

Aon plc
Form 10-Q
October 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2013

OR

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

Commission file number 1-7933

Aon plc
(Exact Name of Registrant as Specified in Its Charter)

ENGLAND AND WALES
(State or Other Jurisdiction of
Incorporation or Organization)

98-1030901
(I.R.S. Employer
Identification No.)

8 DEVONSHIRE SQUARE, LONDON, ENGLAND
(Address of Principal Executive Offices)
+44 20 7623 5500
(Registrant's Telephone Number,
Including Area Code)

EC2M 4PL
(Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES 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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting company)

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

Number of Class A Ordinary Shares of Aon plc, \$0.01 nominal value, outstanding as of September 30, 2013:
301,048,034

Part I Financial Information

ITEM 1. FINANCIAL STATEMENTS

Aon plc
 Condensed Consolidated Statements of Income
 (Unaudited)

(millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
Revenue				
Commissions, fees and other	\$2,786	\$ 2,726	\$8,585	\$ 8,368
Fiduciary investment income	8	11	21	31
Total revenue	2,794	2,737	8,606	8,399
Expenses				
Compensation and benefits	1,666	1,620	5,103	4,920
Other general expenses	764	778	2,347	2,344
Total operating expenses	2,430	2,398	7,450	7,264
Operating income	364	339	1,156	1,135
Interest income	3	1	6	6
Interest expense	(53	) (57	) (153	) (173
Other income (expense)	39	(9	) 54	3
Income from continuing operations before income taxes	353	274	1,063	971
Income taxes	89	64	275	257
Income from continuing operations	264	210	788	714
Loss from discontinued operations before income taxes	—	—	—	(1
Income taxes	—	—	—	—
Loss from discontinued operations	—	—	—	(1
Net Income	264	210	788	713
Less: Net income attributable to noncontrolling interests	8	6	30	25
Net income attributable to Aon shareholders	\$256	\$ 204	\$758	\$ 688
Net income (loss) attributable to Aon shareholders				
Income from continuing operations	\$256	\$ 204	\$758	\$ 689
Loss from discontinued operations	—	—	—	(1
Net income	\$256	\$ 204	\$758	\$ 688
Basic net income per share attributable to Aon shareholders				
Continuing operations	\$0.83	\$ 0.62	\$2.42	\$ 2.08
Discontinued operations	—	—	—	—
Net income	\$0.83	\$ 0.62	\$2.42	\$ 2.08
Diluted net income per share attributable to Aon shareholders				
Continuing operations	\$0.82	\$ 0.62	\$2.39	\$ 2.06
Discontinued operations	—	—	—	—

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Net income	\$0.82	\$ 0.62	\$2.39	\$ 2.06
Cash dividends per share paid on ordinary shares	\$0.18	\$ 0.16	\$0.51	\$ 0.46
Weighted average ordinary shares outstanding - basic	309.5	327.3	313.2	330.6
Weighted average ordinary shares outstanding - diluted	312.9	331.0	316.7	334.4

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

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Aon plc
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited)

(millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income	\$264	\$210	\$788	\$713
Less: Net income attributable to noncontrolling interests	8	6	30	25
Net income attributable to Aon shareholders	256	204	758	688
Other comprehensive (loss) income, net of tax:				
Change in fair value of investments	(14	) —	(1) —
Change in fair value of derivatives	9	15	(12	) 5
Foreign currency translation adjustments	155	164	(77	) 71
Post-retirement benefit obligation	24	7	65	46
Total other comprehensive income (loss)	174	186	(25	) 122
Less: Other comprehensive income attributable to noncontrolling interests	3	4	1	2
Total other comprehensive income (loss) attributable to Aon shareholders	171	182	(26	) 120
Comprehensive income attributable to Aon shareholders	\$427	\$386	\$732	\$808

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statements of Financial Position

(millions, except nominal value)	Sept 30, 2013 (Unaudited)	Dec 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$369	\$291
Short-term investments	357	346
Receivables, net	2,666	3,101
Fiduciary assets	11,698	12,214
Other current assets	484	430
Total Current Assets	15,574	16,382
Goodwill	8,958	8,943
Intangible assets, net	2,657	2,975
Fixed assets, net	803	820
Investments	139	165
Other non-current assets	1,174	1,201
TOTAL ASSETS	\$29,305	\$30,486
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Fiduciary liabilities	\$11,698	\$12,214
Short-term debt and current portion of long-term debt	1,206	452
Accounts payable and accrued liabilities	1,523	1,853
Other current liabilities	764	831
Total Current Liabilities	15,191	15,350
Long-term debt	3,352	3,713
Pension, other post-retirement and other post-employment liabilities	1,773	2,276
Other non-current liabilities	1,399	1,342
TOTAL LIABILITIES	21,715	22,681
EQUITY		
Ordinary shares - \$0.01 nominal value	3	3
Authorized: 750 shares (issued: 2013 - 301.0; 2012 - 310.9)		
Additional paid-in capital	4,660	4,436
Retained earnings	5,507	5,933
Accumulated other comprehensive loss	(2,636	) (2,610
TOTAL AON SHAREHOLDERS' EQUITY	7,534	7,762
Noncontrolling interests	56	43
TOTAL EQUITY	7,590	7,805
TOTAL LIABILITIES AND EQUITY	\$29,305	\$30,486

