

MARSH & MCLENNAN COMPANIES, INC.

Form 10-Q

November 08, 2012

Table of Contents

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 September 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 ☒ 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 ☒ 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 ☒

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 ☒

As of October 31, 2012, there were outstanding 544,386,722 shares of common stock, par value \$1.00 per share, of the registrant.

Table of Contents

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 example, 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 trade sanctions laws such as the Iran Threat Reduction and Syria Human Rights Act of 2012, 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 import and export restrictions;

- 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.

- 2 -

Table of Contents

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	<u>4</u>
ITEM 1. <u>FINANCIAL STATEMENTS (UNAUDITED)</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</u>	<u>5</u>
<u>CONSOLIDATED BALANCE SHEETS</u>	<u>6</u>
<u>CONSOLIDATED BALANCE SHEETS (Continued)</u>	<u>7</u>
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>8</u>
<u>CONSOLIDATED STATEMENTS OF EQUITY</u>	<u>9</u>
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>10</u>
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>30</u>
ITEM 3. <u>QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>40</u>
ITEM 4. <u>CONTROLS & PROCEDURES</u>	<u>43</u>
<u>PART II. OTHER INFORMATION</u>	<u>44</u>
ITEM 1. <u>LEGAL PROCEEDINGS</u>	<u>44</u>
ITEM 1A. <u>RISK FACTORS</u>	<u>44</u>
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>44</u>
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	<u>45</u>
ITEM 4. <u>MINE SAFETY DISCLOSURE</u>	<u>45</u>
ITEM 5. <u>OTHER INFORMATION</u>	<u>45</u>
ITEM 6. <u>EXHIBITS</u>	<u>45</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share figures)	2012	2011	2012	2011
Revenue	\$2,845	\$2,806	\$8,922	\$8,618
Expense:				
Compensation and benefits	1,760	1,753	5,332	5,202
Other operating expenses	707	743	2,167	2,169
Operating expenses	2,467	2,496	7,499	7,371
Operating income	378	310	1,423	1,247
Interest income	6	9	18	21
Interest expense	(44)	(49)	(135)	(149)
Cost of extinguishment of debt	—	(72)	—	(72)
Investment (loss) income	(4)	—	20	13
Income before income taxes	336	198	1,326	1,060
Income tax expense	90	65	387	322
Income from continuing operations	246	133	939	738
Discontinued operations, net of tax	1	2	(1)	17
Net income before non-controlling interests	247	135	938	755
Less: Net income attributable to non-controlling interests	6	5	21	18
Net income attributable to the Company	\$241	\$130	\$917	\$737
Basic net income per share – Continuing operations	\$0.44	\$0.24	\$1.68	\$1.32
– Net income attributable to the Company	\$0.44	\$0.24	\$1.68	\$1.35
Diluted net income per share – Continuing operations	\$0.43	\$0.23	\$1.66	\$1.30
– Net income attributable to the Company	\$0.44	\$0.24	\$1.66	\$1.33
Average number of shares outstanding – Basic	544	540	544	543
– Diluted	552	549	552	552
Shares outstanding at September 30	544	538	544	538

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2012	2011	2012	2011
Net income before non-controlling interests	\$247	\$135	\$938	\$755
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	171	(349)	) 142	(112)
Unrealized investment loss	—	(1)	) (1)	(6)
Gain (loss) related to pension/post-retirement plans	(72)	) 130	62	124
Other comprehensive income (loss), before tax	99	(220)	) 203	6
Income tax expense (credit) on other comprehensive income (loss)	(11)	) 35	20	39
Other comprehensive income (loss), net of tax	110	(255)	) 183	(33)
Comprehensive income	357	(120)	) 1,121	722
Less: Comprehensive income attributable to non-controlling interest	(6)	) (5)	) (21)	(18)
Comprehensive income attributable to the Company	\$351	\$(125)	) \$1,100	\$704

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

Table of ContentsMARSH & MCLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions of dollars)	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,044	\$2,113
Receivables		
Commissions and fees	2,871	2,676
Advanced premiums and claims	63	86
Other	234	249
	3,168	3,011
Less-allowance for doubtful accounts and cancellations	(109)	) (105)
Net receivables	3,059	2,906
Current deferred tax assets	334	376
Other current assets	214	253
Total current assets	5,651	5,648
Goodwill and intangible assets	7,113	6,963
Fixed assets		
(net of accumulated depreciation and amortization of \$ 1,551 at September 30, 807		804
2012 and \$1,469 at December 31, 2011)		
Pension related assets	225	39
Deferred tax assets	1,192	1,205
Other assets	748	795
	\$15,736	\$15,454

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

Table of Contents

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

(In millions of dollars)	September 30, 2012	December 31, 2011
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$259	\$260
Accounts payable and accrued liabilities	1,742	2,016
Accrued compensation and employee benefits	1,225	1,400
Accrued income taxes	154	63
Dividends payable	126	—
Total current liabilities	3,506	3,739
Fiduciary liabilities	4,044	4,082
Less – cash and investments held in a fiduciary capacity	(4,044)	) (4,082)
	—	—
Long-term debt	2,660	2,668
Pension, post-retirement and post-employment benefits	1,594	1,655
Liabilities for errors and omissions	476	468
Other liabilities	920	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 September 30, 2012 and December 31, 2011	561	561
Additional paid-in capital	1,076	1,156
Retained earnings	8,371	7,949
Accumulated other comprehensive loss	(3,005)	) (3,188)
Non-controlling interests	70	57
	7,073	6,535
Less – treasury shares, at cost, 16,865,990 shares at September 30, 2012 and 21,463,226 shares at December 31, 2011	(493)	) (595)
Total equity	6,580	5,940
	\$15,736	\$15,454

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

Table of ContentsMARSH & MCLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the Nine Months Ended September 30,

(In millions of dollars)

	2012	2011	
Operating cash flows:			
Net income before non-controlling interests	\$938	\$755	
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization of fixed assets and capitalized software	201	200	
Amortization of intangible assets	53	50	
Intangible asset impairment	8	—	
Adjustments to acquisition related contingent consideration liability	(32	) —	
Charge for early extinguishment of debt	—	72	
Provision for deferred income taxes	18	91	
Gain on investments	(19	) (12	)
Loss on disposition of assets	13	1	
Stock option expense	23	16	
Changes in assets and liabilities:			
Net receivables	(148	) 122	
Other current assets	19	(83	)
Other assets	(204	) (184	)
Accounts payable and accrued liabilities	(208	) 90	
Accrued compensation and employee benefits	(176	) (188	)
Accrued income taxes	88	12	
Other liabilities	201	93	
Effect of exchange rate changes	(25	) (40	)
Net cash provided by operations	750	995	
Financing cash flows:			
Purchase of treasury shares	(180	) (361	)
Proceeds from issuance of debt	248	496	
Repayments of debt	(257	) (8	)
Payments for early extinguishment of debt	—	(672	)
Purchase of non-controlling interests	—	(21	)
Shares withheld for taxes on vested units – treasury shares	(92	) (90	)
Issuance of common stock	151	123	
Payments of contingent consideration for acquisitions	(20	) —	
Distributions of non-controlling interests	(5	) —	
Dividends paid	(369	) (358	)
Net cash used for financing activities	(524	) (891	)
Investing cash flows:			
Capital expenditures	(249	) (205	)
Net sales of long-term investments	26	64	
Proceeds from sales of fixed assets	4	4	
Dispositions	2	1	
Acquisitions	(153	) (134	)
Other, net	1	(3	)
Net cash used for investing activities	(369	) (273	)
Effect of exchange rate changes on cash and cash equivalents	74	(11	)
Decrease in cash and cash equivalents	(69	) (180	)

Edgar Filing: MARSH & MCLENNAN COMPANIES, INC. - Form 10-Q

Cash and cash equivalents at beginning of period	2,113	1,894
Cash and cash equivalents at end of period	\$2,044	\$1,714
The accompanying notes are an integral part of these consolidated statements.		

- 8 -

Table of Contents

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

For the Nine Months Ended September 30,

(In millions, except per share figures)

COMMON STOCK

	2012	2011	
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	(45	) (50	)
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax impact	(36	) (10	)
Purchase of subsidiary shares from non-controlling interests	1	(2	)
Balance, end of period	\$1,076	\$1,123	

RETAINED EARNINGS

Balance, beginning of year	\$7,949	\$7,436	
Net income attributable to the Company	917	737	
Dividend equivalents declared (per share amounts: \$0.90 in 2012 and \$0.86 in 2011)	(6	) (11	)
Dividends declared – (per share amounts: \$0.90 in 2012 and \$0.86 in 2011)	(489	) (466	)
Balance, end of period	\$8,371	\$7,696	

ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS)

Balance, beginning of year	\$(3,188	) \$(2,300	)
Foreign currency translation adjustments	152	(113	)
Unrealized investment holding losses, net of reclassification adjustments	(2	) (5	)
Net changes under benefit plans, net of tax	33	85	
Balance, end of period	\$(3,005	) \$(2,333	)

TREASURY SHARES

Balance, beginning of year	\$(595	) \$(514	)
Issuance of shares under stock compensation plans and employee stock purchase plans	282	235	
Purchase of treasury shares	(180	) (361	)
Balance, end of period	\$(493	) \$(640	)

NON-CONTROLLING INTERESTS

Balance, beginning of year	\$57	\$47	
Net income attributable to non-controlling interests	21	18	
Distributions	(5	) —	
Other changes	(3	) (7	)
Balance, end of period	\$70	\$58	
TOTAL EQUITY	\$6,580	\$6,465	

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

Table of Contents

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. In August 2012, Marsh acquired Rosenfeld-Einstein, a South Carolina-based employee benefits service provider, and Eidson Insurance, a property/casualty and employee benefits services firm located in Florida.

