MARSH & MCLENNAN COMPANIES, INC.
Form 10-Q
November 09, 2007
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the quarter ended September 30, 2007

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 x No ¨.

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

Large Accelerated Filer x. Accelerated Filer ¨ Non-Accelerated Filer ¨

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

As of October 31, 2007, there were outstanding 520,150,294 shares of common stock, par value $1.00 per share, of the registrant.

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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, intend, plan, project and similar terms, and future or conditio verbs like could, may, might, should, will and would. For example, we may use forward-looking statements when addressing such as: future actions by regulators; the outcome of contingencies; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; changes in the composition or level of MMC s revenues; our cost structure and the outcome of restructuring and other cost-saving initiatives; share repurchase programs; the expected impact of acquisitions and dispositions; and MMC s cash flow and liquidity.

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:

- the economic and reputational impact of litigation and regulatory proceedings described in the notes to our financial statements;
- our ability to achieve profitable revenue growth in our risk and insurance services segment by providing both traditional insurance brokerage services and additional risk advisory services;
- our ability to retain existing clients and attract new business, and our ability to recruit and retain key employees;
- revenue fluctuations in risk and insurance services relating to the effect of new and lost business production and the timing of policy inception dates;
- the impact on risk and insurance services commission revenues of changes in the availability of, and the premiums insurance carriers charge for, insurance and reinsurance products, including the impact on premium rates and market capacity attributable to catastrophic events such as hurricanes;
- the impact on renewals in our risk and insurance services segment of pricing trends in particular insurance markets, fluctuations in the general level of economic activity and decisions by insureds with respect to the level of risk they will self-insure;
- the impact on our consulting segment of pricing trends, utilization rates, legislative changes affecting client demand, and the general economic environment;
- our ability to implement our restructuring initiatives and otherwise reduce or control expenses and achieve operating efficiencies;
- the impact of competition, including with respect to pricing and the emergence of new competitors;

fluctuations in the value of Risk Capital Holdings investments;

our exposure to potential liabilities arising from errors and omissions claims against us;

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- our ability to meet our financing needs by generating cash from operations and accessing external financing sources, including the potential impact of rating agency actions on our cost of financing or ability to borrow;

- our ability to make strategic acquisitions and dispositions and to integrate, and realize expected synergies, savings or strategic benefits from, the businesses we acquire;

- the impact on our operating results of foreign exchange fluctuations;

- changes in applicable tax or accounting requirements, and potential income statement effects from the application of FIN 48 (Accounting for Uncertainty in Income Taxes) and SFAS 142 (Goodwill and Other Intangible Assets); and

- the impact of, and potential challenges in complying with, legislation and regulation in the jurisdictions in which we operate, particularly given the global scope of our businesses and the possibility of conflicting regulatory requirements across the jurisdictions in which we do business.

The factors identified above are not exhaustive. MMC and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, MMC cautions readers not to place undue reliance on its forward-looking statements, which speak only as of the dates on which they are made. MMC undertakes no obligation to update any such statement to reflect events or circumstances after the date on which it is made. Further information about factors that could materially affect our results of operations and financial condition is contained in the Risk Factors section of MMC s annual report on Form 10-K for the year ended December 31, 2006.

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Statements of Income

(Unaudited)

(In millions, except per share figures)	Three Months Ended September 30, **2007**	Three Months Ended September 30, 2006	Nine Months Ended September 30, **2007**	Nine Months Ended September 30, 2006
Revenue:				
Service revenue	**$ 2,718**	$ 2,486	**$ 8,269**	$ 7,715
Investment income (loss)	**76**	46	**156**	125
Operating revenue	**2,794**	2,532	**8,425**	7,840
Expense:				
Compensation and benefits	**1,790**	1,589	**5,159**	4,816
Other operating expenses	**810**	699	**2,412**	2,180
Operating expenses	**2,600**	2,288	**7,571**	6,996
Operating income	**194**	244	**854**	844
Interest income	**30**	15	**64**	42
Interest expense	**(65)**	(75)	**(211)**	(231)
Income before income taxes and minority interest	**159**	184	**707**	655
Income taxes	**75**	48	**251**	185
Minority interest, net of tax	**4**	3	**8**	6
Income from Continuing Operations	**80**	133	**448**	464
Discontinued Operations, net of tax	**1,865**	43	**1,942**	300
Net Income	**$ 1,945**	$ 176	**$ 2,390**	$ 764
Basic income per share Continuing Operations	**$ 0.15**	$ 0.24	**$ 0.82**	$ 0.85
Net Income	**$ 3.64**	$ 0.32	**$ 4.39**	$ 1.39
Diluted income per share Continuing Operations	**$ 0.15**	$ 0.24	**$ 0.81**	$ 0.84
Net Income	**$ 3.60**	$ 0.31	**$ 4.31**	$ 1.36
Weighted average number of shares outstanding Basic	**534**	550	**545**	549
Diluted	**540**	554	**553**	555
Dividends declared per share	**$ 0.19**	$ 0.17	**$ 0.76**	$ 0.51

