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U S GLOBAL INVESTORS INC
Form DEF 14A
November 21, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO. _____)

Filed by the Registrant /X/

Filed by a Party other than the Registrant / /

Check the appropriate box:

/ / Preliminary Proxy Statement

/ / Confidential, for Use of the Commission Only (as permitted by
Rule 14a-6(e)(2))

/x/ Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Materials Pursuant to Rule 14a-11(c) or Rule 14a-12

U.S. GLOBAL INVESTORS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box)

/X/ No Fee required.

/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies.

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed
pursuant to Exchange Act Rule 0-11 (set forth the amount on which the
filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

U.S. GLOBAL INVESTORS, INC.
P. O. Box 781234
San Antonio, TX 78278-1234

7900 Callaghan Road
San Antonio, TX 78229
(210) 308-1222

November 27, 2006

Dear Shareholders:

You are cordially invited to attend a Special Meeting of Shareholders of U.S. Global Investors, Inc. to be held on Wednesday, January 10, 2007, at 9:00 a.m., local time, at the offices of U.S. Global located at 7900 Callaghan, San Antonio, Texas 78229. We hope that you will be able to attend the meeting. Matters on which action will be taken at the meeting are explained in detail in the Notice and Proxy Statement following this letter.

Whether or not you expect to attend the Special Meeting, please mark, sign, and date the enclosed proxy and return it promptly in the enclosed envelope. If you have any further questions concerning the meeting or these proposals, please contact our Investor Relations Department at (210) 308-1221. For questions relating to voting, please contact ADP, our proxy solicitors, at (877)777-3412.

/s/ Frank E. Holmes
.....
Frank E. Holmes
Chief Executive Officer and Chief Investment Officer

U.S. GLOBAL INVESTORS, INC.
P. O. Box 781234
San Antonio, TX 78278-1234

7900 Callaghan Road
San Antonio, TX 78229
(210) 308-1222

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD JANUARY 10, 2007

To the Shareholders of U.S. Global Investors, Inc.:

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of U.S. Global Investors, Inc. ("U.S. Global" or the "Company") will be held at the Company's headquarters located at 7900 Callaghan, San Antonio, Texas 78229, on

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Wednesday, January 10, 2007, at 9:00 a.m., local time, for the following purposes:

- (1) To act on a proposed amendment to Article Four of the Third Restated and Amended Articles of Incorporation of U.S. Global to increase the number of authorized shares of common stock, par value \$0.05 per share of U.S. Global to 36,000,000, of which 28,000,000 have been designated as Class A Common Stock, 4,500,000 have been designated as Class B Common Stock, and 3,500,000 have been designated as Class C Common Stock, in order to effectuate a related two-for-one stock split and complete other minor modifications to the Articles on Incorporation as set forth in their entirety as Exhibit A to this Proxy Statement;
- (2) To act on a proposed amendment to Article Four of the Third Restated and Amended Articles of Incorporation of U.S. Global to eliminate the dividend and liquidation preferences for holders of Class A Common Stock in order to facilitate the adoption of a dividend policy and to permit the conversion of Class C Common Stock to Class A Common Stock;
- (3) To provide holders of the Company's Class A Common Stock and Class C Common Stock an opportunity to meet with management of the Company; and
- (4) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors of the Company has authorized the payment of a special dividend of \$0.50 per share (\$0.25 per share post-split) payable on February 16, 2007 to shareholders of record on February 7, 2007, conditioned upon shareholder approval of the two amendments described above to the Third Restated and Amended Articles of Incorporation by the shareholders at the Special Meeting.

We cordially invite you to attend the Special Meeting in person. To assure your representation at the meeting, however, we urge you to mark, sign, date, and return the enclosed proxy card as soon as possible in the enclosed postage-prepaid envelope.

Whether or not you expect to attend the Special Meeting, please complete, sign, date, and promptly mail your proxy card in the envelope provided. You may revoke your proxy at any time prior to the Special Meeting, and, if you attend the Special Meeting, you may vote your shares of U.S. Global stock in person.

The U.S. Global Board of Directors has fixed the close of business on November 20, 2006, as the record date for the determination of the shareholders entitled to notice of and to vote at the Special Meeting and any adjournment thereof.

By Order of the Board of Directors

/s/ Deanna Gunn

.....

Deanna Gunn

SECRETARY

San Antonio, Texas
November 27, 2006

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U.S. GLOBAL INVESTORS, INC.
7900 Callaghan
San Antonio, Texas 78229
(210) 308-1234

PROXY STATEMENT

The Board of Directors of U.S. Global Investors, Inc. is soliciting proxies to vote shares of Class A Common Stock and Class C Common Stock at a Special Meeting of Shareholders to be held at 9:00 a.m., local time, on Wednesday, January 10, 2007, at Company's headquarters located at 7900 Callaghan, San Antonio, Texas 78229, and at any adjournment thereof. This Proxy Statement and the accompanying Proxy are first being mailed to shareholders on or about November 27, 2006. For ten days prior to the Special Meeting, a complete list of shareholders entitled to vote at the Special Meeting will be available for examination by any shareholder for any purpose germane to the Special Meeting during ordinary business hours at U.S. Global's executive offices, located at the address set forth above.

RECORD DATE; SHARES ENTITLED TO VOTE; QUORUM

The Board of Directors has fixed the close of business on November 20, 2006 as the record date for U.S. Global shareholders entitled to notice of and to vote at the Special Meeting. Holders of both Class A Common Stock and Class C Common Stock of U.S. Global as of the record date are entitled to vote at the Special Meeting. As of the record date, there were 6,077,766 shares of Class A Common Stock issued and outstanding or reserved for issuance, no shares of Class B Common Stock issued and outstanding or reserved for issuance, and 1,496,800 shares of Class C Common Stock issued and outstanding or reserved for issuance. Of the Class A Common Stock outstanding, there were approximately 271 holders of record and of the Class C Common Stock outstanding, there were 71 holders of record. Frank Holmes, Director and Chief Executive Officer and Chief Investment Officer of U.S. Global, beneficially owns 93.01% of the Class C Common Stock. Shareholders are entitled to one vote for each share of U.S. Global Class A Common Stock or Class C Common Stock held as of the record date.

The holders of a majority of the outstanding shares of U.S. Global Class A Common Stock and Class C Common Stock issued and entitled to vote at the Special Meeting must be present in person or by proxy to establish a quorum for business to be conducted at the Special Meeting. Abstentions and "non-votes" are treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum. "Non-votes" occur when a proxy:

- o is returned by a broker or other shareholder who does not have authority to vote;
- o does not give authority to a proxy to vote; or
- o withholds authority to vote on one or more proposals.

VOTES REQUIRED

Proposal One, the amendment to U.S. Global's Third Restated and Amended Articles of Incorporation to increase the authorized Class A Common Stock, Class B Common Stock and Class C Common Stock, requires the affirmative "FOR" vote of the holders of two-thirds of all issued and outstanding shares of U.S. Global's

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Class A Common Stock and Class C Common Stock. Proposal Two, the amendment to U.S. Global's Third Restated and Amended Articles of Incorporation to modify the dividend and liquidation preference of Class A Common Stock, requires the affirmative "FOR" vote of the holders of two-thirds of all issued and outstanding shares of U.S. Global's Class A Common Stock and Class C Common Stock. Therefore, all abstentions will have the same legal effect as a vote "AGAINST" each of the proposals. Abstentions and non-votes are not counted (even though such shares are considered present and entitled to vote for purposes of determining a quorum).

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VOTING OF PROXIES

Votes cast in person or by proxy at the Special Meeting will be tabulated at the Special Meeting. All valid, unrevoked proxies will be voted as directed. In the absence of instructions to the contrary, properly executed proxies will be voted in favor of each of the proposals listed in the notice of Special Meeting.

If any matters other than those addressed on the proxy card are properly presented for action at the Special Meeting, the persons named in the proxy will have the discretion to vote on those matters in their best judgment, unless authorization is withheld.

HOW TO VOTE BY PROXY; REVOCABILITY OF PROXIES

To vote by proxy, you must complete, sign, date, and return the enclosed proxy card in the enclosed envelope. Any U.S. Global shareholder who delivers a properly executed proxy may revoke the proxy at any time before it is voted. Proxies may be revoked by:

- o delivering a written revocation of the proxy to the U.S. Global Secretary before the Special Meeting;
- o signing and returning a later dated proxy to the U.S. Global Secretary; or
- o appearing at the Special Meeting and voting in person.

Attendance at the Special Meeting will not, in and of itself, constitute revocation of a proxy. A U.S. Global shareholder whose shares are held in the name of its broker, bank or other nominee must bring a legal proxy from its broker, bank or other nominee to the meeting in order to vote in person.

DEADLINE FOR VOTING BY PROXY

In order to be counted, votes cast by proxy must be received by mail prior to the Special Meeting.

SOLICITATION OF PROXIES

Proxies will be solicited by mail. Proxies may also be solicited personally, or by telephone, fax, or other means by the directors, officers, and employees of U.S. Global. Directors, officers, and employees soliciting proxies will receive no extra compensation, but may be reimbursed for related out-of-pocket expenses. In addition to solicitation by mail, U.S. Global will make arrangements with brokerage houses and other custodians, nominees, and fiduciaries to send the proxy materials to beneficial owners. U.S. Global will, upon request, reimburse these brokerage houses, custodians, and other persons

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for their reasonable out-of-pocket expenses in doing so. We have engaged ADP to act as our proxy solicitor for the meeting at a cost of approximately \$20,000, plus reimbursement of out-of-pocket expenses.

If you have any further questions concerning the meeting or these proposals, please contact our Investor Relations Department at (210)308-1221. For questions relating to voting, please contact ADP, our proxy solicitors, at (877)777-3412.

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PROPOSAL ONE

APPROVAL OF AMENDMENT TO U.S. GLOBAL'S ARTICLES OF INCORPORATION TO INCREASE THE AUTHORIZED CLASS A COMMON STOCK, CLASS B COMMON STOCK AND CLASS C COMMON STOCK

The U.S. Global Board of Directors has unanimously approved an amendment to the Third Restated and Amended Articles of Incorporation of U.S. Global (the "Articles") which would increase the number of authorized shares of each class of common stock that U.S. Global is authorized to issue. A copy of the current Articles is available as Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended June 30, 1996 filed with the Securities and Exchange Commission ("SEC") on September 30, 1996. The proposed amendments (the "Authorized Stock Amendment") are set forth in their entirety in Exhibit A to this Proxy Statement as the "Fourth Amended and Restated Articles".

On November 8, 2006, the Board of Directors adopted a resolution amending, subject to the receipt of shareholder approval, the Articles as set forth in their entirety as Exhibit A hereto, to, among other things, increase the number of shares of common stock as follows:

- o The Articles currently authorize the issuance of 7,000,000 shares of Class A Common Stock of which 6,077,766 shares were issued and outstanding or reserved for issuance as of November 20, 2006. The Authorized Stock Amendment would authorize the issuance of 28,000,000 shares of Class A Common Stock.
- o The Articles currently authorize the issuance of 2,250,000 shares of Class B Common Stock of which no shares were issued and outstanding or reserved for issuance as of November 20, 2006. The Authorized Stock Amendment would authorize the issuance of 4,500,000 shares of Class B Common Stock.
- o The Articles currently authorize the issuance of 1,750,000 shares of Class C Common Stock of which 1,496,800 shares were issued and outstanding or reserved for issuance as of November 20, 2006. The Authorized Stock Amendment would authorize the issuance of 3,500,000 shares of Class C Common Stock.

U.S. Global's Board of Directors further directed that this Authorized Stock Amendment be submitted for consideration of U.S. Global's shareholders at the Special Meeting.

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The Board of Directors has also approved a two-for-one stock split to be effective upon approval of the Authorized Stock Amendment. U.S. Global is seeking the amendment to the Articles to allow U.S. Global to effect the two-for-one stock split. Additionally, the Board of Directors of the Company has authorized the payment of a special dividend of \$0.50 per share (\$0.25 per share post-split) payable on February 16, 2007 to shareholders of record on February 7, 2007, conditioned upon shareholder approval of both this Proposal and Proposal Two at the Special Meeting.

The par value of each class of common stock prior to the stock split was \$0.05 per share. The par value of each class of common stock after completing the stock split is \$0.025 per share. Because the stock split is also dividing the par value of each class of common stock by two, on the effective date of the split, the aggregate stated capital and additional paid-in capital on our balance sheet attributable to each class of common stock will remain the same. The per share net income or loss and net book value of each share of common stock will be decreased proportionately because there will be twice the number of shares of common stock outstanding.

If approved, the increased number of authorized shares of common stock would be available for issuance from time to time for such purposes and consideration as the Board of Directors may approve and no further vote of shareholders of U.S. Global will be required, except as provided by the Articles, under Texas law or the rules of any national securities exchange on which shares of U.S. Global common stock are at the time listed or quoted. In addition, U.S. Global may from time to time wish to issue shares of common stock to afford the Board of Directors greater flexibility in meeting possible future financing requirements, to effect future transactions such as acquisitions, stock splits or stock dividends and to meet other corporate needs as they arise. Although U.S. Global

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has no present plans to issue any additional shares of common stock for such purposes, the Board of Directors considers it advisable that U.S. Global be in a position to issue an amount of additional shares without calling a special meeting of shareholders to increase the number of authorized shares.

The authorization of additional shares of common stock will not, by itself, have any effect on the rights of holders of the currently outstanding shares of common stock. However, any issuance of additional shares of common stock could, depending on the circumstances, affect the existing holders of shares of common stock by diluting per share earnings and voting power of the outstanding common stock. The availability for issuance of additional shares of common stock could also discourage or make more difficult efforts to obtain control of U.S. Global.

The additional shares of common stock for which authorization is sought would be identical to the shares of common stock of each class now authorized as may be amended upon adoption of Proposal Two. Holders of common stock do not have preemptive rights to subscribe to additional securities, which may be issued by U.S. Global.

Further, in conjunction with the proposed two-for-one stock split, the Board of Directors reviewed the Articles and Amended and Restated Bylaws of the Company (the "Bylaws") and made recommendations for changes to the Articles. The changes are to update the Bylaws and to generally conform them to modern practice and governance principles for public corporations. This includes the updating of the indemnification provisions for officers and directors of U.S. Global as provided by the Texas Business Corporation Act (the "TBCA") and the

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deletion of the provision related to the convocation of meetings by holders of Class B Common Stock as those rights terminated pursuant to their terms (as are contained in the Articles) in 1997. Except as to the proposed increase in the number of authorized shares contained in this Proposal One and the proposed modifications to the dividend, liquidation and conversion rights contained in Proposal Two, the Board of Directors has not proposed comprehensive changes to the Articles. The further proposed changes are primarily "housekeeping" matters and are not intended to modify the rights of existing shareholders in any material respect.

If the Authorized Stock Amendment is approved by the shareholders, U.S. Global will file the Authorized Stock Amendment to the Articles with the Texas Secretary of State. The Authorized Stock Amendment will become effective on the date it is filed with the Texas Secretary of State. The changes in U.S. Global's existing Articles would be those (i) conforming with Proposal One and Proposal Two, if approved, (ii) numeric changes required to reflect the increase in authorized common stock and effectuate the two-for-one stock split and (iii) changes which will modernize certain provisions of the Articles as reflected in the attached Fourth Amended and Restated Articles which indicates the specific proposed changes by double underlining insertions and bracketing and bolding deletions.

REQUIRED VOTE

Under the TBCA, the affirmative vote of the holders of two-thirds of the outstanding shares of U.S. Global Class A Common Stock and Class C Common Stock entitled to notice of and to vote at the Special Meeting voting separately by class is required to adopt the Authorized Stock Amendment.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE AUTHORIZED STOCK AMENDMENT.

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PROPOSAL TWO

APPROVAL OF AMENDMENT TO U.S. GLOBAL'S ARTICLES OF INCORPORATION TO MODIFY THE DIVIDEND AND LIQUIDATION PREFERENCE OF CLASS A COMMON STOCK AND PERMIT CONVERSION OF CLASS C COMMON STOCK TO CLASS A COMMON STOCK

On November 8, 2006, the Board of Directors unanimously approved an amendment to the Articles which would remove the dividend and liquidation preferences for holders of Class A Common Stock and would permit the conversion of Class C Common Stock to Class A Common Stock.

Proposal Two would be effected by an amendment to Sections 2, 3 and 5 of Article Four (Article Four, Sections 2, 3 and 5, if Proposal One is approved) of the Articles which would remove the Class A Common Stock participation in dividends and liquidation preference as contained in the Articles (the "Authorized Dividend and Preference Amendment"). Section 5 of Article Four would be amended so that each share of Series C Common Stock could be converted on a one-for-one basis into Series A Common Stock. Finally, if Proposal One is adopted, a new Section 8 will be added to Article Four authorizing the split, such that Article Four would read, in its entirety, as follows:

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ARTICLE FOUR

1. General. The corporation is authorized to issue three classes of

Common Stock, one designated Class A Common Stock, one designated Class B Common Stock, and one designated Class C Common Stock (collectively referred to herein as "Common Stock"). The total number of shares which the Corporation is authorized to issue is 36,000,000 shares. The number of shares of Class A Common Stock authorized is 28,000,000, and the par value of each such share is \$0.025. The number of shares of Class B Common Stock authorized is 4,500,000, and the par value of each such share is \$0.025. The number of shares of Class C Common Stock authorized is 3,500,000, and the par value of each such share is \$0.025. Except for the voting and conversion rights set forth in paragraphs 3 and 5 of this Article Four, all other rights and preferences of the Class A, Class B and Class C Common Stock are equal.

2. Voting Rights. The holders of shares of Class C Common Stock shall

have full voting rights at any annual or special meeting of the shareholders and as provided for in the Texas Business Corporation Act. Except as otherwise expressly provided by law, all voting rights shall be in the Class C Common Stock, and the holders of shares of Class A Common Stock or Class B Common Stock shall have no voting rights at any annual or special meeting of the shareholders. Notwithstanding the foregoing, at such time there are no longer any shares of Class C Common Stock issued and outstanding, then Class A Common Stock shall have full voting rights at any annual or special meeting of the shareholders and as provided for in the Texas Business Corporation Act and there shall be no cumulative voting.

3. Dividends. The holders of Class A Common Stock, Class B Common

Stock, and Class C Common Stock shall then be entitled to receive, when and as declared by the Board of Directors, out of any funds legally available therefor, cash dividends which shall be paid simultaneously to the holders of Class A Common Stock, Class B Common Stock and Class C Common Stock in the same proportionate amounts per share.

4. Purchase. Nothing herein shall limit the right of the Corporation

to repurchase any of its outstanding shares of Class A Common Stock, Class B Common Stock or Class C Common Stock in accordance with law, by public or private transaction.

5. Conversion Rights. The shares of Class A Common Stock shall not be

convertible into the shares of any other class of stock of the Corporation. The holders of the shares of Class B Common Stock shall have the right to convert Class B Common Stock shares into Class C Common Stock shares on a one-to-one ratio and shall have the right to convert Class B Common Stock shares into shares of Class A Common Stock, on a one-to-one basis. The holders of each share of Class C Common Stock shall have the right to convert any or all of such holder's Class C

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Common Stock shares into shares of Class A Common Stock, on a one-to-one basis, at the option of the holder thereof, at any time and from time to time.

Upon the earlier of (A) a date specified by vote or written consent of at least 50% of the holders of the then outstanding shares of Class C Common Stock or (B) such date that less than 200,000(1) shares of Class C Common Stock remain outstanding ("Mandatory Conversion Date"), all outstanding shares of Class C Common Stock shall automatically be converted into shares of Class A Common Stock on a one-to-one basis. Upon the occurrence of a Mandatory Conversion Date, the Corporation shall prepare a notice stating that a Mandatory Conversion Date has occurred and setting forth in detail the facts, and such notice shall forthwith be mailed by first class mail to the holders of the Class C Common Stock at their last known address shown on the stock books of the Corporation.

Upon transmission by the Corporation of written notice of a Mandatory Conversion Date, each holder of Class C Common Stock shall (i) surrender the certificate or certificates therefor, duly endorsed, at the office of any transfer agent for such Class C Common Stock, or if there is no such transfer agent, then at the principal executive offices of the Corporation and (ii) state in writing therein the name or names in which such holder wishes the certificate or certificates for the Class A Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at the last known address of each holder of the Class C Common Stock, or to his nominee or nominees, certificates for the number of full shares of Class A Common Stock to which he shall be entitled, as aforesaid, together with cash in lieu of any fraction of a share as hereinafter provided. Such conversion shall be deemed to have been made on the Mandatory Conversion Date, and the person or persons entitled to receive the Class A Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Class A Common Stock on said date. Such shares of Class C Common Stock may not be reissued as shares of such class, and the Corporation may thereafter take such appropriate action (without the need for shareholder action) as may be necessary to reduce the authorized number of shares of Class C Common Stock to zero.