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 nine-month periods ended September 30, 2012 and 2011.

Investment (Loss) Income

The caption "Investment (loss) income" 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

- 10 -

Table of Contents

temporary declines in the value of debt and available for sale securities and the change in value of the Company's holdings in certain private equity funds, including equity method gains (losses) on its investment in Trident II, a limited partnership. The Company's investments may include direct investments in insurance or consulting companies and investments in private equity funds. The company recorded equity method gains/(losses) on its investment in Trident II, of \$(1) million and \$0 million for the three months ended September 30, 2012 and 2011, respectively, and \$23 million and \$14 million for the nine months ended September 30, 2012 and 2011, respectively.

At September 30, 2012, the Company's investment in Trident II was approximately \$66 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 third quarter of 2012 was 26.8% compared with 32.8% in the third 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. In addition, the lower rate in the current period reflects several tax benefits, including the benefit from recording previously unrecognized tax benefits as a result of expiring statutes of limitations for U.S. federal tax years 2006 and 2008, and a favorable permanent difference related to a tax-free adjustment to the estimated liability for contingent consideration. These benefits were partially offset by charges to increase unrecognized tax benefits for certain operations in Asia and U.S. tax costs related to actions taken during the quarter to reduce positions in the Euro currency held by certain of the Company's non-U.S. operations. The effective tax rate for the first nine months of 2012 and 2011 was 29.2% and 30.4%, respectively. The decline primarily reflects the effects of the aforementioned items as well as a lower estimated annual effective tax rate in the current year. The statute of limitations for the 2007 federal tax return remains open in connection with the IRS review of the Company's carryback of Foreign Tax Credits from 2009 to 2007.

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 were approximately \$143 million at both September 30, 2012 and December 31, 2011. Of the total unrecognized tax benefits at September 30, 2012 and December 31, 2011, \$94 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 \$20 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 \$31 million and \$36 million for the nine-month periods ended September 30, 2012 and 2011, respectively. The Consulting segment recorded fiduciary interest income of \$2 million for the the nine-month period ended September 30, 2012 and \$3 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 \$5 million and \$62 million of fixed income securities classified as available for sale at September 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 September 30, 2012 and December 31, 2011, respectively.

- 11 -

Table of Contents

Net uncollected premiums and claims and the related payables amounted to \$10 billion at September 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 \$16 billion of assets in trusts or funds for which Mercer's management or trustee 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 (In millions, except per share figures)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income from continuing operations	\$246	\$133	\$939	\$738
Less: Net income attributable to non-controlling interests	6	5	21	18
Net income from continuing operations attributable to the Company	240	128	918	720
Less: Portion attributable to participating securities	—	1	2	5
Net income attributable to common shares for basic earnings per share	\$240	\$127	\$916	\$715
Basic weighted average common shares outstanding	544	540	544	543
Basic EPS Calculation - Net Income (In millions, except per share figures)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to the Company	\$241	\$130	\$917	\$737
Less: Portion attributable to participating securities	—	1	2	5
Net income attributable to common shares for basic earnings per share	\$241	\$129	\$915	\$732
Basic weighted average common shares outstanding	544	540	544	543

- 12 -

Table of Contents

Diluted EPS Calculation - Continuing Operations (In millions, except per share figures)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income from continuing operations	\$246	\$133	\$939	\$738
Less: Net income attributable to non-controlling interests	6	5	21	18
Net income from continuing operations attributable to the Company	240	128	918	720
Less: Portion attributable to participating securities	—	1	2	5
Net income attributable to common shares for diluted earnings per share	\$240	\$127	\$916	\$715
Basic weighted average common shares outstanding	544	540	544	543
Dilutive effect of potentially issuable common shares	8	9	8	9
Diluted weighted average common shares outstanding	552	549	552	552
Average stock price used to calculate common stock equivalents	\$33.53	\$28.87	\$32.60	\$29.27
Diluted EPS Calculation - Net Income (In millions, except per share figures)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to the Company	\$241	\$130	\$917	\$737
Less: Portion attributable to participating securities	—	1	2	5
Net income attributable to common shares for diluted earnings per share	\$241	\$129	\$915	\$732
Basic weighted average common shares outstanding	544	540	544	543
Dilutive effect of potentially issuable common shares	8	9	8	9
Diluted weighted average common shares outstanding	552	549	552	552
Average stock price used to calculate common stock equivalents	\$33.53	\$28.87	\$32.60	\$29.27

There were 35.1 million and 40.5 million stock options outstanding as of September 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 nine-month periods ended September 30, 2012 and 2011.

(In millions of dollars)	2012	2011
Assets acquired, excluding cash	\$160	\$148
Liabilities assumed	(39)	(19)
Contingent/deferred purchase consideration	(19)	(16)
Net cash outflow for current year acquisitions	102	113
Purchase of other intangibles	—	2
Contingent payments from prior years' acquisitions	—	3
Deferred purchase consideration from prior years' acquisitions	51	16
Net cash outflow for acquisitions	\$153	\$134
(In millions of dollars)	2012	2011
Interest paid	\$150	\$163
Income taxes paid/(refunded)	\$237	\$(37)

Table of Contents

The Company had non-cash issuances of common stock under its share-based payment plan of \$187 million and \$191 million for the nine months ended September 30, 2012 and 2011. The Company recorded stock-based compensation expense related to equity awards of \$117 million and \$124 million for the nine-month periods ended September 30, 2012 and 2011, respectively.

6. Other Comprehensive Income (Loss)

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

Three Months Ended September 30, (In millions of dollars)	2012			2011		
	Pre-Tax	Tax	Net of Tax	Pre-Tax	Tax	Net of Tax
Foreign currency translation adjustments	\$171	\$4	\$167	\$(349)	\$(1)	\$(348)
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)	)(6	)(2	(8)	)(3	)(5
Net actuarial losses	68	52	16	51	18	33
Subtotal	60	46	14	43	15	28
Foreign currency translation adjustments	(132)	)(60	)(72	87	21	66
Pension/post-retirement plans (gains) losses	(72)	)(14	)(58	130	36	94
Other comprehensive income (loss)	\$99	\$11	)\$110	\$(220)	)\$35	\$(255)

Nine Months Ended September 30, (In millions of dollars)	2012			2011		
	Pre-Tax	Tax	Net of Tax	Pre-Tax	Tax	Net of Tax
Foreign currency translation adjustments	\$142	\$(10)	)\$152	\$(112)	)\$1	\$(113)
Unrealized investment gains (losses)	(1)	)1	(2	(6	)(1	)(5
Pension/post-retirement plans:						
Amortization of losses (gains) included in net periodic pension cost:						
Prior service gains	(24)	)(11	)(13	(24)	)(8	)(16
Net actuarial losses	202	95	107	160	52	108
Subtotal	178	84	94	136	44	92
Foreign currency translation adjustments	(116)	)(55	)(61	(12	)(5	)(7
Pension/post-retirement plans (gains) losses	62	29	33	124	39	85
Other comprehensive income (loss)	\$203	\$20	\$183	\$6	\$39	\$(33)

7. Acquisitions

During the first nine months of 2012, the Company made seven 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

Table of Contents

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 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. In August 2012 Marsh acquired Rosenfeld-Einstein, a South Carolina-based employee benefits service provider, and Eidson Insurance, a property/casualty and employee benefits services firm located in Florida.

Total purchase consideration for acquisitions made during the nine months of 2012 was \$205 million, which consisted of cash paid of \$124 million, deferred purchase and estimated contingent consideration of \$19 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. During the nine-months ended September 30, 2012, the Company also paid \$51 million of deferred purchase consideration and \$20 million of 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 Nine Months Ended September 30,	
(Amounts in millions)	2012
Cash (includes \$62 million held in escrow at 12/31/11)	\$186
Estimated fair value of deferred/contingent consideration	19
Total Consideration	\$205
Allocation of purchase price:	
Cash and cash equivalents	\$22
Accounts receivable, net	5
Property, plant, and equipment	3
Intangible assets	96
Goodwill	126
Other assets	3
Total assets acquired	255
Current liabilities	11
Other liabilities	39
Total liabilities assumed	50
Net assets acquired	\$205
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 Paillet 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

- 15 -

Table of Contents

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 nine months of 2011 was \$132 million which consisted of cash paid of \$116 million and estimated contingent consideration of \$16 million. 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 earnings projections of the acquired entities. Estimated fair values of assets acquired and liabilities assumed are subject to adjustment when purchase accounting is finalized. During the first nine-months of 2011, the Company also paid \$19 million of deferred purchase consideration related to acquisitions made in prior years. In addition, the Company paid \$2 million to purchase other intangible assets during the first nine months of 2011.

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.

Pending Acquisitions

Subsequent to September 30, 2012, Marsh made two additional acquisitions for an aggregate purchase price of approximately \$60 million and given the timing of these transactions, the initial accounting for the business combinations is not yet complete.