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

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Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In millions of dollars)	**September 30, 2007 (Unaudited)**	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,819**	$ 2,015
Receivables		
Commissions and fees	**2,655**	2,340
Advanced premiums and claims	**76**	82
Other	**452**	452
	3,183	2,874
Less-allowance for doubtful accounts and cancellations	**(182)**	(156)
Net receivables	**3,001**	2,718
Assets of discontinued operations		1,921
Other current assets	**332**	322
Total current assets	**6,152**	6,976
Goodwill and intangible assets	**7,756**	7,595
Fixed assets	**983**	990
(net of accumulated depreciation and amortization of $1,416 at September 30, 2007 and December 31, 2006)		
Long-term investments	**96**	124
Pension related assets	**713**	613
Other assets	**1,843**	1,839
	$ 17,543	$ 18,137

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

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Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Balance Sheets (Continued)

(In millions of dollars)	**September 30, 2007 (Unaudited)**	December 31, 2006
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	**$ 262**	$ 1,111
Accounts payable and accrued liabilities	**1,596**	2,486
Regulatory settlements current portion	**176**	178
Accrued compensation and employee benefits	**1,073**	1,230
Accrued income taxes	**967**	131
Dividends payable	**99**	
Liabilities of discontinued operations		782
Total current liabilities	**4,173**	5,918
Fiduciary liabilities	**3,454**	3,587
Less cash and investments held in a fiduciary capacity	**(3,454)**	(3,587)
Long-term debt	**3,607**	3,860
Regulatory settlements		173
Retirement and postemployment benefits	**1,014**	1,085
Liabilities for errors and omissions	**632**	624
Other liabilities	**1,195**	658
Commitments and contingencies		
Stockholders 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, 2007 and December 31, 2006	**561**	561
Additional paid-in capital	**1,110**	1,138
Retained earnings	**7,648**	5,691
Accumulated other comprehensive loss	**(1,010)**	(1,272)
	8,309	6,118
Less treasury shares, at cost, 40,898,868 shares at September 30, 2007 and 8,727,764 shares at December 31, 2006	**(1,387)**	(299)
Total stockholders equity	**6,922**	5,819
	$ 17,543	$ 18,137

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

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Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

For the Nine Months Ended September 30,

(In millions of dollars)	**2007**	2006
Operating cash flows:		
Net income	**$ 2,390**	$ 764
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization of fixed assets and capitalized software	**278**	268
Amortization of intangible assets	**60**	75
Provision for deferred income taxes	**68**	140
Gains on investments	**(169)**	(141)
Disposition of assets	**(1,844)**	(175)
Accrual of stock-based compensation	**62**	93
Changes in assets and liabilities:		
Net receivables	**(363)**	(26)
Other current assets	**396**	(231)
Other assets	**110**	(117)
Accounts payable and accrued liabilities	**(395)**	39
Accrued compensation and employee benefits	**(245)**	(225)
Accrued income taxes	**(2)**	(259)
Other liabilities	**(199)**	(145)
Effect of exchange rate changes	**(76)**	77
Net cash provided by operations	**71**	137
Financing cash flows:		
Proceeds from issuance of debt	**3**	318
Repayments of debt	**(1,114)**	(781)
Purchase of treasury shares	**(1,300)**	
Issuance of common stock	**169**	141
Dividends paid	**(313)**	(280)
Net cash used for financing activities	**(2,555)**	(602)
Investing cash flows:		
Capital expenditures	**(262)**	(168)
Net sales (purchases) of long-term investments	**32**	(41)
Proceeds from sales related to fixed assets	**6**	8
Dispositions	**3,357**	375
Acquisitions	**(137)**	(131)
Other, net	**1**	29
Net cash provided by investing activities	**2,997**	72
Effect of exchange rate changes on cash and cash equivalents	**217**	42
Increase (decrease) in cash and cash equivalents	**730**	(351)
Cash and cash equivalents at beginning of period	**2,089**	2,033

Cash and cash equivalents at end of period	**2,819**	1,682
Cash and cash equivalents reported as discontinued operations		(113)
Cash and cash equivalents continuing operations	**$ 2,819**	$ 1,569

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

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Marsh & McLennan Companies, Inc. and Subsidiaries

Notes To Consolidated Financial Statements

(Unaudited)

1. Nature of Operations

Marsh & McLennan Companies, Inc. (MMC), a global professional services firm, is organized based on the different services that it offers. Under this organizational structure, MMC s three business segments are: risk and insurance services; consulting; and risk consulting & technology. As noted below, on August 3, 2007 Great-West Lifeco Inc. completed its purchase of Putnam, MMC s former investment management segment.