As further provided in paragraph 1 of this Article Four, upon the occurrence of a Mandatory Conversion Date, shares of Class A Common Stock shall have full voting rights.

6. Liquidation. In the event of dissolution, liquidation or winding

up of the Corporation (whether voluntary or involuntary), after payment or provision for payment of debts, the assets of the Corporation upon liquidation shall be distributed pro rata among the holders of the shares of Class A Common Stock, Class B Common Stock and Class C Common Stock. None of the following events is a dissolution, liquidation or winding up within the meaning of this paragraph: consolidation, merger, or reorganization of the Corporation with any other corporation or corporations, sale of all or substantially all the assets of the Corporation, or any purchase or redemption by the Corporation of any of its outstanding shares.

7. Denial of Preemptive Rights. No holder of shares of any class of

the Corporation, Class A Common Stock, Class B Common Stock or Class C Common Stock, shall have any preemptive right to subscribe for or

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acquire additional shares of the Corporation of the same or any other class, whether such shares shall be hereby or hereafter authorized; and no holder of shares of any class of the Corporation shall have any right to acquire any shares which may be held in the treasury of the Corporation. All such additional or treasury shares may be sold for such consideration, at such time, and to such person or persons as the Board of Directors may from time to time determine.

8. Common Stock Split. Upon the issuance of these Fourth Amended and

Restated Articles of Incorporation by the Secretary of State of the State of Texas, each share of Common Stock, of each class, outstanding shall be split and reconstituted into two (2) shares of Class A Common Stock, Class B Common Stock or Class C Common Stock, respectively; provided, however, that

(1) 100,000 shares if split is not approved.

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the Corporation shall issue no fractional shares of Common Stock, and all shares shall be rounded up or down to the nearest whole number of shares.

Pursuant to the Texas Business Corporations Act, Art. 4.03 and the Articles, this proposal must be approved by the holders of at least two-thirds of the shares entitled to vote of Class A Common Stock outstanding as of the Record Date voting as a separate class and in addition must be approved by the holders of two-thirds of the shares of the Class C Common Stock outstanding as of the Record Date voting as a separate class.

Prior to November 1994, the Company had authorized and issued common stock and one class of preferred stock. The Company reclassified its shares on November 22, 1994 such that the original common stock became known as Class C Common Stock and the preferred stock become known as Class A Common Stock, which was the class registered with the SEC and publicly traded.

When the Company reclassified the preferred stock in November 1994, the Company failed to remove certain dividend and liquidation preferences of its Class A Common Stock. Holders of the outstanding shares of the Company's Class A Common Stock are currently entitled to receive, when, if and as declared by the Company's Board of Directors, a noncumulative cash dividend equal in the aggregate to 5% of the Company's net after-tax earnings for its prior fiscal year. After any such dividend has been paid, the holders of the outstanding shares of Class B Common Stock are entitled to receive, when, if and as declared by the Company's Board of Directors, cash dividends per share equal to the cash dividends per share paid to the holders of the Class A Common Stock. Holders of the outstanding shares of Class C Common Stock are entitled to receive when, if and as declared by the Company's Board of Directors, cash dividends per share equal to the cash dividends per share paid to the holders of the Class A and Class B Common Stock. Thereafter, if the Board of Directors determines to pay additional cash dividends, such dividends would be paid simultaneously on a prorated basis to holders of Class A Common Stock, Class B Common Stock and Class C Common Stock. The holders of the Class A Common Stock are protected in certain instances against dilution of the dividend amount payable to them. This dividend preference is noncumulative; therefore, unless and until any dividend payment is authorized by the Board of Directors payable to any shareholder, the Class A Common Stock does not receive any preference. The Company currently does not owe any dividends in arrears nor have there been any defaults in principal

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or interest.

If the Authorized Dividend and Preference Amendment is adopted, the Class A Common Stock will no longer receive a preference of 5% of the Company's after-tax net earnings in the determination of the amount of dividends to be authorized. Further, if the Authorized Dividend and Preference Amendment is adopted, the Class A Common Stock would no longer be entitled to receive a \$0.05 per share preference in the event of dissolution, liquidation or winding up of the Company.

The Company has never paid cash dividends on any class of its common stock.

The Company has experienced substantial growth in the last few years and has experienced a commensurate increase in stock value and retained earnings. The Board of Directors is responsible for adopting policies relating to the Company's cash flow, cash management, and working capital, shareholder dividends and distributions, and share repurchases and investments. In conjunction with this authority, the Board of Directors would like to adopt a comprehensive dividend policy to pay cash dividends. The Board of Directors believes that the proposed amendment to the Company's Articles would provide the Company with increased financial flexibility in the payment of dividends to all shareholders. The Board of Directors believes that the current dividend and liquidation preference structure could prevent the Company from paying dividends to all of its shareholders. The Board of Directors has determined that, in connection with the desire to adopt a comprehensive dividend policy, that all of the authorized common stock should have consistent dividend and liquidation preference rights.

To this end, the Board of Directors of the Company has authorized the payment of a special dividend of \$0.50 per share (\$0.25 per share post-split) payable on February 16, 2007 to shareholders of record on February 7, 2007, conditioned upon shareholder approval of both this Proposal and Proposal One at the Special Meeting ("Special Dividend"). The amount of the Special Dividend reflects the Company's desire to pay dividends at levels that strike a balance among comparability with dividend yields and payout ratios of similar companies, the ability to sustain payments in the future, and the desire to retain adequate financial flexibility to make investments in its core business. The Company will fund the Special Dividend and future dividend payments, if any, with distributable cash, which is cash from operations that remains available after the company funds capital expenditures and takes any action necessary to ensure it maintains a balanced capital structure. Except for the already authorized Special

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Dividend, payment of cash dividends, regardless of whether this amendment is approved, is dependent on earnings, operations, capital requirements, general financial condition of the Company, and general business conditions and is at the discretion of and subject to the approval of the Board of Directors.

Upon adoption of this Authorized Dividend and Preference Amendment, holders of all shares of our common stock would be entitled to receive such dividends as may be declared from time to time by the Board of Directors, and legally available from the Company's assets. In addition, upon any liquidation of the Company, holders of all classes of our common stock would be entitled to a pro rata share of all of the Company's assets available for distribution to shareholders.

Finally, currently only holders of Class C Common Stock have the right to vote at annual and special meetings. Class A Common Stock has been registered with the Securities and Exchange Commission but does not have the right to vote

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except for in certain limited circumstances as required by law. The Board believes that it is in the best interest of the Company to permit the holders of Class C Common Stock to convert to Class A Common Stock so that, holders of the voting class could convert to the class of stock held by the majority of the shareholders of the Company. If Proposal Two is adopted and the holders of Class C Common Stock elect to and/or are mandatorily converted to shares of Class A Common Stock such that no shares of the voting Class C Common Stock remain outstanding, then Class A Common Stock shall have the right to vote at all annual and special meetings. At such time, there will no longer be cumulative voting.

The Authorized Dividend and Preference Amendment will not result in any change to the Company's listing of its Class A Common Stock with NASDAQ.

If Proposal Two is not approved but Proposal One is approved, the Fourth Amended and Restated Articles would not be modified prior to filing to insert the provisions relating to this Proposal Two. If Proposal One and Proposal Two are approved by the shareholders, U.S. Global will file the Fourth Amended and Restated Articles with the Texas Secretary of State with Sections 2 through 8 set forth above in lieu of Sections 2 through 6 of the Fourth Amended and Restated Articles. If Proposal Two is approved but Proposal One fails, an amendment to the articles will be filed with the Texas Secretary of State replacing Sections 2 through 5 of Article Four of the Articles with Sections 2 through 7 of the amendment set forth above. The amendment will become effective on the date it is filed with the Texas Secretary of State.

REQUIRED VOTE

Under the TBCA, the affirmative vote of the holders of a two-thirds of the outstanding shares of U.S. Global Class A Common Stock and Class C Common Stock entitled to notice of and to vote at the Special Meeting voting separately by class is required to adopt the Authorized Stock Amendment.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE AUTHORIZED DIVIDEND AND PREFERENCE AMENDMENT.

DESCRIPTION OF SECURITIES

The Company currently has three classes of Common Stock: Class A Common Stock, Class B Common Stock and Class C Common Stock. Each of these classes of common stock have a par value per share of \$0.05.

CLASS A COMMON STOCK

Class A Common Stock has no preemptive or conversion rights, or sinking fund or redemption provisions. There is no restriction with respect to the repurchase of outstanding shares in accordance with law, by public or private transaction.

The holders of Class A Common Stock have no power to vote at any meeting of the shareholders of U.S. Global except as required by the TBCA and, on most

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matters affecting U.S. Global, only the holders of Class C Common Stock are able to vote. Texas law entitles holders of Class A Common Stock vote on any proposed plan of merger or consolidation; upon the sale, lease, exchange, or other disposition of all, or substantially all, the property and assets of U.S. Global, except in the ordinary course of business; and upon any proposed amendment to the Articles of Incorporation which would: (1) increase or decrease the aggregate number of authorized shares of Class A Common Stock; (2) increase or decrease the par value of the shares of Class A Common Stock; (3) effect an exchange, reclassification, or cancellation of all or part of the Class A Common Stock; (4) effect an exchange or create a right of exchange, of all or any part of the shares of another class into shares of Class A Common Stock; (5) change the designations, preferences, limitations, or relative rights of the Class A Common Stock; (6) change the shares of Class A Common Stock into the same or a different number of shares, either with or without par value, of the same class or another class or classes; (7) create a new class of shares having rights and preferences equal, prior, or superior to the shares of Class A Common Stock or increase the rights and preferences of any class having rights and preferences equal, prior, or superior to the shares of Class A Common Stock; (8) divide the shares of Class A Common Stock into series and fix and determine the designation of Class A Common Stock and the variations in the relative rights and preferences between the shares of Class A Common Stock; (9) limit or deny the existing preemptive rights of Class A Common Stock shares; (10) cancel or otherwise affect dividends on the shares of Class A Common Stock which had accrued but had not been declared; or (11) include in or delete from the Articles of Incorporation any provision required or permitted to be included in the Articles of Incorporation of a close corporation in conformity with Texas law. Any of the proposed amendments mentioned above would require approval by two-thirds of each class of stock affected by the proposed amendment.

Holders of the outstanding shares of the Class A Common Stock are entitled to receive, when and as declared by U.S. Global's Board of Directors, a non-cumulative cash dividend equal in the aggregate to 5% of U.S. Global's after-tax net earnings for its prior fiscal year. After such dividend has been paid, the holders of the outstanding shares of Class C Common Stock and Class B Common Stock are entitled to receive, when and as declared by U.S. Global's Board of Directors, cash dividends per share equal to the cash dividends per shares paid to the holders of the Class A Common Stock. Thereafter, if the Board of Directors determines to pay additional cash dividends, such dividends are paid simultaneously on a pro rata basis to holders of Class A Common Stock, Class C Common Stock and Class B Common Stock. The holders of the Class A Common Stock are protected in certain instances against dilution of the dividend amount payable to such holders.

In the event of the dissolution, liquidation or winding up of U.S. Global, to the extent there are any distributable assets, holders of the outstanding shares of the Class A Common Stock are entitled to receive \$.05 per share. Thereafter, holders of the outstanding shares of the Class C Common Stock and Class B Common Stock are entitled to receive \$.05 per share. All remaining assets will be distributed pro rata among the holders of the Class A Common, the Class C Common Stock and Class B Common Stock.

If the Authorized Stock Amendment is approved by the shareholders, the changes in U.S. Global's existing Articles would be those (i) numeric changes required to reflect the increase in authorized common stock and effectuate the two-for-one stock split and (ii) changes which will modernize certain provisions of the Articles as reflected in the attached Fourth Amended and Restated Articles which indicates the specific proposed changes by double underlining insertions and bracketing and bolding deletions.

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CLASS B COMMON STOCK

Class B Common Stock was added to U.S. Global's Articles in connection with the December 1994 transaction between U.S. Global and a third party, but no shares are currently outstanding. The Company has no current plans to issue any Class B Common Stock. Class B Common Stock has no voting rights and no dividend or liquidation preferences. The terms of the Class B Common Stock are disclosed in Form S-3 filed with the SEC on February 6, 1996.

CLASS C COMMON STOCK

The holders of Class C Common Stock have full voting rights at any annual or special meeting of the shareholders of U.S. Global, including the right to cumulate votes at each election for directors by giving one candidate as many votes as the number of such candidates multiplied by his shares shall equal, or by distributing such votes on the same principle among any number of such candidates.

In addition, Texas law entitles holders of Class C Common Stock to vote on any proposed plan of merger or consolidation; upon the sale, lease, exchange, or other disposition of all, or substantially all, the property and assets of U.S. Global, except in the ordinary course of business; and upon any proposed amendment to the Articles of Incorporation which would: (1) increase or decrease the aggregate number of authorized shares of Class C Common Stock; (2) increase or decrease the par value of the shares of Class C Common Stock; (3) effect an exchange, reclassification, or cancellation of all or part of the Class C Common Stock; (4) effect an exchange or create a right of exchange, of all or any part of the shares of another class into shares of Class A Common Stock; (5) change the designations, preferences, limitations, or relative rights of the Class A Common Stock; (6) change the shares of Class C Common Stock into the same or a different number of shares, either with or without par value, of the same class or another class or classes; (7) create a new class of shares having rights and preferences equal, prior, or superior to the shares of Class C Common Stock or increase the rights and preferences of any class having rights and preferences equal, prior, or superior to the shares of Class C Common Stock; (8) divide the shares of Class C Common Stock into series and fix and determine the designation of Class C Common Stock and the variations in the relative rights and preferences between the shares of Class C Common Stock; (9) limit or deny the existing preemptive rights of Class C Common Stock shares; (10) cancel or otherwise affect dividends on the shares of Class C Common Stock which had accrued but had not been declared; or (11) include in or delete from the Articles of Incorporation any provision required or permitted to be included in the Articles of Incorporation of a close corporation in conformity with Texas law.

Any of the proposed amendments mentioned above would require approval by two-thirds of each class of stock affected by the proposed amendment.

Class C Common Stock has no preemptive or conversion rights, or sinking fund or redemption provisions. With one exception, as set forth in its Articles, there is no restriction with respect to the repurchase of outstanding shares in accordance with law, by public or private transaction. This exception prohibits U.S. Global from purchasing its Common Stock in any fiscal year unless cash dividends shall have been paid during such year on outstanding Class A Common Stock in an amount of at least 5% of U.S. Global's after-tax net earnings for its prior fiscal year.

Holders of the outstanding shares of the Class A Common Stock are entitled to receive, when and as declared by U.S. Global's Board of Directors, a non-cumulative cash dividend equal in the aggregate to 5% of U.S. Global's after-tax net earnings for its prior fiscal year. After such dividend has been paid, the holders of the outstanding shares of Class C and Class B Common Stock

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are entitled to receive, when and as declared by U.S. Global's Board of Directors, cash dividends per share equal to the cash dividends per shares paid to the holders of the Class A Common Stock. Thereafter, if the Board of Directors determines to pay additional cash dividends, such dividends are paid simultaneously on a pro rata basis to holders of Class A Common Stock, Class C Common Stock and Class B Common Stock.

In the event of the dissolution, liquidation or winding up of U.S. Global, holders of the outstanding shares of the Class A Common Stock are entitled to receive \$.05 per share. Thereafter, holders of the outstanding shares of the Class C and Class B Common Stock are entitled to receive \$.05 per share. All remaining assets will be

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distributed pro rata among the holders of the Class A Common, the Class C Common Stock and Class B Common Stock.

If the Authorized Stock Amendment is approved by the shareholders, the changes in U.S. Global's existing Articles would be those (i) numeric changes required to reflect the increase in authorized common stock and effectuate the two-for-one stock split and (ii) changes which will modernize certain provisions of the Articles as reflected in the attached Fourth Amended and Restated Articles which indicates the specific proposed changes by double underlining insertions and bracketing and bolding deletions.

If Proposal Two is approved, the rights of Class A Common Stock would change solely as follows:

- o If the Board of Directors determines to pay cash dividends, such dividends will be paid simultaneously on a pro rata basis to holders of Class A Common Stock, Class B Common Stock and Class C Common Stock.
- o In the event of the dissolution, liquidation or winding up of U.S. Global, after payment of all debts, all remaining assets will be distributed pro rata among the holders of the Class A Common, the Class B Common Stock and Class C Common Stock.
- o Class C Common Stock would be convertible into Class A Common Stock and, upon conversion by all holders of Class C Common Stock, Class A Common Stock would have the power to vote at all meetings of the shareholders of U.S. Global.

TEXAS ANTI-TAKEOVER LAW

Our Articles, Bylaws and the corporate laws of the State of Texas, include provisions designed to provide our Board of Directors with time to consider whether a hostile takeover offer is in our and shareholders' best interests, but could be utilized by our Board of Directors to deter a transaction that would provide shareholders with a premium over the market price of our shares. These provisions include the availability of authorized but unissued shares of common stock for issuance from time to time at the discretion of our Board of Directors; Bylaws provisions enabling our Board of Directors to increase the size of the board and to fill the vacancies created by the increase; and bylaw provisions establishing advance notice procedures with regard to business to be presented at a shareholder meetings or to director nominations (other than those by or at the direction of the board). The TBCA also contains provisions intended to protect shareholders and prohibit or discourage various types of hostile takeover activities. These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances where our shareholders might otherwise receive a premium over the

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market price of our shares. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of our current management and may limit the ability of our shareholders to approve transactions that they may deem to be in their best interests.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the names, ages, and positions of the executive officers and directors of U.S. Global.

NAME	AGE	POSITION
Jerold H. Rubinstein	68	Chairman of the Board of Directors; Director.
Roy D. Terracina	60	Vice Chairman of the Board of Directors; Director.
Frank E. Holmes	51	Director, Chief Executive Officer, Chief Investment Officer.
Thomas F. Lydon, Jr.	46	Director.
Susan B. McGee	47	President, General Counsel.
Catherine A. Rademacher	46	Chief Financial Officer.

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JEROLD H. RUBINSTEIN has served as the Chairman of the Board of Directors since February 2006, and has been a Director of the Company since October 1989. Board member and Chairman of the Audit Committee of CKR since June 2006. Chief Executive Officer and founder of Music Imaging & Media, Inc. from July 2002 to present. Chairman of Musicplex, Inc. from September 1999 to June 2002. Chairman of Xtra Music Services from July 1997 to May 2000. Chairman of the Board of Directors and Chief Executive Officer of DMX Inc. from May 1986 to July 1997.

ROY D. TERRACINA has served as a Director of the Company since December 1994 and Vice Chairman of the Board of Directors since May 1997. Owner of Sunshine Ventures, Inc., an investment company, since January 1994.

FRANK E. HOLMES has served as a Director and Chief Executive Officer of the Company since October 1989, and Chief Investment Officer since June 1999. Since October 1989, Mr. Holmes has served and continues to serve in various positions with the Company, its subsidiaries, and the investment companies it sponsors. Mr. Holmes is a member and Chairman of the Board of Directors of Endeavour Mining Capital Corp. Mr. Holmes has also served as Director of 71316 Ontario, Inc. since April 1987. Director, President, and Secretary of F.E. Holmes Organization, Inc. since July 1978. Mr. Holmes served as Director of Franc-Or Resources Corporation from June 2000 to November 2003, Chairman and Director of Fortress IT Corp (formerly Consolidated Fortress) from November 2000 to November 2003, and Director of Broadband Collaborative Solutions from May 2000 to June 2002.

THOMAS F. LYDON, JR. has served Director of the Company since June 1997. Chairman of the Board and President of Global Trends Investments since April 1996. President, Vice President and Account Manager with Fabian Financial Services, Inc. from April 1984 to March 1996. Member of the Advisory Board for Schwab Institutional from 1989 to 1991 and from 1995 to 1996. Member of the

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Advisory Board of Rydex Series Trust since January 1999. Fund Relations Chair for SAAFTI since 1994.

SUSAN B. MCGEE has served as the President of the Company since February 1998, General Counsel since March 1997. Since September 1992, Ms. McGee has served and continues to serve in various positions with the Company, its subsidiaries, and the investment companies it sponsors.

CATHERINE A. RADEMACHER has served as the Chief Financial Officer of the Company since August 2004. Controller of the Company from April 2004 until August 2004. Associate with Resources Connection from July 2003 to February 2004. Recruiting Manager with Robert Half International from November 2002 to June 2003. Controller of Luby's Inc. from June 2000 to October 2002. Assistant Controller of Hunt Building Corp. from April 1995 to October 1998. Senior auditor with KPMG Peat Marwick from October 1993 to March 1995.

