MARSH & MCLENNAN COMPANIES, INC.
Form 10-Q
August 04, 2014

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q Filing

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014

Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, New York 10036
(212) 345-5000

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting Company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting Company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨(Do not check if a smaller reporting company)	Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 28, 2014, there were outstanding 544,316,951 shares of common stock, par value $1.00 per share, of the registrant.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management's current views concerning future events or results, use words like "anticipate," "assume," "believe," "continue," "estimate," "expect," "future," "intend," "plan," and similar terms, and future or conditional tense verbs like "could," "may," "might," "should," "will" and "would." For examp we may use forward-looking statements when addressing topics such as: the outcome of contingencies; the expected impact of acquisitions and dispositions; the impact of competition; pension obligations; the impact of foreign currency exchange rates; our effective tax rates; 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;
- 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 a number of our competitors;
- the extent to which we retain existing clients and attract new business, and our ability to incentivize and retain key employees;
- our ability to maintain adequate physical, technical and administrative safeguards to protect the security of confidential information or data, and the potential of a system or network disruption that results in regulatory penalties, remedial costs and/or the improper disclosure of confidential information or data;
- 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 in the domestic and international jurisdictions in which we operate, including evolving sanctions against Russia and existing trade sanctions laws relating to countries such as Cuba, Iran, Sudan and Syria, anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010, local laws prohibiting corrupt payments to government officials, as well as import and export restrictions;
- our ability to make acquisitions and dispositions and to integrate, and realize expected synergies, savings or 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 on our net income caused by fluctuations in foreign currency exchange rates;
- our ability to successfully recover should we experience a disaster or other business continuity problem, such as an earthquake, hurricane, flood, terrorist attack, pandemic, security breach, cyber attack, power loss, telecommunications failure or other natural or man-made disaster;
- 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 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;
- changes in applicable tax or accounting requirements; and
- potential income statement effects from the application of FASB's ASC Topic No. 740 ("Income Taxes") regarding accounting treatment of uncertain tax benefits and valuation allowances, including the effect of any subsequent adjustments to the estimates we use in applying this accounting standard.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2014	2013	2014	2013
Revenue	$3,300	$3,088	$6,564	$6,214
Expense:				
Compensation and benefits	1,876	1,766	3,715	3,569
Other operating expenses	777	745	1,529	1,461
Operating expenses	2,653	2,511	5,244	5,030
Operating income	647	577	1,320	1,184
Interest income	5	4	10	8
Interest expense	(42)	(40)	(84)	(84)
Investment income	(2)	23	11	44
Income before income taxes	608	564	1,257	1,152
Income tax expense	168	164	360	340
Income from continuing operations	440	400	897	812
Discontinued operations, net of tax	(2)	(5)	(3)	7
Net income before non-controlling interests	438	395	894	819
Less: Net income attributable to non-controlling interests	7	7	20	18
Net income attributable to the Company	$431	$388	$874	$801
Basic net income per share – Continuing operations	$0.79	$0.71	$1.60	$1.45
– Net income attributable to the Company	$0.78	$0.71	$1.59	$1.46
Diluted net income per share – Continuing operations	$0.78	$0.70	$1.58	$1.42
– Net income attributable to the Company	$0.77	$0.69	$1.57	$1.44
Average number of shares outstanding – Basic	549	551	548	549
– Diluted	556	559	556	558
Shares outstanding at June 30	546	549	546	549

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2014	2013	2014	2013
Net income before non-controlling interests	$438	$395	$894	$819
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	136	(85)	207	(345)
Unrealized investment loss	—	(1)	—	(1)
Gain (loss) related to pension/post-retirement plans	(42)	50	(241)	302
Other comprehensive income (loss), before tax	94	(36)	(34)	(44)
Income tax expense (credit) on other comprehensive income	(7)	20	(48)	84
Other comprehensive income (loss), net of tax	101	(56)	14	(128)
Comprehensive income	539	339	908	691
Less: comprehensive income attributable to non-controlling interest	7	7	20	18
Comprehensive income attributable to the Company	$532	$332	$888	$673