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. MMC conducts business in this segment through Marsh, Guy Carpenter and Risk Capital Holdings.

The consulting segment provides advice and services to the managements of organizations in the areas 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. MMC conducts business in this segment through Mercer and the Oliver Wyman Group.

The risk consulting & technology segment provides various risk consulting and related risk mitigation services to corporate, government, institutional and individual clients. These services fall into two main business groups: consulting, which includes corporate advisory & restructuring services, consulting services and security services; and technology-enabled services. MMC conducts business in this segment through Kroll.

On August 3, 2007, Great-West Lifeco Inc. (GWL), a majority-owned subsidiary of Power Financial Corporation, completed its purchase of Putnam Investments Trust for $3.9 billion in cash. The purchase included Putnam s interest in the T.H. Lee private equity business. The pre-tax gain of $3.0 billion ($1.9 billion net of tax), Putnam s results through August 2, 2007, and comparative results are included in discontinued operations in the accompanying consolidated statements of income.

2. Principles of Consolidation

The consolidated financial statements included herein have been prepared by MMC 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, although MMC 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 MMC s Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 10-K) and the financial information MMC filed on Form 8-K dated June 11, 2007 (the June 2007 8-K), which reflects the classification of Putnam as a discontinued operation.

The financial information contained herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of MMC s results of operations for the three- and nine-month periods ended September 30, 2007 and 2006.

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

3. Fiduciary Assets and Liabilities

In its capacity as an insurance broker or agent, MMC collects premiums from insureds and, after deducting its commissions, remits the premiums to the respective insurance underwriters. MMC also collects claims or refunds from underwriters on behalf of insureds. Unremitted insurance premiums and claims are held by MMC in a fiduciary capacity. Interest income on these fiduciary funds, included in service revenue, amounted to $149 million and $135 million for the nine-month periods ended September 30, 2007 and 2006, respectively. Since fiduciary assets are not available for corporate use, they are shown in the consolidated balance sheets as an offset to fiduciary liabilities.

Net uncollected premiums and claims and the related payables amounted to $8.7 billion at September 30, 2007 and December 31, 2006. MMC is not a principal to the contracts under which the right to receive premiums or the right to receive reimbursement of insured losses arise. Net uncollected premiums and claims and the related payables are, therefore, not assets and liabilities of MMC and are not included in the accompanying consolidated balance sheets.

In certain instances, MMC 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.

4. Per Share Data

Basic net income per share and income from continuing operations per share are calculated by dividing the respective after-tax income by the weighted average number of shares of MMC s common stock outstanding, excluding unvested restricted stock.

Diluted net income per share and income from continuing operations per share are calculated by dividing the respective after-tax income by the weighted average common shares outstanding, which have been adjusted for the dilutive effect of potentially issuable common shares. Reconciliation of net income to net income for diluted

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earnings per share and basic weighted average common shares outstanding to diluted weighted average common shares outstanding is presented below. The reconciling items related to the calculation of diluted weighted average common shares outstanding are the same for continuing operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
	(In millions, except average stock price)			
Net income	**$ 1,945**	$ 176	**$ 2,390**	$ 764
Less: Potential minority interest associated with the Putnam Class B Common Shares*		(4)	**(5)**	(9)
Income for diluted earnings per share	**$ 1,945**	$ 172	**$ 2,385**	$ 755
Basic weighted average common shares outstanding	**534**	550	**545**	549
Dilutive effect of potentially issuable common shares	**6**	4	**8**	6
Diluted weighted average common shares outstanding	**540**	554	**553**	555
Average stock price used to calculate common stock equivalents	**$ 27.62**	$ 26.44	**$ 29.63**	$ 28.67

* This item has no impact on MMC s calculation of diluted earnings per share on a prospective basis after August 2, 2007.

5. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The following schedule provides additional information concerning interest and income taxes paid for the nine-month periods ended September 30, 2007 and 2006.