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 September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2012	2011	2012	2011
Revenue	\$2,848	\$2,850	\$8,946	\$8,762
Income from continuing operations	\$247	\$133	\$943	\$738
Net income attributable to the Company	\$242	\$130	\$921	\$737
Basic net income per share:				
– Continuing operations	\$0.44	\$0.24	\$1.69	\$1.32
– Net income attributable to the Company	\$0.44	\$0.24	\$1.69	\$1.35
Diluted net income per share:				
– Continuing operations	\$0.44	\$0.23	\$1.67	\$1.30
– Net income attributable to the Company	\$0.44	\$0.24	\$1.66	\$1.33

The Consolidated Statements of Income for the three and nine months ended September 30, 2012 include approximately \$31 million of revenue and \$6 million of net operating income and approximately \$76 million of revenue and \$15 million of net operating income, respectively, related to acquisitions made during 2012

Table of Contents

8. Dispositions

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions of dollars, except per share figures)	2012	2011	2012	2011
Other discontinued operations, net of tax	\$ 1	\$ —	\$(1)	\$ —
Income (loss) from discontinued operations, net of tax	1	—	(1)	—
Disposals of discontinued operations	—	3	—	11
Income tax (credit) expense	—	1	—	(6)
Disposals of discontinued operations, net of tax	—	2	—	17
Discontinued operations, net of tax	\$ 1	\$ 2	\$(1)	\$ 17
Discontinued operations, net of tax per share				
– Basic	\$ —	\$ —	\$ —	\$ 0.03
– Diluted	\$ 0.01	\$ 0.01	\$ —	\$ 0.03

Discontinued operations for the nine months ended September 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. In accordance with applicable accounting guidance, the Company assesses qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test. The Company considered the totality of numerous factors, which included that the fair value of each reporting unit exceeded its carrying value by a substantial margin 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. The Company completed its evaluation in the third quarter of 2012 and concluded that a two-step goodwill impairment test was not required in 2012 and that goodwill was not impaired.

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:

September 30,		
(In millions of dollars)	2012	2011
Balance as of January 1, as reported	\$6,562	\$6,420
Goodwill acquired	126	88
Other adjustments ^(a)	(9)	31
Balance at September 30,	\$6,679	\$6,539
(a)	Reflects increases due to the impact of foreign exchange in both years. 2012 also reflects a reduction due to purchase accounting adjustments.	

Goodwill allocable to the Company's reportable segments is as follows: Risk & Insurance Services, \$4.6 billion and Consulting, \$2.1 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:

- 17 -

Table of Contents

	September 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	\$762	\$328	\$434	\$666	\$265	\$401

The Company recorded an intangible asset impairment charge of \$8 million in the third quarter of 2012 in the Risk & Insurance Services segment.

Aggregate amortization expense for the nine months ended September 30, 2012 and 2011 was \$53 million and \$50 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 September 30, 2012)	\$17
2013	65
2014	61
2015	58
2016	47
Subsequent years	186
	\$434

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

Table of Contents

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 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.

Table of Contents

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 September 30, 2012 and December 31, 2011.

	Identical Assets (Level 1)		Observable Inputs (Level 2)		Unobservable Inputs (Level 3)		Total	
(In millions of dollars)	09/30/12	12/31/11	09/30/12	12/31/11	09/30/12	12/31/11	09/30/12	12/31/11
Assets:								
Financial instruments owned:								
Mutual funds ^(a)	\$137	\$134	\$—	\$—	\$—	\$—	\$137	\$134
Money market funds ^(b)	284	226	—	—	—	—	284	226
Interest rate swap derivatives ^(c)	—	—	6	7	—	—	6	7
Total assets measured at fair value	\$421	\$360	\$6	\$7	\$—	\$—	\$427	\$367
Fiduciary Assets:								
State and local obligations (including non-U.S. locales)	\$—	\$—	\$5	\$13	\$—	\$—	\$5	\$13
Other sovereign government obligations and supranational agencies	—	—	—	47	—	—	—	47
Corporate and other debt	—	—	—	2	—	—	—	2
Money market funds	179	186	—	—	—	—	179	186
Total fiduciary assets measured at fair value	\$179	\$186	\$5	\$62	\$—	\$—	\$184	\$248
Liabilities:								
Contingent consideration liability ^(d)	\$—	\$—	\$—	\$—	\$77	\$110	\$77	\$110
Senior Notes due 2014 ^(e)	—	—	256	257	—	—	256	257
Total liabilities measured at fair value	\$—	\$—	\$256	\$257	\$77	\$110	\$333	\$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 nine-month period ended September 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 nine month period ended September 30, 2012 that represent contingent consideration related to acquisitions:

(In millions of dollars)	Fair Value, December 31, 2011	Additions	Payments	Revaluation Impact	Fair Value, September 30, 2012
Contingent consideration	\$110	\$19	\$(20)	\$(32)	\$77

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. As set forth in the table above, based on the Company's ongoing assessment of the fair value of contingent consideration, the Company recorded a net reduction in the estimated fair value of such liabilities for prior period acquisitions of \$32 million in the nine-month period ended September 30, 2012. A 5% increase in the above mentioned projections would increase the liability by approximately \$25 million. A 5% decrease

in the above mentioned projections would decrease the liability by approximately \$25 million.

- 20 -

Table of Contents

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 52% equities and equity alternatives and 48% fixed income. The assets of the Company's defined benefit plans are 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 For the Three Months Ended September 30, (In millions of dollars)	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Service cost	\$59	\$55	\$1	\$1
Interest cost	148	153	3	2
Expected return on plan assets	(225)	) (223	) —	—
Amortization of prior service credit	(4	) (5	) (3	) (3
Recognized actuarial loss	67	54	—	(3
Net periodic benefit cost	\$45	\$34	\$1	\$(3

Combined U.S. and significant non-U.S. Plans For the Nine Months Ended September 30, (In millions of dollars)	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Service cost	\$180	\$169	\$3	\$4
Interest cost	445	458	9	9
Expected return on plan assets	(676	) (668	) —	—
Amortization of prior service credit	(14	) (14	) (9	) (10
Recognized actuarial loss	201	162	—	(3
Net periodic benefit cost	\$136	\$107	\$3	\$—

U.S. Plans only For the Three Months Ended September 30, (In millions of dollars)	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Service cost	\$23	\$20	\$1	\$—
Interest cost	57	58	2	1
Expected return on plan assets	(80	) (79	) —	—
Amortization of prior service credit	(4	) (4	) (3	) (3
Recognized actuarial loss (credit)	38	25	—	(3
Net periodic benefit cost (credit)	\$34	\$20	\$—	\$(5

Table of Contents

U.S. Plans only	Pension		Postretirement		
For the Nine Months Ended September 30,	Benefits		Benefits		
(In millions of dollars)	2012	2011	2012	2011	
Service cost	\$70	\$62	\$2	\$2	
Interest cost	172	173	6	6	
Expected return on plan assets	(241	) (236	) —	—	
Amortization of prior service credit	(12	) (12	) (9	) (10	)
Recognized actuarial loss (credit)	114	75	(1	) (3	)
Net periodic benefit cost (credit)	\$103	\$62	\$(2	) \$(5	)
Significant non-U.S. Plans only	Pension		Postretirement		
For the Three Months Ended September 30,	Benefits		Benefits		
(In millions of dollars)	2012	2011	2012	2011	
Service cost	\$36	\$35	\$—	\$1	
Interest cost	91	95	1	1	
Expected return on plan assets	(145	) (144	) —	—	
Amortization of prior service cost	—	(1	) —	—	
Recognized actuarial loss	29	29	—	—	
Net periodic benefit cost	\$11	\$14	\$1	\$2	
Significant non-U.S. Plans only	Pension		Postretirement		
For the Nine Months Ended September 30,	Benefits		Benefits		
(In millions of dollars)	2012	2011	2012	2011	
Service cost	\$110	\$107	\$1	\$2	
Interest cost	273	285	3	3	
Expected return on plan assets	(435	) (432	) —	—	
Amortization of prior service cost	(2	) (2	) —	—	
Recognized actuarial loss	87	87	1	—	
Net periodic benefit cost	\$33	\$45	\$5	\$5	

Table of Contents

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 September 30	Pension Benefits		Postretirement Benefits	
	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 approximately \$420 million of contributions to its U.S. and non-U.S. defined benefit plans in the first nine 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 a total of approximately \$100 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)	September 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	296	296
Senior notes – 5.375% due 2014	326	326
Senior notes – 5.75% due 2015	479	479
Senior notes – 2.30% due 2017	249	—
Senior notes – 9.25% due 2019	398	398
Senior notes – 4.80% due 2021	496	496
Mortgage – 5.70% due 2035	424	431
Other	1	1
	2,919	2,928
Less current portion	259	260
	\$2,660	\$2,668

The senior notes in the table above are publically registered by the Company with no guarantees attached.

During the first quarter of 2012 the Company repaid its 6.25% fixed rate \$250 million senior notes that matured. The Company used proceeds from the issuance of 2.3% five-year \$250 million senior notes in the first quarter of 2012 to fund the maturing notes.

On June 27, 2011, the Company commenced tender offers (the “tender offers”) to purchase for cash up to a total of \$500 million aggregate principal amount of its outstanding 5.375% notes due 2014 (the “2014 Notes”) and 5.750% notes due 2015 (the “2015 Notes” and together with the 2014 Notes, the “Outstanding Notes”), of which \$650 million and \$750 million, respectively, were then outstanding.

On July 15, 2011, the Company purchased a total of \$600 million of the Outstanding Notes comprised of \$330 million of its 2014 Notes and \$270 million of its 2015 Notes. The Company acquired the notes at market value plus a tender premium, which exceeded the notes' carrying value.

The Company used proceeds from the issuance of 4.80% ten-year \$500 million senior notes in the third quarter of 2011 and cash on hand to fund the amounts associated with the tendered bonds.

Table of Contents

The Company and certain of its foreign subsidiaries maintain a \$1.0 billion multi-currency five-year unsecured revolving credit facility. The interest rate on this facility is based on LIBOR plus a fixed margin which varies with the Company's credit ratings. This facility requires the Company to maintain certain coverage and leverage ratios which are tested quarterly. There were no borrowings outstanding under this facility at September 30, 2012.

Derivative Financial Instruments

In February 2011, the Company entered into two \$125 million 3.5-year interest rate swaps to hedge changes in the fair value of the first \$250 million of the outstanding 5.375% senior notes due in 2014.