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

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

(In millions, except per share figures)	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$2,005	$2,303
Receivables		
Commissions and fees	3,461	3,065
Advanced premiums and claims	59	61
Other	292	282
	3,812	3,408
Less-allowance for doubtful accounts and cancellations	(106)	(98)
Net receivables	3,706	3,310
Current deferred tax assets	480	482
Other current assets	223	205
Total current assets	6,414	6,300
Goodwill and intangible assets	7,871	7,365
Fixed assets		
(net of accumulated depreciation and amortization of $1,663 at June 30, 2014 and $1,597 at December 31, 2013)	843	828
Pension related assets	980	979
Deferred tax assets	546	626
Other assets	934	882
	$17,588	$16,980

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, except per share figures)	June 30, 2014	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$333	$334
Accounts payable and accrued liabilities	1,849	1,861
Accrued compensation and employee benefits	985	1,466
Accrued income taxes	209	148
Dividends payable	154	—
Total current liabilities	3,530	3,809
Fiduciary liabilities	5,237	4,234
Less – cash and investments held in a fiduciary capacity	(5,237)	(4,234)
	—	—
Long-term debt	3,212	2,621
Pension, post-retirement and post-employment benefits	1,123	1,150
Liabilities for errors and omissions	366	373
Other liabilities	1,129	1,052
Commitments and contingencies		
Equity:		
Preferred stock, $1 par value, authorized 6,000,000 shares, none issued	—	—
Common stock, $1 par value, authorized 1,600,000,000 shares, issued 560,641,640 shares at June 30, 2014 and December 31, 2013	561	561
Additional paid-in capital	914	1,028
Retained earnings	9,897	9,452
Accumulated other comprehensive loss	(2,607)	(2,621)
Non-controlling interests	77	70
	8,842	8,490
Less – treasury shares, at cost, 14,993,131 shares at June 30, 2014 and 13,882,204 shares at December 31, 2013	(614)	(515)
Total equity	8,228	7,975
	$17,588	$16,980

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

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

For the Six Months Ended June 30, (In millions)	2014	2013
Operating cash flows:		
Net income before non-controlling interests	$894	$819
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization of fixed assets and capitalized software	149	142
Amortization of intangible assets	42	35
Adjustments to acquisition related contingent consideration liability	(3)	10
Provision for deferred income taxes	83	71
Gain on investments	(10)	(44)
Loss on disposition of assets	2	5
Share based compensation expense	51	66
Changes in assets and liabilities:		
Net receivables	(392)	(283)
Other current assets	(16)	(34)
Other assets	15	(75)
Accounts payable and accrued liabilities	(7)	27
Accrued compensation and employee benefits	(480)	(615)
Accrued income taxes	61	53
Contributions to pension and other benefit plans in excess of current year expense/credit	(118)	(370)
Other liabilities	(39)	17
Effect of exchange rate changes	26	13
Net cash provided by (used for) operations	258	(163)
Financing cash flows:		
Purchase of treasury shares	(350)	(250)
Proceeds from debt	595	50
Repayments of debt	(5)	(255)
Shares withheld for taxes on vested units – treasury shares	(55)	(68)
Issuance of common stock from treasury shares	136	206
Payments of contingent consideration for acquisitions	(24)	(5)
Distributions of non-controlling interests	(13)	(15)
Dividends paid	(275)	(255)
Net cash provided by (used for) financing activities	9	(592)
Investing cash flows:		
Capital expenditures	(202)	(192)
Net sales of long-term investments	2	82
Proceeds from sales of fixed assets	1	2
Dispositions	—	3
Acquisitions	(383)	(91)
Other, net	1	2
Net cash used for investing activities	(581)	(194)
Effect of exchange rate changes on cash and cash equivalents	16	(122)
Decrease in cash and cash equivalents	(298)	(1,071)
Cash and cash equivalents at beginning of period	2,303	2,301
Cash and cash equivalents at end of period	$2,005	$1,230

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

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

For the Six Months Ended June 30, (In millions, except per share figures)	2014	2013
COMMON STOCK		
Balance, beginning and end of period	$561	$561
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	$1,028	$1,107
Change in accrued stock compensation costs	(47)	(69)
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax impact	(67)	(36)
Balance, end of period	$914	$1,002
RETAINED EARNINGS		
Balance, beginning of year	$9,452	$8,628
Net income attributable to the Company	874	801
Dividend equivalents declared - (per share amounts: $0.78 in 2014 and $0.71 in 2013)	(2)	(3)
Dividends declared – (per share amounts: $0.78 in 2014 and $0.71 in 2013)	(427)	(390)
Balance, end of period	$9,897	$9,036
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	$(2,621)	$(3,307)
Other comprehensive income (loss), net of tax	14	(128)
Balance, end of period	$(2,607)	$(3,435)
TREASURY SHARES		
Balance, beginning of year	$(515)	$(447)
Issuance of shares under stock compensation plans and employee stock purchase plans	251	312
Purchase of treasury shares	(350)	(250)
Balance, end of period	$(614)	$(385)
NON-CONTROLLING INTERESTS		
Balance, beginning of year	$70	$64
Net income attributable to non-controlling interests	20	18
Other changes	(13)	(15)
Balance, end of period	$77	$67
TOTAL EQUITY	$8,228	$6,846

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

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 activities 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.