	2007	2006
	(In millions of dollars)	
Interest paid	**$ 251**	$ 285
Income taxes paid	**$ 147**	$ 440

The consolidated cash flow statements include the cash flow impact of discontinued operations in each cash flow category. The cash flow impact of discontinued operations from the operating, financing and investing cash flow categories for the nine-month period ended September 30, 2007 and 2006 is as follows:

	Nine Months Ended September 30,	
	2007	2006
	(In millions of dollars)	
Net cash provided by operations	**$ 17**	$ 70
Net cash used for financing activities	**$ (8)**	$ (22)
Net cash provided by (used for) investing activities	**$ 8**	$ (66)

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6. Comprehensive Income

The components of comprehensive income for the nine-month periods ended September 30, 2007 and 2006 are as follows:

	2007	2006
	(In millions of dollars)	
Foreign currency translation adjustments	**$ 263**	$ 184
Unrealized investment holding gains (losses), net of income taxes	**5**	5
Less: Reclassification adjustment for realized gains included in net income, net of income taxes	**(24)**	(24)
Adjustments related to pension/retiree plans	**18**	3
Other comprehensive income	**262**	168
Net income	**2,390**	764
Comprehensive income	**$ 2,652**	$ 932

7. Acquisitions

In the nine months ended September 30, 2007 MMC made 3 acquisitions for total purchase consideration of $141 million. The allocation of purchase consideration resulted in acquired goodwill and other intangible assets, along with contingent purchase consideration from prior year acquisitions, amounting to $97 million and $36 million, respectively. Estimated fair values of assets acquired and liabilities assumed are subject to adjustment based on internal or external valuations as purchase accounting is finalized.

8. Discontinued Operations

On August 3, 2007, Great-West Lifeco Inc. (GWL), a majority-owned subsidiary of Power Financial Corporation, completed its purchase of Putnam Investments Trust for $3.9 billion in cash. MMC recognized a pre-tax gain of $3.0 billion ($1.9 billion net of tax) in the third quarter of 2007. Putnam s results of operations through August 2, 2007 and results for the prior year are included in discontinued operations in the accompanying consolidated statements of income. Putnam s assets and liabilities are reported in discontinued operations in the accompanying consolidated balance sheets at December 31, 2006.

As part of the disposal of Putnam, MMC provided certain indemnities to GWL described in Note 15, and certain indemnities related to contingent tax liabilities. MMC has recorded a liability of approximately $220 million related to these indemnities. In accordance with the guidelines of FASB Interpretation No. 45 ("FIN 45"), MMC estimated the "fair value" of the indemnities based on a (i) probability weighted assessment of possible outcomes; or, (ii) in circumstances where the probability or amounts of potential outcomes could not be determined, an analysis of similar but not identical circumstances prepared by an MMC-affiliated professional economic valuation firm. As required by FIN 45, the amounts recognized are the greater of the estimated fair value of the indemnity or the amount required to be recorded under SFAS No. 5 or FASB Interpretation No. 48 (for tax-related matters). The matters for which indemnities have been provided are inherently uncertain as to their eventual outcome. The process of estimating "fair value" as required by FIN 45 entails necessarily uncertain assumptions about such future outcomes. Consequently, the ultimate resolution of the matters for which indemnities have been provided may well vary significantly from the liabilities calculated under FIN 45.

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In the fourth quarter of 2006, Kroll completed the sale of Kroll Security International (KSI), its international high-risk asset and personal protection business. The financial results of KSI for 2006 are included in discontinued operations.

In the first quarter of 2006, MMC determined that Price Forbes, its U.K.-based insurance wholesale operation, met the criteria for classification as a discontinued operation. The financial results of Price Forbes for 2006, which include a charge to reduce the carrying amount of its assets to fair value less cost to sell, are included in discontinued operations. MMC completed the sale of Price Forbes in September 2006.

MMC sold its majority interest in Sedgwick CMS Holdings (SCMS), a provider of claims management and associated productivity services, on January 31, 2006. The financial results of SCMS for 2006 are included in discontinued operations.

Price Forbes and SCMS were part of MMC s risk and insurance services segment, while KSI was part of MMC s risk consulting & technology segment. Putnam represented MMC s entire investment management segment.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
	(In millions of dollars)			
Total Revenue	**$ 112**	$ 393	**$ 798**	$ 1,129
Income before provision for income tax	**$ 22**	$ 81	**$ 160**	$ 220
Provision for income tax	**10**	30	**71**	88
Income from discontinued operations, net of tax	**12**	51	**89**	132
Gain (loss) on disposal of discontinued operations	**2,970**	(8)	**2,970**	298
Provision for income tax	**1,117**		**1,117**	130
Gain (loss) on disposal of discontinued operations, net of tax	**1,853**	(8)	**1,853**	168
Discontinued operations, net of tax	**$ 1,865**	$ 43	**$ 1,942**	$ 300

Summarized Balance Sheet data for discontinued operations is as follows:

	December 31, 2006
	(In millions of dollars)
Assets of discontinued operations:	
Current assets	$ 779
Fixed assets, net	53
Goodwill and intangible assets	180
Long-term investments	473
Other assets	436

Total assets of discontinued operations	$	1,921
Liabilities of discontinued operations	$	782

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9. Goodwill and Other Intangibles

