

AON CORP
Form 10-Q/A
September 27, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-7933

Aon Corporation

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

36-3051915

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer Identification No.)

200 E. RANDOLPH STREET, CHICAGO, ILLINOIS

60601

(Address of Principal Executive Offices)

(Zip Code)

(312) 381-1000

(Registrant's Telephone Number)

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

Number of shares of common stock outstanding:

Class	No. Outstanding as of 3-31-02
\$1.00 par value Common	272,009,453

Explanatory Note

As described in a press release issued by Aon Corporation ("Aon" or the "Company") on August 14, 2002 (which release was filed as an exhibit to the Company's Form 8-K on the same day), the Company recently resolved various accounting and disclosure comments from the Securities and Exchange Commission's (SEC's) Division of Corporation Finance. One of the comments addressed a disputed reinsurance recoverable recorded in the third quarter 2001 relating to benefits paid to beneficiaries of World Trade Center employees. The Company had originally recorded an allowance for potential uncollectibility of the receivable in the first quarter 2002. In order to resolve the comment, the Company agreed to instead establish the allowance in the fourth quarter 2001 and reverse the amount previously recorded in first quarter 2002. To effect this timing change, the Company has restated its financial statements (including relevant Schedules and Exhibits) for the affected periods and has filed such restatements on an amended Form 10-K for the year ended December 31, 2001 and this amended Form 10-Q for the quarter ended March 31, 2002. For further information, see note 2 of the Notes to Condensed Consolidated Financial Statements.

In addition, the SEC staff requested that Aon add certain disclosures or not report certain items. The condensed consolidated financial statements and management's discussion and analysis of financial condition and results of operations, included herein, have been amended as appropriate to respond to these requests.

Finally, this amended Form 10-Q also includes disclosures relating to material developments in certain specific matters which had been discussed in the original filing. This amended 10-Q does not purport to provide a general update or discussion of developments at the Company subsequent to either the original filing or to the filing of the Company's Form 10-Q for the quarter ended June 30, 2002; any such disclosures shall be contained in the Company's Form 10-Q for the quarter ending September 30, 2002.

The filing of this amended Form 10-Q shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

2

PART 1
FINANCIAL INFORMATION
AON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Millions)

	As of March 31, 2002	As of Dec. 31, 2001
	(Unaudited)	
ASSETS		
INVESTMENTS		
Fixed maturities at fair value	\$ 2,442	\$ 2,149
Equity securities at fair value	303	382
Short-term investments	2,615	2,975
Other investments	635	640
	5,995	6,146
CASH	569	439
RECEIVABLES		
Insurance brokerage and consulting services	7,543	7,033
Other receivables	1,019	863
	8,562	7,896
TOTAL RECEIVABLES		
GOODWILL (NET OF ACCUMULATED AMORTIZATION):		

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	As of March 31, 2002	As of Dec. 31, 2001
2002 - \$698; 2001 - \$698)	3,856	3,842
OTHER INTANGIBLE ASSETS (NET OF ACCUMULATED AMORTIZATION):		
2002 - \$721; 2001- \$710)	229	242
OTHER ASSETS	3,899	3,765
TOTAL ASSETS	\$ 23,110	\$ 22,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
INSURANCE PREMIUMS PAYABLE	\$ 8,970	\$ 8,233
POLICY LIABILITIES		
Future policy benefits	1,249	1,266
Policy and contract claims	1,006	937
Unearned and advance premiums and contract fees	2,109	1,974
Other policyholder funds	766	813
TOTAL POLICY LIABILITIES	5,130	4,990
GENERAL LIABILITIES		
General expenses	1,624	1,770
Short-term borrowings	212	257
Notes payable	1,790	1,694
Other liabilities	1,005	1,071
TOTAL LIABILITIES	18,731	18,015
COMMITMENTS AND CONTINGENT LIABILITIES		
REDEEMABLE PREFERRED STOCK	50	50
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED CAPITAL SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY THE COMPANY'S JUNIOR SUBORDINATED DEBENTURES	800	800
STOCKHOLDERS' EQUITY		
Common stock - \$1 par value	294	293
Paid-in additional capital	1,655	1,654
Accumulated other comprehensive loss	(577)	(535)
Retained earnings	3,117	3,021
Less Treasury stock at cost	(785)	(786)
Deferred compensation	(175)	(182)
TOTAL STOCKHOLDERS' EQUITY	3,529	3,465
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 23,110	\$ 22,330

AON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(millions except per share data)

	First Quarter Ended	
	March 31, 2002	March 31, 2001
	(Restated)	
REVENUE		
Brokerage commissions and fees	\$ 1,444	\$ 1,281
Premiums and other	535	508
Investment income	109	22
TOTAL REVENUE	2,088	1,811
EXPENSES		
General expenses	1,463	1,396
Benefits to policyholders	314	292
Interest expense	29	36
Amortization of intangible assets (Note 7)	11	39
TOTAL EXPENSES	1,817	1,763
INCOME BEFORE INCOME TAX AND MINORITY INTEREST	271	48
Provision for income tax	101	19
INCOME BEFORE MINORITY INTEREST	170	29
Minority interest 8.205% trust preferred capital securities	(10)	(10)
NET INCOME	\$ 160	\$ 19
Preferred stock dividends	(1)	(1)
NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS	\$ 159	\$ 18
BASIC NET INCOME PER SHARE	\$ 0.58	\$ 0.07
DILUTIVE NET INCOME PER SHARE	\$ 0.57	\$ 0.07
CASH DIVIDENDS PER SHARE PAID ON COMMON STOCK	\$ 0.225	\$ 0.22
Dilutive average common and common equivalent shares outstanding	276.6	267.9

See the accompanying notes to the condensed consolidated financial statements.

AON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(millions)

	First Quarter Ended	
	March 31, 2002	March 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 160	\$ 19
Adjustments to reconcile net income to cash provided by operating activities		
Insurance operating assets and liabilities, net of reinsurance	(22)	48
Amortization of intangible assets	11	39
Depreciation and amortization of property, equipment and software	47	44
Income taxes	38	(20)
Special and unusual charges and purchase accounting liabilities.	(47)	23
Valuation changes on investments, income on disposals and impairments	10	76
Other receivables and liabilities net	(6)	103
	<u>191</u>	<u>332</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments		
Fixed maturities		
Maturities	34	30
Calls and prepayments	33	16
Sales	265	365
Equity securities	65	162
Other investments	14	135
Purchase of investments		
Fixed maturities	(650)	(385)
Equity securities	(3)	(196)
Other investments	(9)	(32)
Short-term investments net	337	(180)
Acquisition of subsidiaries	(35)	(44)
Property and equipment and other net	(56)	(57)
	<u>(5)</u>	<u>(186)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Treasury and common stock transactions net	13	18
Payments of short-term borrowings net	(43)	(252)
Issuance of long-term debt	96	15
Interest sensitive, annuity and investment-type contracts		
Deposits		3

	First Quarter Ended	
	<u> </u>	<u> </u>
Withdrawals	(59)	(102)
Cash dividends to stockholders	(62)	(58)
	<u> </u>	<u> </u>
CASH USED IN FINANCING ACTIVITIES	(55)	(376)
	<u> </u>	<u> </u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1)	(2)
	<u> </u>	<u> </u>
INCREASE (DECREASE) IN CASH	130	(232)
CASH AT BEGINNING OF PERIOD	439	1,118
	<u> </u>	<u> </u>
CASH AT END OF PERIOD	\$ 569	\$ 886
	<u> </u>	<u> </u>

See the accompanying notes to condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of Accounting Principles

The financial results included in this report are stated in conformity with accounting principles generally accepted in the United States and are unaudited but include all normal recurring adjustments which the Registrant ("Aon") considers necessary for a fair presentation of the results for such periods. These interim figures are not necessarily indicative of results for a full year as further discussed below.

Refer to the consolidated financial statements and notes in the Annual Report to Stockholders for the year ended December 31, 2001 (as restated) for additional details of Aon's financial position, as well as a description of the accounting policies which have been continued without material change, except for the adoption of Financial Accounting Standard Board's (FASB) Statements No. 141 and No. 142. The details included in the notes have not changed except as a result of normal transactions in the interim and the events mentioned in the notes below.

Certain amounts in prior year's condensed consolidated financial statements have been reclassified to conform to the 2002 presentation.

Revenue Recognition

Brokerage Commissions and Fees. Commission income is recognized at the later of the billing or effective date of the policy. However, in circumstances where a binding order has been received before the end of the accounting period and coverage is effective, but processing has not yet occurred in the billing system due to timing, an accrual is recorded. The amounts recorded for these accruals are generally consistent from period to period and the total accrual has not materially impacted the historical trend of revenue and earnings in any quarterly or annual period. The Company's policy for estimating allowances for return commissions on policy cancellations is to record an allowance based on a historical evaluation of cancellations as a percentage of related revenue. Certain life insurance commissions, commissions on premiums billed directly by insurance companies and certain other carrier compensation are generally recognized as income when received. Revenues may be recorded in advance of the cash receipts in cases where the amounts due to be received have been confirmed by the insurance company, or when the Company has sufficient information in its records to estimate amounts for premium based revenue accruals in accordance with agreements the Company has with insurance carriers. Commissions on premium adjustments are recognized as they occur. Fees for claims services, benefit consulting, human capital outsourcing, reinsurance services and other services are recognized when the services are rendered. The portion of the revenues received on extended warranty contracts that are for the marketing, administration and servicing of those contracts are reported as earned consistent with the method used to earn the premium portion of those revenues, and revenues that represent administrative fee-for-service arrangements for which Aon does not bear the underwriting risk, which are earned as those services are performed. These fee-for-service arrangements include the marketing and servicing of extended warranty contracts on behalf of other companies and brokerage commissions for accident and health products placed with non-Aon insurance carriers.

Premium and Other Revenue. For accident and health products, premiums are reported as earned in proportion to insurance protection provided over the period covered by the policies. For life products, premiums are recognized as revenue when due. For extended warranty

products, premium revenues represent the portion of revenue from these contracts that are submitted to an Aon insurance carrier for coverage and are earned over the period of risk in proportion to the amount of insurance protection provided in accordance with FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*.