The Company conducts business in its Consulting segment through two main business groups. Mercer provides consulting expertise, advice, services and solutions in the areas of health, retirement, talent and investments. Within the investments business, Mercer provides delegated investment (fiduciary management) solutions to institutional investors (such as retirement plan sponsors and trustees) and to individual investors (primarily through the inclusion of funds managed by Mercer on defined contribution and wealth management platforms). As of December 31, 2013, Mercer had assets under management of $103 billion worldwide. Oliver Wyman Group provides specialized management and economic and brand consulting services.

Acquisitions impacting the Risk and Insurance Services and Consulting segments are discussed in Note 7 to the consolidated financial statements.

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. While 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, the Company believes that the information and disclosures presented are adequate to make such information and disclosures 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, 2013 (the “2013 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 consolidated financial statements as of and for the three- and six-month periods ended June 30, 2014 and 2013.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of certificates of deposit and time deposits, with original maturities of three months or less, and money market funds. The estimated fair value of the Company's cash and cash equivalents approximates their carrying value. The Company is required to maintain operating funds of approximately $200 million related to regulatory requirements outside the U.S. or as collateral under captive insurance arrangements.

Investment Income

The caption “Investment 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 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 the Trident funds. The Company’s investments may include direct investments in insurance or consulting companies and investments in private equity funds. Trident II fully harvested all its portfolio investments and made final distributions to its partners during the fourth quarter of 2013. As of the end of 2013, the Company recognized all the performance fees related to its general partnership interest in Trident II. The Company recorded gains on its investment in Trident II of $20 million in the six months ended June 30, 2013 including $15 million of deferred performance fees recognized in the first quarter of 2013. For the three months ended June 30, 2014, the Company recorded investment losses of $2 million. For the six months ended June 30, 2014, the Company recorded performance fees of $7 million from Trident III which had been deferred, and that are no longer subject to claw-back and $3 million of gains related to the Company's private equity investments. At June 30, 2014, the Company had deferred performance fees of approximately $37 million related to Trident III. Recognition of these deferred performance fees will only occur as the Trident III investments are harvested and the performance fees are no longer subject to claw-back. Timing of this is unknown and is not controlled by the Company.

Income Taxes

The Company's effective tax rate in the second quarter of 2014 was 27.6% compared with 28.9% in the second quarter of 2013. The effective tax rates for the first six months of 2014 and 2013 were 28.6% and 29.5%, respectively. These rates reflect non-U.S. income taxed at rates below the U.S. statutory rate, including the effect of repatriation, as well as the impact of discrete tax matters such as the resolution of tax examinations and expirations of statutes of limitations.

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 reliance on the opinion 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 tax returns. The Company's gross unrecognized tax benefits decreased from $128 million at December 31, 2013 to $105 million at June 30, 2014. It is reasonably possible that the total amount of unrecognized tax benefits will decrease between zero and approximately $7 million within the next twelve months due to settlements of audits and expirations of statutes of limitation.

During the second quarter of 2014, the Company settled the federal tax audit with the IRS for the year 2012. During the second quarter of 2013, the Company settled federal tax audits with the IRS for the years 2007 and 2009 through 2011.

Reclassifications

In the first quarter of 2014, the Company enhanced its operating cash flow presentation within the statement of cash flows to show on single lines the impact of pension and other benefit plan contributions in excess of the related expenses, and the non-cash impact of equity share awards. Previously, the cash flow impact of those items was presented as part of changes in other assets and other liabilities, and changes in other liabilities, respectively. The prior year’s presentation was conformed to the current presentation for the following line items within operating cash flows:

- Share based compensation expense
- Changes in other assets
- Contributions to pension and other benefit plans in excess of current year expense/credit
- Changes in other liabilities

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 $12 million and $14 million for the six-month periods ended June 30, 2014 and 2013, respectively. The Consulting segment recorded fiduciary interest income of $3 million and $2 million for the the six-month periods ended June 30, 2014 and 2013, 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 June 30, 2014 and $8.2 billion at December 31, 2013. 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 $19 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

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 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 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.