Under SFAS 142, MMC is required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. MMC performs the annual impairment test for each of its reporting units during the third quarter of each year, using an external valuation firm to develop the fair value of its reporting units. Fair values of the reporting units are estimated using a market approach or a discounted cash flow model. Carrying values for the reporting units are based on balances at the prior quarter end and include directly identified assets and liabilities as well as an allocation of those assets and liabilities not recorded at the reporting unit level. MMC completed its 2007 annual review in the third quarter of 2007 and concluded that goodwill is 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:

	2007	2006
	(In millions of dollars)	
Balance as of January 1,	**$ 7,206**	$ 7,121
Goodwill acquired	**97**	105
Other adjustments [a]	**62**	34
Balance as of September 30,	**$ 7,365**	$ 7,260

[a] Primarily includes foreign exchange and purchase accounting adjustments.

Goodwill allocable to each of MMC s reportable segments is as follows: Risk and Insurance Services, $3.8 billion; Risk Consulting & Technology, $1.7 billion; and Consulting, $1.9 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:

	September 30, 2007			December 31, 2006		
	Gross Cost	**Accumulated Amortization**	**Net Carrying Amount**	Gross Cost	Accumulated Amortization	Net Carrying Amount
			(In millions of dollars)			
Amortized intangibles	**$ 707**	**$ 316**	**$ 391**	$ 655	$ 266	$ 389

Aggregate amortization expense for the nine months ended September 30, 2007 and 2006, was $49 million and $63 million, respectively, and the estimated future aggregate amortization expense is as follows:

	For the Years Ending December 31, Estimated Expense (In millions of dollars)

2007 (including amounts incurred through September 30)	$	66
2008		63
2009		53
2010		45
2011		39
Subsequent years		174
	$	440

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10. Retirement Benefits

MMC maintains qualified and non-qualified defined benefit pension plans for its U.S. and non-U.S. eligible employees. MMC 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 MMC offers defined benefit plans.

The target asset allocation for the U.S. Plan is 70% equities and 30% fixed income, and for the U.K. Plan, which comprises approximately 90% of non-U.S. Plan assets, is 58% equities and 42% fixed income. As of the measurement date, the actual allocation of assets for the U.S. Plan was 74% to equities and 26% to fixed income, and for the U.K. Plan was 59% to equities and 41% to fixed income.

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

	Combined U.S. and significant non-U.S. Plans For the Three Months Ended September 30,			
	Pension Benefits		Postretirement Benefits	
	2007	2006	**2007**	2006
	(In millions of dollars)			
Service cost	**$ 57**	$ 58	**$ 2**	$ 1
Interest cost	**140**	121	**3**	3
Expected return on plan assets	**(199)**	(173)		
Amortization of prior service credit	**(13)**	(14)	**(3)**	(3)
Recognized actuarial loss	**54**	59		
Net Periodic Benefit Cost	**$ 39**	$ 51	**$ 2**	$ 1

	Combined U.S. and significant non-U.S. Plans For the Nine Months Ended September 30,			
	Pension Benefits		Postretirement Benefits	
	2007	2006	**2007**	2006
	(In millions of dollars)			
Service cost	**$ 170**	$ 168	**$ 5**	$ 4
Interest cost	**415**	357	**11**	11
Expected return on plan assets	**(589)**	(509)		
Amortization of prior service credit	**(41)**	(40)	**(10)**	(10)
Recognized actuarial loss	**154**	175	**2**	2
Net Periodic Benefit Cost	**$ 109**	$ 151	**$ 8**	$ 7
Curtailment (gain) loss	**(2)**	3		
Settlement (gain) loss	**(2)**	5		
Special termination benefits	**2**	4		
Total Expense	**$ 107**	$ 163	**$ 8**	$ 7

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	U.S. Plans only For the Three Months Ended September 30,			
	Pension Benefits		Postretirement Benefits	
	(In millions of dollars)			
	2007	2006	**2007**	2006
Service cost	**$ 19**	$ 21	**$ 1**	$ 1
Interest cost	**49**	45	**2**	2
Expected return on plan assets	**(66)**	(63)		
Amortization of prior service credit	**(13)**	(13)	**(3)**	(3)
Recognized actuarial loss	**22**	24		
Net Periodic Benefit Cost	**$ 11**	$ 14	**$**	$

	U.S. Plans only For the Nine Months Ended September 30,			
	Pension Benefits		Postretirement Benefits	
	2007	2006	**2007**	2006
	(In millions of dollars)			
Service cost	**$ 62**	$ 62	**$ 4**	$ 3
Interest cost	**147**	136	**8**	8
Expected return on plan assets	**(200)**	(189)		
Amortization of prior service credit	**(40)**	(40)	**(10)**	(10)
Recognized actuarial loss	**61**	72	**1**	2
Net Periodic Benefit Cost	**$ 30**	$ 41	**$ 3**	$ 3