Amounts received for investment-type contracts are reported as deposits rather than revenue. Expenses for these contracts primarily consist of interest credited to policy account balances.

2. Restatement of Financial Information

On September 11, 2001, the World Trade Center was destroyed. Aon occupied space on several of the higher floors of one of the towers and 175 employees are either confirmed or presumed dead. In 2001, Aon incurred \$275 million of expenses (before insurance and reinsurance recoveries) related to this event. These costs include \$192 million of insurance benefits paid by Aon's Combined Insurance Company of America subsidiary (CICA) under life insurance policies issued for the benefit of deceased employees, and is partially offset by gross reinsurance recoveries of \$147 million. Reinsurers have disputed their liability as to approximately \$90 million of these gross reinsurance recoveries under a Business Travel Accident (BTA) policy issued by CICA to cover U.S.-based employees of subsidiaries of Aon, and legal actions have been filed by both parties. In the first quarter 2002, Aon recorded a pretax \$90 million allowance (\$56 million after tax or \$0.20 per dilutive share) for this potentially uncollectible receivable. This allowance was established due to an April 2002 court ruling (in an unrelated case) that may impact the venue for litigation between Aon and its reinsurers. This ruling has impacted Aon's ability to reasonably estimate the probable recovery under the claim. Aon continues to believe that CICA has valid reinsurance.

After discussions with the SEC staff regarding the proper timeframe to record the above-mentioned allowance, Aon is, by means of this filing, restating its previously issued financial statements for the first quarter ended March 31, 2002 to reverse the \$90 million pretax allowance for the reinsurance recoverables previously established. This allowance has now been established in fourth quarter of 2001.

Set forth below is a comparison of the previously reported and restated net income, dilutive and basic net income per share and stockholders' equity for the first quarter ended March 31, 2002.

(millions except per share data)	1st Quarter 2002	
	As Reported	As Restated
Net income	\$ 104	\$ 160
Dilutive net income per share	0.37	0.57
Basic net income per share	0.38	0.58
Stockholders' equity	3,529	3,529

In addition, the SEC staff requested that Aon add certain disclosures or not report certain items. The condensed consolidated financial statements have been changed as appropriate to respond to these requests.

3. Accounting and Disclosure Changes

Effective January 1, 2002, Aon adopted FASB Statement No. 142, Goodwill and Other Intangible Assets. As a result of adopting Statement No. 142, the Company's goodwill is no longer amortized. Pursuant to Statement No. 142, goodwill must be periodically tested for impairment and the new standard provides six months to complete the impairment review. During the quarter, Aon completed its impairment review which indicated that there was no impairment as of January 1, 2002. See note 7.

Aon also has adopted FASB Statement No. 141, Business Combinations. In accordance with Statement No. 141, other intangible assets that do not meet the criteria for recognition apart from goodwill (as defined by Statement No. 141) are to be classified as goodwill upon adoption of the statement. Aon has reclassified \$287 million of these intangibles, net of accumulated amortization, to

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goodwill as of January 1, 2002. The December 31, 2001 condensed consolidated statement of financial position has been changed to reflect this reclass.

Aon also adopted FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective January 1, 2002. The adoption of Statement No. 144 did not have a material impact on Aon's consolidated financial statements.

4. Spin-Off of Underwriting Business

In April 2001, Aon's Board of Directors approved, in principle, a plan to spin-off its current underwriting businesses to Aon's common stockholders, creating two independent, publicly traded companies. The transaction is subject to final Board approval and certain insurance regulatory approvals. The spin-off company will be named Combined Specialty Group, Inc., and the spin-off is currently expected to be completed in second quarter 2002. On April 11, 2002, Aon received a favorable private letter ruling from the U.S. Internal Revenue Service that provides, among other things, that Aon's common stockholders should not owe U.S. tax on a dividend of shares of Combined Specialty common stock in the spin-off. In first quarter 2002, Aon incurred \$5 million of expenses related to the spin-off. These expenses, recorded in general expenses in the condensed consolidated statements of income, are primarily for outside professional fees.

5. Comprehensive Income (Loss)

The components of comprehensive income (loss), net of related tax, for the first quarter ended March 31, 2002 and 2001 are as follows:

(millions)	2002	2001
Net income	\$ 160	\$ 19
Net derivative losses	(7)	(12)
Net unrealized investment gains (losses)	(13)	19
Net foreign exchange losses	(22)	(43)
Comprehensive income (loss)	\$ 118	\$ (17)

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

(millions)	March 31, 2002	December 31, 2001
Net derivative losses	\$ (7)	\$ -
Net unrealized investment losses	(55)	(42)
Net foreign exchange losses	(347)	(325)
Net additional minimum pension liability	(168)	(168)
Accumulated other comprehensive loss	\$ (577)	\$ (535)

6. Business Segments

Aon classifies its businesses into three operating segments based on the types of services and/or products delivered. There is also a fourth non-operating segment, Corporate and Other. The Insurance Brokerage and Other Services segment consists primarily of Aon's retail, reinsurance and wholesale brokerage operations, as well as related insurance services, including claims services, underwriting management, captive insurance company management services and premium financing. Certain service businesses related to insurance underwriting operations are also reflected in this segment. The Consulting segment is Aon's human capital consulting organization which utilizes five major practices: employee benefits, compensation, management consulting, outsourcing and communications. The

Insurance Underwriting segment provides specialty insurance products including supplemental accident, health and life insurance coverages, extended warranty and other specialty property and casualty insurance products. Corporate and Other segment revenue consists primarily of investment income from equity, fixed maturity and short-term investments that are assets primarily of the insurance underwriting subsidiaries

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that exceed policyholders liabilities. Revenues are derived from investment income from certain investments (which include non-income producing equities), valuation changes in limited partnership investments, and income and losses on disposals of all securities, including those pertaining to assets maintained by the operating segments. Corporate and Other expenses include general expenses, administrative and certain information technology costs, interest expense and, in 2001, goodwill amortization.

Amounts reported in the tables for the four segments, when aggregated, total to the amounts in the accompanying condensed consolidated financial statements. Revenues are attributed to geographic areas based on the location of the resources producing the revenues. There are no material inter-segment amounts to be eliminated.

Selected information reflecting Aon's operating segments follows.

First Quarter ended March 31: (millions)	Insurance Brokerage and Other Services		Consulting		Insurance Underwriting	
	2002	2001(1)	2002	2001(2)	2002(3)	2001(4)
Revenue						
United States	\$ 592	\$ 541	\$ 149	\$ 135	\$ 412	\$ 406
United Kingdom	229	205	37	36	79	80
Continent of Europe	261	240	27	22	33	28
Rest of World	150	131	20	19	54	53
Total Revenue	\$ 1,232	\$ 1,117	\$ 233	\$ 212	\$ 578	\$ 567
Income before income taxes	\$ 187	\$ 126	\$ 27	\$ 24	\$ 64	\$ 67

- (1) Includes \$70 million of expenses related to the business transformation plan.
- (2) Includes \$1 million of expenses related to the business transformation plan.
- (3) Includes \$5 million of expenses related to the spin-off of Combined Specialty.
- (4) Includes \$1 million of expenses related to business transformation.

9

Selected information for Aon's Corporate and Other segment follows:

Corporate and Other (millions)	First quarter ended March 31	
	2002	2001
Corporate and Other revenue:		
Limited partnership investments	\$ 9	\$ (56)
Income from marketable equity securities and other investments	3	1

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	First quarter ended March 31	
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Corporate and Other revenue before one-time items and loss on disposals and related expenses	12	(55)
Interest on tax refund	48	
Loss on disposals and related expenses (1)	(15)	(30)
	<hr/>	
Corporate and Other revenue	45	(85)
Expenses:		
General expenses	23	19
Interest expense	29	36
Amortization of goodwill		29
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Loss before income tax	\$ (7)	\$ (169)
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(1) Includes impairment write-downs of \$8 million and \$29 million for the first quarter ended March 31, 2002 and 2001, respectively.

7. Goodwill and Other Intangible Assets

In accordance with FASB Statement No. 142, all of Aon's goodwill will no longer be amortized. Goodwill and other intangible assets are allocated to various reporting units, which are either at its operating segments or one reporting level below the operating segment. In prior years, goodwill amortization has been expensed in the Corporate and Other segment. Statement No. 142 requires Aon to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value. Fair value is estimated based on revenue multiples, earnings before interest taxes, depreciation and amortization and discounted cash flows.

10

A reconciliation of the prior year's quarter reported net income to adjusted net income had Statement No. 142 and the reclassification provisions of Statement No. 141 been applied as of January 1, 2001 follows:

	Three Months Ended March 31, 2001		
	<hr/>		
(millions, except per share amounts)	Amount	Basic Net Income Per Share	Dilutive Net Income Per Share
	<hr/>		
Reported net income	\$ 19	\$ 0.07	\$ 0.07
Add back amortization (net of tax):			
Goodwill	25	0.09	0.09
Intangible assets reclassified to goodwill	3	0.01	0.01
Less amortization (net of tax):			
Other intangible assets - change in amortization periods	1		
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	\$ 46	\$ 0.17	\$ 0.17
	<hr/>		
Reported net income and net income per share for the three months ended March 31, 2002	\$ 160	\$ 0.58	\$ 0.57

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Three Months Ended March 31, 2001

The changes in the carrying amount of goodwill for the quarter ended March 31, 2002 are as follows:

(millions)	Insurance Brokerage and Other Services	Consulting	Insurance Underwriting	Total
Balance as of December 31, 2001 (note 2)	\$ 3,239	\$ 366	\$ 237	\$ 3,842
Goodwill acquired during quarter	16	1		17
Foreign currency revaluation	(3)			(3)
Balance as of March 31, 2002	\$ 3,252	\$ 367	\$ 237	\$ 3,856

Amortizable intangible assets by asset class follow:

(millions)	Customer Related and Contract Based	Present Value of Future Profits	Marketing, Technology and Other	Total
Balance as of December 31, 2001	\$ 86	\$ 80	\$ 76	\$ 242
Balance at March 31, 2002	\$ 82	\$ 75	\$ 72	\$ 229
Range of years amortized	3-29	4-13	3-25	

Amortization expense for amortizable intangible assets for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 is estimated to be \$46 million, \$45 million, \$42 million, \$40 million and \$38 million, respectively.

