

MARSH & MCLENNAN COMPANIES, INC.

Form 10-Q

November 09, 2006

**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, 2006

**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 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 .

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 .

As of October 31, 2006, there were outstanding 551,122,030 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, intend, plan, project and similar terms, and future or conditional tense verbs like could, should, will. For example, we may use forward-looking statements when addressing topics such as: future actions by our management or regulators; the outcome of contingencies; changes in our business strategy; changes in our business practices 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; the 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 brought by federal and state regulators and law enforcement authorities concerning our insurance and reinsurance brokerage and investment management operations (including the complaints relating to market service agreements and other matters filed by, respectively, the New York Attorney General's office in October 2004, the Connecticut Attorney General's office in January 2005 and the Florida Attorney General's office and Department of Financial Services in March 2006, and proceedings relating to market-timing matters at Putnam); and class actions, derivative actions and individual suits filed by policyholders and shareholders in connection with the foregoing;

in light of Marsh's elimination of contingent commission arrangements in late 2004, 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, particularly in our risk and insurance services segment, and our ability to retain key employees;

period-to-period revenue fluctuations in risk and insurance services relating to the net 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 and utilization rates;

the actual and relative investment performance of Putnam's mutual funds and institutional and other advisory accounts, and the extent to which Putnam reverses its recent net redemption experience, increases assets under management and maintains management and administrative fees at historical levels;

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;

the impact of increasing focus by regulators, clients and others on potential conflicts of interest, particularly in connection with the provision of consulting and investment advisory services;

fluctuations in the value of Risk Capital Holdings investments in individual companies and investment funds;

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

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

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;

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

changes in the tax or accounting treatment of our operations, and the impact of other legislation and regulation in the jurisdictions in which we operate, particularly given the global scope of our businesses.

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.

MMC and its operating companies use their websites to convey meaningful information about their businesses, including the anticipated release of quarterly financial results and the posting of updates of assets under management at Putnam. Monthly updates of total assets under management at Putnam will be posted to the MMC website the first business day following the end of each month. Putnam posts mutual fund and performance data to its website regularly. Assets for most Putnam retail mutual funds are posted approximately two weeks after each month-end. Mutual fund net asset value (NAV) is posted daily. Historical performance and Lipper rankings are also provided. Investors can link to MMC and its operating company websites through [www.mmc.com](http://www.mmc.com). Such website information is not part of this Form 10-Q.

PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

MARSH &amp; MCLENNAN COMPANIES, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<i>(In millions, except per share figures)</i>				
Revenue:				
Service revenue	<b>\$2,827</b>	\$2,731	<b>\$8,748</b>	\$8,670
Investment income (loss)	<b>57</b>	48	<b>141</b>	156
Operating revenue	<b>2,884</b>	2,779	<b>8,889</b>	8,826
Expense:				
Compensation and benefits	<b>1,742</b>	1,731	<b>5,293</b>	5,348
Other operating expenses	<b>822</b>	861	<b>2,541</b>	2,737
Operating expenses	<b>2,564</b>	2,592	<b>7,834</b>	8,085
Operating income	<b>320</b>	187	<b>1,055</b>	741
Interest income	<b>16</b>	13	<b>45</b>	33
Interest expense	<b>(75)</b>	(111)	<b>(231)</b>	(253)
Income before income taxes and minority interest	<b>261</b>	89	<b>869</b>	521
Income taxes	<b>77</b>	24	<b>269</b>	163
Minority interest, net of tax	<b>4</b>	2	<b>9</b>	6
Income from Continuing Operations	<b>180</b>	63	<b>591</b>	352
Discontinued Operations, Net of Tax	<b>(4)</b>	6	<b>173</b>	17
Net Income	<b>\$176</b>	\$69	<b>\$764</b>	\$369
Basic income per share				
Continuing Operations	<b>\$0.33</b>	\$0.12	<b>\$1.08</b>	\$0.66
Net Income	<b>\$0.32</b>	\$0.13	<b>\$1.39</b>	\$0.69
Diluted income per share				
Continuing Operations	<b>\$0.32</b>	\$0.11	<b>\$1.05</b>	\$0.65
Net Income	<b>\$0.31</b>	\$0.12	<b>\$1.36</b>	\$0.68
Average number of shares outstanding-Basic	<b>550</b>	539	<b>549</b>	535
Average number of shares outstanding-Diluted	<b>554</b>	544	<b>555</b>	539

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Cash dividends declared per common share	<b>\$0.17</b>	\$0.17	<b>\$0.51</b>	\$0.68
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The accompanying notes are an integral part of these consolidated statements.

MARSH &amp; MCLENNAN COMPANIES, INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(Unaudited)	December 31,
	September 30, 2006	2005
<i>(In millions of dollars)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	<b>\$1,682</b>	\$2,020
Receivables		
Commissions and fees	<b>2,541</b>	2,407
Advanced premiums and claims	<b>101</b>	117
Other	<b>328</b>	363
	<b>2,970</b>	2,887
Less-allowance for doubtful accounts and cancellations	<b>(170)</b>	(157)
Net receivables	<b>2,800</b>	2,730
Assets of discontinued operations	<b>-</b>	153
Other current assets	<b>367</b>	359
<b>Total current assets</b>	<b>4,849</b>	5,262
Goodwill and intangible assets	<b>7,845</b>	7,773
Fixed assets		
(net of accumulated depreciation and amortization of \$1,541 at September 30, 2006 and \$1,724 at December 31, 2005)	<b>1,098</b>	1,178
Long-term investments	<b>511</b>	277
Prepaid pension	<b>1,682</b>	1,596
Other assets	<b>1,830</b>	1,806
	<b>\$17,815</b>	\$17,892

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



MARSH &amp; McLENNAN COMPANIES, INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	September 30,	December 31,
<i>(In millions of dollars)</i>	2006	2005
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt	<b>\$1,219</b>	\$498
Accounts payable and accrued liabilities	<b>1,881</b>	1,733
Regulatory settlements - current portion	<b>236</b>	333
Accrued compensation and employee benefits	<b>1,188</b>	1,413
Accrued income taxes	<b>64</b>	192
Dividends payable	<b>94</b>	93
Liabilities of discontinued operations	<b>39</b>	89
<b>Total current liabilities</b>	<b>4,721</b>	4,351
Fiduciary liabilities	<b>4,026</b>	3,795
Less - cash and investments held in a fiduciary capacity	<b>(4,026)</b>	(3,795)
	-	-
Long-term debt	<b>3,864</b>	5,044
Regulatory settlements	<b>173</b>	348
Pension, postretirement and postemployment benefits	<b>1,220</b>	1,180
Other liabilities	<b>1,633</b>	1,609
Commitments and contingencies		
<b>Stockholders equity:</b>		
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, 2006		
and December 31, 2005	<b>561</b>	561
Additional paid-in capital	<b>1,122</b>	1,143
Retained earnings	<b>5,467</b>	4,989
Accumulated other comprehensive loss	<b>(588)</b>	(756)
	<b>6,562</b>	5,937
Less - treasury shares, at cost, 10,109,483 shares at September 30, 2006 and 15,057,704 shares at December 31, 2005	<b>(358)</b>	(577)
<b>Total stockholders equity</b>	<b>6,204</b>	5,360
	<b>\$17,815</b>	\$17,892

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