Under the terms of the swaps, the counter-parties will pay the Company a fixed rate of 5.375% and the Company will pay interest at a floating rate of three-month LIBOR plus a fixed spread of 3.726%. The maturity date of the senior notes and the swaps match exactly. The floating rate resets quarterly, with every second reset occurring on the interest payment date of the senior notes. The swaps net settle every six months on the senior note coupon payment dates. The swaps are designated as fair value hedging instruments, and in accordance with applicable accounting guidance, are deemed to be perfectly effective. The fair value of the swaps at inception was zero and subsequent changes in the fair value of the interest rate swaps are reflected in the carrying value of the interest rate swaps and in the consolidated balance sheet. The carrying value of the debt on the balance sheet was adjusted by an equal amount. The gain or (loss) on the hedged item (fixed rate debt) and the offsetting gain or (loss) on the interest rate swaps for the year-to-date periods ending September 30, 2012 and September 30, 2011 are as follows:

	2012			2011		
Income statement classification (In millions of dollars)	Loss on Swaps	Gain on Notes	Net Income Effect	Gain on Swaps	Loss on Notes	Net Income Effect
Other Operating Expenses	\$ (1.0)	\$ 1.0	\$ —	\$ 7.0	\$ (7.0)	\$ —

The amounts earned and owed under the swap agreements are accrued each period and are reported in interest expense. There was no ineffectiveness recognized in the periods presented.

13. Restructuring Costs

The Company recorded total restructuring costs of \$21 million in the first nine months of 2012, the majority of which related to severance.

Details of the activity from January 1, 2011 through September 30, 2012 regarding restructuring activities, which includes liabilities from actions prior to 2012, are as follows:

(In millions of dollars)	Liability at 1/1/11	Amounts Accrued	Cash Paid	Other	Liability at 12/31/11	Amounts Accrued	Cash Paid	Other	Liability at 9/30/12
Severance	\$40	\$29	\$ (40)	\$ (2)	\$ 27	\$ 12	\$ (35)	\$ 6	\$ 10
Future rent under non-cancelable leases and other costs	171	22	(42)	3	154	9	(31)	1	133
Total	\$211	\$51	\$ (82)	\$ 1	\$ 181	\$ 21	\$ (66)	\$ 7	\$ 143

The expenses associated with the above initiatives are included in compensation and benefits and other operating expenses in the consolidated statements of income. The liabilities associated with these initiatives are classified on the consolidated balance sheets as Accounts payable, Other liabilities, or Accrued compensation, depending on the nature of the items.

14. Financial Instruments

Table of Contents

The estimated fair value of the Company's significant financial instruments is provided below. Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that the Company would realize upon disposition, nor do they indicate the Company's intent or need to dispose of the financial instrument.

(In millions of dollars)	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$2,044	\$2,044	\$2,113	\$2,113
Long-term investments	\$48	\$48	\$58	\$58
Short-term debt	\$259	\$263	\$260	\$261
Long-term debt	\$2,660	\$2,984	\$2,668	\$2,958

Cash and Cash Equivalents: The estimated fair value of the Company's cash and cash equivalents approximates their carrying value.

Long-term Investments: Long-term investments include certain investments carried at cost and unrealized gains related to available-for-sale investments held in a fiduciary capacity as discussed below.

The Company has long-term investments of \$29 million and \$37 million at September 30, 2012 and December 31, 2011, carried on the cost basis for which there are no readily available market prices. The remaining long-term investments are publicly traded mutual funds related to voluntary deferred compensation plans. The fair value of the mutual funds is based on quoted market prices. Management's estimate of the fair value of non-publicly traded investments is based on valuation methodologies including discounted cash flows, estimates of sale price based on multiples of revenue, earnings or EBITDA or estimates from private equity managers of the fair value of underlying investments in private equity funds. The ability to accurately predict future cash flows, revenue or earnings may impact the determination of fair value. These investments are included in Other assets in the consolidated balance sheets. The Company monitors these investments for impairment and makes appropriate reductions in carrying values when necessary. These investments would be classified as Level 3 in the fair value hierarchy.

A portion of the Company's fiduciary funds described in Note 3 are invested in high quality debt securities and are classified as available for sale. There were no gross unrealized gains or losses (pre-tax) on these securities at September 30, 2012.

Short-term and Long-term Debt: The fair value of the Company's short-term debt, which consists primarily of term debt maturing within the next year, approximates its carrying value. The estimated fair value of a primary portion of the Company's long-term debt is based on discounted future cash flows using current interest rates available for debt with similar terms and remaining maturities. Short and long-term debt would be classified as Level 2 in the fair value hierarchy.

15. Common Stock

During the nine months of 2012, the Company repurchased 5.4 million shares of its common stock for consideration of \$180 million. The Company remains authorized to purchase additional shares of its common stock up to a value of \$373 million. During the first nine months of 2011, the Company purchased 12.2 million shares of its common stock for total consideration of \$361 million.

16. Claims, Lawsuits and Other Contingencies

Errors and Omissions Claims

The Company and its subsidiaries, particularly Marsh and Mercer, are subject to a significant number of claims, lawsuits and proceedings in the ordinary course of business. Such claims and lawsuits consist principally of alleged errors and omissions in connection with the performance of professional services, including the placement of insurance, the provision of actuarial services for corporate and public sector clients, and the provision of consulting services relating to the drafting and interpretation of trust deeds and other documentation governing pension plans.

Certain of these claims, particularly in the U.S. and the U.K., seek damages, including punitive and treble damages, in amounts that could, if awarded, be significant. In establishing liabilities for errors and omissions claims in accordance with FASB ASC Subtopic No. 450-20 (Contingencies—Loss Contingencies), the Company utilizes case

- 25 -

Table of Contents

level reviews by inside and outside counsel and an internal actuarial analysis to estimate potential losses. A liability is established when a loss is both probable and reasonably estimable. The liability is reviewed quarterly and adjusted as developments warrant. In many cases, the Company has not recorded a liability, other than for legal fees to defend the claim, because we are unable, at the present time, to make a determination that a loss is both probable and reasonably estimable.

To the extent that expected losses exceed our deductible in any policy year, the Company also records an asset for the amount that we expect to recover under any available third-party insurance programs. The Company has varying levels of third-party insurance coverage, with policy limits and coverage terms varying significantly by policy year.

Governmental Inquiries and Related Claims

In January 2005, the Company and its subsidiary Marsh Inc. entered into a settlement agreement with the New York State Attorney General (“NYAG”) and the New York State Insurance Department to settle a civil complaint and related citation regarding Marsh’s use of market service agreements with various insurance companies. The parties subsequently entered into an amended and restated settlement agreement in February 2010 that helps restore a level playing field for Marsh.

Numerous private party lawsuits based on similar allegations to those made in the NYAG complaint were commenced against the Company, one or more of its subsidiaries, and their current and former directors and officers. Most of these matters have been resolved. Five actions instituted by policyholders against the Company, Marsh and certain Marsh subsidiaries remain pending in federal court.

Our activities are regulated under the laws of the United States and its various states, the European Union and its member states, and the other jurisdictions in which we operate. In the ordinary course of business we are also subject to investigations, lawsuits and/or other regulatory actions undertaken by governmental authorities.

Other Contingencies—Guarantees

In connection with its acquisition of U.K.-based Sedgwick Group in 1998, the Company acquired several insurance underwriting businesses that were already in run-off, including River Thames Insurance Company Limited (“River Thames”), which we sold in 2001. Sedgwick guaranteed payment of claims on certain policies underwritten through the Institute of London Underwriters (the “ILU”) by River Thames. The policies covered by this guarantee are reinsured up to £40 million by a related party of River Thames. Payment of claims under the reinsurance agreement is collateralized by segregated assets held in a trust. As of September 30, 2012, the reinsurance coverage exceeded the best estimate of the projected liability of the policies covered by the guarantee. To the extent River Thames or the reinsurer is unable to meet its obligations under those policies, a claimant may seek to recover from us under the guarantee.

From 1980 to 1983, the Company owned indirectly the English & American Insurance Company (“E&A”), which was a member of the ILU. The ILU required the Company to guarantee a portion of E&A’s obligations. After E&A became insolvent in 1993, the ILU agreed to discharge the guarantee in exchange for the Company’s agreement to post an evergreen letter of credit that is available to pay claims by policyholders on certain E&A policies issued through the ILU and incepting between July 3, 1980 and October 6, 1983. Certain claims have been paid under the letter of credit and we anticipate that additional claimants may seek to recover against the letter of credit.

Putnam-related Matters

Under the terms of a stock purchase agreement with Great-West Lifeco Inc. (“GWL”) related to GWL’s purchase of Putnam Investments Trust from the Company in August 2007, a copy of which was included as an exhibit to the Company’s Form 8-K filed on February 1, 2007, we agreed to indemnify GWL with respect to certain Putnam-related litigation and regulatory matters. Most of these matters have been resolved.

Kroll-related Matters

Under the terms of a stock purchase agreement with Altegrity, Inc. (“Altegrity”) related to Altegrity’s purchase of Kroll from the Company in August 2010, a copy of which is attached as an exhibit to the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2010, we agreed to provide a limited indemnity to Altegrity with respect to certain Kroll-related litigation and regulatory matters.

Table of Contents

The pending proceedings and other matters described in this Note 16 on Claims, Lawsuits and Other Contingencies may expose the Company or its subsidiaries to liability for significant monetary damages and other forms of relief. Where a loss is both probable and reasonably estimable, we establish liabilities in accordance with FASB ASC Subtopic No. 450-20 (Contingencies—Loss Contingencies). Except as described above, we are not able at this time to provide a reasonable estimate of the range of possible loss attributable to these matters or the impact they may have on the Company's consolidated results of operations, financial position or cash flows. This is primarily because these matters are still developing and involve complex issues subject to inherent uncertainty. Adverse determinations in one or more of these matters could have a material impact on the Company's consolidated results of operations, financial condition or cash flows in a future period.