8. Capital Stock

During first quarter 2002, Aon issued or reissued 1,749,000 shares of common stock for employee benefit plans and 144,000 shares in connection with the employee stock purchase plan. Aon purchased 74,000 shares of its common stock at a total cost of \$2.9 million during first quarter 2002. There were 22.4 million shares of common stock held in treasury at March 31, 2002, of which all but 67,000 shares are restricted as to their reissuance.

11

9. Capital Securities

In 1997, Aon Capital A, a subsidiary trust of Aon, issued \$800 million of 8.205% mandatorily redeemable preferred capital securities (capital securities). The sole asset of Aon Capital A is \$824 million aggregate principal amount of Aon's 8.205% Junior Subordinated Deferrable Interest Debentures due January 1, 2027.

10. Business Combinations

For the first quarter 2002, Aon made payments of \$2 million on restructuring charges and purchase accounting liabilities relating to business combinations.

In 1996 and 1997, Aon recorded pretax special charges of \$60 million and \$145 million, respectively, related to management's commitment to a formal plan of restructuring Aon's brokerage operations as a result of the acquisition of Alexander & Alexander Services, Inc. (A&A). Also in 1997, following management's commitment to a formal plan of restructuring the A&A and Bain Hogg brokerage operations, Aon recorded

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\$264 million in costs to restructure those acquisitions. Together, these costs were primarily related to termination benefits of \$152 million, lease abandonments and other exit costs of \$280 million, and asset impairments of \$37 million. All termination benefits have been paid. The remaining liability of \$55 million is for lease abandonments and other exit costs.

The following table sets forth recent activity relating to these liabilities:

(millions)	
Balance at December 31, 2000	\$ 78
Cash payments in 2001	(19)
Cash payments in 2002	(2)
Foreign currency revaluation	(2)
	<hr/>
Balance at March 31, 2002	\$ 55
	<hr/>

All of Aon's unpaid liabilities relating to acquisitions are reflected in general expense liabilities in the condensed consolidated statements of financial position.

11. Business Transformation Plan

In fourth quarter 2000, Aon announced a formal plan of restructuring Aon's worldwide operations. This plan constitutes the "business transformation plan" and continues into 2002. Costs of the plan include special charges and transition costs. Net pretax expenses of \$300 million were recorded in 2001 and 2000, of which \$72 million was recorded in the first quarter 2001, and are recorded in general expenses in the condensed consolidated statements of income.

For the first three months of 2001, expenses included costs related to termination benefits of \$23 million, covering notification to 1,200 employees. Other costs to exit an activity of \$3 million were incurred, which included \$2 million for abandoned leases and \$1 million for direct costs necessary to complete portions of the business transformation plan, cash settlements necessary to exit contractual obligations and other costs.

Other expenses of \$46 million were recorded in the first quarter of 2001. The Company has acted as a servicing agent for a limited partnership affiliated with automobile dealerships to provide auto financing to dealerships on a cooperative basis through various financing conduit facilities. The Company also has a general partnership interest in the limited partnership. Continued competition from financing provided by the financing arms of automobile manufacturers caused the Company to evaluate whether it wished to continue in this servicing partner relationship. In first quarter 2001, the Company elected to cease new servicing business and run off its existing service obligation. The limited

12

partnership affiliated with automobile dealerships established allowances for uncollectible loan balances. In conjunction with the decision to discontinue new auto financing receivables, the limited partners are not obligated to contribute additional capital beyond what they have already provided for any shortfall in the reserves for their individual book of business. The Company is required to fund any shortfalls in accordance with the Company's limited recourse to the funding facility arranged by the servicing agent. The servicing agent estimated the liability that the Company would have for the existing shortfall at the time the Company decided to discontinue new auto loan financing under the facility. The Company recorded a charge to establish this obligation in accordance with FASB Statement No. 5, which amounted to an expense of \$38 million. For the year 2000, the last full year of operation, these servicing operations, which were part of the Company's brokerage segment, generated revenue of \$42 million and pretax income of \$3 million.

During the first quarter of 2001 the Company exited one other joint venture operation as a part of its business transformation process. For the year 2000, the last full year of operation, this joint venture, which was part of the Company's brokerage segment, generated less than \$1 million of revenue and incurred nearly \$3 million of pretax losses. The total cost to exit this joint venture was \$6 million.

Fixed asset impairments of \$2 million, relating to information systems assets, were taken in the first three months of 2001.

Approximately 3,900 employees have either departed voluntarily or have positions that have been eliminated. Most of the terminations have occurred and are related to the Insurance Brokerage and Other Services segment in the U.S. and the U.K.

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For the first quarter 2002, Aon made payments of \$9 million related to the business transformation plan.

The following table sets forth the activity related to the liability for termination benefits and costs to exit an activity:

(millions)	Termination Benefits	Other Costs to Exit an Activity	Total
Expense charged in 2000	\$ 54	\$ 6	\$ 60
Cash payments in 2000	(13)	(3)	(16)
Expense charged in 2001	109	21	130
Cash payments in 2001	(73)	(20)	(93)
Cash payments in 2002	(8)	(1)	(9)
Foreign currency revaluation	(2)		(2)
Balance at March 31, 2002	\$ 67	\$ 3	\$ 70

All of Aon's unpaid liabilities relating to business transformation plan are reflected in general expense liabilities in the condensed consolidated statements of financial position.

13

12. Income Per Share

Income per share is calculated as follows:

(millions except per share data)	First Quarter Ended March 31,	
	2002	2001
Net income	\$ 160	\$ 19
Redeemable preferred stock dividends	(1)	(1)
Net income for dilutive and basic	\$ 159	\$ 18
Basic shares outstanding	274	265
Common stock equivalents	3	3
Dilutive potential common shares	277	268
Basic net income per share	\$ 0.58	\$ 0.07
Dilutive net income per share	\$ 0.57	\$ 0.07

13. Alexander & Alexander Services Inc. (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.

In January 2002, Aon settled certain of these liabilities. The settlements had no material effect on the condensed consolidated financial statements. As of March 31, 2002, the liabilities associated with the foregoing indemnities were included in other liabilities in the condensed consolidated statements of financial position. These A&A related liabilities amounted to \$73 million, net of reinsurance recoverables and other assets of \$86 million.

14. Contingencies

Aon and its subsidiaries are subject to numerous claims, tax assessments and lawsuits that arise in the ordinary course of business. The damages that may be claimed are substantial, including in many instances claims for punitive or extraordinary damages. Accruals for these items have been provided to the extent that losses are deemed probable and are estimable.

In the second quarter of 1999, Allianz Life Insurance Company of North America, Inc. ("Allianz") filed an amended complaint in Minnesota adding a brokerage subsidiary of Aon as a defendant in an action which Allianz brought against three insurance carriers reinsured by Allianz. These three carriers provided certain types of workers' compensation reinsurance to a pool of insurers and to certain facilities managed by Unicovert Managers, Inc. ("Unicovert"), a New Jersey corporation not affiliated with Aon. Allianz alleges that the Aon subsidiary acted as an agent of the three carriers when placing reinsurance coverage on their behalf. Allianz claims that the reinsurance it issued should be rescinded or that it should be awarded damages, based on alleged fraudulent, negligent and innocent misrepresentations by the carriers, through their agents, including the Aon subsidiary defendant. Aon believes that the Aon subsidiary has meritorious defenses and the Aon subsidiary intends to vigorously defend this claim.

Except for an action filed to compel Aon to produce documents, which has been settled, the Allianz lawsuit is the only lawsuit or arbitration relating to Unicovert in which any Aon-related entity is currently a party.

14

Certain U.K. subsidiaries of Aon have been required by their regulatory body, the Personal Investment Authority (PIA), to review advice given by those subsidiaries to individuals who bought pension plans during the period from April 1988 to June 1994. These reviews have resulted in a requirement to pay compensation to clients based on guidelines issued by the PIA. Aon's ultimate exposure from the private pension plan review, as presently calculated, is subject to a number of variable factors including, among others, general level of pricing in the equity markets, the interest rate established quarterly for calculating compensation, and the precise scope, duration and methodology of the review, including whether recent regulatory guidance will have to be applied to previously settled claims. These variable factors are ones that the U.K. Financial Services Authority, the current governing body in the U.K., has used as a basis in the past for establishing the calculation tables to determine redress or compensatory amounts. Because the Company is unable to predict if, or how, regulators may change these tables or if, or how, they may apply future regulatory guidance to previous claims, the Company has been, and will continue to be, unable to determine a range or estimate of additional possible exposure.

One of Aon's insurance subsidiaries is a defendant in twelve lawsuits in Mississippi. The lawsuits generally allege misconduct by the subsidiary in the solicitation and sale of insurance policies. Attorneys representing the plaintiffs in these lawsuits have advised the subsidiary that approximately 1,800 other current or former policyholders may file similar claims. The attorneys have furnished no or only sparse details of these possible claims. Each lawsuit includes, and each threatened claim could include, a request for punitive damages. Each suit and any threatened claim that matures into a suit will be most vigorously defended.

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.

15. Unconsolidated Special Purpose Entities (SPEs) excluding PEPS I

Certain of Aon's subsidiaries make loans to businesses for the financing of insurance premiums and then securitize the finance receivables through securitization transactions that meet the criteria for sale accounting in accordance with FASB Statement No. 140. These premium financing securitizations are accomplished through the use of special purpose entities which are considered qualifying SPEs ("QSPEs") pursuant to FASB Statement No. 140, and commercial paper bank conduits (multi-seller non-qualified SPEs). Aon has determined that each of the QSPEs meets the requirements of FASB Statement No. 140, paragraph 35 because (i) each QSPE is demonstrably distinct from Aon and any of its subsidiaries, (ii) each QSPE's permitted activities are significantly limited and entirely specified in the documents that established the QSPE and may be significantly changed only with the approval of the holders of at least a majority of the beneficial interests issued by the QSPE, and (iii) each QSPE's only assets are financial assets transferred to it that are passive in nature and the QSPE's ability to sell or otherwise dispose of transferred assets is consistent with the conditions specified in FASB Statement No. 140 and EITF Topic D-66. FASB Statement No. 140 provides that a QSPE should not be consolidated in the financial statements of a transferor or its affiliates (Aon's subsidiaries).