	Significant non-U.S. Plans only For the Three Months Ended September 30,			
	Pension Benefits		Postretirement Benefits	
	2007	2006	**2007**	2006
	(In millions of dollars)			
Service cost	**$ 38**	$ 37	**$ 1**	$
Interest cost	**91**	76	**1**	1
Expected return on plan assets	**(133)**	(110)		
Amortization of prior service credit		(1)		
Recognized actuarial loss	**32**	35		
Net Periodic Benefit Cost	**$ 28**	$ 37	**$ 2**	$ 1

	Significant non-U.S. Plans only For the Nine Months Ended September 30,			
	Pension Benefits		Postretirement Benefits	

	2007	2006	2007	2006
		(In millions of dollars)		
Service cost	**$ 108**	$ 106	**$ 1**	$ 1
Interest cost	**268**	221	**3**	3
Expected return on plan assets	**(389)**	(320)		
Amortization of prior service credit	**(1)**			
Recognized actuarial loss	**93**	103	**1**	
Net Periodic Benefit Cost	**$ 79**	$ 110	**$ 5**	$ 4
Curtailment (gain) loss	**(2)**	3		
Settlement (gain) loss	**(2)**	5		
Special termination benefits	**2**	4		
Total Expense	**$ 77**	$ 122	**$ 5**	$ 4

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

	Combined U.S. and significant non-U.S. Plans			
	Pension Benefits		Postretirement Benefits	
	2007	2006	**2007**	2006
Weighted average assumptions:				
Expected return on plan assets	**8.2%**	8.4%		
Discount rate	**5.4%**	5.1%	**5.8%**	5.6%
Rate of compensation increase	**3.8%**	3.8%		

11. Debt

MMC s outstanding debt is as follows:

	September 30, 2007	December 31, 2006
	(In millions of dollars)	
Short-term:		
Bank borrowings	**$ 2**	$ 8
Current portion of long-term debt	**260**	1,103
	$ 262	$ 1,111
Long-term:		
Senior notes 7.125% due 2009	**$ 400**	$ 399
Senior notes 5.375% due 2007 (4.0% effective interest rate)		501
Senior notes 6.25% due 2012 (5.1% effective interest rate)	**260**	262
Senior notes 3.625% due 2008	**250**	250
Senior notes 4.850% due 2013	**249**	249
Senior notes 5.875% due 2033	**296**	295
Senior notes 5.375% due 2014	**647**	647
Senior notes 3 year floating rate note due 2007		500
Senior notes 5.15% due 2010	**548**	548
Senior notes 5.75% due 2015	**746**	746
Mortgage 5.70% due 2035	**463**	467
Bank borrowings International (5.71%)		94
Other	**8**	5
	3,867	4,963
Less current portion	**260**	1,103
	$ 3,607	$ 3,860

Bank borrowings included in short term debt reflect a bilateral credit facility located outside the U.S. The weighted average interest rates on outstanding borrowings at September 30, 2007 and December 31, 2006 are 11.2% and 12.8%, respectively.

During the first quarter of 2007, MMC s 5.375% five-year fixed rate $500 million senior notes matured and on July 13, 2007, MMC s three-year floating rate $500 million senior notes matured. MMC used commercial paper borrowings and borrowings from its revolving credit facility, as well as cash on hand to manage liquidity, including the funding of the maturing bonds. The commercial paper and revolving credit facility borrowings were repaid using proceeds from the Putnam transaction. There was no commercial paper or revolving credit facility borrowings outstanding at September 30, 2007.

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MMC and certain of its foreign subsidiaries maintain a $1.2 billion multi-currency revolving credit facility. Subsidiary borrowings under the facility are unconditionally guaranteed by MMC. The facility expires in December 2010. The interest rate on this facility varies based upon the level of usage of the facility and MMC s credit ratings. The facility requires MMC to maintain certain coverage and leverage ratios which are tested quarterly. At September 30, 2007, there was no balance outstanding under this facility.