Table of Contents

17. Segment Information

The Company is organized based on the types of services provided. Under this organizational structure, the Company's business segments are:

Risk and Insurance Services, comprising insurance services (Marsh) and reinsurance services (Guy Carpenter); and Consulting, comprising Mercer and Oliver Wyman Group

The accounting policies of the segments are the same as those used for the consolidated financial statements described in Note 1 to the Company's 2011 10-K. Segment performance is evaluated based on segment operating income, which includes directly related expenses, and charges or credits related to integration and restructuring but not the Company's corporate-level expenses. Revenues are attributed to geographic areas on the basis of where the services are performed.

Selected information about the Company's operating segments for the three- and nine-month periods ended September 30, 2012 and 2011 are as follows:

(In millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	Revenue	Operating Income (Loss)	Revenue	Operating Income (Loss)
2012 –				
Risk and Insurance Services	\$1,510	(a) \$234	\$4,955	(c) \$1,052
Consulting	1,346	(b) 193	4,000	(d) 524
Total Operating Segments	2,856	427	8,955	1,576
Corporate / Eliminations	(11)	(49)	(33)	(153)
Total Consolidated	\$2,845	\$378	\$8,922	\$1,423
2011–				
Risk and Insurance Services	\$1,475	(a) \$186	\$4,729	(c) \$925
Consulting	1,339	(b) 161	3,919	(d) 441
Total Operating Segments	2,814	347	8,648	1,366
Corporate / Eliminations	(8)	(37)	(30)	(119)
Total Consolidated	\$2,806	\$310	\$8,618	\$1,247

Includes inter-segment revenue of \$1 million and \$2 million in 2012 and 2011, respectively, interest income on (a) fiduciary funds of \$10 million and \$14 million in 2012 and 2011, respectively, and equity method income of \$1 million in 2011.

(b) Includes inter-segment revenue of \$10 million and \$6 million in 2012 and 2011, respectively, and interest income on fiduciary funds of \$1 million in both 2012 and 2011.

Includes inter-segment revenue of \$4 million in both 2012 and 2011, interest income on fiduciary funds of \$31 (c) million and \$36 million in 2012 and 2011, respectively, and equity method income of \$10 million in both 2012 and 2011.

(d) Includes inter-segment revenue of \$29 million and \$26 million in 2012 and 2011, respectively, and interest income on fiduciary funds of \$2 million and \$3 million in 2012 and 2011, respectively.

Table of Contents

Details of operating segment revenue for the three- and nine-month periods ended September 30, 2012 and 2011 are as follows:

(In millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Risk and Insurance Services				
Marsh	\$1,260	\$1,221	\$4,069	\$3,875
Guy Carpenter	250	254	886	854
Total Risk and Insurance Services	1,510	1,475	4,955	4,729
Consulting				
Mercer	995	975	2,912	2,842
Oliver Wyman Group	351	364	1,088	1,077
Total Consulting	1,346	1,339	4,000	3,919
Total Operating Segments	2,856	2,814	8,955	8,648
Corporate/ Eliminations	(11	) (8	) (33	) (30
Total	\$2,845	\$2,806	\$8,922	\$8,618

18. New Accounting Pronouncements

In the first quarter of 2012, the Company adopted new accounting guidance related to the presentation of Comprehensive Income. The new guidance gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. On December 23, 2011, the FASB issued an update that indefinitely defers the provisions in this guidance related to the presentation of reclassification adjustments. Other than enhanced disclosure, adoption of this new guidance will not have a material effect on the Company's financial statements.

In January 2012, the Company adopted guidance issued by the FASB on accounting and disclosure requirements related to fair value measurements. The guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes, the sensitivity of the fair value to changes in unobservable inputs and the hierarchy classification, valuation techniques, and inputs for assets and liabilities whose fair value is only disclosed in the footnotes.

In January 2011, the Company adopted guidance issued by the FASB on revenue recognition regarding multiple-deliverable revenue arrangements. The adoption of this new guidance did not have a material impact on the Company's financial statements.

In January 2011, the Company adopted guidance issued by the FASB which establishes a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. The scope of this guidance is limited to research or development arrangements and requires an entity to record the milestone payment in its entirety in the period received if the milestone meets all the necessary criteria to be considered substantive. However, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy that results in the deferral of some portion of the arrangement consideration. The adoption of this new guidance did not have a material impact on the Company's financial statements.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Marsh & McLennan Companies, Inc. and Subsidiaries ("the Company") is a global professional services firm providing advice and solutions in the areas of risk, strategy, and human capital. The Company's subsidiaries include Marsh, which provides risk and insurance services; Guy Carpenter, which provides reinsurance services; Mercer, which provides human resource and related financial advice and services; and Oliver Wyman Group, which provides management consulting and other services. The Company's approximately 53,000 employees worldwide provide analysis, advice and transactional capabilities to clients in over 100 countries.

The Company's business segments are based on the services provided. Risk and Insurance Services includes risk management and insurance and reinsurance broking and services, provided primarily by Marsh and Guy Carpenter. Consulting, which comprises the activities of Mercer and Oliver Wyman Group, includes human resource consulting and related investment and outsourcing services, and specialized management, economic and brand consulting services.

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 brokerages 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. In August 2012, Marsh acquired Rosenfeld-Einstein, a South Carolina-based employee benefits service provider, and Eidson Insurance, a property/casualty and employee benefits services firm located in Florida.

In February 2012, Mercer acquired the remaining 49% of Yokogara-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.

A reconciliation of segment operating income to total operating income is included in Note 17 to the consolidated financial statements included elsewhere in this report. The accounting policies used for each segment are the same as those used for the consolidated financial statements.

This MD&A contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Information Concerning Forward-Looking Statements" at the outset of this report.

Table of Contents

Consolidated Results of Operations

(In millions, except per share figures)	Third Quarter		Nine Months	
	2012	2011	2012	2011
Revenue	\$2,845	\$2,806	\$8,922	\$8,618
Expense:				
Compensation and Benefits	1,760	1,753	5,332	5,202
Other Operating Expenses	707	743	2,167	2,169
Operating Expenses	2,467	2,496	7,499	7,371
Operating Income	378	310	1,423	1,247
Income from Continuing Operations	246	133	939	738
Discontinued Operations, net of tax	1	2	(1)	17
Net Income Before Non-Controlling Interest	247	135	938	755
Net Income Attributable to the Company	\$241	\$130	\$917	\$737
Income From Continuing Operations Per Share:				
Basic	\$0.44	\$0.24	\$1.68	\$1.32
Diluted	\$0.43	\$0.23	\$1.66	\$1.30
Net Income Per Share Attributable to the Company:				
Basic	\$0.44	\$0.24	\$1.68	\$1.35
Diluted	\$0.44	\$0.24	\$1.66	\$1.33
Average Number of Shares Outstanding:				
Basic	544	540	544	543
Diluted	552	549	552	552
Shares Outstanding at September 30	544	538	544	538

The Company's consolidated operating income increased 22% to \$378 million in the third quarter of 2012 compared with consolidated operating income of \$310 million in the prior year, reflecting increases of \$48 million in Risk and Insurance Services and \$32 million in Consulting, partly offset by increases in corporate expense of \$12 million.

The Company reported consolidated operating income of approximately \$1.4 billion in the first nine months of 2012 compared with consolidated operating income of \$1.2 billion in the prior year reflecting increases of \$127 million in Risk and Insurance Services and \$83 million in Consulting, partly offset by increases in corporate expense of \$34 million.

Consolidated Revenue and Expense

The Company conducts business in many countries, as a result of which the impact of foreign exchange rate movements may impact period-to-period comparisons of revenue. Similarly, the revenue impact of acquisitions and dispositions, including transfers among businesses, may impact period-to-period comparisons of revenue. Underlying revenue, presented below, measures the change in revenue from one period to another by isolating these impacts. The impact of foreign currency exchange fluctuations and acquisitions and dispositions, including transfers among businesses, on the Company's operating revenues by segment is as follows:

Table of Contents

(In millions of dollars)	Three Months Ended September 30,		% Change GAAP Revenue	Components of Revenue Change*				
	2012	2011		Currency Impact	Acquisitions/ Dispositions Impact	Underlying Revenue		
Risk and Insurance Services								
Marsh	\$1,251	\$1,210	3	% (3	)% 2	% 4		%
Guy Carpenter	249	251	(1	)% (1	)% —	1		%
Subtotal	1,500	1,461	3	% (3	)% 2	% 4		%
Fiduciary Interest Income	10	14						
Total Risk and Insurance Services	1,510	1,475	2	% (3	)% 2	% 4		%
Consulting								
Mercer	995	975	2	% (3	)% 2	% 3		%
Oliver Wyman Group	351	364	(3	)% (4	)% (3	)% 3		%
Total Consulting	1,346	1,339	1	% (3	)% —	3		%
Corporate/Eliminations	(11	) (8	)					
Total Revenue	\$2,845	\$2,806	1	% (3	)% 1	% 3		%

The following table provides more detailed revenue information for certain of the components presented above:

(In millions of dollars)	Three Months Ended September 30,		% Change GAAP Revenue	Components of Revenue Change*				
	2012	2011		Currency Impact	Acquisitions/ Dispositions Impact	Underlying Revenue		
Marsh:								
EMEA	\$376	\$367	2	% (7	)% 4	% 5		%
Asia Pacific	165	158	5	% (2	)% —	7		%
Latin America	81	84	(4	)% (9	)% —	5		%
Total International	622	609	2	% (6	)% 3	% 6		%
U.S. / Canada	629	601	5	% —	% 2	% 3		%
Total Marsh	\$1,251	\$1,210	3	% (3	)% 2	% 4		%
Mercer:								
Retirement	\$252	\$261	(3	)% (4	)% 1	% —		
Health and Benefits	256	239	7	% (3	)% 3	% 7		%
Talent, Rewards & Communications	179	173	3	% (3	)% 5	% 1		%
Outsourcing	179	186	(3	)% (1	)% (4	)% 2		%
Investments	129	116	11	% (3	)% 4	% 10		%
Total Mercer	\$995	\$975	2	% (3	)% 2	% 3		%

Underlying revenue measures the change in revenue using consistent currency exchange rates, excluding the impact of certain items such as: acquisitions, dispositions and transfers among businesses.