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Premium financing securitizations performed by Aon's Canadian and Australian subsidiaries utilize multi-seller non-qualified SPEs. Based on an analysis of the qualitative and quantitative factors (purpose, name, nature, ability to control, continuing involvement, placement of debt obligations, residual economics and fee arrangements) of the SPEs, Aon has determined that it is not the sponsor of the SPEs. Additionally, independent third parties (i) have made substantial equity investments in the

15

SPEs, (ii) have voting control of the SPEs and (iii) generally have the risks and rewards of ownership of the assets of the SPEs. Based on these factors, Aon has determined non-consolidation to be the appropriate accounting treatment in accordance with current accounting guidance.

The process of securitizing the premium financing contracts has been in place for a number of years. Aon evaluated the premium funding securitizations to determine whether they meet all of the requirements of FASB Statement No. 140. In that regard, the following should be noted about Aon's premium financing securitization transactions:

The transferred assets have been isolated from Aon — put presumptively beyond the reach of Aon and its creditors, even in bankruptcy or other receivership. In support of this, Aon has obtained appropriate legal opinions indicating the sold receivables have been isolated from Aon under local law and would not be consolidated with Aon or any of its subsidiaries in a bankruptcy proceeding.

The holders of the beneficial interests of the QSPE (or, in the case of a non-QSPE, the transferee itself) have the right to pledge or exchange the beneficial interests (transferred assets) and no conditions restrain the holders of the beneficial interests (or transferees) from taking advantage of their right to pledge or exchange the beneficial interests (or transferred assets).

Aon does not maintain effective control over the transferred assets because Aon does not have the ability to repurchase or redeem the transferred assets.

With regard to the guidance in FASB Statement No. 140, at the date of transfer, Aon's retained interests (in the form of interest-only strips) in the transferred assets are recorded by allocating the previous carrying amount between the assets sold and the retained interests, based on their relative fair values. Gain on sale of the receivables is recognized at the time of the sale as the difference between the proceeds of sale and previous carrying value allocated to the sold receivables, as discussed above. Subsequently, the retained interests are carried at fair value with unrealized gains and losses, net of tax, reported in equity. In addition, Aon records a liability for its recourse obligation equal to the fair value of the recourse obligation. With respect to servicing rights retained by Aon for sold receivables, Aon estimated that the fees to be received for servicing rights provide benefits just equal to adequate compensation. As a result, no servicing assets or liabilities have been recorded.

At March 31, 2002, Aon's maximum credit risk under recourse provisions was approximately \$87 million, which represents the extent of the limited recourse.

Aon is also a general partner in a limited partnership ("LP") that purchased automobile installment contracts from automobile dealers and subsequently securitized these contracts through securitization transactions in accordance with the requirements of FASB Statement No. 140. Effective April 1, 2001, the LP ceased purchasing and securitizing new automobile installment contracts. Aon continues to service the LP's existing portfolio. Aon uses the equity method of accounting to record its share of the net income or loss of the LP. As of March 31, 2002, the amount of financing outstanding in this LP was \$866 million with \$121 million subject to limited recourse to Aon. The amounts for the LP have been included in Aon's disclosure because Aon has guaranteed a portion of the LP's maximum recourse obligations.

16. Other Investments (PEPS I)

On December 31, 2001, Aon sold the vast majority of its limited partnership (LP) portfolio, valued at \$450 million, to Private Equity Partnership Structures I, LLC (PEPS I), a QSPE. The common stock interest in PEPS I is held by a limited liability company which is owned by one of Aon's subsidiaries (49%) and by a charitable trust, which is not controlled by Aon, established for victims of the September 11 attacks (51%). Approximately \$171 million of investment grade fixed-maturity securities

were sold by PEPS I to unaffiliated third parties. PEPS I then paid the Company's insurance underwriting subsidiaries the \$171 million in cash and issued to them an additional \$279 million in fixed-maturity and preferred stock securities. The fixed-maturity securities Aon subsidiaries received from PEPS I are rated as investment grade by Standard & Poor's Ratings Services.

To achieve the benefits of the securitization, Aon gave up all future voting interests in and control over the limited partnership interests sold to PEPS I and has no voting interest, control or significant influence over the business activities of PEPS I.

Aon has obtained a true sale/non-consolidation opinion from qualified external legal counsel.

PEPS I will be holding limited partnership investments. The legal documents that established PEPS I specify the actions that PEPS I and the servicer will undertake when PEPS I is required to make a voting decision (due to the general partner of a limited partnership calling for the vote of limited partners or proxy voting on a money market fund that PEPS I is invested in). Additionally, the legal documents contain specific instructions regarding actions to be taken if PEPS I receives (or has the ability to receive) distributions of investments held by limited partnerships in which it is invested. In instances where the general partner of a given investment may distribute underlying invested company shares to the limited partners (such as PEPS I), the legal documents that establish PEPS I outline very specific disposal instructions.

Throughout the life of PEPS I, at least 10% of the beneficial interests will be held by parties other than the transferor, its affiliates, or its agents. This 10% threshold is accomplished through the first tranche notes outstanding to unaffiliated third party investors.

PEPS I will invest cash collected from the limited partnerships pending distribution to holders of beneficial interests. PEPS I invests only in relatively risk free investments with maturities no later than an expected distribution date.

All holders of each of the above beneficial interests have the right to pledge or exchange (sell), without any constraints, the beneficial interests that they hold. As such, there are no conditions that constrain the beneficial interest holders from pledging or exchanging their beneficial interest(s) and provide the transferor with more than a trivial benefit.

**AON CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

FIRST QUARTER ENDED MARCH 31, 2002

General

Aon has three operating segments: Insurance Brokerage and Other Services, Consulting and Insurance Underwriting. These segments are based on the type of client and the services or products delivered. Aon has a fourth, non-operating segment, Corporate and Other.

On September 11, 2001, the World Trade Center was destroyed. Aon occupied space on several of the higher floors of one of the towers and 175 employees are either confirmed or presumed dead. In 2001, Aon incurred \$275 million of expenses (before insurance and reinsurance recoveries) related to this event. These costs include \$192 million of insurance benefits paid by Aon's Combined Insurance Company of America subsidiary (CICA) under life insurance policies issued for the benefit of deceased employees, and is partially offset by gross reinsurance recoveries of \$147 million. Reinsurers have disputed their liability as to approximately \$90 million of these gross reinsurance recoveries under a Business Travel Accident (BTA) policy issued by CICA to cover U.S.-based employees of subsidiaries of Aon, and legal actions have been filed by both parties. In the first quarter 2002, Aon recorded a pretax \$90 million allowance (\$56 million after tax or \$0.20 per dilutive share) for this potentially uncollectible receivable. This allowance was established due to an April 2002 court ruling (in an unrelated case) that may impact the venue for litigation between Aon and its reinsurers. This ruling has impacted Aon's ability to reasonably estimate the probable recovery under the claim. Also see "Recent Developments".

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After discussions with the SEC staff regarding the proper timeframe to record the above-mentioned allowance, Aon is, by means of this filing, restating its previously issued financial statements for the first quarter ended March 31, 2002 to reverse the \$90 million pretax allowance for the reinsurance recoverables previously established. The allowance has now been established in fourth quarter 2001. See also note 2 in Notes to Condensed Consolidated Financial Statements of this report.

The effect of Aon's revisions were to increase its net income, basic and dilutive earnings per share, respectively, from \$104 million, \$0.38 and \$0.37 to \$160 million, \$0.58 and \$0.57 for the first quarter ended March 31, 2002.

Unless otherwise expressly stated, all financial information in this Report on Form 10-Q/A is presented inclusive of these revisions.

In addition, the SEC staff requested that Aon add certain disclosures or not report certain items. This management's discussion and analysis of financial condition and results of operations has been amended as appropriate to respond to these requests.

References to organic revenue growth exclude the impact of acquisitions, dispositions, transfers, investment income, foreign exchange and other unusual items. Within the Insurance Underwriting segment, written premiums are the basis for the measurement of organic growth. References to income before income tax are before minority interest related to the issuance of 8.205% mandatorily redeemable preferred capital securities.

Information Concerning Forward-looking Statements

This quarterly report may contain certain statements relating to future results, 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 the general economic conditions in different

18

countries around the world, fluctuations in global equity and fixed income markets, changes in commercial property and casualty premium rates, the competitive environment, the actual cost of resolution of contingent liabilities, the final execution of the business transformation plan, the ultimate cost and timing of the implementation thereof, the actual cost savings and other benefits resulting therefrom, whether the Company ultimately implements the proposed spin-off of its underwriting operations, rating agency actions, and any proposed capital raising, and the timing and terms associated therewith, and events surrounding terrorist attacks of September 11, 2001, including the timing and resolution of related insurance and reinsurance issues.

Planned Divestiture of Underwriting Business

As previously disclosed, on April 20, 2001, Aon's Board of Directors approved, in principle, a plan to spin-off its insurance underwriting businesses to Aon's common stockholders, creating two independent, publicly traded companies. The spin-off would take the form of a tax-free stock dividend of the outstanding shares of common stock of Combined Specialty Group, Inc. (Combined Specialty), a new company formed to hold the insurance underwriting businesses. The transaction requires final Board approval and certain insurance regulatory approvals and is currently expected to be completed in second quarter 2002. On April 11, 2002, Aon received a favorable private letter ruling from the U.S. Internal Revenue Service that provides, among other things, that Aon's common stockholders should not owe U.S. tax on a dividend of shares of Combined Specialty common stock in the spin-off. See "Recent Developments" for an update of the planned divestiture.

In the first quarter 2002, Aon incurred \$5 million of expenses related to the spin-off. These expenses, recorded in general expenses in the condensed consolidated statements of income, are primarily for outside professional fees.

Business Transformation Plan

In fourth quarter 2000, after final approval by its Board of Directors, Aon began a comprehensive business transformation plan designed to enhance client service, improve productivity through process redesign, and accelerate revenue growth. The majority of the plan costs relate to the Insurance Brokerage and Other Services segment, principally in the U.S. and the United Kingdom, where most of Aon's offices and employees are located. Outside of U.S. retail brokerage, the business transformation plan has been substantially implemented and has delivered the expected benefits, including improved revenue growth and enhanced productivity. In U.S. retail brokerage, the plan entailed extensive process redesign following the rollout of a new policy management and accounting system (completed in 2000), and substantial job redesign based on functional expertise and the creation of four new Client Service Business Units (CSBUs). There were unexpected delays in implementing components of the plan due to challenges in handling higher volumes of information transfers between field operations and the

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CSBUs as well as the destruction of Aon's largest and most advanced CSBU, which was housed in the World Trade Center. This delay also adversely affected new business production, as attention was diverted from generating new accounts to completing client conversions and maintaining service to existing New York region clients from Aon's offices throughout the U.S. Expenses have been higher than expected, due in part to additional temporary employee expense necessary to complete the account conversions to the CSBUs, as well as increased compensation for certain brokerage employees and the hiring of employees with specialized skills. The changing dynamics of the insurance marketplace following the World Trade Center disaster have also increased the time requirements and expense for handling certain job functions.

19

The implementation and results of the Company's business transformation plan for the Company's U.S. retail brokerage operations can only be fully understood in the context of the unprecedented events that occurred during the implementation of the plan:

The Company's largest U.S. retail brokerage office, then located in the World Trade Center, was destroyed on September 11, 2001;

1,100 of the Company's employees worked in the World Trade Center, including employees from all of the Company's major businesses;

250 additional employees either worked in other lower Manhattan offices or were visiting the World Trade Center from around the world on September 11th, which demonstrates the significance of this office to the Company's global operations;

175 of the Company's employees died in the World Trade Center attack on September 11th;

Displaced World Trade Center employees had to be relocated to other New York City metropolitan offices;

The Company's largest and most advanced retail brokerage CSBU (back office regional service center) — an important element of the business transformation that had been built and staffed just months before — was destroyed on September 11th and had to be rebuilt in Manhattan while client work was rerouted to the remaining three CSBUs in the U.S.;

Regular client servicing was referred to other offices of the Company for handling over varying periods of time until employees had proper temporary work facilities;

The September 11th attacks thrust the insurance industry into the most tumultuous period in its recent history;

Client demand for risk management advice and services has grown dramatically since September 11th;

Premium rates have accelerated to their highest levels in decades;

Insurance capacity has been restricted and policy coverage has tightened;

Workloads for insurance brokers to complete similar tasks have significantly increased; and

Competitive demand for risk management professionals has risen along with compensation requirements.

20

A summary of the business transformation costs follows, with more complete descriptions following the summary table.

(millions except per share data and employees data)	2000	2001	Plan Total
Business Transformation Costs			
Pretax expense	\$ 82	\$ 218	\$ 300
After-tax expense	50	133	183
Dilutive EPS	0.19	0.49	0.68
Pretax Expense by Type:			
Termination benefits	\$ 54	\$ 109	\$ 163
<i># of employees (approximate)</i>	750	3,150	3,900
Exit Costs, Impairments and Other Expenses	\$ 28	\$ 109	\$ 137
Abandoned real estate or equipment losses	2	10	12
Impairment of fixed assets	20	10	30
Obligations related to automobile dealer partnerships		44	44
Exit of certain joint venture operations		12	12
Litigation matters and discontinuance of A&H business in one state		14	14
Commission receivable write-off		5	5
Direct costs to complete transformation, cash settlements and other costs	6	14	20
Total pretax expense	\$ 82	\$ 218	\$ 300

In connection with the overall plan and other strategic initiatives, the Company recorded total net expenses of \$300 million: \$82 million (\$50 million after tax or \$0.19 per share) in 2000 and \$218 million (\$133 million after tax or \$0.49 per share) in the first six months of 2001, including \$72 million (\$44 million after tax or \$0.16 per share) in first quarter 2001. In recording these expenses, the Company followed the accounting guidance from EITF 94-3, SAB 100, FASB Statement No. 121 and FASB Statement No. 5. The expenses incurred under the guidance contained in EITF 94-3 and SAB 100 were recorded in each of the three quarters referenced above. In each quarter that the Company recorded accruals for either termination benefits and/or other costs to exit an activity, the Company had met all of the requirements contained in EITF 94-3 and SAB 100 prior to recording an accrual, although the Company's board approved the high-level plan in the fall of 2000. The reason that these expenses were incurred over three quarters was that different Company units completed detailed plans and satisfied the employee notification requirements in different timeframes. The \$300 million excludes both transition costs primarily relating to parallel system processing and increased compensation for certain U.S. retail brokerage employees. These transition costs amounted to \$30 million in 2001 and \$3 million for the first three months of 2002. The expenses pertaining to the Company's U.S. retail brokerage operation were approximately 19% of the total charge. The Company does not anticipate additional expenses from the business transformation plan.

Expense amounts of \$54 million and \$109 million for termination benefits were included in 2000 and 2001, respectively, covering notification of 750 employees in 2000 and 3,150 employees in 2001. Included in the 2001 amount is \$23 million recorded in the first quarter, covering notification of 1,200 employees. A portion of the overall employment reduction was expected to be accomplished through normal attrition and, therefore, no expense was attributable to those reductions.

When the overall business transformation plan was announced in late 2000, the Company estimated a net reduction in personnel of 3,000 to 3,500. This range included an estimated new hire level of 500 people. By June 30, 2001, the last of the three consecutive quarters that the execution of

the detailed plans occurred and termination benefits and other costs were incurred, the Company's charges included termination benefits for 3,900 employees. The new hire level has grown to approximately 900 people related to the business transformation plan; this heightened level of rehires is causing the Company to reach the lower end of the net reduction range. The gross employee reduction level, which is the number tied

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to the charge for termination benefits, has remained consistent since the commitment date, with the exception of approximately 200 U.S. retail employees. See "Recent Developments" for an update of the Business Transformation plan.

Of the 3,900 notified employees, more than 3,050 had been removed from the payroll as of December 31, 2001. Approximately 500 and 150 of the remaining notified/not terminated employees are associated with international and domestic business units, respectively, where the exit plans included later termination dates. Employment laws in certain countries require extended periods before a notified employee can be terminated. These exit plans were sufficient in detail as to specific employee groups and, in some cases, specific employees. The employee groups were, at or before the expense accrual date, properly notified and were given adequate information about severance benefits. The plans are being completed in accordance with the original exit plans. The run-off of the associated liability will trail the completion of the plan primarily because the Company's policy is to pay severance ratably over the eligible period, rather than in a lump sum amount, whenever possible.

Included in the total expense of \$300 million are approximately \$27 million in other costs to exit an activity. Of that amount, \$6 million was incurred in 2000, including \$2 million in abandoned real estate or equipment leases and \$4 million of direct costs necessary to complete portions of the business transformation plan, cash settlements necessary to exit contractual obligations and other costs. In 2001, \$21 million of expenses were recorded to exit an activity (including \$3 million in the first quarter), which included \$10 million for abandoned leases and \$11 million (\$3 million in the first quarter) for direct costs necessary to complete portions of the business transformation plan, cash settlements necessary to exit contractual obligations and other costs.

As part of the business transformation and other strategic initiatives, other expenses of \$110 million were incurred. Of this total, \$22 million was recorded in 2000. Impairment of fixed assets accounted for \$20 million of the 2000 expense, including \$16 million for information systems assets. The net book value of these assets was written off, as these assets no longer had value to the Company. The assets were considered impaired due to: (1) the system being removed from service or (2) the system being under development and the decision to abandon development occurred as a result of the transformation. The other fixed assets, comprised of certain technology infrastructure equipment, were deemed to be impaired as they ceased to have any value to the Company due to the outsourcing of the relevant function to an outside party and the abandonment of the assets. There was \$2 million of other costs.

Other expenses of \$88 million were recorded in 2001, of which \$46 million was recorded in the first quarter. The Company has acted as a servicing agent for a limited partnership affiliated with automobile dealerships to provide auto financing to dealerships on a cooperative basis through various financing conduit facilities. The Company also has a general partnership interest in the limited partnership. Continued competition from financing provided by the financing arms of automobile manufacturers caused the Company to evaluate whether it wished to continue in this servicing partner relationship. In first quarter 2001, the Company elected to cease new servicing business and run off its existing service obligation. The limited partnership affiliated with automobile dealerships establishes allowances for uncollectible loan balances. In conjunction with the decision to discontinue new auto financing receivables, the limited partners are not obligated to contribute additional capital beyond what they have already provided for any shortfall in the reserves for their individual book of business. The Company is required to fund any shortfalls in accordance with the Company's limited recourse to the funding facility, arranged by the servicing agent. The servicing agent estimated the liability that the Company would have for the existing shortfall at the time the Company decided to discontinue new

auto loan financing under the facility. The Company recorded a charge to establish this obligation in accordance with FASB Statement No. 5, which amounted to an expense of \$44 million, of which \$38 million was expensed in the first quarter. For the year 2000, the last full year of operation, these servicing operations, which were part of the Company's brokerage segment, generated revenue of \$42 million and pretax income of \$3 million.

During 2001, the Company exited four other joint venture operations as a part of its business transformation process, one of which was exited in the first quarter. For the year 2000, the last full year of operation, these joint ventures, which were part of the Company's brokerage segment, generated less than \$1 million of revenue and incurred nearly \$3 million of pretax losses. The total cost to exit these four joint ventures was \$12 million, of which \$6 million was recorded in the first quarter. Additional expenses in 2001, none of which was expensed in the first quarter, included a provision of \$14 million for discontinuing supplemental accident and health insurance business operations in Mississippi. The charge included severance costs and expenses associated with the reassignment of agents, as well as estimated costs for resolving asserted and unasserted claims and suits. A \$5 million expense was recorded relating to the write-down of certain agent receivables in conjunction with the restructuring of a worksite marketing agent commission pay structure and operations.

Fixed asset impairments of \$10 million (of which \$9 million related to information systems assets) were taken in 2001, as well as \$3 million of other costs. Of the above, \$2 million of fixed asset impairments, all relating to information system assets, pertained to the first quarter.