Reconciliations of the applicable income components used for diluted EPS - Continuing operations and basic weighted average common shares outstanding to diluted weighted average common shares outstanding are presented below. The reconciling items related to the calculation of diluted weighted average common shares outstanding are the same for net income attributable to the Company.

Basic and Diluted EPS Calculation - Continuing Operations	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2014	2013	2014	2013
Net income from continuing operations	$440	$400	$897	$812
Less: Net income attributable to non-controlling interests	7	7	20	18
	$433	$393	$877	$794
Basic weighted average common shares outstanding	549	551	548	549
Dilutive effect of potentially issuable common shares	7	8	8	9
Diluted weighted average common shares outstanding	556	559	556	558
Average stock price used to calculate common stock equivalents	$49.67	$39.15	$48.75	$37.68

There were 20.6 million and 26.5 million stock options outstanding as of June 30, 2014 and 2013, respectively.

5. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The following schedule provides additional information concerning acquisitions, interest and income taxes paid for the six-month periods ended June 30, 2014 and 2013.

(In millions of dollars)	2014	2013
Assets acquired, excluding cash	$554	$126
Liabilities assumed	(40)	(24)
Contingent/deferred purchase consideration	(140)	(14)
Net cash outflow for current year acquisitions	374	88
Deferred purchase consideration from prior years' acquisitions	9	3
Net cash outflow for acquisitions	$383	$91

(In millions of dollars)	2014	2013
Interest paid	$82	$89
Income taxes paid	$218	$185

The Company had non-cash issuances of common stock of $102 million and $138 million, respectively, for the six months ended June 30, 2014 and 2013, primarily related to its share-based payment plans. The Company recorded stock-based compensation expense related to equity awards of $41 million and $54 million for the six-month periods ended June 30, 2014 and 2013, respectively.

6. Other Comprehensive Income (Loss)

The changes in the balances of each component of Accumulated Other Comprehensive Income ("AOCI") for the three- and six-month periods ended June 30, 2014 and 2013, including amounts reclassified out of AOCI, are as follows:

(In millions of dollars)	Unrealized Investment Gains	Pension/Post-Retirement Plans Gains (Losses)	Foreign Currency Translation Adjustments	Total
Balance as of April 1, 2014	$5	$ (2,847)	$134	$(2,708)
Other comprehensive income (loss) before reclassifications	—	(69)	137	68
Amounts reclassified from accumulated other comprehensive income	—	33	—	33
Net current period other comprehensive income (loss)	—	(36)	137	101
Balance as of June 30, 2014	$5	$ (2,883)	$271	$(2,607)

(In millions of dollars)	Unrealized Investment Gains	Pension/Post-Retirement Plans Gains (Losses)	Foreign Currency Translation Adjustments	Total
Balance as of April 1, 2013	4	(3,267)	(116)	$(3,379)
Other comprehensive income (loss) before reclassifications	(1)	(18)	(84)	(103)
Amounts reclassified from accumulated other comprehensive income	—	47	—	47
Net current period other comprehensive income (loss)	(1)	29	(84)	(56)
Balance as of June 30, 2013	$3	$ (3,238)	$(200)	$(3,435)

(In millions of dollars)	Unrealized Investment Gains	Pension/Post-Retirement Plans Gains (Losses)	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2014	$5	$ (2,682)	$56	$(2,621)
Other comprehensive income (loss) before reclassifications	—	(268)	215	(53)
Amounts reclassified from accumulated other comprehensive income	—	67	—	67
Net current period other comprehensive income (loss)	—	(201)	215	14
Balance as of June 30, 2014	$5	$ (2,883)	$271	$(2,607)

(In millions of dollars)	Unrealized Investment Gains	Pension/Post-Retirement Plans Gains (Losses)	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2013	$4	$ (3,451)	$140	$(3,307)
Other comprehensive income (loss) before reclassifications	(1)	121	(340)	(220)
Amounts reclassified from accumulated other comprehensive income	—	92	—	92

Net current period other comprehensive income (loss)	(1)	213	(340)	(128)
Balance as of June 30, 2013	$3	$ (3,238)	$(200)	$(3,435)