* Components of revenue change may not add due to rounding.

Table of Contents

(In millions of dollars)	Nine Months Ended September 30,		% Change GAAP Revenue	Components of Revenue Change*				
	2012	2011		Currency Impact	Acquisitions/ Dispositions Impact	Underlying Revenue		
Risk and Insurance Services								
Marsh	\$4,043	\$3,845	5	% (3	)% 2	% 6		%
Guy Carpenter	881	848	4	% (1	)% (1	)% 6		%
Subtotal	4,924	4,693	5	% (2	)% 2	% 6		%
Fiduciary Interest Income	31	36						
Total Risk and Insurance Services	4,955	4,729	5	% (2	)% 2	% 6		%
Consulting								
Mercer	2,912	2,842	2	% (2	)% 1	% 3		%
Oliver Wyman Group	1,088	1,077	1	% (3	)% (2	)% 6		%
Total Consulting	4,000	3,919	2	% (2	)% —	4		%
Corporate/Eliminations	(33	) (30	)					
Total Revenue	\$8,922	\$8,618	4	% (2	)% 1	% 5		%

The following table provides more detailed revenue information for certain of the components presented above:

(In millions of dollars)	Nine Months Ended September 30,		% Change GAAP Revenue	Components of Revenue Change*				
	2012	2011		Currency Impact	Acquisitions/ Dispositions Impact	Underlying Revenue		
Marsh:								
EMEA	\$1,408	\$1,363	3	% (6	)% 4	% 5		%
Asia Pacific	488	452	8	% (1	)% —	9		%
Latin America	242	228	6	% (6	)% —	12		%
Total International	2,138	2,043	5	% (5	)% 3	% 7		%
U.S. / Canada	1,905	1,802	6	% —	2	% 4		%
Total Marsh	\$4,043	\$3,845	5	% (3	)% 2	% 6		%
Mercer:								
Retirement	\$797	\$813	(2	)% (3	)% 1	% —		
Health and Benefits	764	717	7	% (2	)% 2	% 7		%
Rewards, Talent & Communications	436	417	5	% (2	)% 5	% 2		%
Outsourcing	534	550	(3	)% (1	)% (4	)% 2		%
Investment Consulting & Management	381	345	10	% (2	)% 5	% 8		%
Total Mercer	\$2,912	\$2,842	2	% (2	)% 1	% 3		%

Underlying revenue measures the change in revenue using consistent currency exchange rates, excluding the impact of certain items such as: acquisitions, dispositions and transfers among businesses.

* Components of revenue change may not add due to rounding.

Revenue

Consolidated revenue for the third quarter of 2012 was \$2.8 billion, an increase of 1% on a reported basis and 3% on an underlying basis from the third quarter of 2011.

Table of Contents

Revenue in the Risk and Insurance Services segment for the third quarter of 2012 was \$1.5 billion, an increase of 2% from the same period last year on a reported basis and 4% on an underlying basis. Marsh experienced underlying revenue growth in all geographies with particularly strong underlying revenue growth of 5% in Latin America and 7% in Asia Pacific. Guy Carpenter's revenue decreased 1% on a reported basis but increased 1% on an underlying basis. On an underlying basis, Consulting revenue increased 3% reflecting increases of 3% in both Mercer and Oliver Wyman.

For the first nine months of 2012, Risk & Insurance Services revenue increased 5% on a reported basis from the same period in 2011, and 6% on an underlying basis. Consulting revenue increased 2% compared with the same period last year. On an underlying basis, Consulting revenue increased 4%, reflecting a 3% increase at Mercer and a 6% increase at Oliver Wyman.

Operating Expense

The Company continues its efforts in monitoring and controlling expenses. Consolidated operating expense in the third quarter of 2012 decreased 1% from the same period in 2011. This reflects increases of 1% in underlying expenses and 1% due to the impact of acquisitions, offset by a 3% decrease due to the impact of foreign exchange. The increase in underlying expenses primarily reflects higher incentive compensation and benefits costs partly offset by credits related to the adjustment of acquisition related contingent consideration liabilities.

For the nine months ended September 30, 2012, operating expenses increased 2% compared to the same period in 2011. This reflects increases of 3% in underlying expenses and 1% due to acquisitions, partly offset by a decrease of 2% due to the impact of foreign exchange.

Risk and Insurance Services

The results of operations for the Risk and Insurance Services segment are presented below:

For the Three and Nine Months Ended September 30, (In millions of dollars)	Third Quarter		Nine Months		
	2012	2011	2012	2011	
Revenue	\$1,510	\$1,475	\$4,955	\$4,729	
Compensation and Benefits	892	878	2,679	2,605	
Other Expenses	384	411	1,224	1,199	
Expense	1,276	1,289	3,903	3,804	
Operating Income	\$234	\$186	\$1,052	\$925	
Operating Income Margin	15.5	% 12.6	% 21.2	% 19.6	%
Revenue					

Revenue in the Risk and Insurance Services segment in the third quarter of 2012 was \$1.5 billion, an increase of 2% on a reported basis and 4% on an underlying basis compared with the same period in 2011.

In Marsh, revenue in the third quarter of 2012 was \$1.3 billion, an increase of 3% compared with the same quarter of the prior year, resulting from an increase of 4% in underlying revenue and 2% from acquisitions, partly offset by a 3% decrease due to the impact of foreign currency translation. The underlying revenue grew across all major geographic markets with particularly strong growth in Asia Pacific. Underlying revenue increased 3% in the U.S. / Canada, 5% in Latin America, 7% in Asia Pacific and 5% in EMEA. The increase in underlying revenue was driven by continued strong growth in new business development.

Guy Carpenter's third quarter revenue was \$249 million, decreasing 1% on a reported basis, but increasing 1% on an underlying basis, reflecting a moderating pricing environment and increased risk retention by clients.

Revenue in the Risk & Insurance Services segment increased 5% in the first nine months of 2012 compared with 2011, or 6% on an underlying basis. The increase in underlying revenue was driven by new business and improved client revenue retention rates.

Table of Contents

Expense

Expenses in the Risk and Insurance Services segment decreased 1% in the third quarter of 2012 compared with the same period in the prior year, reflecting a 3% decrease related to the impact of foreign exchange offset by a 2% increase from acquisitions. Underlying expenses were flat in the third quarter of 2012 compared with the same period last year reflecting the impact of higher incentive compensation and benefits costs offset by credits related to adjustments to acquisition related contingent consideration liabilities.

Expenses for the nine month period in 2012 increased 3% compared to prior year, reflecting a 4% increase in underlying expenses and 2% due to acquisitions, partly offset by a decrease of 3% related to the impact of foreign currency. The increase in underlying expenses is primarily due to higher base salaries and incentive compensation costs offset by credits related to the adjustment of acquisition related contingent consideration liabilities.

Consulting

The results of operations for the Consulting segment are presented below:

For the Three and Nine Months Ended September 30, (In millions of dollars)	Third Quarter		Nine Months		
	2012	2011	2012	2011	
Revenue	\$1,346	\$1,339	\$4,000	\$3,919	
Compensation and Benefits	786	813	2,396	2,407	
Other Expenses	367	365	1,080	1,071	
Expense	1,153	1,178	3,476	3,478	
Operating Income	\$193	\$161	\$524	\$441	
Operating Income Margin	14.3	% 12.0	% 13.1	% 11.3	%
Revenue					

Consulting revenue in the third quarter of 2012 increased 1% on a reported basis and 3% on an underlying basis compared with the same period in 2011. Mercer's revenue was \$995 million in the third quarter of 2012, an increase of 2% on a reported basis and 3% on an underlying basis as compared to the same period last year, reflecting higher revenue across all regions, with the strongest growth in Asia Pacific and Latin America. The underlying revenue growth was primarily driven by a 7% increase in health and benefits and a 10% increase in investments. Oliver Wyman's revenue decreased 3% to \$351 million in the third quarter of 2012, but increased 3% on an underlying basis, driven by growth in its financial services sector.

Consulting revenue in the first nine months of 2012 increased 2% compared with the same period in 2011, or 4% on an underlying basis, with underlying growth of 3% in Mercer and 6% in Oliver Wyman.

Expense

Consulting expenses in the third quarter of 2012 decreased 2% on a reported basis compared with the same period in 2011, reflecting a 2% decrease due to the impact of foreign currency translation. Underlying expenses in the third quarter of 2012 were flat compared with the same period in the prior year, reflecting the impact of higher benefits costs offset by lower restructuring costs.

Expenses for the nine months of 2012 remained flat over the same period in the prior year driven by a 2% increase in underlying expenses, offset by a 2% decrease due to the impact of foreign exchange.

Corporate and Other

The following results of Corporate and Other includes the run-off of the Corporate Advisory and Restructuring ("CARG") operations:

Table of Contents

For the Three and Nine Months Ended September 30, (In millions of dollars)	Third Quarter		Nine Months	
	2012	2011	2012	2011
Corporate Advisory and Restructuring Operating Income	\$2	\$1	\$5	\$6
Corporate Expense	(51	)(38	)(158	)(125
Total Corporate and Other	\$ (49	)(37	)(153	)(119

Corporate expenses in the third quarter of 2012 were \$51 million compared with \$38 million in the prior year. The increase is due to higher severance costs, including severance related restructuring, increase in the accrual for performance based awards and higher consulting costs related to corporate initiatives.

Expenses for the first nine months of 2012 were \$158 million compared with \$125 million for the same period in 2011. The increase is primarily due to accelerated amortization of equity awards for retirement eligible senior executives, higher consulting costs associated with corporate initiatives and higher severance costs.