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SECURITIES HOLDINGS OF PRINCIPAL STOCKHOLDERS, DIRECTORS, NOMINEES AND OFFICERS

CLASS A COMMON STOCK (NONVOTING STOCK)

Based upon information received from the persons concerned, including the most recent respective Schedule 13G and Schedule 13F Forms as filed with the SEC, each person known to U.S. Global to be the beneficial owner of more than 5% percent of the outstanding shares of Class A Common Stock of U.S. Global as of November 20, 2006, is indicated in the following table:

NAME AND ADDRESS OF BENEFICIAL OWNER	CLASS A COMMON SHARES BENEFICIALLY OWNED	PERCE
Praetorian Capital Management, LLC Miami Beach, FL	720,000 (1)	
Insight Capital Research & Management, Inc. Walnut Creek, CA	557,508 (2)	

CLASS A COMMON STOCK (NONVOTING STOCK) - DIRECTORS, NOMINEES AND OFFICERS

The following table sets forth as of November 20, 2006, information regarding the beneficial ownership of the Company's Class A Common Stock by each director and named executive officers and by all directors and executive officers as a group. Except as otherwise indicated in the notes below, each director owns directly the number of shares indicated in the table and has sole voting power and investment power with respect to all shares.

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BENEFICIAL OWNER	CLASS A COMMON STOCK NUMBER OF SHARES
Frank E. Holmes, CEO, Director 7900 Callaghan Road San Antonio, TX 78229	99,564
Susan B. McGee, President, General Counsel 7900 Callaghan Road San Antonio, TX 78229	54,857 (1)
Catherine A. Rademacher, CFO 7900 Callaghan Road San Antonio, TX 78229	6,222 (2)

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Roy D. Terracina, Director 7900 Callaghan Road San Antonio, TX 78229	20,000
All directors and executive officers as a group (four persons)	180,643

CLASS C COMMON STOCK (VOTING STOCK)

On November 20, 2006, there were 1,496,800 shares of the Company's Class C Common Stock outstanding. The following table sets forth, as of such date, information regarding the beneficial ownership of the Company's Class C Common Stock by each person known by the Company to own 5% or more of the outstanding shares of Class C Common Stock, each director, each of the named executive officers and all directors and officers of U.S. Global as a group, owned beneficially as of November 20, 2006:

NAME AND ADDRESS OF BENEFICIAL OWNER	CLASS C COMMON SHARES BENEFICIALLY OWNED	PERCENT
Frank E. Holmes	1,392,211 (1)	

COMPLIANCE WITH SECTION 16(a) OF THE 1934 ACT

Section 16(a) of the 1934 Act requires directors and officers of the Company, and persons who own more than 10% of the Company's Class A Common Stock, to file with the Securities and Exchange Commission (SEC) initial reports of ownership and reports of changes in ownership of the stock. Directors, officers and more than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were

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required, during the year ended June 30, 2006, all Section 16(a) filing requirements applicable to its directors, officers and more than 10% beneficial owners were met.

SHAREHOLDER PROPOSALS FOR THE ANNUAL MEETING OF THE SHAREHOLDERS OF U.S. GLOBAL INVESTORS

U.S. Global intends to hold its next annual meeting during the third calendar quarter of 2007, according to its normal schedule. According to our Articles and Bylaws, holders of Class A Common Stock have no power to vote at any meeting of the shareholders of U.S. Global except as required by the TBCA, therefore, the Company does not permit such shareholders to put forward shareholder nominations or proposals. According to our Bylaws, U.S. Global must receive timely notice of any Class C Common Stock shareholder nominations and proposals to be properly brought before the 2007 Annual Meeting. A copy of the Bylaws of U.S. Global setting forth the advance notice provisions and requirements for submission of shareholder nominations and proposal may be obtained from the U.S. Global Secretary at the address indicated on the first page of this Proxy Statement.

DELIVERY OF DOCUMENTS TO SHAREHOLDERS SHARING AN ADDRESS

Only one Proxy Statement is being delivered to multiple shareholders sharing an address unless the Company has received contrary instructions from one or more of the shareholders. The Company shall deliver

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promptly upon written or oral request a separate copy of the Proxy Statement to a shareholder at a shared address to which a single copy of the document was delivered. A shareholder can notify the Company that the shareholder wishes to receive a separate copy of the Proxy Statement by sending a written request to the Company at the address set forth below; or by calling the Company at the telephone number set forth below and requesting a copy of the Proxy Statement. A shareholder may utilize the same address and telephone number to request either separate copies or a single copy for a single address for all future proxy statements and annual reports.

DOCUMENTS INCORPORATED BY REFERENCE

The Securities and Exchange Commission allows us to incorporate by reference information into this proxy statement. This means that we can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference into this proxy statement is considered a part of this proxy statement, and information that we file later with the Securities and Exchange Commission, prior to the closing of the restructuring, will automatically update and supersede the previously filed information and be incorporated by reference into this proxy statement.

Pursuant to Item 13 of Rule 14a-101, the financial and other information included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2006 filed with the SEC on September 12, 2006 are incorporated by reference to Proposal Two of this proxy statement and such report has been delivered to the shareholders with this Proxy Statement.

You should rely only on the information contained or incorporated by reference in this document to vote on the Proposals.

OTHER MATTERS

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This proxy statement does not constitute an offer to sell or to buy, or a solicitation of an offer to sell or to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is not lawful to make any offer or solicitation in such jurisdiction.

No business other than the matters set forth in this document is expected to come before the meeting, but should any other matters requiring a shareholder's vote arise, including a question of adjourning the meeting, the persons named in the accompanying Proxy will vote thereon according to their best judgment in the interests of U.S. Global. If a nominee for office of director should withdraw or otherwise become unavailable for reasons not presently known, the persons named as proxies may vote for another person in his place in what they consider the best interests of U.S. Global.

All costs of solicitation of Proxies will be borne by the Company. In addition to solicitation by mail, the directors, officers and employees of the Company may solicit proxies personally or by other appropriate means, without additional compensation.

By Order of the Board of Directors

/s/ Deanna Gunn
.....
Deanna Gunn
SECRETARY

San Antonio, Texas
November 27, 2006

EXHIBIT A

AMENDMENT TO ARTICLES PURSUANT TO PROPOSAL ONE

The Articles would be amended to read as follows (language to be added is double-underlined; language to be removed is in bold and brackets):

[THIRD]FOURTH AMENDED AND RESTATED [AND AMENDED]
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ARTICLES OF INCORPORATION
OF
U.S. GLOBAL INVESTORS, INC.
[AS ADOPTED SEPTEMBER 20, 1996]

ARTICLE ONE

The name of the corporation is U.S. GLOBAL INVESTORS, INC.

ARTICLE TWO

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The period of its duration is perpetual, unless sooner dissolved according to law.

ARTICLE THREE

The purposes or purpose for which the corporation is organized are:

1. To serve as an investment advisor and to manage one or more mutual funds and engage in other investment advisory services permitted by the laws of the State of Texas and the United States of America; to engage in the business of advising others directly and through publications and/or writings as to the advisability of investing in, purchasing or selling securities; to engage in the business of buying and selling securities for its own account.

2. To provide information, pamphlets and data concerning securities.

3. To establish, operate and maintain one or more mutual funds, as permitted by the laws of the State of Texas and the United States of America.

4. To engage in any commercial and industrial enterprises calculated or designed to be profitable to the corporation and in conformity with the laws of the State of Texas; to engage in any business whatsoever either as principal or as agent or as both, or as a syndicate, which the corporation may deem convenient or proper in furtherance of any [or]of the purposes

hereinabove mentioned or otherwise; to conduct its business in any lawful manner in any place in the State, Nation, or any place or country in the world whenever desired and upon compliance and in accordance with and pursuant to the laws, rules, statutes, treaties, regulations and customs thereof; and to have and to execute all powers authorized by the laws of the State of Texas under which this corporation is formed, whether expressly set forth in this article or not, as such laws are now in effect, or may at any time hereafter be amended.

ARTICLE FOUR

1. General. The corporation is authorized to issue three classes of Common Stock, one designated Class A Common Stock, one designated Class B Common Stock, and one designated Class C Common Stock (collectively referred to herein as "Common Stock"). The total number of shares which the corporation is authorized to issue is [11,000,000]36,000,000 shares. The number of shares of Class A Common Stock authorized is [7,000,000]28,000,000, and the par value of each such share is [\$0.05]\$0.025. The number of shares of Class B Common Stock authorized is [2,250,000,]4,500,000, and the par value of each such share is [\$0.05]\$0.025. The

number of shares of Class C Common Stock authorized is [1,750,000,]3,500,000,

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and the par value of each such share is [\$0.05]\$0.025.[THE AGGREGATE NUMBER
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OF SHARES OF CLASS B COMMON STOCK AND CLASS C COMMON STOCK AUTHORIZED IS
4,000,000.] As provided in [PART 3.4]paragraph 2(d) of this Article Four, the
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Class B Common Stock may be converted to Class C Common Stock. If and when the
conversion right of Class B Common Stock is exercised, allowing shares of
Class B Common Stock to be exchanged into Class C Common Stock, the number of
authorized shares of Class B Common Stock shall be reduced by the number of
Class B shares exchanged into Class C Common Stock shares, thereby allowing
the total number of shares of Class B and Class C Common Stock authorized and
outstanding to remain constant at all times. Except for the voting and
conversion rights set forth in [PARTS 3.1 AND 3.4]paragraphs 3(a) and (d) of
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this Article Four, all other rights and preferences of the Class B and Class C
Common Stock are equal.

2. Class A Common Stock.

(a) [2.1] Voting Rights. Except as otherwise expressly
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provided by law, all voting rights shall be in the Class C Common Stock as
provided for in paragraph [3.1]3(a) below, and none in the Class A Common
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Stock.

(b) [2.2] Dividends.
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(1) Amount; Participating. In any fiscal year of

the corporation, the holders of the Class A Common Stock at the time
outstanding shall be entitled to receive, when and as declared by the Board of
Directors of the corporation, out of any funds legally available therefor,
noncumulative cash dividends in an aggregate amount up to 5% of the
corporation's after-tax net earnings for its prior fiscal year. In any fiscal
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year of the corporation, until the holders of the Class A Common Stock shall
have received cash dividends aggregating 5% of the corporation's after-tax net
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earnings for its prior fiscal year, no cash dividends shall be paid to the
holders of the Class C Common Stock or Class B Common Stock. In any fiscal
year of the corporation in which the holders of the Class A Common Stock shall
have received cash dividends aggregating 5% of the corporation's after-tax net
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earnings for its prior fiscal year, the holders of the Class C Common Stock
and Class B Common Stock shall then be entitled to receive, when and as
declared by the Board of Directors, out of any funds legally available
therefor, cash dividends per share up to the amount of cash dividends per
share theretofore received by the holders of Class A Common Stock during such
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fiscal [ADJUSTMENT AS PROVIDED IN PARAGRAPH 2.2(4) HEREOF.]year. In any fiscal
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year of the corporation, when the cash dividends per share paid to the holders
of the Class C Common Stock during such fiscal year shall be the maximum
amount permitted pursuant to the preceding sentence, [SUCH]then additional
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cash dividends, if any, as the Board of Directors may elect to pay during the
balance of such fiscal year, out of any funds legally available therefor,
shall be paid simultaneously[ON], and on a prorated basis, to the holders of
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the Class A Common Stock, the Class B Common Stock and the Class C Common Stock in the same proportionate amounts per share as theretofore paid during the fiscal year on the Class A Common Stock, Class B Common Stock and the Class C Common Stock.

(2) Noncumulative. Dividends on Class A Common

Stock shall be noncumulative and no rights shall accrue to the holders of Class A Common Stock in the event that, in any fiscal year, the corporation shall fail to declare or pay dividends of up to 5% of the after-tax net earnings of the corporation for its prior fiscal year, whether or not the earnings of the corporation for the prior fiscal year were sufficient to pay such dividend in whole or in part.

(3) Net Earnings After Taxes. Net earnings after

taxes for any fiscal year shall be the amount shown as after-tax net earnings in the corporation's audited statement of operations or audited consolidated statement of operations for the fiscal year, as the case may be. Such audited statement of operations or audited consolidated statement of operations shall be prepared in accordance with generally accepted accounting principles. The amount shown as after-tax net earnings in the audited statement of operations or audited consolidated statement of operation shall be final and binding upon the holders of Class A Common Stock.

(4) Dividend Dilution Protection. In the event of

any stock split, stock dividend or other stock subdivision or stock combination, of or with respect to the Class B Common Stock and the Class C Common Stock of the corporation (each of the foregoing hereinafter referred to as an "Event"), but not including shares of Class B Common Stock or Class C Common Stock issued in a merger or other business combination, then

the maximum cash dividends per share payable to the holders of shares of Class B Common Stock and Class C Common Stock pursuant to the third sentence of paragraph [2.2]2(b)(1) hereof shall be adjusted by multiplying each such per

share cash dividend amount by a fraction whose numerator shall be the number of shares of Class B Common Stock and Class C Common Stock outstanding immediately prior to such Event and whose denominator shall be the number of shares of Class B Common Stock and Class C Common Stock outstanding immediately following such Event. Such adjustment shall be made at the time of each occurrence of an Event, giving effect to all prior adjustments. Holders of shares of Class A Common Stock shall be entitled to notice of any Event within ten (10) business days of its occurrence.

(c) [2.3] Purchase. Nothing herein shall limit the right of

the corporation to purchase any of its outstanding shares of Class A Common Stock in accordance with law, by public or private transaction.

(d) [2.4] Conversion Rights. The shares of Class A Common

Stock shall not be convertible into the shares of any other class of stock of the corporation.

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(e) [2.5] Liquidation Preference Over Class C Common Stock.
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In the event of dissolution, liquidation or winding up of the corporation (whether voluntary or involuntary), after payment or provision for payment of debts but before any distribution to the holders of shares of Class B Common Stock and Class C Common Stock, the holders of the shares of Class A Common Stock shall be entitled to receive [\$0.05]\$0.025 per share. Holders of shares
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of Class B Common Stock and Class C Common Stock shall then be entitled to receive [\$0.05]\$0.025 per share. All remaining assets of the corporation upon
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liquidation shall be distributed pro rata among the holders of the shares of Class A Common Stock, Class B Common Stock and Class C Common Stock. If the assets distributable among the holders of Class A Common Stock are insufficient to permit full payment to them of [\$0.05]\$0.025 per share, the
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entire assets of corporation shall be distributed pro rata among the holders of the Class A Common Stock. None of the following events is a dissolution, liquidation or winding up within the meaning of this paragraph: consolidation, merger, or reorganization of the corporation with any other corporation or corporations, sale of all or substantially all the assets of the corporation, or any purchase or redemption by the corporation of any of its outstanding shares.

3. Class B and Class C Common Stock.

(a) [3.1] Voting Rights. The holders of shares of Class C
=====

Common Stock shall have full voting rights at any annual or special meeting of the shareholders and as provided for in the Texas Business Corporation Act. Except as otherwise expressly provided by law, the holders of shares of Class B Common Stock shall have no voting rights at any annual or special meeting of the shareholders.

(b) [3.2] Dividends. No cash dividends shall be declared or
=====

paid on Class C or Class B Common Stock in any fiscal year unless cash dividends paid during such fiscal year on outstanding Class A Common Stock shall equal at least 5% of the after-tax net earnings of the corporation for its prior fiscal year.

(c) [3.3] Purchase. No Class C Common Stock or Class B
=====

Common Stock shall be purchased by the corporation in any fiscal year unless cash dividends shall have been paid during such fiscal year on outstanding Class A Common Stock in the amount of at least 5% of the after-tax net earnings of the corporation for its prior fiscal year. Except as provided in the foregoing sentence, nothing herein shall limit the right of the corporation to purchase any of its outstanding shares of Class C Common Stock or Class B Common Stock in accordance with law, by public or private transaction.

(d) [3.4] Conversion Right. The holders of the shares of
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Class B Common Stock shall have the right to convert Class B Common Stock shares into Class C Common Stock shares on a one-to-one ratio on such date as the Corporation's Board of Directors shall establish; and pending Board of Director action, the conversion date for Class B Common Stock to be issued shall be October 1, 1997. The holders of shares of Class B Common Stock shall have the right to convert Class B Common Stock shares into shares of Class A Common Stock, on a one-to-one basis, at any time after October 1, 1997,

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provided that the holders of shares of Class A Common Stock have approved an increase in the authorized number of shares of Class A Common Stock, as provided in [PART 3.5]paragraph 3(e) below.

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(e) [3.5] Convocation of Meeting of Shares of the

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Corporation. The holders of shares of Class B Common Stock shall have the

right to require the Corporation from its 1995 fiscal year to its 1997 fiscal year (exclusively), to validly call and hold meetings of the holders of each class of stock in the capital of the Corporation, at least once during each such fiscal year until the consents and approvals of such holders have been obtained so that there shall exist such number of authorized shares of Class A Common Stock as is equal to the aggregate of (i) the issued and outstanding shares of the Class A Common Stock at the time of such consents and approvals and (ii) the number of shares of Class A Common Stock as may be issuable pursuant to any outstanding subscriptions, calls, options, warrants, or other agreements or rights to sell, purchase or subscribe for any shares of Class A Common Stock or convert any obligations into shares of Class A Common Stock.

4. Denial of Preemptive Rights. No holder of shares of any class of

the corporation, Class A Common Stock, Class B Common Stock or Class C Common Stock, shall have any preemptive right to subscribe for or acquire additional shares of the corporation of the same or any other class, whether such shares shall be hereby or hereafter authorized; and no holder of shares of any class of the corporation shall have any right to acquire any shares which may be held in the treasury of the corporation. All such additional or treasury shares may be sold for such consideration, at such time, and to such person or persons as the Board of Directors may from time to time determine.

5. [CLASS A COMMON STOCK INTO CLASS C COMMON STOCK AND PREFERRED

STOCK INTO CLASS A COMMON STOCK. EACH OUTSTANDING SHARE OF CLASS A COMMON

STOCK SHALL BECOME ONE SHARE OF CLASS C COMMON STOCK, PAR VALUE \$0.05 PER SHARE, AND EACH OUTSTANDING SHARE OF PREFERRED STOCK, PAR VALUE \$0.05 PER SHARE, SHALL BECOME ONE SHARE OF CLASS A COMMON STOCK, PAR VALUE \$0.05 PER SHARE EFFECTIVE UPON THE ISSUANCE BY THE SECRETARY OF STATE OF THE STATE OF TEXAS OF THE CERTIFICATE OF AMENDMENT TO THE SECOND RESTATED AND AMENDED ARTICLES OF INCORPORATION WHEREIN THIS ARTICLE FOUR BECOMES PART OF THE SECOND RESTATED AND AMENDED ARTICLES OF INCORPORATION OF THE CORPORATION.]

6. Common Stock Split. Upon the issuance of these Fourth Amended and

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Restated Articles of Incorporation by the Secretary of State of the State of

=====

Texas, each share of Common Stock, of each class, outstanding shall be split

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and reconstituted into two (2) shares of Class A Common Stock, Class B Common

=====

Stock or Class C Common Stock, respectively; provided, however, that the

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Corporation shall issue no fractional shares of Common Stock, and all shares

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shall be rounded up or down to the nearest whole number of shares.

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[ARTICLE FIVE

THE CORPORATION WILL NOT COMMENCE BUSINESS UNTIL IT HAS RECEIVED FOR THE ISSUANCE OF ITS SHARES CONSIDERATION OF THE VALUE OF ONE THOUSAND DOLLARS (\$1,000.00).]

ARTICLE [SIX] FIVE
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The post office address of its registered office is 7900 Callaghan Road, San Antonio, Texas 78229, and the name of its registered agent at such address is Frank E. Holmes.

ARTICLE [SEVEN] SIX
===

The number of directors constituting the present Board of Directors is [FIVE]four, and the names and addresses of those persons who presently
=====
serve as directors and who will continue to serve as directors until their successors are elected and qualified are:

Table with 2 columns: NAME, ADDRESS. Rows include Frank E. Holmes, [BOBBY D. DUNCAN], [VICTOR FLORES], and Jerold H. Rubinstein with their respective addresses.

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Table with 2 columns: NAME, ADDRESS. Rows include Roy D. Terracina and Thomas F. Lydon, Jr. with their respective addresses.

[ARTICLE EIGHT]

[THE NAME AND ADDRESS OF EACH INCORPORATOR IS OMITTED AS PERMITTED BY ARTICLE 4.07 B OF THE TEXAS BUSINESS CORPORATION ACT.]

ARTICLE [NINE] SEVEN
=====

[THE CORPORATION SHALL HAVE THE POWER TO INDEMNIFY ITS DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS AND TO PURCHASE AND MAINTAIN LIABILITY INSURANCE FOR THOSE PERSONS AS, AND TO THE FULLEST EXTENT, PERMITTED BY ARTICLE 2.02-1 OF THE TEXAS BUSINESS CORPORATION ACT, AS NOW OR HEREAFTER

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AMENDED, OR BY ANY SUCCESSOR PROVISION THERETO.]