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The components of other comprehensive income (loss) for the three- and six-month periods ended June 30, 2014 and 2013 are as follows:

Three Months Ended June 30,	2014			2013		
(In millions of dollars)	Pre-Tax	Tax	Net of Tax	Pre-Tax	Tax	Net of Tax
Foreign currency translation adjustments	$136	$(1)	$137	$(85)	$(1)	$(84)
Unrealized investment gains (losses)	—	—	—	(1)	—	(1)
Pension/post-retirement plans:						
Amortization of losses (gains) included in net periodic pension cost:						
Prior service gains (a)	(2)	(1)	(1)	(5)	(2)	(3)
Net actuarial losses (a)	49	15	34	78	28	50
Subtotal	47	14	33	73	26	47
Foreign currency translation adjustments	(91)	(20)	(71)	(23)	(5)	(18)
Other	2	—	2	—	—	—
Pension/post-retirement plans (losses) gains	(42)	(6)	(36)	50	21	29
Other comprehensive income (loss)	$94	$(7)	$101	$(36)	$20	$(56)

(a) Components of net periodic pension cost are included in compensation and benefits in the Consolidated Statements of Income. Tax on prior service gains and net actuarial losses is included in income tax expense.

Six Months Ended June 30,	2014			2013		
(In millions of dollars)	Pre-Tax	Tax	Net of Tax	Pre-Tax	Tax	Net of Tax
Foreign currency translation adjustments	$207	$(8)	$215	$(345)	$(5)	$(340)
Unrealized investment gains (losses)	—	—	—	(1)	—	(1)
Pension/post-retirement plans:						
Amortization of losses (gains) included in net periodic pension cost:						
Prior service gains (a)	(5)	(2)	(3)	(11)	(4)	(7)
Net actuarial losses (a)	100	30	70	156	57	99
Subtotal	95	28	67	145	53	92
Effect of remeasurement	(166)	(33)	(133)	—	—	—
Effect of curtailment	(65)	(13)	(52)	—	—	—
Foreign currency translation adjustments	(108)	(22)	(86)	157	36	121
Other	3	—	3	—	—	—
Pension/post-retirement plans (losses) gains	(241)	(40)	(201)	302	89	213
Other comprehensive (loss) income	$(34)	$(48)	$14	$(44)	$84	$(128)

(a) Components of net periodic pension cost are included in compensation and benefits in the Consolidated Statements of Income. Tax on prior service gains and net actuarial losses is included in income tax expense.

7. Acquisitions

The Company completed nine acquisitions during the first six months of 2014.

- January - Marsh & McLennan Agency ("MMA") acquired Barney & Barney, a San Diego-based insurance broking firm that provides insurance, risk management, and employee benefits solutions to businesses and individuals throughout the U.S. and abroad. Also in January, Marsh acquired Central Insurance Services, an independent insurance broker in Scotland that provides insurance broking and risk advisory services to companies of all sizes across industry sectors.
- February - MMA acquired Great Lakes Employee Benefits Services, Inc., an employee group benefits consulting and brokerage firm based in Michigan, and Bond Network, Inc., a surety bonding agency based in North Carolina.
- March - MMA acquired Capstone Insurance Services, LLC, an agency that provides property/casualty insurance and risk management solutions to businesses and individuals throughout South Carolina, and Mercer acquired Transition Assist, a retiree exchange specializing in helping retirees in employer-sponsored plans select Medicare supplemental health care insurance.
- May - MMA acquired Kinker-Eveleigh Insurance Agency, an Ohio-based agency specializing in property-casualty and employee benefits solutions, and VISICOR, a full-service employee benefits brokerage and consulting firm based in Texas.
- June - MMA acquired Senn Dunn Insurance, an insurance agency located in North Carolina.

The MMA acquisitions were made to expand Marsh's presence in the U.S. middle-market business.