The CARG amounts reflect payments received related to the CARG businesses divested in 2008.

Interest

Interest income earned on corporate funds amounted to \$6 million in the third quarter of 2012 compared with \$9 million in the third quarter of 2011. Interest expense decreased \$5 million and \$14 million, respectively, in 2012 compared with the third quarter and nine month periods of 2011. The decrease in interest expense is primarily due to the impact of lower interest rates on the refinancing of senior notes during the second half of 2011 and the first quarter of 2012.

Early Extinguishment of Debt

On July 15, 2011 the Company purchased a total of \$600 million of the Outstanding Notes, \$330 million of its 2014 Notes and \$270 million of its 2015 Notes. The Company acquired the Notes at market value plus a tender premium, which exceeded its carrying value resulting in a charge of approximately \$72 million in the third quarter of 2011.

Investment Income

The Company recorded an investment loss of \$4 million in the third quarter of 2012. This reflects the recording of an impairment loss on a debt security in the third quarter of 2012. The Company recorded no significant net investment gains or losses in the third quarter of 2011.

For the first nine months of 2012, investment income was \$20 million compared with \$13 million in the prior year, primarily due to higher mark-to-market gains on private equity fund investments.

Income Taxes

The Company's effective tax rate in the third quarter of 2012 was 26.8% compared with 32.8% in the third 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. In addition, the lower rate in the current period reflects several tax benefits, including the benefit from recording previously unrecognized tax benefits as a result of expiring statutes of limitations for U.S. federal tax years 2006 and 2008, and a favorable permanent difference related to a tax-free adjustment to the estimated liability for contingent consideration. These benefits were partially offset by charges to increase unrecognized tax benefits for certain operations in Asia and U.S. tax costs related to actions taken during the quarter to reduce positions in the Euro currency held by certain of the Company's non-US operations. The effective tax rate for the first nine months of 2012 and 2011 was 29.2% and 30.4%, respectively. The decline primarily reflects the effects of the aforementioned items as well as a lower estimated annual effective tax rate in the current year. The statute of limitations for the 2007 federal tax return remains open in connection with the IRS review of the Company's carryback of Foreign Tax Credits from 2009 to 2007.

The effective tax rate is sensitive to the geographic mix and repatriation of the Company's earnings, which may result in higher or lower tax rates. U.S. federal and state corporate tax rates substantially exceed tax rates applicable outside the U.S. In recent years, most of the Company's profits were earned outside the U.S. In 2012 the forecasted pre-tax income in the U.K., Canada, Australia and Bermuda are expected to account for approximately 63% of the Company's total non-U.S. pre-tax income, with estimated effective rates in those countries of 25%, 27%,

Table of Contents

30% and 0%, respectively. Consequently, continued improvement in the profitability of the Company's U.S.-based operations would tend to result in higher effective tax rates. Losses in certain jurisdictions cannot be offset by earnings from other operations, and may require valuation allowances affecting the rate, depending on estimates of the realizability of associated deferred tax assets. The tax rate is also sensitive to changes in unrecognized tax benefits, including the impact of settled tax audits and expired statutes of limitation.

Changes in tax laws or tax rulings may have a significant impact on our effective tax rate. For example, proposals for U.S. tax reform, if enacted, could have a significant adverse impact on the effective tax rate while a reduction in the tax rate in a significant foreign jurisdiction could have a positive impact.

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 were approximately \$143 million at both September 30, 2012 and December 31, 2011. Of the total unrecognized tax benefits at September 30, 2012 and December 31, 2011, \$94 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 \$20 million within the next twelve months due to settlement of audits and expiration of statutes of limitation.

Dispositions

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

For the Three and Nine Months Ended September 30, (In millions of dollars, except per share figures)	Third Quarter		Nine Months	
	2012	2011	2012	2011
Discontinued operations, net of tax	\$ 1	\$—	\$(1)	\$—
Gain (loss) from discontinued operations, net of tax	1	—	(1)	—
Disposals of discontinued operations	—	3	—	11
Income tax expense (credit)	—	1	—	(6)
Disposals of discontinued operations, net of tax	—	2	—	17
Discontinued operations, net of tax	\$ 1	\$ 2	\$(1)	\$ 17
Discontinued operations, net of tax per share				
– Basic	\$—	\$—	\$—	\$ 0.03
– Diluted	\$ 0.01	\$ 0.01	\$—	\$ 0.03

Discontinued operations for the nine months ended September 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.

Liquidity and Capital Resources

The Company is organized as a holding company, a legal entity separate and distinct from its operating subsidiaries. As a holding company without significant operations of its own, the Company is dependent upon dividends and other payments from its operating subsidiaries to meet its obligations for paying principal and interest on outstanding debt obligations, for paying dividends to stockholders and for corporate expenses. Other sources of liquidity include borrowing facilities discussed below in financing cash flows.

The Company derives a significant portion of its revenue and operating profit from operating subsidiaries located outside of the United States. Funds from the Company's operating subsidiaries located outside of the United States are regularly repatriated to the United States out of annual earnings. At December 31, 2011, the Company had approximately \$1.5 billion of cash and cash equivalents in its foreign operations of which all but approximately \$82 million is considered to be permanently invested in those operations to fund foreign investments and working capital needs. The Company expects to continue its practice of repatriating foreign funds out of current annual earnings. The analysis of the portion of 2012 earnings that the Company expects to repatriate and the portion that will be permanently reinvested will be finalized later in the year as the amount of non-U.S. earnings and the Company's cash requirements become more certain. While management does not foresee a need to repatriate the funds which are

currently deemed permanently invested, if facts or circumstances change management could elect to repatriate them, if necessary, which could result in higher effective tax rates in the future.

- 37 -

Table of Contents

Cash on our consolidated balance sheets includes funds available for general corporate purposes. Funds held on behalf of clients in a fiduciary capacity are segregated and shown separately in the consolidated balance sheets as an offset to fiduciary liabilities. Fiduciary funds cannot be used for general corporate purposes, and should not be considered as a source of liquidity for the Company.

Operating Cash Flows

The Company generated \$750 million of cash from operations for the nine months ended September 30, 2012, compared with \$995 million provided by operations for the same period in 2011. These amounts reflect the net income of the Company during those periods, excluding gains or losses from investments and from the disposition of businesses, adjusted for non-cash charges, and changes in working capital which relate primarily to the timing of payments of accrued liabilities or receipts of assets. During the first quarter of 2012, the Company made \$200 million of discretionary pension contributions, discussed in more detail below.

Pension Related Items

The Company's policy for funding its tax-qualified defined benefit plans is to contribute amounts at least sufficient to meet the funding requirements set forth in the applicable laws or regulations of the U.S. and other jurisdictions.

In the U.S., contributions to the tax-qualified defined benefit plans are based on ERISA guidelines and the Company generally expects to maintain a funded status of 80% or more of the liability determined under the ERISA guidelines. The pension stabilization provisions included in the "Moving Ahead for Progress in the 21st Century Act" enacted on July 6, 2012, changed the methodology for determining the discount rate used for calculating plan liabilities under ERISA, which determines, in part, the funding requirements. After considering the \$100 million discretionary contribution made to the plan earlier in 2012, and the impact of the pension funding stabilization provisions discussed above, the Company does not expect any contributions will be required to its U.S. tax-qualified plan through the end of 2014. In the first nine months of 2012, the Company has also contributed \$18 million to its non-qualified defined benefit plans, and expects a similar rate of contribution for the last quarter of 2012 and for 2013.

The Company has a large number of non-U.S. defined benefit pension plans, the largest of which are in the U.K., which comprise approximately 80% of non-U.S. plan assets. In the U.K., contributions to defined benefit pension plans are determined through a negotiation process between the Company and the plans' trustee that typically occurs every three years in conjunction with the valuation of the plans. This process is governed by U.K. pension regulations. The assumptions that result from the funding negotiations are different than those used for U.S. GAAP and currently result in a lower funded status than under U.S. GAAP. The current funding plan was based on assumptions (including interest rates, inflation, salary increases and mortality) that reflected market conditions as of year-end 2009, was agreed to in early 2011 and forms the basis for the Company's aggregate contributions to the U.K. plans for 2011 through 2013. During the first nine months of 2012, the Company made required contributions of \$201 million to its non-U.S. defined benefit pension plans, including amounts called for under the U.K. funding plan. Additionally, the Company made a \$100 million discretionary contribution to the U.K. plans. The Company expects to fund an additional \$90 million to its non-U.S. plans over the remainder of 2012, of which approximately half relates to the U.K. plans. For the entire year, the U.K. plans represent approximately two thirds of the total non-U.S. required contributions. The valuation of the U.K. pension plan at December 31, 2012 will be used in the negotiation process that will determine funding that is expected to become applicable in 2014.

Financing Cash Flows

Net cash used for financing activities was \$524 million for the period ended September 30, 2012 compared with \$891 million net cash used for the same period in 2011.

During the first quarter of 2012, the Company repaid its 6.25% fixed rate \$250 million senior notes that matured. The Company used proceeds from the issuance of 2.3% five-year \$250 million senior notes in the first quarter to fund the maturing notes.

The Company paid dividends on its common shares of \$369 million (\$0.67 per share) during the first nine months of 2012, as compared with \$358 million (\$0.64 per share) during the first nine months of 2011.

The Company and certain of its foreign subsidiaries maintain a \$1.0 billion multi-currency five-year unsecured revolving credit facility. The interest rate on this facility is based on LIBOR plus a fixed margin which varies with the

- 38 -

Table of Contents

Company's credit ratings. The facility requires the Company to maintain certain coverage and leverage ratios which are tested quarterly. There were no borrowings outstanding under this facility at September 30, 2012.