12. Restructuring Costs

2006 Plan

In September 2006, MMC announced that it would undertake restructuring activities designed to enhance operational efficiencies and improve profitability (the 2006 Plan). The restructuring activities are expected to be implemented in several phases Phase 1, which began in September 2006, and one or more additional phases. In connection with Phase 1 of the 2006 Plan, MMC incurred net restructuring charges of $7 million during the first nine months of 2007, primarily related to severance and benefits as follows: risk and insurance services, $1 million; corporate, $4 million; and consulting, $2 million. Utilization of the 2006 Plan charges for Phase 1 is summarized as follows:

	Accrued in 2006	Utilized in 2006	**Utilized in 2007**	**Additions/ Changes in Estimates 2007**	**Remaining Liability at 9/30/07**
			(In millions of dollars)		
Severance and benefits	$ 59	$ (21)	**$ (37)**	**$ 8**	**$ 9**
Future rent on non-cancelable leases	6	(6)			
Other exit costs (credits)	(55)	58	**(2)**	**(1)**	
	$ 10	$ 31	**$ (39)**	**$ 7**	**$ 9**

As part of its ongoing review of operations in December 2006, Marsh identified actions that are expected to result in the elimination of 170 employee positions through staff reductions and attrition. These actions are expected to result in charges of approximately $45 million related to severance and exit costs for facilities. In the first nine months of 2007, Marsh incurred aggregate costs of $27 million related to these actions, primarily related to severance and exit costs for facilities. Utilization of the charges is as follows:

	Accrued in 2006	**Utilized in 2006 and 2007**	**Additions/ Changes in Estimates 2007**	**Remaining Liability at 9/30/07**
		(In millions of dollars)		
Severance and benefits	$ 7	**(16)**	**$ 25**	**$ 16**
Future rent on non-cancelable leases	7	**(3)**	**2**	**6**

	$ 14	$ **(19)**	**$ 27**	**$ 22**

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2005 Plan

In March 2005, MMC announced that it would undertake restructuring initiatives involving staff reductions and consolidations of facilities in response to MMC s business environment (the 2005 Plan). In connection with the 2005 Plan, MMC recorded an expense of $3 million in the nine months ended September 30, 2007, in risk and insurance services. Utilization of the 2005 Plan charges is summarized as follows:

	Accrued in 2005 and 2006	Utilized in 2005 and 2006	**Additions/ Changes in Estimates 2007**	**Utilized in 2007**	**Remaining Liability at 9/30/07**
		(In millions of dollars)			
Severance and benefits	$ 228	$ (215)	**$**	**$ (4)**	**$ 9**
Future rent on non-cancelable leases	145	(80)	**5**	**(23)**	**47**
Other exit costs	3	6	**(2)**	**1**	**8**
	$ 376	$ (289)	**$ 3**	**$ (26)**	**$ 64**

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

13. Common Stock

On August 24, 2007, MMC entered into an $800 million accelerated share repurchase agreement with a financial institution counterparty. Under the terms of the agreement, in August 2007 MMC paid the full $800 million purchase price and took delivery from the counterparty of an initial tranche of 21,320,530 shares of MMC common stock, which were reflected as an increase in Treasury shares (a decrease in shares outstanding) on the delivery date. This number of shares was the quotient of the $800 million purchase price divided by a contractual cap price of $37.5225 per share. Based on the market price of MMC s common stock over a subsequent settlement period expected to end not later than the first quarter of 2008, MMC expects to receive an additional delivery of shares from the counterparty for no additional payment. The number of additional shares to be so delivered, and thus the average price per share to MMC for the transaction as a whole, cannot be determined until the end of the settlement period.

On May 11, 2007, MMC entered into a $500 million accelerated share repurchase agreement with a financial institution counterparty. Under the terms of the agreement, in May 2007 MMC paid the full $500 million purchase price and took delivery from the counterparty of an initial tranche of 13,464,749 shares of MMC common stock. Based on the market price of MMC s common stock over a subsequent settlement period, in July 2007 the counterparty delivered to MMC an additional 2,555,519 shares for no additional payment and the transaction was concluded. MMC thus repurchased a total of 16,020,268 shares in the transaction, for a total cost of $500 million and an average price per share to MMC of $31.2105. The repurchased shares were reflected as an increase in Treasury Shares (a decrease in shares outstanding) on the respective delivery dates.

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14. Stockholder Rights Plan

On September 29, 2007, MMC s Amended and Restated Rights Agreement, dated as of January 20, 2000 between MMC and the Harris Trust Company of New York, as rights agent, expired pursuant to its terms.

15. Claims, Lawsuits and Other Contingencies

MMC and Marsh Litigation and Regulatory Matters

Brokerage Compensation Practices Settlement

In January 2005, MMC and its subsidiary Marsh Inc. (Marsh) entered into an agreement (the Settlement Agreement) with the New York State Attorney General (NYAG) and the New York State Insurance Department (NYSID) to settle a civil complaint filed in New York State court by NYAG in October 2004 (the NYAG Lawsuit) and a related citation (the Citation) issued by NYSID at approximately the same time. Among other things, the NYAG Lawsuit and the Citation had alleged that Marsh s use of market service agreements with various insurance companies entailed fraudulent business practices, bid-rigging, illegal restraint of trade and other violations of the New York business and insurance statutes, and was not adequately disclosed to Marsh s clients or MMC s investors. Following the announcement of the NYAG Lawsuit and related actions taken by MMC, MMC s stock price dropped from approximately $45 per share to a low of approximately $22.75 per share.