The Corporation will, to the fullest extent permitted by the Texas
=====
Business Corporation Act, as the same exists or may hereafter be amended,
=====
indemnify any and all persons who are or were serving as director or officer
=====
of the Corporation, or who are or were serving at the request of the
=====
Corporation as a director, officer, partner, venturer, proprietor, trustee or
=====
employee of another corporation, partnership, limited liability company, joint
=====
venture, sole proprietorship, trust, employee benefit plan or other
=====
enterprise, from and against any and all of the expenses, liabilities or other
=====
matters referred to in or covered by such Act. Such indemnification may be
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provided pursuant to any Bylaw, agreement, vote of shareholders or
=====
disinterested directors or otherwise, both as to action in the capacity of
=====
director or officer and as to action in another capacity while holding such
=====
office, will continue as to a person who has ceased to be a director or
=====
officer and inure to the benefit of the heirs, executors and administrators of
=====
such a person.
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ARTICLE [TEN] EIGHT
=====

Any contract or other transaction between the corporation and one or more of its directors, or between the corporation and any firm of which one or more of its directors are members or employees, or in which they are interested, or between the corporation and any corporation or association of which one or more of its directors are shareholders, members, directors, officers, or in which they are interested, shall be valid for all purposes, notwithstanding the presence of the interested director or directors at the meeting of the Board of Directors of the corporation that acts upon, or in reference to, the contract or transaction, and notwithstanding his or their participation in the action, if the fact of such interest shall be disclosed or otherwise known to the Board of Directors and the Board of Directors shall nevertheless authorize or ratify the contract or transaction, the interested director or directors to be counted in determining whether a quorum is present and to be entitled to vote on such authorization or ratification; and no director shall be liable to account to the corporation for any profits realized by reason of interest therein when such contract or other transaction has been authorized or ratified in accordance with the foregoing. This Article Ten shall not be construed to invalidate any contract or transaction which would otherwise be valid in the absence of this provision.

ARTICLE [ELEVEN] NINE
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Notwithstanding any provision in Article Nine to the contrary, no director of the [COMPANY] Corporation shall be liable to the
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[COMPANY]Corporation or its shareholders for monetary damages or an act or
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omission in the director's capacity as a director, except for liability for
(i) any breach of a director's duty of loyalty to the [COMPANY]Corporation or
=====
its shareholders, (ii) an act or omission not in good faith or which involves
intentional misconduct or a knowing violation of law, (iii) any transaction
from which as director received an improper benefit, whether or not the
benefit resulted from an action taken within the scope of the director's
office, (iv) an act or omission for which the liability of a director is
expressly provided for by statute or (v) an act related to an unlawful stock
repurchase or payment of a dividend.

20

If the Texas [MISCELLANEOUS CORPORATION LAWS ACT]law is hereafter
=====
amended to authorize the further elimination or limitation of the liability of
directors, then the liability of a director of the [Company]Corporation, in
=====
addition to the limitation of personal liability provided herein, shall be
limited to the fullest extent permitted by the amended Texas [MISCELLANEOUS
CORPORATION LAWS ACT.]laws. Any repeal or modification of this paragraph by
=====
the shareholders of the [COMPANY]Corporation shall be prospective only, and
=====
shall not adversely affect any limitation on the personal liability of a
director of the [COMPANY]Corporation existing at the time of such repeal or
=====
modification.

ARTICLE [TWELVE] TEN
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Any action required by the Texas Business Corporation Act to be taken
at any annual or special meeting of shareholders, or any action which may be
taken at any annual or special meeting of shareholders, may be taken without a
meeting, without prior notice, and without a vote provided: (1) a consent or
consents in writing, setting forth the action so taken, are signed by the
holder or holders of shares having not less than the minimum number of votes
that would be necessary to take such action at a meeting at which the holders
of all shares entitled to vote on the action were present and voted; and (2)
prompt notice of such action is given to those shareholders entitled to vote
who did not consent in writing to the action.

21

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Commissions and fees

\$

1,781

\$

1,651

\$

3,516

\$

3,263

Premiums and other

573

472

1,112

936

Investment income

134

85

241

174

Total revenue

2,488

2,208

4,869

4,373

Expenses

Compensation and benefits

1,207

1,131

2,359

2,228

Other general expenses

477

459

987

920

Benefits to policyholders

355

261

678

515

Depreciation and amortization

49

55

99

110

Interest expense

34

34

69

65

Provision for New York and other state settlements

1

1

1

2

Total expenses

2,123

1,941

4,193

3,840

Income from continuing operations before provision for income tax and accounting change

365

267

676

533

Provision for income tax

127

92

226

185

Income from continuing operations

238

175

450

348

Income from discontinued operations

3

29

5

68

Provision for income tax

1

11

2

26

Income from discontinued operations, net of tax

2

18

3

42

Income before accounting change

240

193

453

390

Cumulative effect of a change in accounting principle, net of tax

Net income

\$

240

\$

193

\$

453

\$

391

Basic net income per share

Continuing operations

\$

0.80

\$

0.54

\$

1.52

\$

1.09

Discontinued operations

0.01

0.06

0.01

0.13

Cumulative effect of a change in accounting principle

Net income

\$

0.81

\$

0.60

\$

1.53

\$

1.22

Diluted net income per share

Continuing operations

\$

0.74

\$

0.52

\$

1.40

\$

1.01

Discontinued operations

0.01

0.05

0.01

0.12

Cumulative effect of a change in accounting principle

Net income

\$

0.75

\$

0.57

\$

1.41

\$

1.13

Cash dividends per share paid on common stock

\$

0.15

\$

0.15

\$

0.30

\$

0.30

Diluted average common and common equivalent shares outstanding

321.9

344.8

323.1

347.5

See the accompanying notes to the condensed consolidated financial statements.

*Aon Corporation***Condensed Consolidated Statements of Cash Flows****(Unaudited)**

(millions)	Six Months Ended	
	June 30, 2007	June 30, 2006
Cash Flows from Operating Activities:		
Net income	\$ 453	\$ 391
Adjustments to reconcile net income to cash provided by operating activities		
Gain from disposal of operations	(4)	(1)
Depreciation and amortization of property, equipment and software	80	93
Stock compensation expense	107	78
Amortization of intangible assets	19	23
Valuation changes on investments, income on disposals and net bond amortization	(14)	(11)
Income taxes	134	(69)
Contribution to major defined benefit pension plans (in excess of) less than expense	(45)	21
Cash paid in excess of expense for 2005 restructuring plan	(20)	(34)
Provision for New York and other state settlements	1	2
Change in funds held on behalf of brokerage and consulting clients	450	300
Changes in insurance underwriting assets and liabilities:		
Operating receivables	59	65
Other assets including prepaid premiums	39	30
Deferred policy acquisition costs	(11)	(70)
Policy liabilities	45	259
Other liabilities	(11)	(25)
Changes in other assets and liabilities:		
Accrued compensation and general expenses	(443)	(207)
Other assets and liabilities- net	12	47
Cash Provided by Operating Activities	851	892
Cash Flows from Investing Activities:		
Sale of investments		
Fixed maturities		
Maturities	51	122
Calls and prepayments	48	108
Sales	337	891
Equity securities	30	1
Other investments	23	18
Purchase of investments		
Fixed maturities	(554)	(1,219)
Equity securities		(9)
Other investments	(6)	(9)
Short-term investments - net	209	(176)
Acquisition of subsidiaries	(206)	(108)
Proceeds from sale of operations	39	20
Property and equipment and other - net	(82)	(71)
Cash Used by Investing Activities	(111)	(432)
Cash Flows from Financing Activities:		
Issuance of common stock	19	46
Treasury stock transactions - net	(492)	(424)
Repayment of short-term borrowings - net	(38)	14
Issuance of long-term debt	660	381
Repayment of long-term debt	(696)	(430)

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Cash dividends to stockholders	(88)	(96)
Cash Used by Financing Activities	(635)	(509)
Effect of Exchange Rate Changes on Cash	20	(2)
Increase (Decrease) in Cash	125	(51)
Cash at Beginning of Period	281	476
Cash at End of Period	\$ 406	\$ 425

See the accompanying notes to condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Statement of Accounting Principles

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all normal recurring adjustments which Aon Corporation (Aon) considers necessary for a fair presentation. Operating results for the second quarter and six months ended June 30, 2007 are not necessarily indicative of results that may be expected for the year ending December 31, 2007.

Refer to the consolidated financial statements and notes in the Annual Report on Form 10-K for the year ended December 31, 2006 for additional details of Aon s financial position, as well as a description of Aon s accounting policies, which have been continued without material change, except as described in Note 13.

2. New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. Statement No. 159 is effective for fiscal years beginning after November 15, 2007 and early adoption is permitted. The impact of Statement No. 159 on Aon has not yet been determined.

3. Stock Compensation Plans

Aon s Stock Incentive Plan (as amended and restated) provides for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and restricted stock units (RSUs). The annual rate at which awards are granted each year is based upon financial and competitive business conditions.

Compensation expense

Stock based compensation expense recognized during 2007 and 2006, which includes RSUs, stock options, performance plan awards and stock purchases related to the Employee Stock Purchase Plan, are based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in Aon s condensed consolidated statements of income includes compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of Statement No. 123, and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of Statement No. 123(R). Because stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Statement No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes stock-based compensation expense related to all share-based payments recognized in the condensed consolidated statements of income in compensation and benefits (in millions):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
RSUs	\$ 25	\$ 21	\$ 60	\$ 51
Performance plans	23	10	32	12
Stock options	7	6	13	13
Employee stock purchase plan	1	1	2	2
Stock-based compensation expense included in compensation and benefits	\$ 56	\$ 38	\$ 107	\$ 78

Stock Awards

Stock awards, in the form of RSUs, are granted to certain executives and key employees of Aon. Prior to 2006, RSUs granted to employees were service-based. Beginning with awards granted in 2006, awards to employees may consist of both performance-based RSUs and service-based RSUs. For service-based awards, employees are generally required to complete three continuous years of service before stock awards begin to vest in increments until the completion of a 10-year period of continuous employment. Beginning in 2002, a large number of awards have been granted that vest in various patterns over five years from the date of grant. For most employees, individual incentive compensation over \$50,000 is paid partially in RSUs, which vest over three years. In general, most stock awards are issued as they become vested. In years prior to 2006, in certain circumstances, an employee was able to elect to defer the receipt of vested shares to a later date. With certain limited exceptions, any break in continuous employment will cause forfeiture of all unvested awards. The compensation cost associated with each stock award is deferred and amortized over the period of continuous employment using the straight-line method. Dividend equivalents are paid on certain service-based RSUs.

In 2007 and 2006, performance-based RSUs were granted to certain executives and key employees, whose vesting is contingent upon meeting various individual, divisional or company-wide performance goals, including revenue generation or growth in revenue, pretax income or earnings per share over a one- to five-year period. Aon accounts for these awards as performance condition RSUs. The performance condition is not considered in the determination of grant date fair value of these awards. Compensation cost is recognized over the performance period, and in certain cases an additional vesting period, based on management's estimate of the number of units expected to vest. Compensation cost will be adjusted to reflect the actual number of shares paid out at the end of the programs. The payout of shares under these performance-based plans may range from 0-200% of the number of units granted, based on the plan. Dividend equivalents are not paid on the performance-based RSUs.

Information regarding Aon's performance-based plans follows (shares in thousands, dollars in millions):

	Six months ended June 30,	
	2007	2006
Potential RSUs to be issued based on current performance levels	4,971	2,505
Shares forfeited during the period		9
RSUs awarded during the period	9	30
Unamortized expense, based on current performance levels	\$ 128	\$ 92

A summary of the status of Aon's non-vested stock awards is as follows (shares in thousands):

Six months ended June 30,	2007		2006	
	Shares	Fair Value	Shares	Fair Value
Non-vested at beginning of period	12,870	\$ 28	11,641	\$ 25
Granted	3,625	38	2,985	38
Vested	(1,702)	28	(1,375)	24
Forfeited	(233)	30	(282)	29
Non-vested at end of period	14,560	\$ 30	12,969	\$ 28

Stock Options

Options to purchase common stock are granted to certain executives and key employees of Aon and its subsidiaries, generally at 100% of market value on the date of grant. Generally, employees are required to complete two continuous years of service before the options begin to vest in increments until the completion of a 4-year period of continuous employment. However, beginning in 2004 a significant number of options were granted that required five continuous years of service before all options would vest. For all grants made prior to an amendment to the former stock option plan in 2000, employees were required to complete three continuous years of service before the options began to vest in increments until the completion of a 6-year period of continuous employment. The maximum contractual term on stock options is generally ten years from the date of grant.

Upon the adoption of Statement No. 123(R) on January 1, 2006, Aon changed its method of valuation for stock options granted beginning in 2006 to a lattice-binomial option-pricing model from the Black-Scholes option-pricing model, which was previously used for Aon's pro forma information required under Statement No. 123. Lattice-based option valuation models utilize a range of assumptions over the expected term of the options. Expected volatilities are based on the average of the historical volatility of Aon's stock price and the implied volatility of traded options and Aon's stock. Aon uses historical data to estimate option exercise and employee terminations within the valuation model, stratifying between executives and key employees. The expected dividend yield assumption is based on the company's historical and expected future dividend rate. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted average assumptions, the weighted average expected life and estimated fair value of employee stock options are summarized as follows:

Key employees	Three months ended June 30,			
	2007		2006	
Weighted average volatility	27.1	%	28.5	%
Expected dividend yield	1.6	%	2.3	%
Risk-free rate	4.6	%	4.7	%
Weighted average expected life, in years	5.8		6.0	
Weighted average estimated fair value	\$ 12.54		\$ 9.96	

	Six months ended June 30, 2007		2006	
	Executives	Key Employees	Executives	Key Employees
Weighted average volatility	26.2	% 26.8	% 30.5	% 29.6
Expected dividend yield	1.7	% 1.6	% 2.3	% 2.3
Risk-free rate	4.7	% 4.6	% 4.4	% 4.5
Weighted average expected life, in years	4.6	5.8	5.0	6.0
Weighted average estimated fair value	\$ 9.58	\$ 11.65	\$ 11.08	\$ 10.78

A summary of the status of Aon's stock options and related information is as follows (shares in thousands):

	Six months ended June 30, 2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning outstanding	32,889	\$ 30	34,851	\$ 29
Granted	1,809	40	2,804	39
Exercised	(4,771)	28	(3,153)	28
Forfeited and expired	(396)	32	(598)	29
Outstanding at end of period	29,531	\$ 31	33,904	\$ 30
Exercisable at end of period	17,374	\$ 31	19,225	\$ 32

The weighted average remaining contractual life, in years, of outstanding options was 5.4 years and 5.7 years at June 30, 2007 and 2006, respectively.

The aggregate intrinsic value represents the total pretax intrinsic value, based on options with an exercise price less than the Company's closing stock price of \$42.61 as of June 30, 2007, which would have been received by the option holders had those option holders exercised their options as of that date. At June 30, 2007, the aggregate intrinsic value of options outstanding was \$355 million, of which \$201 million was exercisable.

The aggregate intrinsic value of options exercised during the second quarter and six months ended June 30, 2007 were \$40 million and \$59 million, respectively, and for the second quarter and six months ended June 30, 2006 were \$12 million and \$41 million, respectively.

Unamortized deferred compensation expense, which includes both options and awards, amounted to \$370 million as of June 30, 2007, with a remaining weighted-average amortization period of approximately 2.8 years.

Cash received from the exercise of stock options was \$139 million and \$95 million during the six months ended June 30, 2007 and 2006, respectively. The tax benefit realized from stock options exercised in the first six months of 2007 and 2006 was \$25 million and \$21 million, respectively.

During the first six months ended June 30, 2007, a majority of option exercises and award vestings were satisfied through the reissuance of treasury shares.

4. Income Per Share

Income per share is calculated as follows:

(millions, except per share data)	Three months ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Income from continuing operations	\$ 238	\$ 175	\$ 450	\$ 348
Income from discontinued operations, net of tax	2	18	3	42
Cumulative effect of a change in accounting principle, net of tax				1
Net income for basic per share calculation	240	193	453	391
Interest expense on convertible debt securities, net of tax	2	2	3	3
Net income for diluted per share calculation	\$ 242	\$ 195	\$ 456	\$ 394
Basic shares outstanding	296	320	297	322
Effect of convertible debt securities	12	14	13	14
Common stock equivalents	14	11	13	12
Diluted potential common shares	322	345	323	348
Basic net income per share:				
Continuing operations	\$ 0.80	\$ 0.54	\$ 1.52	\$ 1.09
Discontinued operations	0.01	0.06	0.01	0.13
Cumulative effect of a change in accounting principle, net of tax				
Net income	\$ 0.81	\$ 0.60	\$ 1.53	\$ 1.22
Diluted net income per share:				
Continuing operations	\$ 0.74	\$ 0.52	\$ 1.40	\$ 1.01
Discontinued operations	0.01	0.05	0.01	0.12
Cumulative effect of a change in accounting principle, net of tax				
Net income	\$ 0.75	\$ 0.57	\$ 1.41	\$ 1.13

Certain common stock equivalents related to options were not included in the computation of diluted net income per share because those options exercise price was greater than the average market price of the common shares. The number of options excluded from the quarterly calculation was 7 million and 5 million at June 30, 2007 and 2006, respectively. For six months ended June 30, 2007 and 2006, the number of options excluded was 7 million and 4 million, respectively.

During the second quarter 2007, certain holders of Aon's \$300 million 3.5% convertible debt securities due November 2012 converted their holdings into Aon common stock. \$57 million was converted, resulting in the issuance of approximately 2.7 million shares.

5. Comprehensive Income

The components of comprehensive income, net of tax, are as follows:

(millions)	Three months ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Net income	\$ 240	\$ 193	\$ 453	\$ 391
Net derivative gains (losses)		8	(2	) 8
Net unrealized investment losses	(37	) (12	) (28	) (43
Net foreign exchange gains	18	106	62	131
Change in postretirement plans	12		50	
Comprehensive income	\$ 233	\$ 295	\$ 535	\$ 487

The components of accumulated other comprehensive loss, net of tax, are as follows:

(millions)	June 30, 2007	December 31, 2006
Net derivative gains	\$ 13	\$ 15
Net unrealized investment gains	45	73
Net foreign exchange translation	180	118
Postretirement plans	(1,166	) (1,216
Accumulated other comprehensive loss	\$ (928	) \$ (1,010

6. Business Segments

Aon classifies its businesses into three operating segments: Risk and Insurance Brokerage Services, Consulting, and Insurance Underwriting. Unallocated income and expense, when combined with the operating segments and after the elimination of intersegment revenues, totals to the amounts in the accompanying condensed consolidated financial statements.

The Risk and Insurance Brokerage Services segment consists primarily of Aon's retail and reinsurance brokerage operations, as well as related insurance services, including underwriting management, captive insurance company management services, and premium financing. The Consulting segment provides a full range of consulting services delivered predominantly to corporate clientele utilizing seven major practices: employee benefits, compensation, management consulting, communications, strategic human resource consulting, financial advisory and litigation consulting, and human resource outsourcing. The Insurance Underwriting segment provides specialty insurance products including accident, health and life insurance coverages as well as select property and casualty insurance products. Aon has ceased writing property and casualty business and has placed the remaining lines of business into runoff. Unallocated income consists of investment income from equity, fixed-maturity and short-term investments that are assets primarily of the insurance underwriting subsidiaries that exceed policyholders liabilities. These assets include non-income producing equities, and income and losses on disposals of essentially all securities, including those pertaining to assets maintained by the operating segments. Unallocated expenses include administrative costs not attributable to the operating segments, such as corporate governance costs. Interest expense represents the cost of worldwide debt obligations.

The accounting policies of the operating segments are the same as those described in this Form 10-Q and Aon's Annual Report on Form 10-K for the year ended December 31, 2006, except that the disaggregated financial results have been prepared using a management approach, which is consistent with the basis and manner in which Aon senior management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. Aon evaluates performance based on stand-alone operating segment income before income taxes and generally accounts for intersegment revenue as if the revenue were from third parties, that is, considered by management to be at current market prices.

Revenues are generally attributed to geographic areas based on the location of the resources producing the revenues. Intercompany revenues and expenses are eliminated in computing consolidated revenues and income before tax.