During the nine months of 2012, the Company paid \$20 million of contingent payments related to acquisitions made in prior periods. In the first quarter of 2011, the Company paid deferred purchase consideration of \$13 million related to the purchase in 2009 of the minority interest of a previously controlled entity.

During the nine months of 2012, the Company repurchased 5.4 million of its common stock for consideration of \$180 million. The Company remains authorized to purchase additional shares of its common stock up to a value of \$373 million. During the first nine months of 2011, the Company purchased 12.2 million shares of its common stock for total consideration of \$361 million.

The Company's senior debt is currently rated Baa2 by Moody's and BBB by Standard & Poor's. The Company's short-term debt is currently rated P-2 by Moody's and A-2 by Standard & Poor's. The Company carries a stable outlook from Moody's and Standard & Poor's.

Investing Cash Flows

Cash used for investing activities amounted to \$369 million in the first nine months of 2012, compared with \$273 million used during the same period in 2011.

The Company made ten acquisitions in the first nine months of 2012. Cash used for these acquisitions, net of cash acquired was \$102 million. In addition, in the first nine months of 2012, the Company paid \$51 million of deferred purchase consideration related to acquisitions made in prior years. Remaining deferred cash payments of approximately \$26 million and estimated future contingent consideration payments of \$81 million for acquisitions completed in the first nine months of 2012 and in prior years are recorded in accounts payable and accrued liabilities or other liabilities in the consolidated balance sheet at September 30, 2012.

The Company made seven acquisitions in the first nine months of 2011. Cash used for these acquisitions, net of cash acquired, was approximately \$113 million. In addition, during the first nine months of 2011, the Company paid \$19 million of deferred purchase and contingent consideration related to acquisitions made in prior years and \$2 million for other intangible assets.

The Company's additions to fixed assets and capitalized software, which amounted to \$249 million in the first nine months of 2012 compared with \$205 million in the first nine months of 2011, primarily related to computer equipment purchases, the refurbishing and modernizing of office facilities and software development costs.

The Company has commitments for potential future investments of approximately \$80 million in connection with its investments in Trident II and other funds managed by Stone Point Capital, LLC ("Stone Point"), and approximately \$50 million in two private equity funds that invest primarily in financial services companies managed by companies unrelated to Stone Point. The majority of the Company's investment commitments for funds managed by Stone Point are related to Trident II, the investment period for which is now closed for new investments. No significant future capital calls related to Trident II are expected.

Commitments and Obligations

The Company's contractual obligations of the types identified in the table below were of the following amounts as of September 30, 2012 (dollars in millions):

Table of Contents

Contractual Obligations	Payment due by Period				
	Total	Within 1 Year	1-3 Years	4-5 Years	After 5 Years
Current portion of long-term debt	\$259	\$259	\$ —	\$ —	\$ —
Long-term debt	2,666	—	821	272	1,573
Interest on long-term debt	1,143	159	287	213	484
Net operating leases	2,111	333	531	404	843
Service agreements	274	70	93	77	34
Other long-term obligations	124	33	88	1	2
Total	\$6,577	\$854	\$1,820	\$967	\$2,936

The above does not include unrecognized tax benefits of \$143 million, accounted for under ASC Topic No. 740, as the Company is unable to reasonably predict the timing of settlement of these liabilities, other than approximately \$10 million that may become payable within one year. The above does not include liabilities established under ASC Topic No. 460 ("Guarantees") as the Company is unable to reasonably predict the timing of settlement of these liabilities. The above does not include future payments related to pension plan liabilities of \$1.3 billion because the timing and amount of ultimate payment of such liability is dependent upon future events, including, but not limited to, future returns on plan assets, and changes in the discount rate used to measure the liabilities.

New Accounting Pronouncements

Note 18 to the consolidated financial statements contains a discussion of recently issued accounting pronouncements and their impact or potential future impact on the Company's financial results, if determinable.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Market Risk and Credit Risk

Certain of the Company's revenues, expenses, assets and liabilities are exposed to the impact of interest rate changes and fluctuations in foreign currency exchange rates and equity markets.

Table of Contents**Interest Rate Risk and Credit Risk**

The Company has historically managed its net exposure to interest rate changes by utilizing a mixture of variable and fixed rate borrowings to finance the Company's asset base. During 2007, virtually all of the Company's variable rate borrowings were repaid. In February 2011, the Company entered into two 3.5-year interest rate swaps to hedge changes in the fair value of the first \$250 million of its 5.375% senior notes due in 2014. Under the terms of the swaps, the counter-parties will pay the Company a fixed rate of 5.375% and the Company will pay interest at a floating rate of three-month LIBOR plus a fixed spread of 3.726%. The swaps are designated as fair value hedging instruments and are deemed to be perfectly effective in accordance with applicable accounting guidance. Interest income generated from the Company's cash investments as well as invested fiduciary funds will vary with the general level of interest rates.

The Company had the following investments subject to variable interest rates:

(In millions of dollars)	September 30, 2012
Cash and cash equivalents invested in money market funds, certificates of deposit and time deposits	\$2,044
Fiduciary cash and investments	\$4,044

Based on the above balances, if short-term interest rates increased or decreased by 10%, or 10 basis points, over the course of the remainder of the year, annual interest income, including interest earned on fiduciary funds, would increase or decrease by approximately \$1 million.

In addition to interest rate risk, our cash and cash equivalents and fiduciary fund investments are subject to potential loss of value due to counter-party credit risk. To minimize this risk, the Company and its subsidiaries invest pursuant to a Board-approved investment policy. The policy mandates the preservation of principal and liquidity and requires broad diversification with counter-party limits assigned based primarily on credit rating and type of investment. The Company carefully monitors its cash and fiduciary fund investments and will further restrict the portfolio as appropriate to market conditions. The majority of cash and fiduciary fund investments are invested in short-term bank deposits and liquid money market funds.

Foreign Currency Risk

The translated values of revenue and expense from the Company's international operations are subject to fluctuations due to changes in currency exchange rates. The non-U.S. based revenue that is exposed to foreign exchange fluctuations is approximately 55% of total revenue. We periodically use forward contracts and options to limit foreign currency exchange rate exposure on net income and cash flows for specific, clearly defined transactions arising in the ordinary course of business. Although the Company has significant revenue generated in foreign locations which is subject to foreign exchange rate fluctuations, in most cases both the foreign currency revenue and expenses are in the functional currency of the foreign location. As such, the U.S. dollar translation of both the revenues and expenses, as well as the potentially offsetting movements of various currencies against the U.S. dollar, generally tends to mitigate the impact on net operating income of foreign currency risk. The Company estimates that a 10% movement of major foreign currencies (Euro, Sterling, Australian dollar and Canadian dollar) in the same direction against the U.S. dollar that held constant over the course of the year would increase or decrease full year net operating income by approximately \$50 million.

Equity Price Risk

The Company holds investments in both public and private companies as well as certain private equity funds managed by Stone Point Capital, as well as two private equity funds managed by companies unrelated to Stone Point Capital that invests primarily in financial services companies. Publicly traded investments of \$19 million are classified as available for sale. Non-publicly traded investments of \$29 million are accounted for using the cost method and \$102 million are accounted for using the equity method. The investments that are classified as available for sale or that are not publicly traded are subject to risk of changes in market value, which if determined to be other than temporary, could result in realized impairment losses. The Company periodically reviews the carrying value of such investments to determine if any valuation adjustments are appropriate under the applicable accounting pronouncements.

- 41 -

Table of Contents

Other

A number of lawsuits and regulatory proceedings are pending. See Note 16 to the consolidated financial statements included elsewhere in this report.

- 42 -

Table of Contents

Part I – Item 4. Controls & Procedures

a. Evaluation of Disclosure Controls and Procedures

Based on their evaluation, as of the end of the period of this report, the Company's Chief Executive Officer and Chief Financial Officer have concluded the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

b. Changes in Internal Controls

There were no changes in the Company's internal controls over financial reporting that were identified in connection with the evaluation referred to under Part I – Item 4a above that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

- 43 -

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth in Note 16 to the consolidated financial statements provided in Part I of this report is incorporated herein by reference.

Item 1A. Risk Factors.

The Company and its subsidiaries face a number of risks and uncertainties. In addition to the other information in this report and our other filings with the SEC, readers should consider carefully the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011. If any of the risks described in our Annual Report on Form 10-K or such other risks actually occur, our business, results of operations or financial condition could be materially adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
Issuer Repurchases of Equity Securities

In August 2011, the Board of Directors of the Company authorized share repurchase up to a dollar value of \$500 million of the Company's common stock. This was in addition to a September 2010 authorization to repurchase shares of the Company's common stock up to a dollar value of \$500 million. The Company repurchased approximately 2.35 million shares of its common stock for \$80 million during the third quarter of 2012. The Company remains authorized to repurchase shares of its common stock up to a dollar value of approximately \$373 million. There is no time limit on the authorization.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2012	—	—	—	\$453,488,800
August 1-31, 2012	1,469,527	\$34.0285	1,469,527	\$403,488,896
September 1-30, 2012	879,203	\$34.1505	879,203	\$373,488,962
Total Q3 2012	2,348,730	\$34.0609	2,348,730	\$373,488,962

Table of Contents

Item 3. Defaults Upon Senior Securities.
None.

Item 4. Mine Safety Disclosure.
Not Applicable.

Item 5. Other Information.
None.

Item 6. Exhibits.
See the Exhibit Index immediately following the signature page of this report, which is incorporated herein by reference.

- 45 -

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2012

/s/ J. Michael Bischoff
J. Michael Bischoff
Chief Financial Officer

Date: November 8, 2012

/s/ Robert J. Rapport
Robert J. Rapport
Senior Vice President & Controller
(Chief Accounting Officer)

- 46 -

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit Name
12.1	Statement Re: Computation of Ratio of Earnings to Fixed Charges
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase