefit retirement plans is to contribute amounts at least sufficient to meet the funding requirements set forth by U.S. law and the laws of the non-U.S. jurisdictions in which the Company offers defined benefit plans.

The target asset allocation for the U.S. Plan is 58% equities and equity alternatives and 42% fixed income. At the end of the second quarter of 2012, the actual allocation for the U.S. Plan was 57% equities and equity alternatives and 43% fixed income. The target asset allocation for the U.K. Plans, which comprises approximately 80% of non-U.S. Plan assets, is 53% equities and equity alternatives and 47% fixed income. At the end of the second quarter of 2012, the actual allocation for the U.K. Plan was 51% equities and equity alternatives and 49% fixed income. The assets of the Company's defined benefit plans are well-diversified and are managed in accordance with applicable laws and with the goal of maximizing the plans' real return within acceptable risk parameters. The Company uses threshold-based portfolio re-balancing to ensure the actual portfolio remains consistent with target asset allocation ranges.

The components of the net periodic benefit cost for defined benefit and other post-retirement plans are as follows:

Combined U.S. and significant non-U.S. Plans	Pension		Postretirement	
For the Three Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2012	2011	2012	2011
Service cost	$60	$58	$—	$1
Interest cost	149	153	3	4
Expected return on plan assets	(225)	(224)	—	—
Amortization of prior service credit	(5)	(4)	(3)	(4)
Recognized actuarial loss	68	53	—	—
Net periodic benefit cost	$47	$36	$—	$1

Combined U.S. and significant non-U.S. Plans	Pension		Postretirement	
For the Six Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2012	2011	2012	2011
Service cost	$121	$114	$2	$3
Interest cost	297	305	6	7
Expected return on plan assets	(451)	(445)	—	—
Amortization of prior service credit	(10)	(9)	(6)	(7)
Recognized actuarial loss	134	108	—	—
Net periodic benefit cost	$91	$73	$2	$3

U.S. Plans only	Pension		Postretirement	
For the Three Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2012	2011	2012	2011
Service cost	$23	$21	$—	$1
Interest cost	58	57	2	3
Expected return on plan assets	(80)	(78)	—	—
Amortization of prior service credit	(4)	(4)	(3)	(4)
Recognized actuarial loss (credit)	39	24	(1)	—
Net periodic benefit cost (credit)	$36	$20	$(2)	$—

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U.S. Plans only	Pension		Postretirement	
For the Six Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2012	2011	2012	2011
Service cost	$47	$42	$1	$2
Interest cost	115	115	4	5
Expected return on plan assets	(161)	(157)	—	—
Amortization of prior service credit	(8)	(8)	(6)	(7)
Recognized actuarial loss (credit)	76	50	(1)	—
Net periodic benefit cost (credit)	$69	$42	$(2)	$—

Significant non-U.S. Plans only	Pension		Postretirement	
For the Three Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2012	2011	2012	2011
Service cost	$37	$37	$—	$—
Interest cost	91	96	1	1
Expected return on plan assets	(145)	(146)	—	—
Amortization of prior service cost	(1)	—	—	—
Recognized actuarial loss	29	29	1	—
Net periodic benefit cost	$11	$16	$2	$1

Significant non-U.S. Plans only	Pension		Postretirement	
For the Six Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2012	2011	2012	2011
Service cost	$74	$72	$1	$1
Interest cost	182	190	2	2
Expected return on plan assets	(290)	(288)	—	—
Amortization of prior service cost	(2)	(1)	—	—
Recognized actuarial loss	58	58	1	—
Net periodic benefit cost	$22	$31	$4	$3

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The weighted average actuarial assumptions utilized to calculate the net periodic benefit costs for the U.S. and significant non-U.S. defined benefit plans are as follows:

Combined U.S. and significant non-U.S. Plans	Pension Benefits		Postretirement Benefits	
June 30	2012	2011	2012	2011
Weighted average assumptions:				
Expected return on plan assets	8.04 %	8.18 %	— %	— %
Discount rate	4.91 %	5.59 %	5.05 %	5.84 %
Rate of compensation increase	3.09 %	4.09 %	— %	— %

The Company made $347 million of contributions to its U.S. and non-U.S. defined benefit plans in the first six months of 2012, including discretionary contributions of $100 million to its U.S. qualified defined benefit plan and $100 million to its U.K. plans, and expects to contribute approximately $172 million to its non-qualified U.S. and non-U.S. defined benefit plans during the remainder of 2012.

12. Debt

The Company’s outstanding debt is as follows:

(In millions of dollars)	June 30, 2012	December 31, 2011
Short-term:		
Current portion of long-term debt	$259	$260
Long-term:		
Senior notes – 6.25% due 2012 (5.1% effective interest rate)	$—	$250
Senior notes – 4.850% due 2013	250	251
Senior notes – 5.875% due 2033	297	296
Senior notes – 5.375% due 2014	326	326
Senior notes – 5.75% due 2015	479	479
Senior notes – 2.30% due 2017	248	—
Senior notes – 9.25% due 2019	398	398
Senior notes – 4.80% due 2021	497	496
Mortgage – 5.70% due 2035	426	431
Other	1	