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The insurance brokerage industry has experienced significant expansion since September 11th with increased client demand for risk management services that was not anticipated at the origination of the business transformation. This unanticipated expansion has also caused some of the delay in the implementation of the plan. The Company has incurred additional spending, which partially explains the offset in savings, to take advantage of this industry expansion. However, revenue growth has not yet achieved expected levels as a result of this additional spending.

Consolidated Results

Total revenue increased \$277 million or 15% when compared to first quarter 2001. Excluding the effect of foreign exchange rates, revenues rose 18% over first quarter 2001, attributable principally to growth in brokerage commissions and fees and an increase in reported investment income. Investment income improved year over year due to a one-time tax related item of \$48 million, a positive valuation change in limited partnerships in 2002 versus reduced valuations last year, and lower impairment writedowns this year. Consolidated revenue for the operating segments grew approximately 14% on an organic basis over last year.

Brokerage commissions and fees increased \$163 million or 13% in first quarter 2002. This improvement was primarily from organic growth, including the impact of increased premium rates, increased new business, and 2001 business combination activity, especially ASI Solutions Incorporated (ASI) and First Extended, Inc.

Premiums and other is primarily related to insurance underwriting operations. Premiums and other improved \$27 million over first quarter 2001. In the first quarter, growth in the accident and health lines and new specialty property and casualty lines was somewhat offset by the impact of the prior loss of some accounts in the warranty business.

Investment income, which includes related expenses and income or loss on disposals and impairments, increased significantly in the first quarter 2002 when compared to prior year, of which \$48 million of the increase was due to a tax related settlement. In December 2001, Aon sold the vast majority of its limited partnership (LP) portfolio. The remaining LP's posted a positive change in valuation versus reduced valuations in 2001. Also, impairment writedowns for certain directly owned

23

equity investments were \$21 million less than last year. These improvements were somewhat offset by lower returns due to reductions in short-term interest rates from 2001. Investment income from Insurance Brokerage and Other Services and Consulting segments, primarily relating to fiduciary funds, decreased \$26 million in first quarter 2002 compared to 2001, primarily as a result of declines in rates.

Total expenses increased \$54 million or 3% over first quarter 2001. Expenses in 2002 include \$5 million of costs related to the divestiture of Combined Specialty. In 2001, \$72 million of expenses were recognized for the business transformation plan. Total expenses, excluding these charges, rose 7%. General expenses increased \$67 million or 5% in the quarter reflecting growth of the businesses and higher costs in the U.S. retail brokerage business. Benefits to policyholders rose \$22 million or 8%. Interest expense declined \$7 million or 19%, driven by lower short-term interest rates. Amortization of intangible assets declined \$28 million as goodwill was not amortized in 2002, in accordance with FAS 142 (see notes 1 and 7).

As a result of these factors, income before income tax improved significantly from \$48 million in 2001 to \$271 million in 2002.

First quarter 2002 net income rose to \$160 million (\$0.57 per dilutive share) compared to \$19 million (\$0.07 per dilutive share) in 2001. Basic net income per share was \$0.58 and \$0.07 in first quarter 2002 and 2001, respectively. Dividends on the redeemable preferred stock have been deducted from net income to compute income per share. The exclusion of goodwill amortization in 2002 contributed to Aon's effective tax rate declining to 37.3% in the first quarter 2002 from 39% in 2001.

Operating Segments

Insurance Brokerage and Other Services

The Insurance Brokerage and Other Services segment consists principally of Aon's retail, reinsurance and wholesale brokerage operations as well as related insurance services, including claims services, underwriting management, captive insurance company management services and premium financing. This segment represented 59% of Aon's total revenues for the first quarter of 2002.

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First quarter 2002 Insurance Brokerage and Other Services revenue was \$1.2 billion, up 10% over last year. Excluding foreign exchange, revenues rose 12%. Organic revenue growth was 13% in the quarter, up from 8% in fourth quarter 2001. Claims services, domestic, international and wholesale brokerage all posted solid revenue gains for the quarter. Reported revenues were impacted by a decline in investment income of \$25 million due to a drop in interest rates. In addition, the managing underwriting business experienced a temporary decline in revenue due to a required change in an insurance carrier relationship that is expected to be corrected during the second quarter.

U.S. revenue of \$592 million for the quarter was up 9% from 2001, despite a fall off of investment income due to lower interest rates. The increase reflects fundamental growth, improved pricing and the impact of acquisitions, all of which more than offset the direct and indirect impact of the business transformation plan on the U.S. retail operation and the World Trade Center disaster. International, reinsurance and wholesale brokerage performed well. U.S. retail's new to lost business ratio improved over the fourth quarter 2001 in certain U.S. retail brokerage units as operational changes were implemented to achieve long-term benefits of the business transformation plan. Commercial property and casualty premium rate increases were evident for most lines of coverage and client demand for risk retention programs and services has risen along with the upward trend in premium rates. U. K. and Continent of Europe revenues of \$490 million for the first quarter increased 10% from 2001, primarily due to organic growth driven by higher insurance premium rates and new business. The reported revenue growth was unfavorably impacted by the effect of foreign exchange rates. Rest of world revenue increased \$19 million or 15% over first quarter 2001 reflecting solid organic growth resulting from new business, good renewal rates and the positive impact of hardening insurance markets.

24

Pretax income was \$187 million for the first quarter 2002 compared to \$126 million in 2001. Pretax margins were 15.2% in 2002 versus 11.3% in 2001. Excluding expenses last year pertaining to the business transformation plan, pretax income fell 5% from 2001. Pretax margins, excluding the business transformation plan expenses, were 17.5% in 2001. The margin decline in 2002 was principally driven by the significant decrease in investment income from last year. In addition, higher costs in certain parts of the U.S. retail business, due to delays in the business transformation process, including expense to run parallel systems longer than expected, along with increased compensation costs, including higher pension costs, contributed to the margin decline. These items more than offset strong organic growth and business transformation savings.

Consulting

The consulting segment provides a full range of human capital management services. These services are delivered to a predominately corporate clientele utilizing five practices: employee benefits, compensation, management consulting, outsourcing and communications. This segment accounted for 11% of Aon's total revenues for the first quarter 2002.

First quarter 2002 revenue increased 10% to \$233 million. Excluding the foreign exchange rate impact, revenues grew 11%. For the first quarter 2002, revenue grew 4% on an organic basis reflecting slower economic conditions. On a global basis, the improvement in revenue was influenced by acquisition activity, especially the inclusion of ASI, acquired in the second quarter 2001, as well as organic growth. Client demand for solutions that enhance workforce productivity continued. However, the worsening economy has put some pressure on organic revenue growth.

For the quarter, U.S. revenue of \$149 million was up 10% from 2001. The improvement primarily reflects the impact of the ASI acquisition. U.K. and Continent of Europe revenue rose \$6 million for the quarter compared to 2001. Organic revenue growth and acquisitions were somewhat offset by unfavorable foreign exchange rates. Rest of World revenue rose \$1 million from 2001 to \$20 million.

Pretax income was \$27 million for the quarter, a 13% increase over last year. Pretax margins were 11.6% in the quarter, compared to 11.3% last year. Excluding 2001 expenses related to the business transformation plan, pretax income improved 8% over 2001. Last year's pretax margins, excluding the one time costs, were 11.8%. Margin comparisons were positively influenced during the quarter by strong results in the U.S. employee benefits business but were pressured by the effects of a weak economy.

Insurance Underwriting

The Insurance Underwriting segment provides supplemental accident and health and life insurance coverage through several distribution networks, most of which are directly owned by Aon's subsidiaries, and specialty property and casualty insurance, including extended warranty products. This segment represented 28% of Aon's total revenues for the first quarter 2002.

Revenue was \$578 million in the first quarter 2002, an increase of 2% from 2001. Excluding the impact of exchange rates, revenues rose 5% for the quarter. Improvement over last year reflects the impact of organic growth and acquisitions. Organic revenue growth, based on written premiums, was 18% for the quarter, due in part to new specialty property and casualty and accident and health insurance business. Partially offsetting core business growth was the prior loss of several accounts in the extended warranty business, as well as lower investment income.

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U.S. revenue increased \$6 million in the first quarter 2002 to \$412 million. Higher revenues reflect new product initiatives and increased revenues for accident and health products, which more than offset a decline in electronic warranty products. U.K. and Continent of Europe revenue of \$112 million

25

increased 4% during the quarter due to increased electronic warranty business. Rest of World revenue was \$54 million for the first quarter, up \$1 million from 2001.

Pretax income for this segment was \$64 million for the quarter, a \$3 million decline from last year. Pretax margins were 11.1% and 11.8% for 2002 and 2001, respectively. Excluding this quarter's divestiture related expenses of \$5 million, and 2001 expenses related to business transformation, pretax income rose 1% over last year. Before these one time costs, pretax margins in this segment were 11.9% in the quarter compared to 12.0% in 2001. A decline in investment income, due mainly to lower interest rates, affected margin comparisons in the quarter. New underwriting initiatives drove premium growth but also resulted in increased benefits to policyholders, which offset an unusual increase in warranty claims during the first quarter 2001 related to an isolated program that did not affect subsequent quarters.

Non-operating Segment

Corporate and Other

Revenue in this category consists primarily of investment income (including income or loss on disposals, including impairment losses) which is not otherwise reflected in the results of the operating segments. Invested assets and related investment income not directly required to support the insurance brokerage and consulting businesses, together with the assets in excess of net policyholder liabilities of the underwriting businesses and related income, are allocated to the Corporate and Other segment. Corporate and Other expenses encompass general expenses, which include administrative and certain information technology costs, interest expense and, in 2001, goodwill amortization.

Corporate and Other revenue for the first quarter 2002 was \$45 million, versus a negative \$85 million in the first quarter 2001. In December 2001, Aon sold the vast majority of its limited partnership (LP) portfolio to a special purpose entity (PEPS I). The remaining LP's provided a positive change in valuation versus reduced valuations in 2001. Also in 2002, Aon recognized \$48 million of interest income due to settlement of a prior year tax related issue. The year-to-year comparison is also impacted by lower write-downs of certain directly-owned equity investments compared to first quarter 2001.