Total purchase consideration for acquisitions made during the first six months of 2014 was $534 million, which consisted of cash paid of $394 million and deferred purchase and estimated contingent consideration of $140 million. Contingent consideration arrangements are primarily based on EBITDA and revenue targets over periods ranging from two to four years. The fair value of the contingent consideration was based on projected revenue and earnings of the acquired entities. The estimated fair values of assets acquired and liabilities assumed are subject to adjustment when purchase accounting is finalized. The Company also paid $9 million of deferred purchase consideration and $36 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 during 2014 based on their fair values:

For the Six Months Ended June 30, 2014	
(Amounts in millions)	
Cash	$394
Estimated fair value of deferred/contingent consideration	140
Total Consideration	$534
Allocation of purchase price:	
Cash and cash equivalents	$20
Accounts receivable, net	5
Other current assets	—
Property, plant, and equipment	3
Intangible assets	210
Goodwill	334
Other assets	2
Total assets acquired	574
Current liabilities	35
Other liabilities	5
Total liabilities assumed	40
Net assets acquired	$534

Prior Year Acquisitions

The Risk and Insurance Services segment completed six acquisitions during 2013.

- June - Marsh acquired Rehder y Asociados Group, an insurance adviser in Peru. The business includes the insurance broker Rehder y Asociados and employee health and benefits specialist, Humanasalud. Marsh also completed the acquisition of Franco & Acra Tecniseguros, an insurance advisor in the Dominican Republic.
- July - Guy Carpenter acquired Smith Group, a specialist disability reinsurance risk manager and consultant based in Maine.
- September - Marsh purchased an additional stake in Insia a.s., an insurance broker operating in the Czech Republic and Slovakia which, when combined with its prior holdings, gave MMC a controlling interest. Insia a.s. was previously accounted for under the equity method.
- November - Marsh & McLennan Agency ("MMA") acquired Elsey & Associates, a Texas-based provider of surety bonds and insurance coverage to the construction industry.
- December - MMA acquired Cambridge Property and Casualty, a Michigan-based company providing insurance and risk management services to high net worth individuals and mid-sized businesses.

The MMA acquisitions were made to expand Marsh's presence in the U.S. middle-market business.

The Consulting segment completed two acquisitions during 2013.

- July - Oliver Wyman acquired Corven, a U.K.-based management consultancy firm.
- August - Mercer acquired Global Remuneration Solutions, a market leading compensation consulting firm based in South Africa.

Total purchase consideration for acquisitions made during the six months of 2013 was $109 million, which consisted of cash paid of $95 million and deferred purchase and estimated contingent consideration of $14 million. Contingent consideration arrangements are primarily based on EBITDA and revenue targets over periods ranging from two to four years. The fair value of the contingent consideration was based on projected revenue and earnings of the acquired entities. The estimated fair values of assets acquired and liabilities assumed are subject to adjustment when purchase accounting is finalized. The Company also paid $3 million of deferred purchase consideration and $5 million of contingent consideration related to acquisitions made in prior years.

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 the first six months of 2014 and 2013. In accordance with accounting guidance related to pro-forma disclosure, the information presented for the 2014 acquisitions is as if they occurred on January 1, 2013 and reflects acquisitions made in 2013 as if they occurred on January 1, 2012. The unaudited pro-forma information adjusts for the effects of amortization of acquired intangibles. The unaudited pro-forma financial data is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved if such acquisitions had occurred on the dates indicated, nor is it necessarily indicative of future consolidated results.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share figures)	2014	2013	2014	2013
Revenue	$3,306	$3,152	$6,591	$6,348
Income from continuing operations	$440	$406	$900	$823
Net income attributable to the Company	$431	$393	$877	$812
Basic net income per share:				
– Continuing operations	$0.79	$0.72	$1.60	$1.46
– Net income attributable to the Company	$0.79	$0.71	$1.60	$1.48
Diluted net income per share:				
– Continuing operations	$0.78	$0.71	$1.58	$1.44
– Net income attributable to the Company	$0.78	$0.70	$1.58	$1.45

The consolidated statements of income include the results of operations of acquired companies since their respective acquisition dates. The consolidated statement of income for the three- and six-month periods ending June 30, 2014 includes approximately $38 million of revenue and $5 million of net operating income and approximately $59 million of revenue and $6 million of net operating income, respectively, related to acquisitions made in 2014.

Subsequent Acquisition

On June 23, 2014, Mercer announced that it had entered into a definitive agreement to acquire a 34% stake in South Africa-based Alexander Forbes Group Holdings Limited ("Alexander Forbes") for approximately $312 million, becoming a strategic shareholder after Alexander Forbes successfully launched an initial public offering. Mercer will purchase its stake in Alexander Forbes in two tranches at 7.50 South African Rand per share. On July 24, 2014, the Company purchased 14.9% of Alexander Forbes common shares for approximately $140 million. The remaining 19.1% of the common shares will be purchase by early October 2014, subject to the receipt of requisite regulatory approvals. Alexander Forbes is listed on the Johannesburg Stock Exchange. In July, the Company entered into a forward contract that expires on September 30, 2014 to sell British Pounds and purchase South African Rand to lock in current foreign exchange rates for the remaining commitment. Gain or loss on the forward contract will flow through earnings in the third quarter of 2014. The investment in Alexander Forbes will be accounted for using the equity method.