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statement of Shareholders' Equity
(Unaudited)

(millions)	Shares	Ordinary Shares and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Non- controlling Interests	Total
Balance at December 31, 2012	310.9	\$4,439	\$5,933	\$ (2,610	) \$43	\$7,805
Net income	—	—	758	—	30	788
Shares issued - employee benefit plans	0.7	29	—	—	—	29
Shares issued - employee compensation	5.2	(49	) —	—	—	(49)
Shares purchased	(15.8)	—	(1,025)	—	—	(1,025)
Tax benefit - employee benefit plans	—	42	—	—	—	42
Share-based compensation expense	—	207	—	—	—	207
Dividends to shareholders	—	—	(159)	—	—	(159)
Net change in fair value of investments	—	—	—	(1	) —	(1)
Net change in fair value of derivatives	—	—	—	(12	) —	(12)
Net foreign currency translation adjustments	—	—	—	(78	) 1	(77)
Net post-retirement benefit obligation	—	—	—	65	—	65
Purchase of subsidiary shares from non-controlling interests	—	(5)	—	—	(6)	(11)
Dividends paid to non-controlling interests on subsidiary common stock	—	—	—	—	(12)	(12)
Balance at September 30, 2013	301.0	\$4,663	\$5,507	\$ (2,636	) \$56	\$7,590

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(millions)	Nine Months Ended	
	September 30, 2013	September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$788	\$ 713
Adjustments to reconcile net income to cash provided by operating activities:		
Gain from sales of businesses and investments, net	(28	) (1
Depreciation of fixed assets	177	168
Amortization of intangible assets	296	313
Share-based compensation expense	207	160
Deferred income taxes	100	21
Change in assets and liabilities:		
Fiduciary receivables	684	(447
Short term investments - funds held on behalf of clients	(369	) 118
Fiduciary liabilities	(315	) 329
Receivables, net	374	240
Accounts payable and accrued liabilities	(330	) (347
Restructuring reserves	(7	) (43
Current income taxes	(197	) 67
Pension, other post-retirement and other post-employment liabilities	(401	) (414
Other assets and liabilities	5	(10
CASH PROVIDED BY OPERATING ACTIVITIES	984	867
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of long-term investments	81	171
Purchases of long-term investments	(13	) (9
Net (purchases) sales of short-term investments - non-fiduciary	(13	) 66
Acquisition of businesses, net of cash acquired	(26	) (97
Proceeds from sale of businesses	6	2
Capital expenditures	(174	) (201
CASH USED FOR INVESTING ACTIVITIES	(139	) (68
CASH FLOWS FROM FINANCING ACTIVITIES		
Share repurchase	(1,025	) (625
Issuance of shares for employee benefit plans	84	93
Issuance of debt	4,270	333
Repayment of debt	(3,870	) (427
Cash dividends to shareholders	(159	) (153
Purchase of shares from noncontrolling interests	(6) —
Dividends paid to noncontrolling interests	(13	) (17
CASH USED FOR FINANCING ACTIVITIES	(719	) (796
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(48) 15
NET INCREASE IN CASH AND CASH EQUIVALENTS	78	18

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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	291	272
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$369	\$ 290

Supplemental disclosures:

Interest paid	\$186	\$ 172
Income taxes paid, net of refunds	\$330	\$ 139

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements and Notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Condensed Consolidated Financial Statements include the accounts of Aon plc and all controlled subsidiaries ("Aon" or the "Company"). All material intercompany accounts and transactions have been eliminated. The Condensed Consolidated Financial Statements include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The results for the three and nine months ended September 30, 2013 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2013.