Revenue by subsegment is as follows:

(millions)	Three months ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Risk management and insurance brokerage:				
Americas	\$ 618	\$ 581	\$ 1,137	\$ 1,098
United Kingdom	218	191	374	346
Europe, Middle East & Africa	307	270	741	644
Asia Pacific	138	129	238	217
Reinsurance brokerage and related services	234	214	481	460
Total Risk and Insurance Brokerage Services	1,515	1,385	2,971	2,765
Consulting services	269	237	533	475
Outsourcing	56	72	121	142
Total Consulting	325	309	654	617
Accident & Health and Life	611	499	1,184	980
Property & Casualty	(1)	6		20
Total Insurance Underwriting	610	505	1,184	1,000
Intersegment revenues	(6)	(9)	(16)	(24)
Total operating segments	2,444	2,190	4,793	4,358
Unallocated income	44	18	76	15
Total revenue	\$ 2,488	\$ 2,208	\$ 4,869	\$ 4,373

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Aon's operating segments' geographic revenue and income before income tax is as follows:

Three months ended June 30: (millions)	Risk and Insurance Brokerage Services		Consulting		Insurance Underwriting	
	2007	2006	2007	2006	2007	2006
Revenue						
United States	\$ 545	\$ 517	\$ 165	\$ 175	\$ 434	\$ 349
Americas, other than U.S.	176	159	31	29	55	52
United Kingdom	266	243	67	56	51	46
Europe, Middle East & Africa	373	326	50	41	43	35
Asia Pacific	155	140	12	8	27	23
Total revenue	\$ 1,515	\$ 1,385	\$ 325	\$ 309	\$ 610	\$ 505
Income before income tax	\$ 278	\$ 215	\$ 44	\$ 23	\$ 67	\$ 75

Six months ended June 30: (millions)	Risk and Insurance Brokerage Services		Consulting		Insurance Underwriting	
	2007	2006	2007	2006	2007	2006
Revenue						
United States	\$ 1,033	\$ 1,010	\$ 328	\$ 340	\$ 836	\$ 682
Americas, other than U.S.	306	279	61	59	108	103
United Kingdom	483	464	128	111	106	100
Europe, Middle East & Africa	885	772	112	93	82	70
Asia Pacific	264	240	25	14	52	45
Total revenue	\$ 2,971	\$ 2,765	\$ 654	\$ 617	\$ 1,184	\$ 1,000
Income before income tax	\$ 520	\$ 455	\$ 91	\$ 53	\$ 126	\$ 128

A reconciliation of segment income before income tax to income from continuing operations before provision for income tax is as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Risk and Insurance Brokerage Services	\$ 278	\$ 215	\$ 520	\$ 455
Consulting	44	23	91	53
Insurance Underwriting	67	75	126	128
Segment income before income tax	389	313	737	636
Unallocated income	44	18	76	15
Unallocated expenses	(34)	(30)	(68)	(53)
Interest expense	(34)	(34)	(69)	(65)
Income from continuing operations before provision for income tax	\$ 365	\$ 267	\$ 676	\$ 533

7. Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair market value of net assets acquired. Goodwill is allocated to Aon's various reporting units, which are either its operating segments or one reporting level below the operating segments. Goodwill is not amortized but is subject to impairment testing at least annually. When a business entity is sold, goodwill is allocated to the disposed entity based on the fair value of that entity compared to the fair value of the reporting unit in which it is included.

The changes in the net carrying amount of goodwill by operating segment for the six months ended June 30, 2007 are as follows:

(millions)	Risk and Insurance Brokerage Services	Consulting	Insurance Underwriting	Total
Balance as of December 31, 2006	\$ 4,142	\$ 379	\$ 11	\$ 4,532
Goodwill acquired	134			134
Goodwill related to disposals	(7)			(7)
Goodwill related to a previous business combination (Note 8)	(7)			(7)
Foreign currency revaluation	83	4		87
Balance as of June 30, 2007	\$ 4,345	\$ 383	\$ 11	\$ 4,739

Other intangible assets are classified into three categories:

- Customer Related and Contract Based include client lists as well as non-compete covenants;
- Present Value of Future Profits represent the future profits of purchased books of business of the insurance underwriting subsidiaries; and
- Marketing, Technology and Other are all other purchased intangibles not included in the preceding categories.

Other intangible assets by asset class are as follows:

(millions)	Customer Related and Contract Based	Present Value of Future Profits	Marketing, Technology and Other	Total
As of June 30, 2007				
Gross carrying amount	\$ 213	\$ 23	\$ 302	\$ 538
Accumulated amortization	170	22	144	336
Net carrying amount	\$ 43	\$ 1	\$ 158	\$ 202

(millions)	Customer Related and Contract Based	Present Value of Future Profits	Marketing, Technology and Other	Total
As of December 31, 2006				
Gross carrying amount	\$ 232	\$ 23	\$ 245	\$ 500
Accumulated amortization	203	21	129	353
Net carrying amount	\$ 29	\$ 2	\$ 116	\$ 147

Amortization expense for intangible assets for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 is estimated to be \$40 million, \$35 million, \$33 million, \$29 million and \$24 million, respectively.

8. Restructuring Charges**2005 Restructuring Plan**

In 2005, the Company commenced a broad restructuring initiative that is expected to result in cumulative pretax charges totaling approximately \$365 million, including workforce reductions, lease consolidation costs, asset impairments and other expenses necessary to implement the restructuring initiative. Costs related to the restructuring are included in compensation and benefits, other general expenses and depreciation and amortization in the accompanying condensed consolidated statements of income.

The following is a summary of second quarter and six months 2007, as well as inception to date, restructuring and related expenses by type incurred and estimated to be incurred through the end of the restructuring initiative:

	Actual		2007				Estimated Total
	2005	2006	1st Qtr.	2nd Qtr.	Six Months	Inception to Date	
Workforce reduction	\$ 116	\$ 116	\$ 3	\$ 15	\$ 18	\$ 250	\$ 253
Lease consolidation	20	27	3	8	11	58	59
Asset impairments	17	12	2	1	3	32	32
Other related expenses	5	12	2	2	4	21	21
Total restructuring and related expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 36	\$ 361	\$ 365

The following is a summary of restructuring and related expenses incurred and estimated to be incurred by segment through the end of the restructuring initiative:

	Actual		2007				Estimated Total
	2005	2006	1st Qtr.	2nd Qtr.	Six Months	Inception to Date	
Risk and Insurance							
Brokerage Services	\$ 143	\$ 136	\$ 7	\$ 21	\$ 28	\$ 307	\$ 310
Consulting	8	20	2	4	6	34	35
Insurance Underwriting	3	8	1	1	2	13	13
Unallocated	4	3				7	7
Total restructuring and related expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 36	\$ 361	\$ 365

The following table sets forth the activity related to the 2005 restructuring plan liabilities:

(millions)

Balance at December 31, 2005	\$ 116
Expensed in 2006	155
Cash payments in 2006	(141)
Foreign currency revaluation	4
Balance at December 31, 2006	134
Expensed in 2007	33
Cash payments in 2007	(53)
Foreign currency revaluation	(3)
Balance at June 30, 2007	\$ 111

Restructuring Charges Prior Years

In 1996 and 1997, Aon recorded restructuring liabilities as a result of the acquisition of Alexander and Alexander Services, Inc. (A&A) and Bain Hogg. During second quarter and six months 2007, Aon made payments of \$1 million and \$3 million, respectively, for these liabilities. In the second quarter, the Company determined that certain of these reserves were no longer required. Accordingly, the Company recorded an adjustment to decrease the restructuring reserve and the corresponding goodwill that was established when the transaction occurred in 1997. The remaining liability of \$12 million is primarily for lease abandonments and is being paid out over several years, as planned.

Aon s unpaid liabilities are included in general expense liabilities in the condensed consolidated statements of financial position.

9. Capital Stock

During the first six months of 2007, Aon issued 295,000 new shares of common stock for employee benefit plans and 98,000 shares in connection with the employee stock purchase plans. In addition, Aon reissued 6.2 million shares of treasury stock for employee benefit programs and 131,000 shares in connection with the employee stock purchase plans.

During the second quarter 2007, certain holders of Aon s \$300 million 3.5% convertible debt securities due November 2012 converted their holdings into Aon common stock. \$57 million was converted, resulting in the issuance of approximately 2.7 million shares.

In November 2006, Aon announced that its Board of Directors had increased the authorized repurchase program to \$2 billion. Shares may be repurchased through the open market or in privately negotiated transactions from time to time, based on prevailing market conditions and will be funded from available capital. Any repurchased shares will be available for use in connection with employee stock plans and for other corporate purposes. The Company repurchased approximately 6.7 million shares at a total cost of \$279 million in second quarter 2007. For the first six months of 2007, the Company repurchased approximately 16.2 million shares at a cost of \$625 million.

There are also 22.4 million shares of common stock held in treasury at June 30, 2007 which are restricted as to their reissuance.

10. Disposal of Operations

Continuing Operations

In second quarter 2007, Aon sold Media Professionals, Inc., a managing general underwriter, which was included in the Risk and Insurance Brokerage Services segment. A pretax gain of \$26 million was recognized on this sale, which was included in other general expenses in the condensed consolidated statement of income. Aon has a continuing revenue sharing agreement with the disposed business, and therefore this business does not qualify as a discontinued operation. Also in second quarter 2007, Aon sold 25% of its Botswana subsidiary, which is included in the Risk and Insurance Brokerage Services segment. A pretax gain of \$4 million was recognized on the sale, which also was included in other general expenses.

Discontinued Operations

In 2006, Aon sold the following businesses:

- Aon Warranty Group (AWG) and its worldwide warranty and credit operations, which was previously included in the Insurance Underwriting segment. Included in discontinued operations was pretax income of \$21 million and \$47 million for the three and six months ended June 30, 2006. A pretax gain of \$16 million was recognized on the sale in fourth quarter 2006.
- Construction Program Group (CPG), a managing general underwriter whose policies were underwritten by Aon's property and casualty operation. Results of CPG were previously included in both the Risk and Insurance Brokerage Services and Insurance Underwriting segments. A pretax gain of \$27 million was recognized on the sale in fourth quarter 2006.
- A non-core Australian brokerage unit, which was previously included in the Risk and Insurance Brokerage Services segment. A pretax gain of \$1 million was recognized on the sale in first quarter 2006.

Aon's insurance subsidiaries are involved in both the cession and assumption of reinsurance with other companies. Aon's reinsurance consists primarily of certain newer accident and health initiatives, as well as certain property and casualty lines that are in runoff. Aon's insurance subsidiaries remain liable to the extent that the reinsurers are unable to meet their obligations. In connection with the sale of AWG, Aon sold Virginia Surety Company (VSC). VSC will continue to remain liable to policyholders to the extent reinsurers of the property and casualty business do not meet their obligations. As a result, Aon no longer reports reinsurance recoverables related to its property and casualty business, which was not part of the sale of AWG. Aon has provided a corporate guarantee with respect to these reinsurance recoverables, which amounts to \$976 million at June 30, 2007.

A&A Discontinued Operations

Prior to its acquisition by Aon, A&A discontinued its property and casualty insurance underwriting operations in 1985, some of which were then placed into run-off, with the remainder sold in 1987. In connection with those sales, A&A provided indemnities to the purchaser for various estimated and potential liabilities, including provisions to cover future losses attributable to insurance pooling arrangements, a stop-loss reinsurance agreement and actions or omissions by various underwriting agencies previously managed by an A&A subsidiary.

As of June 30, 2007, the liabilities associated with the foregoing indemnities were included in other liabilities in the condensed consolidated statements of financial position. Such liabilities amounted to \$78 million. Reinsurance recoverables and other assets related to these liabilities are \$91 million. The remaining insurance liabilities represent estimates of known and future claims expected to be settled over the next 20 to 30 years, principally with regard to asbestos, pollution and other health exposures. Although these insurance liabilities represent a best estimate of the probable liabilities, adverse developments may occur given the nature of the information available and the variables inherent in the estimation processes.

The operating results of all these businesses are classified as discontinued operations, and prior year s operating results have been reclassified to discontinued operations, as follows:

(millions)	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
AWG	\$	\$ 310	\$	\$ 603
CPG		57		122
Total	\$	\$ 367	\$	\$ 725
Pretax income:				
Operations:				
AWG	\$	\$ 21	\$	\$ 47
CPG		9		21
Other		(1)	1	(1)
		29	1	67
Gain on sale	3		4	1
Total	\$ 3	\$ 29	\$ 5	\$ 68
After-tax income (loss):				
Operations	\$	\$ 18	\$	\$ 43
Sale	2		3	(1)
Total	\$ 2	\$ 18	\$ 3	\$ 42

11. Net Periodic Benefit Cost

The following table provides the components of the net periodic benefit cost for Aon's U.S. plans:

(millions) Three months ended June 30,	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 14	\$ 17	\$ 1	\$ 1
Interest cost	24	25	1	1
Expected return on plan assets	(30)	(29)		
Amortization of prior service cost	(3)			
Amortization of net loss	11	12		
Net periodic benefit cost	\$ 16	\$ 25	\$ 2	\$ 2

(millions) Six months ended June 30,	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 28	\$ 33	\$ 1	\$ 1
Interest cost	49	50	2	2
Expected return on plan assets	(60)	(57)		
Amortization of prior service cost	(7)			
Amortization of net loss	22	23		
Net periodic benefit cost	\$ 32	\$ 49	\$ 3	\$ 3

The following table provides the components of net periodic benefit costs for Aon's material international pension plans, which are located primarily in the U.K. and The Netherlands:

(millions)	Pension Benefits		Six months	
	Three months ended June 30, 2007	Three months ended June 30, 2006	ended June 30, 2007	ended June 30, 2006
Service cost	\$ 4	\$ 17	\$ 17	\$ 32
Interest cost	63	54	125	107
Expected return on plan assets	(74)	(56)	(146)	(110)
Amortization of net loss	8	22	27	44
Net periodic benefit cost	\$ 1	\$ 37	\$ 23	\$ 73

As previously disclosed in its 2006 financial statements, Aon currently expects to contribute \$36 million in 2007 to its U.S. defined benefit pension plans to satisfy minimum funding requirements and \$5 million to fund other postretirement benefit plans. As of June 30, 2007, contributions of \$3 million have been made to the U.S. pension plans and \$3 million to other postretirement benefit plans.

Aon previously disclosed in its 2006 financial statements that it expected to contribute \$197 million in 2007 to its major international defined benefit pension plans. Based on current rules and assumptions, Aon now plans to contribute approximately \$161 million to its major international defined pension plans during 2007. As of June 30, 2007, \$97 million has been contributed.

In March 2007, the trustees of Aon's U.K. pension plans approved the Company's proposal to cease crediting future pension plan benefits relating to salary and service, effective April 1, 2007. Future pension provisions will be provided under the defined contribution section of the Aon U.K. Pension Scheme. As a result of the adoption of these changes, the Company remeasured its U.K. defined benefit pension plans,

which resulted in an improvement in the funded status of these plans, and decreased other comprehensive loss by an after tax amount of \$20 million. In accordance with FASB Statement No. 87, *Employers' Accounting for Pensions*, unrecognized gains and losses in the U.K. pension plans are now amortized over the average remaining life expectancy of participants instead of the average remaining service period of employees, which was previously used.

12. Other-Than-Temporary Impairments

The following table analyzes our investment positions with unrealized losses segmented by quality and period of continuous unrealized loss as of June 30, 2007.

(\$ in millions)	Investment Grade			Total
	0-6 Months	6-12 Months	>12 Months	
FIXED MATURITIES				
U.S. government and agencies				
# of positions	5	3	32	40
Fair Value	\$ 22	\$ 9	\$ 156	\$ 187
Amortized Cost	22	9	162	193
Unrealized Loss			(6)	(6)
Foreign governments				
# of positions	44	23	87	154
Fair Value	\$ 243	\$ 430	\$ 559	\$ 1,232
Amortized Cost	248	446	581	1,275
Unrealized Loss	(5)	(16)	(22)	(43)
Corporate securities				
# of positions	143	34	287	464
Fair Value	\$ 308	\$ 57	\$ 545	\$ 910
Amortized Cost	317	59	571	947
Unrealized Loss	(9)	(2)	(26)	(37)
Mortgage- and asset-backed securities				
# of positions	152	22	307	481
Fair Value	\$ 211	\$ 14	\$ 185	\$ 410
Amortized Cost	215	15	192	422
Unrealized Loss	(4)	(1)	(7)	(12)
TOTAL FIXED MATURITIES				
# of positions	344	82	713	1,139
Fair Value	\$ 784	\$ 510	\$ 1,445	\$ 2,739
Amortized Cost	802	529	1,506	2,837
Unrealized Loss	(18)	(19)	(61)	(98)
% of Total Unrealized Loss	18	% 19	% 61	% 98

	Non-Investment Grade			Total
	0-6 Months	6-12 Months	>12 Months	
EQUITY SECURITIES				
# of positions		3		3
Fair Value	\$	\$ 35	\$	\$ 35
Amortized Cost		37		37
Unrealized Loss		(2)		(2)
% of Total Unrealized Loss		2	%	2

Other intangible assets are classified into three categories:

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For categorization purposes, Aon considers any rating of Baa or higher by Moody's Investor Services or equivalent rating agency to be investment grade. Aon has no fixed maturities below investment grade with an unrealized loss.

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Aon's fixed-maturity portfolio in total had a \$98 million gross unrealized loss at June 30, 2007, and is subject to interest rate, market, and credit risks. No single position had an unrealized loss greater than \$7 million. With a carrying value of \$2,920 million at June 30, 2007, Aon's total fixed-maturity portfolio is approximately 100% investment grade based on market value. Fixed-maturity securities with an unrealized loss are 100% investment grade and have a weighted average rating of 'Aa' based on amortized cost. Aon's non-publicly-traded fixed maturity portfolio had a carrying value of \$221 million. Valuations of these securities primarily reflect the fundamental analysis of the issuer and current market price of comparable securities.

Aon's equity portfolio is comprised of non-redeemable preferred stocks, publicly traded common stocks and other common and preferred stocks not publicly traded. This portfolio had \$2 million of gross unrealized losses at June 30, 2007, and is subject to interest rate, market, credit, illiquidity, concentration and operational performance risks.

Aon reviews invested assets with material unrealized losses each quarter. Please see Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates in Aon's 2006 Annual Report on Form 10-K for further information.

13. Uncertain Tax Positions

Aon adopted the provisions of FASB Interpretation No. 48 (FIN48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, on January 1, 2007. As a result of the implementation of FIN 48, Aon did not recognize any material adjustments in the liability for unrecognized tax benefits. As of March 31, 2007, Aon had \$61 million of gross unrecognized tax benefits, \$49 million of which would affect the effective tax rate if recognized. There were no material changes to these amounts in second quarter 2007.

Aon recognizes interest and penalties related to unrecognized income tax benefits in its provision for income taxes. As of March 31, 2007, Aon had accrued \$8 million for the payment of interest and penalties, which is included as a component of the \$61 million of total unrecognized tax benefits noted above. There were no material changes to these amounts in second quarter 2007.

Aon has substantially concluded all U.S. federal income tax matters for years through 2004. Substantially, all material state and local income tax jurisdiction examinations have been concluded for years through 2001. Aon's primary international jurisdictions have concluded income tax examinations through 2000.

14. Endurance Warrants and Common Stock Investment

In 2001, Aon invested \$227 million in the common stock of Endurance Specialty Holdings, Ltd. (Endurance), a Bermuda-based insurance and reinsurance company. Aon sold virtually all of its common stock investment in Endurance in 2004. In conjunction with the initial common stock investment, Aon also received 4.1 million stock purchase warrants, which allowed Aon to purchase additional Endurance common stock through December 2011. These warrants met the definition of a derivative, which required them to be recorded in the financial statements at fair value, with changes in fair value recognized in earnings on a current basis. On March 31, 2006, Aon contributed all of the Endurance warrants to its U.K. pension plans. The warrants had a fair value of approximately \$73 million at March 31, 2006. The change in the fair value of the warrants from December 31, 2005 was a decrease of \$17 million, and was included in investment income for the six months ended June 30, 2006.

15. Contingencies

Aon and its subsidiaries are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business. The damages claimed in these matters are or may be substantial, including, in many instances, claims for punitive, treble or extraordinary damages. Aon has purchased errors and omissions (E&O) insurance and other appropriate insurance to provide protection against losses that arise in such matters. Accruals for these items, and related insurance receivables, when applicable, have been provided to the extent that losses are deemed probable and are reasonably estimable. These accruals and receivables are adjusted from time to time as developments warrant.

In 2004, Aon, other insurance brokers, insurers and numerous other industry participants received subpoenas and other requests for information from the office of the Attorney General of the State of New York and from other states relating to certain practices in the insurance industry.

On March 4, 2005, Aon entered into an agreement (the Settlement Agreement) with the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General and the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation (collectively, the State Agencies) to resolve all the issues related to investigations conducted by the State Agencies.

As has been described in detail in Aon's previous financial filings, the Settlement Agreement required Aon to pay between 2005-2007 a total of \$190 million into a fund (the Fund) to be distributed to certain Eligible Policyholder clients and to implement certain business reforms. The Settlement Agreement set forth the procedures under which Aon mailed notices to its Eligible Policyholder clients and distributed the Fund to Participating Policyholder clients.

Purported clients have also filed civil litigation against Aon and other companies under a variety of laws and legal theories relating to broker compensation practices and other issues under investigation by New York and other states. As previously reported, a putative class action styled *Daniel v. Aon (Affinity)* has been pending in the Circuit Court of Cook County, Illinois since August 1999. In March 2005 the Court gave preliminary approval to a nationwide class action settlement under which Aon agreed to pay a total of \$38 million to its policyholders. The Court granted final approval to the settlement in March 2006. Parties that objected to the settlement have appealed.