Alexander Forbes principally focuses on employee benefits and investment solutions for institutional clients, and financial wellbeing and retail financial solutions for individual clients. Services include retirement funds and investment consulting, actuarial and administration services, employee risk benefits and health-care consulting, multi-manager investments solutions, and personal lines and business insurance. The range of services provided by Alexander Forbes aligns closely with Mercer's global business.

8. Dispositions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions of dollars, except per share figures)	2014	2013	2014	2013
Disposals of discontinued operations	$—	$(6)	$—	$(5)
Income tax expense (credit)	2	(1)	3	(12)
Disposals of discontinued operations, net of tax	(2)	(5)	(3)	7
Discontinued operations, net of tax	$(2)	$(5)	$(3)	$7
Discontinued operations, net of tax per share				
– Basic	$(0.01)	$—	$(0.01)	$0.01
– Diluted	$(0.01)	$(0.01)	$(0.01)	$0.02

The three and six months ended June 30, 2013 include estimated costs covered under the indemnity related to the Kroll sale. The six months ended June 30, 2013 also includes tax indemnities 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. Fair values of the reporting units are estimated using either a market approach or a discounted cash flow model. This fair value determination was categorized as Level 3 in the fair value hierarchy. 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. The Company completed its 2013 annual review in the third quarter of 2013 and concluded goodwill was not impaired, as the fair value of each reporting unit exceeded its carrying value by a substantial margin.

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

Changes in the carrying amount of goodwill are as follows:

June 30,		
(In millions of dollars)	2014	2013
Balance as of January 1, as reported	$6,893	$6,792
Goodwill acquired	334	62
Other adjustments[(a)]	3	(50)
Balance at June 30,	$7,230	$6,804

[(a)] Primarily reflects the impact of foreign exchange in each period.

Goodwill allocable to the Company's reportable segments at June 30, 2014 is as follows: Risk & Insurance Services, $5 billion and Consulting, $2.2 billion.

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

	June 30, 2014			December 31, 2013		
(In millions of dollars)	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Amortized intangibles	$1,101	$460	$641	$888	$416	$472

Aggregate amortization expense for the six months ended June 30, 2014 and 2013 was $42 million and $35 million, respectively. The estimated future aggregate amortization expense is as follows:

For the Years Ending December 31,	
(In millions of dollars)	Estimated Expense
2014 (excludes amortization through June 30, 2014)	$45
2015	86
2016	76
2017	67
2018	63
Subsequent years	304
	$641

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 Financial Accounting Standards Board ("FASB") in Accounting Standards Codification ("ASC") Topic No. 820 ("Fair Value Measurements and Disclosures"). 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 and money market mutual funds).

Assets and liabilities utilizing Level 1 inputs include exchange-traded equity securities and mutual funds.

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).

Assets and liabilities utilizing Level 2 inputs include corporate and municipal bonds, senior notes and interest rate swaps.

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

Liabilities utilizing Level 3 inputs include liabilities for contingent purchase consideration.

Valuation Techniques

Equity Securities and 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.

Interest Rate Swap Derivatives - 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

At June 30, 2014, the fair value of the first $250 million of Senior Notes maturing in July 2014 was estimated to be the carrying value of those notes based on discounted future cash flows using current interest rates available for debt with similar terms and remaining maturities, adjusted by the fair value of the interest rate swap derivatives, 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 is recorded on the balance sheet. The carrying value of the debt related to these swaps is 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 meeting EBITDA and revenue targets over periods ranging from two to four years. The fair value of contingent consideration is estimated as the present value of future cash flows resulting from the projected revenue and earnings of the acquired entities.

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013.