Use of Estimates

The preparation of the accompanying unaudited Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of reserves and expenses. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Aon adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets, and foreign currency movements increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

2. Accounting Principles and Practices

Changes in Accounting Principles

Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance on the disclosure of amounts to be reclassified out of accumulated other comprehensive income. The guidance requires that amounts reclassified out of accumulated other comprehensive income be presented either on the face of the statement of operations or in the notes to the financial statements by component. The guidance was effective for Aon beginning in the first quarter 2013. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Indefinite-Lived Intangible Asset Impairment

In July 2012, the FASB issued guidance on the testing of indefinite-lived intangible assets for impairment that gives an entity the option to perform a qualitative assessment that may eliminate the requirement to perform the annual quantitative test. The guidance gives an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a an indefinite-lived intangible asset is less than its carrying amount. If an entity concludes that this is the case, it must perform the quantitative test. The guidance was effective for Aon beginning in the first quarter 2013. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Balance Sheet Offsetting

In December 2011, the FASB issued guidance on the disclosure of offsetting assets and liabilities to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The guidance requires certain derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions to disclose both the gross and net position of these financial instruments. The guidance was effective for Aon beginning in the first quarter

2013. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

3. Cash and Cash Equivalents

Cash and cash equivalents include cash balances and all highly liquid investments with initial maturities of three months or less. Short-term investments include certificates of deposit, money market funds and highly liquid debt instruments purchased with initial maturities in excess of three months but less than one year and are carried at amortized cost, which approximates fair value.

The Company is required to hold £77 million of operating funds in the U.K. as required by the Financial Conduct Authority, which were included in Short-term investments. These operating funds, when translated to U.S. dollars, were \$124 million at both September 30, 2013 and December 31, 2012, respectively. Cash and cash equivalents included restricted balances of \$88 million and \$76 million at September 30, 2013 and December 31, 2012, respectively. The restricted balances primarily relate to cash required to be held as collateral.

4. Other Income (Expense)

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

	Three months ended		Nine months ended		
	September 30,		September 30,		
	2013	2012	2013	2012	
Equity earnings	\$6	\$—	\$12	\$8	
Gains on investments	37	9	36	11	
Foreign currency remeasurement (losses) gains	(4) (24) 15	(24)
Derivative gains (losses)	1	8	(8	) 8
Other	(1	) (2	) (1) —	
	\$39	\$ (9	) \$54	\$3

5. Acquisitions and Dispositions

Acquisitions

During the nine months ended September 30, 2013, the Company completed the acquisition of five businesses in the Risk Solutions segment and two businesses in the HR Solutions segment. During the nine months ended September 30, 2012, the Company completed the acquisition of two businesses in the HR Solutions segment and four businesses in the Risk Solutions segment.

The following table includes the aggregate consideration transferred and the preliminary value of intangible assets recorded as a result of the Company's acquisitions:

(millions)	Nine months ended September	
	2013	2012
Consideration	\$26	\$110
Intangible assets:		
Goodwill	\$26	\$60
Other intangible assets	8	56
Total	\$34	\$116

The results of operations of these acquisitions are included in the Condensed Consolidated Financial Statements as of the acquisition date. The results of operations of the Company would not have been materially different if these acquisitions had been reported from the beginning of the period.

Dispositions

During the nine months ended September 30, 2013, the Company completed the sale of five businesses in the Risk Solutions segment. A pretax gain of \$0.2 million was recognized on these sales, which is included in Other income (expense) in the

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Condensed Consolidated Statements of Income. During the nine months ended September 30, 2012, the Company completed the sale of two businesses in the Risk Solutions segment and one business in the HR Solutions segment. A pretax gain of \$1 million was recognized on these sales, which is included in Other income (expense) in the Condensed Consolidated Statements of Income.

6. Goodwill and Other Intangible Assets

The change in the net carrying amount of goodwill by reportable segment for the nine months ended September 30, 2013 is as follows (in millions):

	Risk Solutions	HR Solutions	Total	
Balance as of December 31, 2012	\$5,982	\$2,961	\$8,943	
Goodwill related to current year acquisitions	24	2	26	
Goodwill related to disposals	(3) —	(3)
Goodwill related to prior year acquisitions	(2	) 17	15
Foreign currency translation	(19) (4) (23)
Balance as of September 30, 2013	\$5,982	\$2,976	\$8,958	

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

	September 30, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with indefinite lives:						
Tradenames	\$ 1,025	\$—	\$1,025	\$ 1,025	\$—	\$1,025
Intangible assets with finite lives:						
Customer related and contract based	2,686	1,218	1,468	2,714	969	1,745
Marketing, technology and other (1)	611	447	164	619	414	205
	\$4,322	\$1,665	\$2,657	\$4,358	\$1,383	\$2,975

(1) Tradenames with finite lives disclosed separately in prior years are now presented in Marketing, technology and other

Amortization expense from finite lived intangible assets was \$98 million and \$296 million for the three and nine months ended September 30, 2013, respectively. Amortization expense from finite lived intangible assets was \$105 million and \$313 million for the three and nine months ended September 30, 2012, respectively.

The estimated future amortization for finite lived intangible assets as of September 30, 2013 is as follows (in millions):

	HR Solutions	Risk Solutions	Total
Remainder of 2013	\$70	\$28	