Beginning in June 2004, a number of other putative class actions were filed against Aon and other companies by purported classes of clients under a variety of legal theories, including state tort, contract, fiduciary duty, antitrust and statutory theories and federal antitrust and Racketeer Influenced and Corrupt Organizations Act (RICO) theories. These actions are currently pending in state court in California and in federal court in New Jersey. In the New Jersey federal class actions, the Court on April 5, 2007 dismissed, without prejudice, the plaintiffs' federal antitrust and RICO claims. The Court granted plaintiffs one opportunity to replead their claims, and Aon and other defendants have moved to dismiss the new complaints. Aon believes it has meritorious defenses in all of these cases and intends to vigorously defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time.

Beginning in late October 2004, several putative securities class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Also beginning in late October 2004, several putative ERISA class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Aon believes it has meritorious defenses in all of these cases and intends to vigorously

defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time. With respect to the various securities and ERISA class actions, we are unable to estimate a range of possible losses, as these actions have not yet progressed to the stages where damages can be estimated.

Although the ultimate outcome of all matters referred to above cannot be ascertained, and liabilities in indeterminate amounts may be imposed on Aon or its subsidiaries, on the basis of present information, amounts already provided, availability of insurance coverages and legal advice received, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the consolidated financial position of Aon. However, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by an unfavorable resolution of these matters.

16. Subsequent Event

On July 31, 2007, the Company announced that it is considering strategic options for Combined Insurance Company of America and its subsidiaries.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

This Management's Discussion and Analysis is divided into six sections. First, key recent events are described that have affected or will affect our financial results during 2007. We then review our consolidated results and segments with comparisons for the second quarter and six-months 2007 to the corresponding periods in 2006. We then discuss our financial condition and liquidity as well as information on our off balance sheet arrangements. The final section addresses certain factors that can influence future results.

The outline for our Management's Discussion and Analysis is as follows:

KEY RECENT EVENTS

Strategic Alternatives for Combined Insurance Company of America

Restructuring Initiatives

Recent Regulatory and Legislative Activity

Acquisitions and Dispositions of Various Businesses

Distributions from PEPS I

Stock Repurchase Program

CRITICAL ACCOUNTING POLICIES

REVIEW OF CONSOLIDATED RESULTS

General

Consolidated Results

REVIEW BY SEGMENT

General

Risk and Insurance Brokerage Services

Consulting

Insurance Underwriting

Unallocated Income and Expense

FINANCIAL CONDITION AND LIQUIDITY

Cash Flows

Financial Condition

Short-term Borrowings and Notes Payable

Other intangible assets are classified into three categories:

Stockholders' Equity

Off Balance Sheet Arrangements

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

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KEY RECENT EVENTS**Strategic Alternatives for Combined Insurance Company of America**

In July 2007, we announced that we are considering strategic options for Combined Insurance Company of America (CICA) and its subsidiaries. Preparations are being made for a spin-off of CICA to our shareholders, but we anticipate receiving inquiries from potential buyers and are prepared to respond accordingly.

CICA and its subsidiaries, including Sterling Life Insurance Company (Sterling), provide accident, health and life insurance coverage in the U.S., Canada, Europe and Asia Pacific primarily through more than 7,000 career insurance agents.

Restructuring Initiatives

In 2005, we began executing a broad restructuring initiative to reduce our fixed cost base and increase efficiency. This three-year plan has evolved as new opportunities have been identified and existing initiatives have been finalized. We expect the remaining portion to cost \$4 million during 2007, which is in addition to the \$361 million expensed through June 30, 2007. Restructuring costs include workforce reductions, lease consolidation costs, asset impairments, and other expenses. Additional cost-saving initiatives will be executed beyond this formalized restructuring plan, though those costs are not considered within the definition of the restructuring. For the second quarter 2007, we estimated restructuring benefits were approximately \$58 million. These initiatives are expected to lead to annualized cost savings of approximately \$280 million by 2008.

We estimate 3,600 positions will be eliminated as a result of this initiative. As of June 30, 2007, approximately 3,100 of these eliminations had already occurred. Further, office closures require that we recognize losses on subleases or lease buy-outs, and may also trigger asset impairments.

The following table details the restructuring and related expenses we incurred through second quarter 2007 and our estimates for the remainder of 2007 by geographic region:

	United States	Americas, other than U.S.	United Kingdom	Europe, Middle East & Africa	Asia Pacific	Total
(millions)						
2005	\$ 28	\$ 6	\$ 92	\$ 31	\$ 1	\$ 158
2006	66	3	56	35	7	167
1st quarter 2007	4		5	2	(1)	10
2nd quarter 2007	12		13	1		26
Total incurred inception-to-date	110	9	166	69	7	361
Remainder of 2007 (estimated)	3		1			4
Total expenses	\$ 113	\$ 9	\$ 167	\$ 69	\$ 7	\$ 365

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The following table summarizes the restructuring costs incurred through second quarter 2007 and our estimated expenses for the remainder of 2007, by type.

(millions)	Actual		1st Quarter 2007	2nd Quarter 2007	Inception to date	Estimated Remainder of 2007 (1)	Total
	2005	2006					
Workforce reduction	\$ 116	\$ 116	\$ 3	\$ 15	\$ 250	\$ 3	\$ 253
Lease consolidation	20	27	3	8	58	1	59
Asset impairments	17	12	2	1	32		32
Other related expenses	5	12	2	2	21		21
Total expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 361	\$ 4	\$ 365

(1) Our estimated costs are forward looking and should be read in connection with our risk factors. Actual costs may vary due to changes in the assumptions built into this plan. Some of the assumptions that may change include changes in severance calculations, the assumptions underlying our sublease loss calculations due to changing market conditions, and our overall analysis that might cause us to add or cancel component initiatives.

The following table details the restructuring and related expense by segment:

(millions)	Actual		1st Quarter 2007	2nd Quarter 2007	Inception to date	Estimated Remainder of 2007	Total
	2005	2006					
Risk and Insurance Brokerage Services	\$ 143	\$ 136	\$ 7	\$ 21	\$ 307	\$ 3	\$ 310
Consulting	8	20	2	4	34	1	35
Insurance Underwriting	3	8	1	1	13		13
Unallocated	4	3			7		7
Total expenses	\$ 158	\$ 167	\$ 10	\$ 26	\$ 361	\$ 4	\$ 365

Recent Regulatory and Legislative Activity

A substantial portion of CICA's revenue growth over the past two years has been generated by its Sterling unit and the bulk of that growth was generated from its Medicare Advantage (MA) products which are Private-Fee-For-Service plans (PFFS plans). Sterling's revenue accounted for 34% of CICA's total revenue during the second quarter 2007 and 92% of that revenue was generated by its PFFS Plans. Below is a summary of Sterling's revenue and their PFFS plans as it relates to CICA as a whole.

	Second quarter ended		Six months ended		Year Ended December 31,		
	June 30, 2007	2006	June 30, 2007	2006	2006	2005	
Sterling's MA Plans	\$ 190	\$ 96	\$ 341	\$ 178	\$ 437	\$ 221	
Other Sterling products	16	21	34	39	71	74	
Sterling total revenue	206	117	375	217	508	295	
All other CICA products	405	382	809	763	1,497	1,510	
CICA total revenue	\$ 611	\$ 499	\$ 1,184	\$ 980	\$ 2,005	\$ 1,805	
Sterling as a % of CICA revenue	34	% 23	% 32	% 22	% 25	% 16	%
MA products as a % of CICA revenue	31	% 19	% 29	% 18	% 22	% 12	%

As shown above, approximately 92% of Sterling's total revenue during the second quarter 2007 was generated by its PFFS plans and its Medicare Part D prescription drug plans. Most aspects of these plans are regulated by the federal government, through the Centers for Medicare and Medicaid Services (CMS).

Prior to July 2006, Sterling was authorized to market and enroll beneficiaries within MA products year-round, but that authorization was due to expire and change to an open enrollment period of only November 15th through December 31st of each year, with a switch enrollment period of January through March of each year. Federal legislation that passed in late 2006 extended year-round enrollment (through 2008) for certain health plans like those marketed by Sterling. In July of 2007, that legislation was repealed. Accordingly, beginning on August 1, 2007, Sterling and all other MA plans no longer have the ability to enroll beneficiaries within their plans all year long.

In 2008 and beyond, Sterling and all other MA plans will be permitted to enroll Medicare beneficiaries until March 31st of a calendar year, unless a special enrollment period applies. Additionally, Sterling will be able to enroll year-round those individuals just becoming eligible for Medicare.

On June 15, 2007, Sterling voluntarily agreed, upon CMS's request of Sterling and other private fee-for-service providers, to temporarily suspend marketing activities of non-group, individual PFFS plans effective June 22, 2007. Sterling is continuing its cooperative work with CMS to gain approval that Sterling's systems and management controls meet all of the conditions specified by CMS in a 2008 Call Letter and May 25, 2007 guidance, which we call collectively the Conditions and is working with CMS to re-commence sales.

We believe the recent repeal of all year open enrollment and the voluntary commitment to CMS to suspend marketing will have an adverse impact on Sterling's revenue growth opportunity, or at least the consistency of this growth, throughout the year. Though revenue is not anticipated to decline as a result of the foregoing matter discussed above, Sterling's primary revenue growth opportunities will now largely be contained to its sales activities of MA products in the first quarter of future years beginning in 2008 (coinciding with the open enrollment period).

Acquisitions and Dispositions of Various Businesses

We continually review our portfolio of businesses, making acquisitions where we think it will help us deliver distinctive client value, as well as exploring strategic alternatives of businesses we currently have. For 2006 in total, we spent \$138 million for acquisitions. In the first six months of 2007, we spent \$203 million for 2007 acquisitions. We increased our position in the U.K. affinity market by purchasing Footman James, and our technology platform was strengthened through the acquisition of Valley Oak Systems in the U.S.

In second quarter 2007, Aon sold the assets and operations of Media Professional Insurance, Inc. (Media Pro), a managing general underwriter specializing in professional liability lines of business, which is included in our Risk and Insurance Brokerage Services segment. This disposition resulted in a \$26 million gain, which is included in other general expenses in the condensed consolidated statement of income. We have a continuing revenue sharing arrangement, and therefore this business does not qualify as a discontinued operation.

We sold a 25% stake in our Botswana brokerage subsidiary. This disposition resulted in a \$4 million gain, which is included in other general expenses within our Risk and Insurance Brokerage Services segment.

During first quarter 2006, we completed the sale of a non-core brokerage business in Australia. In fourth quarter 2006, we completed the sale of our AWG and CPG businesses. The results of those businesses through the date of sale are shown as discontinued operations in our condensed consolidated statements of income.

Distributions from PEPS I

We received income distributions from our preferred investment in Private Equity Partnership Structures I, LLC (PEPS I) of \$26 million during the second quarter and \$39 million for the first six months of 2007, which were recorded in investment income. Prior to 2007, income distributions received from PEPS I were limited to interest payments on various PEPS I debt instruments. Beginning in 2007, PEPS I had redeemed or collateralized all of its debt, and as a result, paid preferred income distributions. Receipt of additional preferred returns is dependent on the performance of the limited partnership (LP) interests underlying PEPS I and is expected to vary from period to period. We do not control the timing of this distribution.

Share Repurchase Program

We are currently authorized to repurchase \$2 billion of Aon's common stock. Pursuant to this program, during the first six months 2007, we repurchased 16.2 million shares at a cost of \$625 million. Since the program began, we have now repurchased 45.3 million shares at a cost of \$1,697 million. Of the shares repurchased since the program's inception, we have reissued approximately 10.5 million shares for stock options, stock awards and other benefit plans.

CRITICAL ACCOUNTING POLICIES

There have been no changes in our critical accounting policies, which include pensions, contingencies, policy liabilities, valuation of investments, intangible assets, share-based payments and income taxes, as discussed in our 2006 Annual Report on Form 10K.

REVIEW OF CONSOLIDATED RESULTS

General

In our discussion of operating results, we sometimes refer to supplemental information derived from consolidated financial information.

We use supplemental information related to organic revenue growth to help us and our investors evaluate business growth from existing operations. Organic revenue growth excludes the impact of foreign exchange rate changes, acquisitions, divestitures, transfers between business units, investment income, reimbursable expenses, and unusual items. Organic revenue growth for the insurance underwriting segment is based on written premiums.

Supplemental organic revenue growth information should be viewed in addition to, not instead of, our condensed consolidated statements of income. Industry peers provide similar supplemental information about their revenue performance, although they may not make identical adjustments.

Because we conduct business in over 120 countries, foreign exchange rates fluctuations have an impact on our business. In comparison to the U.S. dollar, foreign exchange rate movements may be significant and may distort true period-to-period comparisons of changes in revenue or pretax income. Therefore, we have isolated the impact of the change in currencies between periods by providing percentage changes on a comparable currency basis for revenue, and have disclosed the effect on earnings per share. We have also provided this form of reporting to give financial statement users more meaningful information about our operations.

Some tables in the segment discussions reconcile organic revenue growth percentages to the reported revenue growth percentages for the segments and sub-segments. We separately disclose the impact of foreign currency as well as the impact from acquisitions, divestitures, and transfers of business units, which represent the most significant reconciling items. In an all other category, we total other reconciling items that are not generally significant individually or in the aggregate. If there is a significant individual reconciling item within the all other category, we provide additional disclosure in a footnote.

Consolidated Results

The following table and commentary provide selected consolidated financial information.

(millions)	Second Quarter Ended			Six Months Ended			
	June 30, 2007	June 30, 2006	Percent Change	June 30, 2007	June 30, 2006	Percent Change	
Revenue							
Commissions and fees	\$ 1,781	\$ 1,651	8	% \$ 3,516	\$ 3,263	8	%
Premiums and other	573	472	21	1,112	936	19	
Investment income	134	85	58	241	174	39	
Total revenue	2,488	2,208	13	4,869	4,373	11	
Expenses							
Compensation and benefits	1,207	1,131	7	2,359	2,228	6	
Other general expenses	477	459	4	987	920	7	
Benefits to policyholders	355	261	36	678	515	32	
Depreciation and amortization	49	55	(11)	99	110	(10))
Interest expense	34	34		69	65	6	
Provision for New York and other state settlements	1	1		1	2	(50))
Total expenses	2,123	1,941	9	4,193	3,840	9	
Income from continuing operations before provision for income taxes	\$ 365	\$ 267	37	% \$ 676	\$ 533	27	%
Pretax margin-continuing operations	14.7	% 12.1	%	13.9	% 12.2	%	

Revenue

Commissions and fees increased by \$130 million or 8% on a quarterly basis and \$253 million or 8% on a year-to-date basis. The impact of foreign currency translation and organic growth in the Risk and Insurance Brokerage Services segment primarily drove the increase, which was partially offset by a decline in outsourcing revenue in our Consulting segment.

Premiums and other increased \$101 million or 21% on a quarterly basis and \$176 million or 19% on a year-to-date basis, driven by strong growth in our Sterling subsidiary's MA health product in our Accident & Health and Life sub-segment.

Investment income increased \$49 million or 58% on a quarterly basis and \$67 million or 39% on a year-to-date basis. The increase was primarily driven by:

- Non-liquidating distributions from our PEPS I investment, which contributed \$26 million and \$39 million of income on a quarterly and year-to-date basis, respectively.
- realized gains from the sale of investments

- \$17 million of realized losses on our Endurance warrants in first quarter 2006, and
- higher interest rates realized on our investment portfolio.

Expenses

Compensation and benefits increased \$76 million or 7% on a quarterly basis and \$131 million or 6% on a year-to-date basis. Driving the increase was the impact of foreign currency translation and higher incentive costs, partially offset by lower pension expenses and, on a year-to-date basis, lower restructuring costs. Lower pension expense reflects current actuarial assumptions and the previously announced changes to both our U.S. and U.K. defined benefit pension plans.

Other general expenses increased \$18 million or 4% on a quarterly basis and \$67 million or 7% on a year-to-date basis. The increase was driven by the impact of foreign currency translation and increases in various expense categories, and, on a year-to-date basis, the settlement of litigation for acquired employees in our U.K. reinsurance business and restructuring costs. The increase was partially offset by \$30 million of gains from the sale or partial sale of businesses.

Benefits to policyholders increased \$94 million or 36% on a quarterly basis and \$163 million or 32% on a year-to-date basis. The increase for both periods was driven by the growth in Sterling's MA product.

Depreciation expense decreased \$6 million or 11% on a quarterly basis and \$11 million or 10% on a year-to-date basis. The decline for both periods was caused by asset disposals and write-offs in 2006, primarily driven by restructuring activity.

Interest expense was flat to last year on a quarterly basis, but increased \$4 million or 6% on a year-to-date basis. Higher year-to-date interest costs resulted from higher international debt levels and interest rates.

Income from Continuing Operations Before Provision for Income Tax and Cumulative Effect of a Change in Accounting Principle

Income from continuing operations before provision for income tax increased \$98 million to \$365 on a quarterly basis and increased \$143 million or 27% for the six months ended June 30, 2007. The 37% and 27% improvement is attributable to organic revenue growth in the Risk and Insurance Brokerage Services and Insurance Underwriting segments, the favorable impact of foreign currency translation, increased investment income, and a profit improvement in Consulting, and on a year-to-date basis, lower restructuring costs, which more than offset higher compensation and benefit costs and other general expenses.

Income Taxes

The effective tax rate for continuing operations was 34.8% and 34.5% for the second quarters ended June 30, 2007 and 2006, respectively. The effective tax rate for continuing operations was 33.4% and 34.7% for the six month period ended June 30, 2007 and 2006, respectively. The 2007 year-to-date rate was impacted by the geographic distribution of earnings and the favorable resolution of certain tax matters.

On July 19, 2007, legislation was finalized in the United Kingdom which reduces the corporate tax rate from 30% to 28%. While the lower U.K. tax rate will be a benefit to Aon's recurring effective tax rate in future periods, it also requires a reevaluation of the deferred tax assets related to our U.K. operations. Although the calculations have not been finalized, we anticipate that a one time non-cash charge of approximately \$20 million (\$0.07 and \$0.06 per basic and diluted share, respectively) will be included in the third quarter tax provision.

Income from Continuing Operations

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Income from continuing operations before accounting change for second quarter 2007 and 2006 was \$238 million and \$175 million, respectively. Basic and diluted income per share in the second quarter 2007 was \$0.80 and \$0.74, respectively, versus \$0.54 and \$0.52 for basic and diluted income per share in 2006, respectively. Income from continuing operations before accounting change for six month 2007 and 2006 was \$450 million and \$348 million, respectively. Basic and diluted income per share for the six-months ended June 30, 2007 was \$1.52 and \$1.40, respectively, versus \$1.09 and \$1.01 for basic and diluted income per share for

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the comparable period of 2006, respectively. Income from continuing operations in 2007 included \$0.01 and \$0.02 per share for currency translation gains for the second quarter and six months, respectively.

Discontinued Operations

Second quarter 2007 income from discontinued operations was \$2 million (\$.01 per basic and diluted share) versus \$18 million for second quarter 2006 (\$0.06 and \$0.05 per basic and diluted share, respectively). Six months income from discontinued operations was \$3 million in 2007 (\$0.01 per basic and diluted share) versus \$42 million for 2006 (\$0.13 and \$0.12 per basic and diluted share, respectively). Activity in discontinued operations for 2007 included some residual settlement activity relating to our AWG and CPG disposals. Results in 2006 principally reflect the quarterly and six months operating results from our AWG and CPG businesses, which were sold in fourth quarter 2006.

REVIEW BY SEGMENT

General

We classify our businesses into three operating segments: Risk and Insurance Brokerage Services, Consulting and Insurance Underwriting (see Note 6). Our operating segments are identified as those that:

- report separate financial information, and
- are evaluated regularly when we are deciding how to allocate resources and assess performance.

Segment revenue includes investment income generated by invested assets of that segment, as well as the impact of related derivatives. Investment characteristics mirror liability characteristics of the respective segments:

- Our Risk and Insurance Brokerage Services and Consulting businesses invest funds held on behalf of clients and operating funds in short-term obligations.
- In Insurance Underwriting, policyholder claims and other types of non-interest sensitive insurance liabilities are primarily supported by intermediate to long-term fixed-maturity instruments. For this business segment, operating invested assets are approximately equal to average net policy liabilities.
- Our insurance subsidiaries also have invested assets that exceed net policy liabilities, which allow us to maintain solid claims paying ratings. Income from these investments is reflected in unallocated revenue.

The following table and commentary provide selected financial information on the operating segments.

(millions)	Second quarter ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Operating segment revenue:(1) (2)				
Risk and Insurance Brokerage Services	\$ 1,515	\$ 1,385	\$ 2,971	\$ 2,765
Consulting	325	309	654	617
Insurance Underwriting	610	505	1,184	1,000
Income before income tax:				
Risk and Insurance Brokerage Services	\$ 278	\$ 215	\$ 520	\$ 455
Consulting	44	23	91	53
Insurance Underwriting	67	75	126	128
Pretax Margins:				
Risk and Insurance Brokerage Services	18.3	% 15.5	% 17.5	% 16.5
Consulting	13.5	% 7.4	% 13.9	% 8.6
Insurance Underwriting	11.0	% 14.9	% 10.6	% 12.8

(1) Intersegment revenues of \$6 million and \$9 million were included in second quarter 2007 and 2006, respectively.