	Identical Assets (Level 1)		Observable Inputs (Level 2)		Unobservable Inputs (Level 3)		Total	
(In millions of dollars)	06/30/14	12/31/13	06/30/14	12/31/13	06/30/14	12/31/13	06/30/14	12/31/13
Assets:								
Financial instruments owned:								
Mutual funds[(a)]	$150	$154	$—	$—	$—	$—	$150	$154
Money market funds[(b)]	72	45	—	—	—	—	72	45
Interest rate swap derivatives[(c)]	—	—	2	3	—	—	2	3
Total assets measured at fair value	$222	$199	$2	$3	$—	$—	$224	$202
Fiduciary Assets:								
Money market funds	$14	$—	$—	$—	$—	$—	$14	$—
Total fiduciary assets measured at fair value	$14	$—	$—	$—	$—	$—	$14	$—
Liabilities:								
Contingent purchase consideration liability[(d)]	$—	$—	$—	$—	$144	$104	$144	$104
Senior Notes due 2014[(e)]	—	—	252	253	—	—	252	253
Total liabilities measured at fair value	$—	$—	$252	$253	$144	$104	$396	$357

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

During the six-month period ended June 30, 2014, there were no assets or liabilities that were 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 as of June 30, 2014 and 2013 that represent contingent consideration related to acquisitions:

(In millions of dollars)	2014	2013
Balance at January 1,	$104	$63
Additions	67	13
Payments	(36)	(5)
Revaluation Impact	9	10
Balance at June 30,	$144	$81

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 increase in the estimated fair value of such liabilities for prior-period acquisitions of $9 million in the six-month period ended June 30, 2014. A 5% increase in the above mentioned projections would increase the liability by approximately $20 million. A 5% decrease in the above mentioned projections would decrease the liability by approximately $24 million.
Fair Value of Long-term Investments
The Company has certain long-term investments, primarily investments in non-publicly traded private equity funds, of $14 million at both June 30, 2014 and December 31, 2013, carried on the cost basis for which there are no readily available market prices. The carrying values of these investments approximates their fair value. Management's estimate of the fair value of these non-publicly traded investments is based on valuation methodologies including 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. The Company

monitors these investments for impairment and makes appropriate reductions in carrying values when necessary. If carried at fair value, these investments would be classified as Level 3 in the fair value hierarchy. They are included in Other assets in the consolidated balance sheets.

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. As of June 30, 2014, the actual allocation for the U.S. Plan was 60% equities and equity alternatives and 40% fixed income. The target asset allocation for the U.K. Plans, which comprises approximately 82% of non-U.S. Plan assets, is 50% equities and equity alternatives and 50% fixed income. As of June 30, 2014, the actual allocation for the U.K. Plans was 48% equities and equity alternatives and 52% 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 generally uses threshold-based portfolio re-balancing to ensure the actual portfolio remains consistent with target asset allocation ranges.

After completion of a consultation period with affected colleagues, in January 2014, the Company amended its U.K. defined benefit pension plans to close those plans to future benefit accruals effective August 1, 2014 and will replace those plans, along with its existing defined contribution plans, with a new, comprehensive defined contribution arrangement. This change resulted in a curtailment of the U.K. defined benefit plans, and as required under GAAP, the Company re-measured the defined benefit plans’ assets and liabilities at the amendment date, based on assumptions and market conditions at that date. As a result of the re-measurement, the projected benefit obligation ("PBO") increased by approximately $147 million and the funded status decreased by approximately $137 million. The change in the PBO and in the funded status relates primarily to a decrease in the discount rate at the re-measurement date. The net periodic benefit costs recognized in 2014 are the weighted average resulting from the December 31, 2013 measurement and the January 2014 re-measurement. The Company recognized a curtailment gain of $65 million in the first quarter of 2014, primarily resulting from the recognition of the remaining unamortized prior service credit related to a plan amendment made in December 2012. This gain was mostly offset by the cost of a transition benefit for certain employees most impacted by the amendment, which is not part of net periodic pension cost.

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

Combined U.S. and significant non-U.S. Plans	Pension		Postretirement	
For the Three Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2014	2013	2014	2013
Service cost	$62	$61	$1	$—
Interest cost	161	144	3	3
Expected return on plan assets	(250)	(225)	—	—
Amortization of prior service credit	(3)	(6)	—	—
Recognized actuarial loss	53	80	—	1
Net periodic benefit cost	$23	$54	$4	$4

Combined U.S. and significant non-U.S. Plans	Pension		Postretirement	
For the Six Months Ended June 30,	Benefits		Benefits	
(In millions of dollars)	2014	2013	2014	2013
Service cost	$123	$125	$2	$2
Interest cost	322	289	6	6
Expected return on plan assets	(498)	(453)	—	