

MARSH & MCLENNAN COMPANIES, INC.

Form 10-Q

May 07, 2010

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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 quarterly period ended March 31, 2010

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

As of April 30, 2010, there were outstanding 541,237,396 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 conditional tense verbs like could, may, might, would. For example, we may use forward-looking statements when addressing topics such as: the outcome of contingencies; market and industry conditions; 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 MMC's revenues; our cost structure and the outcome of cost-saving or restructuring initiatives; dividend policy; the expected impact of acquisitions and dispositions; pension obligations; 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:

- i our exposure to potential liabilities arising out of a civil lawsuit against Mercer filed by the Alaska Retirement Management Board in Alaska state court that is scheduled for trial in July 2010 in Juneau, which alleges professional negligence and malpractice, breach of contract, breach of implied covenant of good faith and fair dealing, negligent misrepresentation, unfair trade practices and fraud and misrepresentation related to actuarial services provided by Mercer;
- i 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;
- i the impact of current economic and financial market conditions on our results of operations and financial condition, particularly with respect to our consulting businesses;
- i the potential impact of legislative, regulatory, accounting and other initiatives which may be taken in response to the current financial crisis;
- i our ability to make strategic acquisitions and dispositions and to integrate, and realize expected synergies, savings or strategic benefits from the businesses we acquire;
- i changes in the funded status of our global defined benefit pension plans and the impact of any increased pension funding resulting from those changes;
- i our exposure to potential liabilities arising from errors and omissions claims against us;
- i our exposure to potential criminal sanctions or civil remedies if we fail to comply with foreign and U.S. laws and regulations that are applicable to our international operations, including import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to government officials;
- i the impact on our net income caused by fluctuations in foreign currency exchange rates;

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- i the extent to which we retain existing clients and attract new business, and our ability to incentivize and retain key employees;
- i the impact of competition, including with respect to pricing, and the emergence of new competitors;
- i our ability to successfully obtain payment from our clients of the amounts they owe us for work performed;
- i our ability to successfully recover should we experience a disaster or other business continuity problem;
- i changes in applicable tax or accounting requirements; and

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i 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 and ASC Topic No. 350 (Intangibles - Goodwill and Other), including the effect of any subsequent adjustments to the estimates MMC uses in applying these accounting standards.

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 or revise any forward-looking statement to reflect events or circumstances arising after the date on which it is made. Further information concerning MMC and its businesses, including information about factors that could materially affect our results of operations and financial condition, is contained in MMC's filings with the Securities and Exchange Commission, including the Risk Factors section of MMC's most recently filed Annual Report on Form 10-K.

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MARSH & MCLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME**(Unaudited)**

For the Three Months Ended March 31,

(In millions, except per share figures)

	2010	2009
Revenue	\$2,795	\$2,609
Expense:		
Compensation and benefits	1,650	1,571
Other operating expenses	706	714
Operating expenses	2,356	2,285
Operating income	439	324
Interest income	4	6
Interest expense	(60)	(56)
Investment income (loss)	8	(15)
Income before income taxes	391	259
Income taxes	117	80
Income from continuing operations	274	179
Discontinued operations, net of tax	(22)	1
Net income before non-controlling interests	252	180
Less: Net income attributable to non-controlling interests	4	4
Net income attributable to MMC	\$ 248	\$ 176
Basic net income per share Continuing operations	\$ 0.50	\$ 0.33
Net income	\$ 0.46	\$ 0.33
Diluted net income per share Continuing operations	\$ 0.49	\$ 0.33
Net income	\$ 0.45	\$ 0.33
Weighted average number of shares outstanding Basic	533	515
Diluted	536	515
Shares outstanding at March 31,	541	517
Dividends declared per share	\$ 0.40	\$ 0.40

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

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MARSH & MCLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS**(Unaudited)**

<i>(In millions of dollars)</i>	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,167	\$ 1,777
Receivables		
Commissions and fees	2,538	2,429
Advanced premiums and claims	63	86
Other	447	457
	3,048	2,972
Less-allowance for doubtful accounts and cancellations	(113)	(117)
Net receivables	2,935	2,855
Other current assets	490	299
Total current assets	4,592	4,931
Goodwill and intangible assets	7,250	7,173
Fixed assets		
(net of accumulated depreciation and amortization of \$1,477 at March 31, 2010 and \$1,465 at December 31, 2009)	920	952
Pension related assets	140	94
Deferred tax assets	1,096	1,242
Other assets	964	945
	\$14,962	\$15,337

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

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MARSH & MCLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)**(Unaudited)**

	March 31, 2010	December 31, 2009
<i>(In millions of dollars)</i>		
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	\$ 558	\$ 558
Accounts payable and accrued liabilities	1,870	1,826
Accrued compensation and employee benefits	637	1,319
Dividends payable	109	
Total current liabilities	3,174	3,703
Fiduciary liabilities	3,909	3,559
Less cash and investments held in a fiduciary capacity	(3,909)	(3,559)
Long-term debt	3,032	3,034
Retirement and post employment benefits	1,163	1,184
Liabilities for errors and omissions	517	518
Other liabilities	1,062	1,035
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 March 31, 2010 and December 31, 2009	561	561
Additional paid-in capital	1,109	1,211
Retained earnings	7,062	7,033
Accumulated other comprehensive loss	(2,246)	(2,171)
Non-controlling interests	37	35
	6,523	6,669
Less treasury shares, at cost, 19,825,614 shares at March 31, 2010 and 30,967,116 shares at December 31, 2009	(509)	(806)
Total stockholders equity	6,014	5,863
	\$14,962	\$15,337

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 Three Months Ended March 31,

<i>(In millions of dollars)</i>	2010	2009
Operating cash flows:		
Net income before non-controlling interests	\$ 252	\$ 180
Adjustments to reconcile net income to cash used for operations:		
Depreciation and amortization of fixed assets and capitalized software	80	74
Amortization of intangible assets	17	16
Provision for deferred income taxes	100	16
(Gain) loss on investments	(8)	16
Loss on disposition of assets	26	12
Accrual of stock based compensation	6	
Changes in assets and liabilities:		
Net receivables	(73)	9
Other current assets	(7)	(8)
Other assets	(63)	(36)
Accounts payable and accrued liabilities	64	(18)
Accrued compensation and employee benefits	(682)	(629)
Accrued income taxes	(37)	19
Other liabilities	15	(113)
Effect of exchange rate changes	59	12
Net cash used for operations	(251)	(450)
Financing cash flows:		
Proceeds from issuance of debt		397
Repayments of debt	(2)	(2)
Purchase of non-controlling interests	(15)	(24)
Shares withheld for taxes on vested units	(40)	(20)
Issuance of common stock	10	11
Dividends paid	(109)	(102)
Net cash (used for) provided by financing activities	(156)	260
Investing cash flows:		
Capital expenditures	(80)	(69)
Net sales of long-term investments	19	6
Proceeds from sales of fixed assets	1	1
Dispositions	110	
Acquisitions (including amounts paid into escrow)	(197)	(2)
Other, net	5	2
Net cash used for investing activities	(142)	(62)
Effect of exchange rate changes on cash and cash equivalents	(61)	(19)
Decrease in cash and cash equivalents	(610)	(271)
Cash and cash equivalents at beginning of period	1,777	1,685
Cash and cash equivalents at end of period	\$1,167	\$1,414

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

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MARSH & MCLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

For the Three Months Ended March 31,

(In millions, except per share figures)

2010