Pursuant to the Settlement Agreement, MMC established a fund of $850 million (the Fund), payable over four years, for policyholder clients in the U.S. who placed insurance through Marsh between 2001 and 2004. Approximately 70,000 eligible policyholders have elected to receive an aggregate distribution of approximately $770 million under the Fund. Clients electing to participate in the Fund have tendered a release relating to the matters alleged in the NYAG Lawsuit and the Citation, except for claims that are based upon, arise out of or relate to the purchase or sale of MMC securities. No portion of the Fund represents a fine or penalty against MMC or Marsh and no portion of the Fund will revert to MMC or Marsh.

The Settlement Agreement does not relate to any former or current employees of Marsh. Since the filing of the NYAG Lawsuit, 12 former Marsh employees have pleaded guilty to New York criminal charges relating to the matters described therein. In September 2005, eight former Marsh employees (including one individual who has since pleaded guilty) were indicted on various counts relating to these same matters. The trial against two of these individuals began in April 2007.

Related Litigation

Numerous lawsuits have been commenced against MMC, one or more of its subsidiaries, and their current and former directors and officers, relating to matters alleged in the NYAG Lawsuit, including the following:

Various putative class actions purportedly brought on behalf of policyholders were filed in or removed to several federal courts across the country. All of these federal putative class actions were transferred to the District of New Jersey for consolidated pretrial proceedings (the MDL Cases).

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In August 2005, two consolidated amended complaints were filed in the MDL Cases (one on behalf of a purported class of commercial policyholders and the second on behalf of a purported class of employee benefit policyholders), which as against MMC and certain affiliates alleged statutory claims for violations of the federal Racketeering Influenced and Corrupt Organizations (RICO) Act and federal and state antitrust laws, together with common law claims for breach of fiduciary duty and unjust enrichment. The complaints sought a variety of remedies, including unspecified monetary damages, treble damages, disgorgement, restitution, punitive damages, declaratory and injunctive relief, and attorneys fees and costs. In August and September 2007, the court dismissed with prejudice all of the federal antitrust and RICO claims asserted in both complaints. The court also dismissed without prejudice all of the state law claims in the commercial complaint. The court has not yet ruled on the state law claims in the employee benefits complaint. On October 10, 2007, the plaintiffs in the commercial case filed a notice of appeal.

In July 2007, two putative class actions purportedly brought on behalf of policyholders were filed in federal courts in the Southern District of Florida and the Southern District of New York, respectively, in each case against MMC, Marsh, certain insurers and other insurance brokers. These putative class actions relate to the same practices alleged in the NYAG Lawsuit, but with respect to insurance coverage placed with Certain Underwriters at Lloyd s, London. These cases have been conditionally transferred to the District of New Jersey.

Four class or representative actions on behalf of policyholders are pending in state courts. There are also 25 actions brought by individual policyholders and others in federal and state courts relating to matters alleged in the NYAG Lawsuit. In addition, two putative class actions and one individual policyholder action are pending in Canada.

In January 2005, the State of Connecticut brought an action against MMC, Marsh and certain Marsh subsidiaries in Connecticut Superior Court. The State s complaint alleges that the defendants violated Connecticut s Unfair Trade Practices Act by accepting $50,000 from an insurer in connection with a placement Marsh made for the State; violated Connecticut s antitrust and unfair trade practices acts by engaging in bid-rigging and other improper conduct that purportedly damaged particular customers and inflated insurance premiums; improperly accepted contingent commissions and concealed these commissions from their clients; and engaged in negligent misrepresentation and breach of fiduciary duty. The State seeks various monetary damages and injunctive relief. Discovery has been stayed pending procedural motions.

In March 2006, the State of Florida brought an action against MMC, Marsh and certain Marsh subsidiaries in Florida state court, alleging that the defendants violated Florida s RICO and antitrust laws by engaging in bid-rigging and other improper conduct which inflated insurance premiums, and by receiving undisclosed additional compensation. The complaint alleges that these actions caused damage to the State, Florida governmental entities and Florida businesses and residents, and seeks the forfeiture of all undisclosed compensation, treble damages, civil penalties, attorneys fees and costs and injunctive and other equitable relief. Discovery has commenced in this action.

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On August 24, 2007, the State of Ohio brought an action against MMC, Marsh and four insurance companies in Ohio state court. The complaint alleges that the defendants violated Ohio s antitrust laws by engaging in bid-rigging, allocation of customers and other improper conduct which inflated insurance premiums. The State seeks damages, statutory forfeiture and injunctive and other equitable relief.

A consolidated purported class action is pending in the United States District Court for the Southern District of New York on be