The fixed-maturity portfolio had a \$76 million gross unrealized loss at March 31, 2002, including \$7 million related to deferred amortizable derivative losses, and is subject to interest rate risk, market risk and credit risk. The equity portfolio is comprised of non-redeemable preferred stocks and private and publicly-traded common stocks. The non-redeemable preferred stock portfolio had a \$30 million gross unrealized loss and is subject to interest rate risk, market risk, credit risk and illiquidity risk. The common stock portfolio had a \$10 million gross unrealized loss at March 31, 2002 and is subject to illiquidity risk, concentration risk, and operating performance risk relative to private equities and market risk relative to publicly-traded stocks. Aon's portfolios are highly diversified but remain exposed to market, equity and credit risk.

26

The following table contains an analysis of Aon's investment positions with unrealized losses segmented by quality and period of continuous unrealized loss (excluding deferred amortizable derivative losses of \$7 million) as of March 31, 2002:

Investment Positions with Unrealized Losses Segmented by Quality and Period of Continuous Unrealized Loss*

(\$ in millions)	Investment Grade				Non-Investment Grade				Not Rated				Grand Total
	0-6 Months	6-12 Months	> 12 Months	Total	0-6 Months	6-12 Months	> 12 Months	Total	0-6 Months	6-12 Months	> 12 Months	Total	
FIXED MATURITIES													
# of positions	160	15	78	253	1	9	18	28					281

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	Investment Grade				Non-Investment Grade				Not Rated				
Fair Value	\$ 1,031	\$ 26	\$ 439	\$ 1,496	\$ 1	\$ 22	\$ 46	\$ 69	\$	\$	\$	\$	\$ 1,565
Cost or Amortized Cost	1,055	26	475	1,556	2	23	53	78					1,634
Unrealized Loss	(24)		(36)	(60)	(1)	(1)	(7)	(9)					(69)
EQUITIES; PREFERRED													
# of positions	1	3	30	34			3	3					37
Fair Value	\$ 3	\$ 8	\$ 195	\$ 206	\$	\$	\$ 14	\$ 14	\$	\$	\$	\$	\$ 220
Cost	3	9	222	234			16	16					250
Unrealized Loss		(1)	(27)	(28)			(2)	(2)					(30)
EQUITIES; COMMON													
# of positions		1	4	5					5		1	6	11
Fair Value	\$	\$ 5	\$ 10	\$ 15	\$	\$	\$	\$	\$ 4	\$	\$ 1	\$ 5	\$ 20
Cost		8	17	25					4		1	5	30
Unrealized Loss		(3)	(7)	(10)									(10)
OTHER													
# of positions									2			2	2
Fair Value	\$	\$	\$	\$	\$	\$	\$	\$	\$ 53	\$	\$	\$ 53	\$ 53
Cost									64			64	64
Unrealized Loss									(11)			(11)	(11)
TOTAL													
# of positions	161	19	112	292	1	9	21	31	7		1	8	331
Fair Value	\$ 1,034	\$ 39	\$ 644	\$ 1,717	\$ 1	\$ 22	\$ 60	\$ 83	\$ 57	\$	\$ 1	\$ 58	\$ 1,858
Cost or Amortized Cost	1,058	43	714	1,815	2	23	69	94	68		1	69	1,978
Unrealized Loss	(24)	(4)	(70)	(98)	(1)	(1)	(9)	(11)	(11)			(11)	(120)
% of Total Unrealized Loss	20%	3%	58%	81%	1%	1%	8%	10%	9%	0%	0%	9%	100%

*

For categorization purposes, we consider any rating of Baa or higher by Moody's, or equivalent rating agency, to be investment grade. For common equities, we view the most senior long-term debt of the issuer, if any, as the basis for establishing investment grade for the purpose of analysis in this table.

At March 31, 2002, Aon's diversified fixed-maturity portfolio had 281 positions and \$69 million of total gross unrealized losses, excluding deferred amortizable derivative losses. No single position had an unrealized loss greater than \$2 million. Aon's total fixed-maturity portfolio is 95% investment grade based on market value. Fixed-maturity securities with an unrealized loss are 95% investment grade and have a weighted average rating of "AA" based on amortized cost.

At March 31, 2002, Aon's equity portfolio, including non-redeemable preferred stocks, had 48 positions and \$40 million of total gross unrealized losses. No single position had an unrealized loss greater than \$3 million except one banking industry preferred stock investment with a \$5 million unrealized loss.

Aon's non publicly-traded fixed maturity portfolio had a carrying value of \$158 million at March 31, 2002, including \$115 million in notes received from PEPS I on December 31, 2001 related to the securitization of limited partnerships and \$7 million in notes issued by PEPS I to Aon during the first three months of 2002. Valuations of these securities primarily reflect the fundamental analysis of the issuer and current market price of comparable securities.

Management periodically reviews securities with material unrealized losses and tests for other than temporary impairments. Management analyzes various risk factors and determines if any specific asset impairments exist. Once a determination has been made that a specific asset impairment exists, a realized loss is incurred and the cost basis of the impaired asset is adjusted to its fair value.

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Management reviews invested assets with material unrealized losses each quarter. Those assets are separated into two categories: (1) assets with unrealized losses due to issuer-specific events; and (2) assets with unrealized losses due to market conditions or industry-related events.

Management's analysis of investments with unrealized losses due to issuer-specific events are segmented among four categories: fixed-maturity investments; preferred stocks; publicly-traded common stocks; and private common stocks and other invested assets.

Fixed Maturity Investments Creditworthiness of corporate obligors is reviewed at least quarterly. Creditworthiness factors reviewed include: nationally recognized credit rating agency rating changes; and, changes in fundamental financial performance of the underlying entity. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. Management monitors for other than temporary impairment all bonds and asset-backed securities that have exhibited a decline in financial performance.

Preferred Stocks Similar to fixed-maturity investments, issuer creditworthiness is reviewed at least quarterly. Creditworthiness factors reviewed include: nationally recognized credit rating agency rating changes; and changes in financial performance of the underlying issuer. Management monitors for other than temporary impairment all preferred stock investments that have exhibited a decline in financial performance.

Publicly-Traded Common Stocks Each common stock investment is reviewed quarterly to determine if it has incurred a decline in value deemed other than temporary. Criteria include a review of issuer financial trends, and market expectations based on third-party forward-looking analytical reports, when available.

Private Common Stocks and Other Invested Assets Private issue valuations include: recent transaction valuations between the issuer and a third party; financial performance reviews; and, financial trend comparisons with publicly-traded companies in the same or similar industries. These assets are reviewed quarterly.

For fixed-maturity investments, common and preferred stock investments with continuous material unrealized losses due to issuer-specific events, an other than temporary impairment loss is recognized

28

based upon all relevant facts and circumstances for each investment, as appropriate, in accordance with SAB 59, FASB Statement No. 115 and related guidance.

Invested assets with unrealized losses due to market conditions or industry-related events include those adversely impacted by: increasing U.S. Treasury or local sovereign interest rates; corporate and asset-backed credit spread widening; common stock price volatility due to conditions in the overall market or a particular industry; and illiquid market conditions.

For fixed-maturity investments with unrealized losses due to market conditions or industry-related events where there exists a reasonable market recovery expectation and where management has no positive current intent on selling and Aon has the intent and ability to hold the investment until maturity or a market recovery is realized, the decline in value below cost is not assumed to be other than temporary. Management believes that the intent and ability to hold a fixed-maturity investment with a continuous material unrealized loss due to market conditions or industry-related events for a period of time sufficient to allow a market recovery or to maturity is a decisive factor when considering an impairment loss. In the event that Aon's intent or ability to hold a fixed-maturity investment with a continuous material unrealized loss for a period of time sufficient to allow a market recovery or to maturity were to change, an evaluation for other than temporary impairment is performed. An other than temporary impairment loss will be recognized based upon all relevant facts and circumstances for each investment, as appropriate, in accordance with SAB 59, FASB Statement No. 115 and related guidance. Aon continues to monitor these securities on a quarterly basis to ensure that unrealized losses do not become the result of issuer-specific events.

For preferred and common stock investments with continuous material unrealized losses for two consecutive quarters due to market conditions or industry-related events, an evaluation for other than temporary impairment is performed. An other than temporary impairment loss is recognized based upon all relevant facts and circumstances for each investment, as appropriate. Aon continues to monitor these securities on a quarterly basis to ensure that unrealized losses are not the result of issuer-specific events.

The risks inherent in the assessment methodology include the risk that market factors may differ from Aon's expectations; Aon may decide to subsequently sell a security for unforeseen liquidity needs; or the credit assessment or equity characteristics may change from our original assessment.

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Corporate and Other expenses for the quarter were \$52 million, down \$32 million from the same period last year. Goodwill amortization was \$29 million for the first quarter 2001. In accordance with Statement No. 142, which Aon adopted on January 1, 2002, Aon will no longer amortize goodwill. However, it will test annually for impairments. Interest expense declined \$7 million for the quarter, reflecting lower interest rates. General expenses rose \$4 million over first quarter 2001 due in part to expenses to establish new management personnel for Combined Specialty.

The revenue and expense comparisons discussed above contributed to the overall Corporate and Other pretax loss of \$7 million in the quarter versus a loss of \$169 million last year.

29

CASH FLOW AND FINANCIAL POSITION AT THE END OF FIRST QUARTER 2002

Cash flows from operating activities represent the net income earned by Aon in the reported periods adjusted for non-cash charges as well as changes in assets and liabilities. Cash flows provided by operating activities for the first three months 2002 were \$191 million, a \$141 million decrease over the same period in 2001. Other receivables and liabilities decreased \$109 million during the year, driven by incentive compensation payments of \$42 million and a tax related refund receivable of \$48 million. The year-over-year difference in valuation changes on investments, income on disposals and impairments represents lower valuations on the company's LP portfolio and higher impairment loss on investments that occurred in 2001. These items were somewhat offset by higher net income and the timing of income tax payments and refunds.

Investing activities used cash of \$5 million, versus cash usage of \$186 million in 2001. The net purchase of investments used cash of \$251 million during the first three months of 2002. This was offset by the net sale of short-term investments of \$337 million. In 2001, purchases of short-term investments used \$180 million, while net sales of investments generated cash of \$99 million.