(2) Intersegment revenues of \$16 million and \$24 million were included in the six months ending June 30, 2007 and 2006, respectively.

The following table reflects investment income earned by the operating segments, which is included in the foregoing results.

(millions)	Second quarter ended		Six months ended	
	June 30, 2007	2006	June 30, 2007	2006
Risk and Insurance Brokerage Services	\$ 53	\$ 40	\$ 98	\$ 105
Consulting	6	1	7	3
Insurance Underwriting	31	26	60	51

- Risk and Insurance Brokerage Services investment income increased \$13 million from second quarter 2006 and decreased \$7 million on a year-to-date basis. The quarterly increase was primarily driven by higher interest rates and the gain on the sale of certain investments while the year-to-date decrease was driven by the contribution of the Scandent preferred stock investment to a U.K. pension plan in 2006, which resulted in a gain of \$35 million.

- The improvement at Consulting for both the second quarter and six months is a result of a gain on the sale of an investment.

- Insurance Underwriting investment income increased \$5 million and \$9 million on a quarterly and year-to-date basis, respectively, primarily because of higher invested balances and increases in interest rates.

Risk and Insurance Brokerage Services

Aon is a leader in many sectors of the insurance industry. Globally, we are the largest insurance broker, the largest reinsurance broker, and the leading manager of captive insurance companies worldwide. These rankings are based on the most recent surveys compiled and reports printed by *Business Insurance*.

Changes in premiums have a direct and potentially material impact on the insurance brokerage industry, as commission revenues are generally based on a percentage of the premiums paid by insureds. Insurance premiums may vary widely based on market conditions. Heavier than anticipated loss experience or capital shortages can result in increasing premium rates, which is referred to as a hard market. A hard market tends to favorably impact commission revenues. Conversely, increased competition for market share among insurance carriers or increased underwriting capacity can result in flat or reduced premium rates, or a soft market. A soft market tends to put downward pressure on commission revenues. Hard and soft markets may be broad-based or more narrowly focused across certain product lines or geographic areas.

Risk and Insurance Brokerage Services generated approximately 62% of Aon's total operating segment revenues for both the second quarter and six months 2007. Revenues are generated primarily through:

- fees paid by clients
- commissions and fees paid by insurance and reinsurance companies
- interest income on funds held on behalf of clients.

Our revenues vary from quarter to quarter throughout the year as a result of:

- the timing of our clients' policy renewals
- the net effect of new and lost business
- the timing of services provided to our clients
- the income we earn on investments, which is heavily influenced by short-term interest rates.

Our risk brokerage companies operate in a highly competitive industry and compete with many retail insurance brokerage and agency firms, as well as individual brokers, agents, and direct writers of insurance coverage. Specifically, this segment:

- addresses the highly specialized product development and risk management needs of commercial enterprises, professional groups, insurance companies, governments, healthcare providers, and non-profit groups, among others
- provides affinity products for professional liability, life, disability income and personal lines for individuals, associations and businesses
- provides reinsurance services to insurance and reinsurance companies and other risk assumption entities by acting as brokers or intermediaries on all classes of reinsurance
- provides managing underwriting and premium finance services to independent agents and brokers as well as corporate clients
- provides actuarial, loss prevention and administrative services to businesses and consumers
- manages captive insurance companies.

We review our revenue results using the following sub-segments:

- *Risk Management and Insurance Brokerage* encompasses our retail brokerage services, affinity products, managing general underwriting, placement and captive management services, and premium finance services in the

following geographic areas: Americas; United Kingdom; Europe, Middle East & Africa; and Asia Pacific.

- *Reinsurance Brokerage and Related Services (Reinsurance)* offers sophisticated advisory services in program design and claim recoveries that enhance the risk/return characteristics of insurance policy portfolios, improve capital utilization and evaluate and mitigate catastrophic loss exposures worldwide.

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Revenue

This table shows Risk and Insurance Brokerage Services revenue by sub-segment.

(millions) Second quarter ended June 30,	2007	2006	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures & Transfers	Less: All Other	Organic Revenue Growth
Americas	\$ 618	\$ 581	6	% 1	%	%(2	)% 7
United Kingdom	218	191	14	5	2	1	6
Europe, Middle East & Africa	307	270	14	7	(1	) 5	3
Asia Pacific	138	129	7	9	(4	) (3	) 5
Reinsurance	234	214	9	2	2	1	4
Total revenue	\$ 1,515	\$ 1,385	9	% 3	%	% 1	% 5

(millions) Six months ended June 30,	2007	2006	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures & Transfers	Less: All Other	Organic Revenue Growth
Americas	\$ 1,137	\$ 1,098	4	%	%	%(3	)% 7
United Kingdom	374	346	8	6	3	1	(2
Europe, Middle East & Africa	741	644	15	7	1	4	3
Asia Pacific	238	217	10	7	(3	)	6
Reinsurance	481	460	5	3			2
Total revenue	\$ 2,971	\$ 2,765	7	% 4	% 1	% (2	)% 4

- Americas revenue was up 6% and 4% on a quarterly and year-to-date basis, respectively, driven by strong new business growth in the U.S. and Latin America and effective management of our renewal book portfolio. Six months 2006 results were impacted by a \$35 million gain on the contribution of our Scandent preferred stock.
- U.K. revenue rose 14% and 8% on a quarterly and year-to-date basis, respectively, as favorable foreign currency translation and acquisitions more than offset an organic revenue decline of 2% on a year-to-date basis. Organic revenue growth was 6% in the second quarter, driven by new business and an improved retention rate.
- Europe, Middle East & Africa revenue rose 14% and 15% on a quarterly and year-to-date basis, respectively, reflecting favorable foreign currency translation, improved investment income and 3% organic revenue growth on both a quarterly and year-to-date basis. Organic growth was primarily due to a higher retention rate in Europe and strong growth in emerging markets.
- Asia Pacific's 7% and 10% revenue growth on a quarterly and year-to-date basis, respectively, was driven by positive foreign currency translation and organic growth in most markets in Asia, partially offset by continued weakness in Australia.
- Reinsurance revenue grew 9% and 5% on a quarterly and year-to-date basis, respectively. The growth was driven by 4% and 2% organic growth on a quarterly and year-to-date basis, respectively, and the favorable impact of foreign currency translation. Organic growth was primarily driven by strong growth of facultative placements.

This table shows Risk and Insurance Brokerage Services revenue by geographic area.

(millions)	Second quarter ended			Six months ended			
	June 30, 2007	June 30, 2006	Percent Change	June 30, 2007	June 30, 2006	Percent Change	
United States	\$ 545	\$ 517	5	% \$ 1,033	\$ 1,010	2	%
Americas, other than U.S.	176	159	11	306	279	10	
United Kingdom	266	243	9	483	464	4	
Europe, Middle East & Africa	373	326	14	885	772	15	
Asia Pacific	155	140	11	264	240	10	
Total revenue	\$ 1,515	\$ 1,385	9	% \$ 2,971	\$ 2,765	7	%

- U.S. revenues grew 5% on a quarterly and 2% on a year-to-date basis as strong new business, effective renewal book management in U.S. retail, and investment gains was partially offset on a year-to-date basis by last year's gain on the contribution of our Scandent preferred stock.
- Americas other than U.S. revenue rose 11% on a quarterly and 10% on a year-to-date basis, respectively, due to organic growth in Latin America and the favorable impact of foreign currency translation.
- UK revenue increased 9% and 4% on a quarterly and year-to-date basis, respectively, primarily driven by favorable foreign currency translation as well as organic growth for the quarter.
- Europe, Middle East & Africa grew 14% and 15% on a quarterly and year-to-date basis, respectively, driven by favorable foreign currency translation, higher investment income, and organic growth.
- Asia Pacific revenue rose 11% and 10%, respectively, due to favorable foreign currency translation and organic revenue growth.

Income Before Income Tax

Second quarter pretax income rose \$63 million to \$278 million for the quarter and rose \$65 million to \$520 million for six months. Pretax margins were 18.3% and 17.5% on a quarterly and year-to-date basis, respectively, compared to 15.5% and 16.5% on a quarterly and year-to-date basis, respectively, in 2006. Organic revenue growth of 5% and 4% on a quarterly and year-to-date basis, \$30 million of gains from the sale of businesses, savings from the restructuring program and lower pension expenses were partially offset by higher incentive compensation and investment in talent and, on a year-to-date basis, expenses related to the settlement of litigation.

Consulting

Aon Consulting is one of the world's largest integrated human capital consulting organizations. Our Consulting segment:

- provides a broad range of consulting services
- generated 13% of Aon's total operating segment revenue for both the second quarter and six months 2007.

We review our revenue results using the following sub-segments:

- *Consulting services*, which provide consulting services in six major practice areas:

1. *Employee Benefits* advises clients about how to structure, fund and administer employee benefit programs that attract, retain and motivate employees. Benefits consulting includes health and welfare, retirement, executive benefits, absence management, compliance, employer commitment, investment advisory and elective benefit services.
2. *Compensation* focuses on designing salary, bonus, commission, stock option and other pay structures, with special expertise in the financial services and technology industries.
3. *Management Consulting* assists clients in process improvement and design, leadership, organization and human capital development, and change management.

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4. *Communications* advises clients on how to communicate initiatives that support their corporate vision.
5. *Strategic Human Resource Consulting* advises complex global organizations on talent, change and organization effectiveness issues including assessment, selection performance management, succession planning, organization design and related people-management programs.
6. *Financial Advisory and Litigation Consulting* provides consulting services including white-collar and financial statement investigation, securities litigation, financial due diligence, financial valuation services and other related specialties.
- *Outsourcing*, which offers employment processing, performance improvement, benefits administration and other employment-related services.

Revenues in the Consulting segment are affected by changes in clients' industries, including government regulation, as well as new products and services, the state of the economic cycle, broad trends in employee demographics and the management of large organizations.

Revenue

This table shows Consulting revenue by product sub-segment.

(millions)								
Second quarter ended June 30,	2007	2006	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures & Transfers	Less: All Other	Organic Revenue Growth	
Consulting services	\$ 269	\$ 237	14	% 3	% 2	% 3	% 6	%
Outsourcing	56	72	(22)	) 3		(2)	) (23))
Total revenue	\$ 325	\$ 309	5	% 3	% 2	% 1	% (1))%

(millions)								
Six months ended June 30,	2007	2006	Percent Change	Less: Currency Impact	Less: Acquisitions, Divestitures & Transfers	Less: All Other	Organic Revenue Growth	
Consulting services	\$ 533	\$ 475	12	% 3	% 2	% 2	% 5	%
Outsourcing	121	142	(15)	) 3		(1)	) (17))
Total revenue	\$ 654	\$ 617	6	% 3	% 2	% 1	%	%

- Consulting Services revenue increased \$32 million and \$58 million on a quarterly and year-to-date basis, respectively. Organic revenue growth was 6% for the quarter and 5% for six months 2007, reflecting growth in most major practice groups and geographies. Revenue also increased due to favorable foreign currency translation and the transfer in of certain small units from the Risk and Insurance Brokerage Service segment.

- Outsourcing revenue declined \$16 million and \$21 million on a quarterly and year-to-date basis, respectively. Organic revenue growth was negative 23% and 17% on a quarterly and year-to-date basis, respectively, driven by lower revenue from AT&T. AT&T, which is our largest outsourcing client, terminated many services in a contract with us at the end of 2006, and recently informed us that they intend to terminate our remaining outsourcing services effective at the end of 2007.

This table shows Consulting revenue by geographic area.

(millions)	Second quarter ended			Six months ended		
	June 30, 2007	June 30, 2006	Percent Change	June 30, 2007	June 30, 2006	Percent Change
United States	\$ 165	\$ 175	(6)%	\$ 328	\$ 340	(4)%
Americas, other than U.S.	31	29	7	61	59	3
United Kingdom	67	56	20	128	111	15
Europe, Middle East & Africa	50	41	22	112	93	20
Asia Pacific	12	8	50	25	14	79
Total revenue	\$ 325	\$ 309	5 %	\$ 654	\$ 617	6 %

- The U.S. revenue decline in both periods was primarily caused by reduced outsourcing business triggered by the loss of revenue from AT&T as discussed above, partially offset by organic revenue growth in Consulting Services, as well as a \$5 million gain on the sale of an investment.
- Americas other than the U.S. grew 7% and 3% on a quarterly and year-to-date basis driven by favorable foreign currency translation.
- United Kingdom revenue rose 20% and 15% on a quarterly and year-to-date basis driven by both organic growth and favorable foreign currency translation.
- Europe, Middle East & Africa increased 22% and 20% on a quarterly and year-to-date basis, respectively, driven by increased favorable foreign currency translation, the transfer in of certain small units from our brokerage segment and organic revenue growth.
- Asia Pacific grew 50% and 79% on a quarterly and year-to-date basis, respectively, due to favorable foreign currency translation, the transfer in of certain small units from our brokerage segment and organic revenue growth.

Income Before Income Tax

Second quarter 2007 pretax income was up 91% to \$44 million, compared to \$23 million in 2006. Year-to-date pretax income was up 72% to \$91 million, compared to \$53 million in 2006. Pretax margins for the quarter were 13.5% and 7.4% for 2007 and 2006, respectively. Pretax margins for the first six months were 13.9% and 8.6% for 2007 and 2006, respectively. The pretax income and margin improvement was principally driven by higher revenues, including the \$5 million gain on the sale of an investment, benefits related to the restructuring program and disciplined expense management in the U.S.

Insurance Underwriting

The Insurance Underwriting segment:

- provides accident, health and life insurance coverage mostly through direct distribution networks, primarily through more than 7,000 career insurance agents working for our subsidiaries. Our revenues are affected by our success in attracting and retaining these career agents.

- previously offered select commercial property and casualty business on a limited basis through managing general underwriters. We have ceased writing property and casualty business and have placed all programs in runoff.
- has operations in the United States, Canada, Europe and Asia Pacific
- generated 25% of Aon's total operating segment revenue for both the second quarter and six months 2007.

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- Refer to the Key Recent Events section for a discussion on Aon's examination of strategic options for the remaining operations of this segment.

Revenue

Written premium and fees are the basis for organic revenue growth in this segment; however, reported revenues reflect earned premiums and fees.

We review our revenue results using the following sub-segments:

- Accident & Health and Life*, through which we provide an array of accident, sickness, short-term disability and other insurance products. Most of these products are primarily fixed-indemnity obligations and are not subject to escalating medical cost inflation;
- Property and Casualty* - We have ceased writing property and casualty business. This subsegment is entirely composed of runoff liabilities pertaining to various personal and commercial risks we formerly underwrote, such as:

professional liability errors and omissions

excess liability

workers compensation

commercial property and casualty risk.

This table shows Insurance Underwriting revenue by product sub-segment:

(millions)			Percent	Less:	Less:	Organic
Second quarter ended June 30,	2007	2006	Change	Currency	All Other	Revenue
Accident & health and life	\$ 611	\$ 499	22	% 2	%	Growth (1)
Property & casualty	(1)	6	N/A	N/A	N/A	N/A
Total revenue	\$ 610	\$ 505	21	% 2	%	% 19

(1) Organic revenue growth for Property & casualty is no longer meaningful as the remaining business is in run-off.

(millions)			Percent	Less:	Less:	Organic
Six months ended June 30,	2007	2006	Change	Currency	All Other	Revenue
Accident & health and life	\$ 1,184	\$ 980	21	% 2	% 2	Growth (1)
Property & casualty		20	(100)	) N/A	N/A	N/A
Total revenue	\$ 1,184	\$ 1,000	18	% 2	%	% 16

(1) Organic revenue growth for Property & casualty is no longer meaningful as the remaining business is in run-off.

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In the Accident & health and life business, revenue increased \$112 million or 22% for the quarter and \$204 million or 21% on a year-to-date basis, driven by strong growth in Sterling's MA product, favorable foreign currency translation and higher investment income. Please refer to the Key Recent Events section for a discussion on recent regulatory and legislative activity that will impact our future revenue generated from our Sterling products.

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This table shows Insurance Underwriting revenue by geographic area.

(millions)	Second quarter ended			Six months ended			
	June 30, 2007	June 30, 2006	Percent Change	June 30, 2007	June 30, 2006	Percent Change	
United States	\$ 434	\$ 349	24	% \$ 836	\$ 682	23	%
Americas, other than U.S.	55	52	6	108	103	5	
United Kingdom	51	46	11	106	100	6	
Europe, Middle East & Africa	43	35	23	82	70	17	
Asia Pacific	27	23	17	52	45	16	
Total revenue	\$ 610	\$ 505	21	% \$ 1,184	\$ 1,000	18	%

- U.S. revenue increased \$85 million or 24% for the quarter and \$154 million or 23% for the first six months driven by growth in Sterling's MA product.
- Americas, other than U.S. revenues increased \$3 million and \$5 million over the second quarter and first six months of 2006 principally due to the positive impact of foreign currency translation.
- United Kingdom revenue growth of 11% and 6% on a quarterly and year-to-date basis, respectively, was driven by favorable foreign currency translation.
- Europe, Middle East & Africa increased 23% and 17% on a quarterly and year-to-date basis, respectively, due to organic growth and foreign currency translation.
- Asia Pacific revenue increased 17% and 16% on a quarterly and year-to-date basis, respectively, driven by organic growth and foreign currency translation.

Income Before Income Tax

Second quarter pretax income was \$67 million and the pretax margin was 11.0%, compared to \$75 million of pretax income with a 14.9% margin in the second quarter 2006. Year-to-date pretax income was \$126 million and the pretax margin was 10.6% compared to pretax income of \$128 million with a margin of 12.8% in 2006. The decrease in pretax income for both periods as well as the decrease in the comparable periods' margins is driven by our MA product which has higher loss ratios than our other product lines, as well as losses incurred in our property and casualty run-off businesses.

Unallocated Income and Expense

Unallocated income consists primarily of investment income (including income or loss on investment disposals and other-than-temporary impairment losses), which is not otherwise reflected in the operating segments. We include:

- invested assets and related investment income not directly required to support the risk and insurance brokerage services and consulting businesses, and
- the assets in excess of net policyholder liabilities of the insurance underwriting subsidiaries and related income.

Unallocated revenue included changes in the valuation of Endurance warrants. Through March 31, 2006 we carried our investment in Endurance warrants at fair value and recorded changes in the fair value through unallocated investment income. On March 31, 2006, the investment in Endurance warrants was contributed to our U.K. pension plans.

Private equities are principally carried at cost; however, where we have significant influence, they are carried under the equity method. These investments usually do not pay dividends. Limited partnerships are accounted for under the equity method and changes in the value of the underlying LP investments flow through unallocated investment income.

Unallocated revenue was \$44 million and \$76 for the three and six month periods ended June 30, 2007, respectively, compared to \$18 million and \$15 million for the comparable periods of 2006. The increase was driven by:

- an increase in income from our PEPS I investment of \$25 million on a quarterly basis and \$37 million on a year-to-date basis (refer to Distributions from PEPS I within the Key Recent Events section).
- negative mark-to-market adjustments of \$17 million recorded in first quarter 2006 on our investment in Endurance warrants. The warrants were contributed to the U.K. pension plans on March 31, 2006.

Unallocated expenses, excluding interest expense, were \$34 million and \$68 million for the three and six month periods ended June 30, 2007, respectively; compared to \$30 million and \$53 million for comparable periods of 2006. The increase was primarily driven by higher expenses associated with a review of historical equity compensation practices.

Interest expense totaled \$34 million and \$69 million for the three and six month periods ended June 30, 2007, respectively, and \$34 million and \$65 million during comparable periods of 2006. \$57 million of debt was converted to our common stock during the second quarter of 2007, which slightly reduced interest expense. That benefit was more than offset by accelerated amortization of bond discounts and debt issuance costs as well as higher international borrowings and increased interest rates.

FINANCIAL CONDITION & LIQUIDITY

Cash Flows

Cash flows from operations represent the net income we earned in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities.

Cash flows provided by operating activities for the six months ended June 30, 2007 and 2006 are as follows:

(millions)	2007	2006
Six months ended June 30,		
Insurance Underwriting operating cash flows (including AWG for 2006)	\$ 216	\$ 290
All other operating cash flows	185	302
	401	592
Change in funds held on behalf of brokerage and consulting clients	450	300
Cash provided by operating activities	\$ 851	\$ 892

Insurance Underwriting operating cash flows

Our 2007 insurance underwriting operations include accident & health and life as well as our property & casualty businesses that are in run-off. These insurance products have distinct differences in the timing of premiums earned and payment of future liabilities. The 2006 cash flows include the operations of Aon Warranty Group (AWG) and Construction Program Group (CPG), sold on November 30, 2006.