Cash of \$55 million was used during the first three months of 2002 for financing activities, which was \$321 million less than was utilized in 2001. The lower usage of cash from last year is primarily due to a smaller decrease in the amount of short-term debt paid down, coupled with a larger increase in long-term debt issued. In 2001, a significant amount of U.S. commercial paper was repaid, in part due to utilizing cash from a dividend received from one of Aon's insurance company subsidiaries.

Aon's operating subsidiaries anticipate that there will be adequate liquidity to meet their needs in the foreseeable future. Aon's liquidity needs are primarily for servicing its debt and for the payment of dividends on stock issues and capital securities. Brokerage cash flow has been used primarily for business reinvestment, acquisition financing and payments of special charge and purchase accounting liabilities. Aon anticipates continuation of the company's positive cash flow and the ability of the parent company to access adequate short-term lines of credit. See "Recent Developments" for an update on liquidity.

Upon the completion of the divestiture of Combined Specialty, the "new" Aon and Combined Specialty Boards of Directors will each determine their own post-spin dividend policy based on consideration of earnings, cash flow, capital needed to support growth, regulatory requirements and other factors. Aon's management has recommended that the quarterly cash dividend for "new" Aon be \$0.15 per share. Combined Specialty plans to reinvest a significant portion of its cash flows in order to accelerate earnings growth and improve total returns on capital. As such, the proposed quarterly dividend rate for Combined Specialty is expected to be \$0.11 per share, based upon the post-distribution share allocation.

Aon intends to distribute in the spin-off one share of Combined Specialty common stock for every three shares of Aon common stock. Accordingly, it is expected that Aon stockholders who continue to hold their shares of Combined Specialty stock will initially receive total quarterly cash dividends with respect to each of their shares of Aon stock, taken together with the dividends on the Combined Specialty stock distributed in respect of that share, of approximately \$0.186, compared with Aon's most recent quarterly dividend of \$0.225 per share. Also see "Recent Developments."

Due to the contractual nature of its insurance policyholder liabilities, which are primarily intermediate to long-term in nature, Aon has invested primarily in fixed maturities. With a carrying value of \$2.4 billion, Aon's total fixed maturity portfolio is invested primarily in investment grade holdings (95%) and has a fair value that is 98% of amortized cost at March 31, 2002.

Total assets increased \$780 million to \$23.1 billion since year-end 2001. Invested assets at March 31, 2002 decreased \$151 million from year-end levels due in part to lower guaranteed

investment contracts and unrealized losses. The amortized cost and fair value of less than investment grade fixed maturity investments at March 31, 2002 were \$123 million and \$115 million, respectively. The carrying value of non-income producing investments in Aon's portfolio at March 31, 2002 was \$25 million, or 0.4% of total invested assets.

Short-term borrowings decreased at the end of first quarter 2002 by \$45 million when compared to year-end 2001 due to lower international borrowings. At the end of first quarter 2002, notes payable increased by \$96 million when compared to year-end 2001. The increase was due to higher U.S. commercial paper borrowings of \$183 million partially offset by the repayment of foreign debt of \$86 million. Commercial paper borrowings have been included in notes payable based on Aon's intent and ability to maintain or refinance these obligations on a long-term basis through 2005.

Stockholders' equity increased \$64 million during the first three months of 2002, reflecting an increase in net income before preferred dividends of \$160 million. Partially offsetting the increase were dividends paid to stockholders of \$62 million. Unrealized investment gains and losses and foreign exchange gains and losses fluctuations from period to period are largely based on market conditions.

At March 31, 2002, stockholders' equity per share was \$12.97, up from \$12.82 at December 31, 2001 as the higher equity balance more than offset the increased number of shares outstanding since year-end.

Recent Developments

Planned Divestiture of Underwriting Business

As noted above Aon's Board of Directors approved, in principle, a plan to spin-off its insurance underwriting businesses to Aon's common stockholders. Aon had previously stated its intention to raise common equity in connection with the proposed spin-off, subject to market conditions, regulatory review, a favorable IRS ruling and final board approval. However, current market conditions are not conducive to raising capital. On August 7, 2002, Aon announced that it is investigating alternative options for Combined Specialty, including a sale of all or part of Combined Specialty, and/or a spin-off of part of Combined Specialty.

Business Transformation Plan

In fourth quarter 2000, Aon began a comprehensive business transformation plan designed to enhance client service, improve productivity through process redesign and accelerate revenue growth. This plan began in 2000 and continues into 2002. In second quarter 2002, \$6 million of business transformation expenses previously recorded were reversed due to the substantial completion of the plan in U.S. retail brokerage. This credit is primarily related to a decision made during the second quarter that certain employees whose employment had been targeted for termination would remain employed.

World Trade Center

On September 11, 2002, CICA's action with respect to the BTA policy was dismissed by the Court for the lack of subject matter jurisdiction. CICA is seeking an expedited appeal.

Litigation Matters

One of Aon's insurance subsidiaries is a defendant in several lawsuits in Mississippi. The lawsuits generally allege misconduct by the subsidiary in the solicitation and sale of insurance policies. Attorneys representing the plaintiffs in these lawsuits have advised the subsidiary that approximately 2,700 other current or former policyholders may file similar claims. Each lawsuit includes, and each threatened claim could include, a request for punitive damages. Aon's insurance subsidiary has been litigating the

pending suits and investigating the claims. In the second quarter 2002, Aon negotiated a compromise of several of the lawsuits and approximately 2,000 of the claims. Thus far in the third quarter of 2002, the settlement of approximately 1,000 of these claims has been concluded. The remainder of the settlements are still in the process of being documented and finalized. Of the remaining settlements already

reached or concluded there will still be at least several hundred threatened claims outstanding. Each of the remaining lawsuits and any threatened claims are being investigated and vigorously defended.

On August 30, 2002, two of the three carriers referred to in note 14 of the Notes to the Condensed Consolidated Financial Statements filed a complaint in the United States District Court for the District of Connecticut against the Aon brokerage subsidiary, which is a defendant in the Allianz action. The two carriers are currently involved in an arbitration proceeding with Allianz, related to the original litigation, in which Allianz seeks the rescission of the reinsurance placements. These carriers also seek to recover from the Aon brokerage subsidiary any damages, costs and expenses, including legal fees, suffered by such carriers as a result of an adverse arbitration award.

Review By Independent Auditors

The condensed consolidated financial statements at March 31, 2002, and for the three months then ended (as restated) have been reviewed, prior to filing, by Ernst & Young LLP, Aon's independent auditors, and their report is included herein.

32

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors and Stockholders
Aon Corporation

We have reviewed the accompanying condensed consolidated statement of financial position of Aon Corporation as of March 31, 2002 (as restated), and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2002 (as restated) and 2001. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements (as restated) referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated statement of financial position of Aon Corporation as of December 31, 2001 (as restated), and the related consolidated statements of income, stockholders' equity, and cash flows (as restated) for the year then ended, not presented herein, and in our report dated February 12, 2002, except for Note 1, as to which the date is August 14, 2002, we expressed an unqualified opinion on those consolidated financial statements (as restated). In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2001, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

ERNST & YOUNG LLP

Chicago, Illinois
April 29, 2002
except for Note 2, as to which the date
is August 14, 2002

33

PART II

OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Stockholders of the Registrant was held on April 19, 2002 (the "2002 Annual Meeting").

(b) Not applicable.

(c) (i) Name

	<u>For</u>	<u>Against</u>
Edgar D. Jannotta	242,634,156	3,176,884
Lester B. Knight	243,758,835	2,052,205
Perry J. Lewis	242,694,240	3,116,800
R. Eden Martin	242,690,666	3,120,374
Andrew J. McKenna	242,659,963	3,151,077
Robert S. Morrison	243,751,788	2,059,252
Richard C. Notebaert	243,734,656	2,076,384
Michael D. O'Halleran	243,352,771	2,458,269
John W. Rogers, Jr.	242,700,482	3,110,558
Patrick G. Ryan	243,756,180	2,054,860
Patrick G. Ryan, Jr.	241,426,894	4,384,146
George A. Schaefer	242,669,800	3,141,240
Raymond I. Skilling	243,715,937	2,095,103
Carolyn Y. Woo	242,691,926	3,119,114

(ii) Set forth below is the tabulation of the vote on the selection of Ernst & Young LLP as auditors for the Registrant for the 2002 fiscal year.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
239,220,162	5,578,198	1,012,680

(d) Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) **Exhibits** - The exhibits filed with this report are listed on the attached Exhibit Index.

(b) **Reports on Form 8-K** - No Current Reports on Form 8-K were filed for the quarter ended March 31, 2002.

SIGNATURE

Pursuant to the requirements of the Securities and 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)

September 27, 2002

/s/ HARVEY N. MEDVIN

HARVEY N. MEDVIN
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(Principal Financial and Accounting Officer)

35

CERTIFICATIONS

I, Patrick G. Ryan, the Chief Executive Officer of Aon Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aon Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 27, 2002

/s/ PATRICK G. RYAN

Patrick G. Ryan
Chief Executive Officer

I, Harvey N. Medvin, the Chief Financial Officer of Aon Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aon Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 27, 2002

/s/ HARVEY N. MEDVIN

Harvey N. Medvin
Chief Financial Officer

36

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.
- (15) Letter re: Unaudited Interim Financial Information
- (99.1) Certification of CEO Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
- (99.2) Certification of CFO Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

37

QuickLinks

[PART 1 FINANCIAL INFORMATION AON CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION \(Millions\)](#)

[AON CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME \(UNAUDITED\) \(millions except per share data\)](#)

[AON CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS \(UNAUDITED\) \(millions\)](#)

[NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS](#)

[AON CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FIRST QUARTER ENDED MARCH 31, 2002](#)

[CASH FLOW AND FINANCIAL POSITION AT THE END OF FIRST QUARTER 2002](#)

[INDEPENDENT ACCOUNTANTS' REVIEW REPORT](#)

[PART II OTHER INFORMATION](#)

[ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS](#)

[ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K](#)

[SIGNATURE](#)

[Item 601 Exhibit Table](#)