The operating cash flow from our insurance subsidiaries, which also includes related corporate items, was \$216 million for 2007, a decrease of \$74 million compared to 2006. This decrease was primarily related to the sale of AWG and CPG and was partially offset by strong organic growth in Sterling's MA products. For 2007, operating cash flows, analyzed by major income statement component, indicated that premium and other fees collected, net of reinsurance, were \$1,160 million compared to \$1,761 million in 2006. Investment and other miscellaneous income received was \$89 million and \$107 million in 2007 and 2006, respectively.

We used revenues generated from premiums, investments and other miscellaneous income to pay claims and other cash benefits, commissions, general expenses and taxes. Claims and other cash benefits paid were \$645 million in 2007 versus \$741 million in 2006. Commissions and general expenses paid were \$368 million for 2007, compared to \$714 million in 2006. Tax payments for 2007 were \$20 million compared to \$123 million last year.

We will invest and use operating cash flows to satisfy future benefits to policyholders and when appropriate, make them available to pay dividends to the Aon parent company.

Generally, we invest in highly liquid and marketable investment grade securities to support policy liabilities. These invested assets are subject to insurance regulations set forth by the various governmental jurisdictions in which we operate, both domestically and internationally. The insurance regulations may restrict both the quantity and quality of various types of assets within the portfolios.

Our insurance subsidiaries' policy liabilities are segmented among multiple accident and health and property casualty portfolios. Those portfolios have widely varying estimated durations and interest rate characteristics. Generally, our policy liabilities are not subject to interest rate volatility risk. Therefore, in many of the portfolios, asset and policy liability duration are not closely matched.

Funds held on behalf of clients

In our Risk and Insurance Brokerage Services and Consulting segments, we typically hold funds on behalf of clients as a result of:

- premiums received from clients that are in transit to insurers. These premiums held on behalf of, or due from, clients are reported as assets with a corresponding liability due to the insurer.
- claims due to clients that are in transit from insurers. Claims held by, or due to us and which are due to clients, are also shown as both assets and liabilities.

These funds held on behalf of clients are generally invested in interest bearing trust accounts and can fluctuate significantly depending on when we collect cash from our clients and when premiums are remitted to the insurance carriers.

All other operating cash flows

The operating cash flow from our Risk and Insurance Brokerage Services and Consulting segments, as well as related corporate items, was \$185 million in 2007 compared to \$302 million in 2006. These amounts exclude the change in funds held on behalf of clients as described above. The operating cash flows depend on the timing of receipts and payments related to revenues, incentive compensation, other operating expenses and income taxes.

Aon uses the excess cash generated by our brokerage and consulting businesses as well as dividends received from our insurance company subsidiaries to meet its liquidity needs, which consist of servicing its debt, paying dividends to its stockholders and repurchasing outstanding shares.

Investing and Financing Activities

We used the consolidated cash flow from operations (net of funds held on behalf of clients) for:

- investing activities of \$111 million. The investing activities cash flows usages included capital expenditures, net of disposals, of \$82 million; and acquisition of subsidiaries, net of divestitures, of \$167 million. The cash flows provided by investing activities included sales of investments, net of purchases, of \$138 million.
- financing needs of \$635 million. Financing uses primarily included cash dividends paid to shareholders of \$88 million, net share activity of \$473 million, and debt repayments, net of issuance, of \$74 million.

Financial Condition

Since year-end 2006, total assets increased \$473 million to \$24.8 billion.

Total investments at June 30, 2007 and December 31, 2006 were \$7.5 billion and \$7.6 billion, respectively. Approximately 94% of our investment portfolio at quarter end was in short-term investments and fixed maturities, with essentially 100% of our fixed maturities rated investment grade.

(millions)	Amount Shown in Statement of Financial Position	Percentage of Total Investments	
Fixed maturities available for sale:			
US government and agencies	\$ 221	3	%
States and political subdivisions	6		
Debt securities of foreign governments not classified as loans	1,289	17	
Corporate securities	868	12	
Public utilities	80	1	
Mortgage-backed and asset-backed securities	456	6	
Total Fixed Maturities	2,920	39	
Equity securities available for sale:			
Common stocks	38		
Non-redeemable preferred stocks	1		
Total Equity Securities	39		
Policy loans	56	1	
Other long-term investments			
PEPS I Preferred Stock	195	2	
Other	138	2	
Total Other Long Term Investments	333	4	
Total Other Investments	389	5	
Short-term investments	4,199	56	
TOTAL INVESTMENTS	\$ 7,547	100	%

Total receivables increased \$223 million in the first six months of 2007, primarily the result of the timing of cash receipts and the impact of foreign currency translation. Insurance premiums payable increased \$877 million over the same period. The primary difference between the change in receivables and premiums payable is reflected in a change in funds held on behalf of clients, which is a component of short-term investments.

Goodwill and intangible assets rose, in total, \$262 million from year-end 2006 due to recent acquisition activity and the impact of foreign currency translation.

Other assets decreased \$152 million from December 31, 2006. Other assets are comprised principally of prepaid premiums related to reinsurance, prepaid pension assets, current and deferred income taxes. The decrease is principally related to a lower current tax receivable and a decrease in prepaid premiums, somewhat offset by higher prepaid pension assets.

General expense liabilities fell \$466 million from December 31, 2006, primarily as a result of paying annual incentives during the first quarter.

Short-term Borrowings and Notes Payable

Borrowings

Total debt at June 30, 2007 was \$2,186 million, a decrease of \$99 million from December 31, 2006. In January, we paid down \$250 million of U.S. debt which had become due. Also during the first quarter we repaid most of our short-term debt. In May 2007, holders of \$57 million of our 3.5% convertible debt securities due November 2012 converted their holdings into approximately 2.7 million shares of Aon stock. Our Euro facility borrowings increased \$224 million since December 31, 2006.

At June 30, 2007, we had a \$600 million U.S. bank credit facility, which expires in February 2010, to support commercial paper and other short-term borrowings. The facility allows us to issue up to \$150 million in letters of credit. At June 30, 2007, we have issued \$20 million in letters of credit.

We also have several foreign credit facilities available. At June 30, 2007, we had available to us:

- a five-year 650 million (\$875 million) multi-currency facility of which \$627 million was outstanding at June 30, 2007. See Note 8 to the consolidated financial statements in our 2006 Form 10-K for further discussion of both the U.S. and Euro facilities;
- a £37.5 million (\$75 million) facility, a 364-day 10 million Canadian dollar (\$9 million) facility and a 364-day 25 million (U.S. \$34 million) facility.
- a 20 million (\$27 million) open-ended facility.

The major rating agencies' ratings of our debt at August 3, 2007 appear in the table below.

	Senior long-term debt		Commercial paper	
	Rating	Outlook	Rating	Outlook
Standard & Poor's	BBB+	Stable	A-2	Stable
Moody's Investor Services	Baa2	Positive	P-2	Positive
Fitch, Inc.	BBB+	Stable	F-2	Stable

A downgrade in the credit ratings of our senior debt and commercial paper would:

- increase our borrowing costs and reduce our financial flexibility
- increase our commercial paper interest rates or may restrict our access to the commercial paper market altogether. Although we have committed backup lines, we cannot ensure that our financial position will not be hurt if we can no longer access the commercial paper market.

In addition, intercompany notes between Aon Parent and certain of our accident & health and life insurance companies will become payable within 30 days if Aon's credit rating on its senior long-term debt falls below investment grade.

Stockholders' Equity

Stockholders' equity increased \$126 million from the fourth quarter 2006 to \$5,344 million. The change was driven primarily by \$453 million of net income and an increase in foreign exchange translation gains, principally offset by \$391 million of net treasury stock repurchases as a result of our stock repurchase program.

Accumulated other comprehensive loss decreased \$82 million since December 31, 2006. Net foreign exchange translation increased by \$62 million because of the weakening of the U.S. dollar against certain foreign currencies as compared to the prior year-end. Changes in our postretirement plans decreased our accumulated other comprehensive loss by \$50 million. Offsetting these items were increased derivative losses of \$2 million and increased unrealized investment losses of \$28 million.

Our total debt as a percentage of total capital was 29.0% at June 30, 2007. This is compared to our total debt as a percentage of total capital of 30.5% at year-end 2006.

Off Balance Sheet Arrangements

We record various contractual obligations as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts, are not recognized as liabilities in our consolidated financial statements, but we are required to disclose them.

Aon and its subsidiaries have issued letters of credit to cover contingent payments for taxes and other business obligations to third parties. We accrue amounts in our consolidated financial statements for these letters of credit to the extent they are probable and estimable.

Following the guidance of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* and other relevant accounting guidance, we use special purpose entities (SPEs) and qualifying special purpose entities (QSPEs), also known as special purpose vehicles, in some of our operations.

Premium Financing

Certain of our U.S., U.K., Canadian and Australian subsidiaries originate short-term loans (generally with terms of 12 months or less) to businesses to finance their insurance premium obligations, and then sell these premium finance agreements in securitization transactions that meet the criteria for sale accounting under Statement No. 140. These sales involve:

- special purpose entities which are considered QSPEs by Statement No. 140, and per Statement No. 140 should not be consolidated in the financial statements of a transferor or its affiliates (Aon's subsidiaries).
- multi-seller, non-qualified bank commercial paper conduit SPEs (Bank SPEs) that are variable interest entities according to FIN 46.

We have analyzed qualitative and quantitative factors related to our subsidiaries' interests in the Bank SPEs and have determined that these subsidiaries are not the sponsors of the Bank SPEs. Additionally, independent third parties:

- have made substantial equity investments in the Bank SPEs
- have voting control of the Bank SPEs
- generally have the risks and rewards of ownership of the assets of the Bank SPEs.

Thus, we have concluded that non-consolidation of the Bank SPEs is appropriate in accordance with FIN 46 given that our subsidiaries do not have significant variable interests.

Through the securitization agreements we, or one of our QSPEs, sell undivided interests in specified premium finance agreements to the Bank SPEs. The total amount advanced on premium finance agreements sold to the Bank SPEs at any one time is limited by the securitization agreements to \$1.9 billion. The Bank SPEs had advanced \$1.5 billion and \$1.7 billion at June 30, 2007 and December 31, 2006, respectively. We can receive additional advances as:

- we sell more eligible premium finance agreements to the Bank SPEs
- collections, which we administer, on previously sold agreements reduce available advances.

We record at fair value our retained interest in the sold premium finance agreements, and report it in insurance brokerage and consulting services receivables in the condensed consolidated statements of financial position. We also:

- retain servicing rights for sold agreements
- earn servicing fee income over the servicing period and include these servicing fees in the gain/loss calculation.

At June 30, 2007 and December 31, 2006, since the fair value of the servicing rights approximates the estimated costs to service the receivables, we have not recorded any servicing assets or liabilities.

We estimate fair value by discounting estimated future cash flows from the servicing rights and servicing costs using:

- discount rates that approximate current market rates
- expected future prepayment rates.

The Bank SPEs bear the credit risks on the receivables, subject to limited recourse in the form of credit loss reserves, which are covered by collateral enhancements.

All but the Australian facility require Aon to maintain consolidated net worth, as defined, of at least \$2.5 billion, and:

- consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) to consolidated net interest of at least 4 to 1
- consolidated indebtedness to consolidated EBITDA of no more than 3 to 1.

We intend to renew the conduit facilities when they expire. If there were adverse bank, regulatory, tax or accounting rule changes, our access to the conduit facilities and special purpose vehicles would be restricted. These special purpose vehicles are not included in our consolidated financial statements, following the appropriate accounting standards.

PEPS I

In 2001, we sold the vast majority of our LP portfolio, valued at \$450 million, to PEPS I, a QSPE. The common stock interest in PEPS I is currently held by a limited liability company, owned by Aon Corporation (49%) and by a charitable trust, which we do not control, established for victims of the September 11th attacks (51%).

PEPS I sold approximately \$171 million of investment grade fixed-maturity securities to unaffiliated third parties. It then paid our insurance underwriting subsidiaries the \$171 million in cash and issued them an additional \$279 million in fixed-maturity and preferred stock securities.

Standard & Poor's Ratings Services rated the fixed-maturity securities our subsidiaries received from PEPS I as investment grade. As part of this transaction, the insurance companies had been required to purchase additional fixed-maturity securities from PEPS I in an amount equal to the unfunded LP commitments as they are requested. These fixed-maturity securities are rated below investment grade. Beginning in July 2004, Aon Parent assumed this responsibility. Commitments of \$2 million were funded in 2007. As of June 30, 2007, the unfunded commitments amounted to \$44 million. These commitments have specific expiration dates and the general partners may decide not to draw on these commitments. We have not included the assets, liabilities and operations of PEPS I in our condensed consolidated financial statements.

In previous years Aon has recognized other than temporary impairment write-downs of \$59 million, equal to the original cost of one tranche. The preferred stock interest represents a beneficial interest in securitized LP investments. The fair value of the private preferred stock interests depends on the value of the LP investments

held by PEPS I. These preferred stock interests have an unrealized investment gain as of June 30, 2007. We assess other-than-temporary declines in the fair value below cost using a financial model that considers the:

- value of the underlying LP investments of PEPS I
- nature and timing of the cash flows from the underlying LP investments of PEPS I.

Reinsurance Guarantee

In connection with the AWG transaction, we issued an indemnification which protects the purchaser from credit exposure relating to the property and casualty reserves that have been reinsured. At December 31, 2006, we had recorded a \$13 million liability, reflecting the fair value of this indemnification. The value declined to approximately \$12 million as of June 30, 2007. The indemnification represents the present value of the indemnification on the credit risk of the reinsurers.

Aon no longer reports reinsurance recoverables related to its property and casualty business, which was not part of the sale of AWG. Aon has provided a corporate guarantee with respect to these reinsurance recoverables, which amount to approximately \$976 million at June 30, 2007.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This report contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors. Potential factors that could impact results include: general economic conditions in different countries in which we do business around the world, changes in global equity and fixed income markets that could affect the return on invested assets, fluctuations in exchange and interest rates that could influence revenue and expense, rating agency actions that could affect our ability to borrow funds, funding of our various pension plans, changes in the competitive environment, our ability to implement restructuring initiatives and other initiatives intended to yield cost savings, our ability to successfully execute strategic options for our Combined Insurance subsidiary, the impact of current, pending and future regulatory and legislative actions that affect our ability to market or sell, and be reimbursed at current levels for, our Sterling subsidiary's Medicare Advantage health plans, changes in commercial property and casualty markets and commercial premium rates that could impact revenues, changes in revenues and earnings due to the elimination of contingent commissions, other uncertainties surrounding a new compensation model, the impact of investigations brought by state attorneys general, state insurance regulators, federal prosecutors and federal regulators, the impact of class actions and individual lawsuits including client class actions, securities class actions, derivative actions and ERISA class actions, the impact of the analyses of practices relating to stock options, the cost of resolution of other contingent liabilities and loss contingencies, and the difference in ultimate paid claims in our underwriting companies from actuarial estimates.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to potential fluctuations in earnings, cash flows and the fair value of certain of our assets and liabilities due to changes in interest rates, foreign exchange rates and equity prices. To manage the risk from these exposures, we enter into a variety of derivative instruments. We do not enter into derivatives or financial instruments for trading purposes.

We are subject to foreign exchange rate risk from translating the financial statements of our foreign subsidiaries into U.S. dollars. Our primary exposures are to the British pound, the Euro, the Canadian dollar, and the Australian dollar. We use over-the-counter (OTC) options and forward contracts to reduce the impact of foreign currency fluctuations on the translation of our foreign operations financial statements.

Additionally, some of our foreign brokerage subsidiaries receive revenues in currencies that differ from their functional currencies. Our U.K. subsidiary earns a portion of its revenue in U.S. dollars but most of its expenses are incurred in pounds sterling. Our policy is to convert into pounds sterling sufficient U.S. dollar revenue to fund the subsidiary s pound sterling expenses using OTC options and forward exchange contracts. At June 30, 2007, we have hedged approximately 68% of our U.K. subsidiaries expected U.S. dollar transaction exposure for the next twelve months. We do not generally hedge these exposures beyond three years.

The translated value of revenue and expense from our international brokerage and underwriting operations are subject to fluctuations in foreign exchange rates. Second quarter 2007 diluted earnings per share were positively impacted by \$0.01 related to translation gains.

We also use forward contracts to offset foreign exchange risk associated with foreign denominated inter-company notes.

Our businesses income is affected by changes in international and domestic short-term interest rates. We monitor our net exposure to short-term interest rates and, as appropriate, hedge our exposure with various derivative financial instruments. A decrease in global short-term interest rates adversely affects our income. This activity primarily relates to brokerage funds held on behalf of clients in the U.S. and on the Continent of Europe.

Our underwriting companies fixed income investment portfolios are subject to credit risk. The reduction of a fixed income security s credit rating will adversely affect the price of the security. The credit quality of Aon s fixed income portfolio is high. The portfolio maintains an Aa average credit rating. The fixed maturity portfolio credit profile is monitored daily and evaluated regularly.

The valuation of our marketable equity security portfolio is subject to equity price risk. We sell futures contracts and purchase options to reduce the price volatility of our equity securities portfolio and equity securities we own indirectly through LP investments.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Based on Aon management's evaluation (with the participation of the chief executive officer and chief financial officer), as of the end of the period covered by this report, Aon's chief executive officer and chief financial officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d) 15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act)) are effective to ensure that information required to be disclosed by Aon in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in internal control over financial reporting. There were no changes in Aon's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d) 15(f) under the Exchange Act) during second quarter 2007 that have materially affected, or are reasonably likely to materially affect, Aon's internal control over financial reporting.

PART II**OTHER INFORMATION****ITEM LEGAL PROCEEDINGS**

1.

See Note 15 (Contingencies) to the condensed consolidated financial statements contained in Part I, Item 1, which is incorporated by reference herein.

ITEM UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

2.

- (a) None.
- (b) None.
- (c) Issuer Purchases of Equity Securities.

The following information relates to the repurchase of equity securities by Aon or any affiliated purchaser during any month within the second quarter of 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
4/1/07 4/30/07	1,673,100	\$ 38.95	1,673,100	\$ 517,015,708
5/1/07 5/31/07	5,049,100	\$ 42.38	5,049,100	\$ 303,022,875
6/1/07 6/30/07		\$		\$ 303,022,875
Total	6,722,200	\$ 41.53	6,722,200	

(1) Does not include commissions paid to repurchase shares.

In 2005, the Company announced that its Board of Directors had authorized the repurchase of up to \$1 billion of Aon's common stock. In fourth quarter 2006, the Company announced that its Board of Directors had increased the authorized share repurchase program to \$2 billion. Shares may be repurchased through the open market or in privately negotiated transactions. Through June 30, 2007, the Company has repurchased 45.3 million shares of common stock at an average price (excluding commissions) of \$37.49 per share for an aggregate purchase price of \$1,697 million since inception of the stock repurchase program, and the remaining authorized amount for stock repurchases under this program is \$303 million, with no termination date.

ITEM SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

4.

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- (a) The Annual Meeting of Stockholders of the Registrant was held on May 18, 2007 (the Annual Meeting).
- (b) Not applicable
- (c) Certain matters voted upon at the Annual Meeting and the votes cast with respect to such matters are as follows:

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(i) Election of Directors

Name	For	Withheld
Patrick G. Ryan	245,631,232	20,780,105
Gregory C. Case	261,946,701	4,464,636
Edgar D. Jannotta	253,188,328	13,223,009
Jan Kalf	262,936,740	3,474,597
Lester B. Knight	262,942,725	3,468,612
J. Michael Losh	262,638,929	3,772,408
R. Eden Martin	244,701,901	21,709,436
Andrew J. McKenna	253,110,971	13,300,366
Robert S. Morrison	262,767,747	3,643,590
Richard B. Myers	263,642,742	2,768,595
Richard C. Notebaert	255,702,469	10,708,868
John W. Rogers, Jr.	259,564,206	6,847,131
Gloria Santona	262,964,118	3,447,219
Dr. Carolyn Y. Woo	262,900,821	3,510,516

(ii) Ratification of appointment of Ernst & Young LLP as Aon's independent registered public accounting firm for the 2007 fiscal year.

For	Against	Abstain
258,615,561	3,779,567	1,956,989

ITEM EXHIBITS
6.

Exhibits The exhibits filed with this report are listed on the attached Exhibit Index.

SIGNATURE

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

Aon Corporation
(Registrant)

August 8, 2007

/s/ David P. Bolger
DAVID P. BOLGER
EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER, AND
CHIEF ADMINISTRATIVE OFFICER
(Principal Financial and Accounting Officer)

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Aon CORPORATION

Exhibit Number

In Regulation S-K

Item 601 Exhibit Table

12 Statements regarding Computation of Ratios

(a) Statement regarding Computation of Ratio of Earnings to Fixed Charges.

(b) Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

31.1 Certification of CEO

31.2 Certification of CFO

32.1 Certification of CEO Pursuant to section 1350 of Title 18 of the United States Code

32.2 Certification of CFO Pursuant to section 1350 of Title 18 of the United States Code

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