
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2000

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1- 9761

ARTHUR J. GALLAGHER & CO.

(Exact name of registrant as specified in its charter)

DELAWARE	36-2151613
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Two Pierce Place	60143-3141
Itasca, Illinois	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code (630) 773- 3800

Securities registered pursuant to Section 12(b) of the Act:	
Title of each class	Name of each exchange
Common Stock, par value	on which registered
\$1.00 per share	
	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S- K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10- K or any amendment to this Form 10- K.☐

The aggregate market value of the voting stock held by non- affiliates of the registrant, computed by reference to the last reported price at which the stock was sold on February 28, 2001 was \$1,974,584,000.

The number of outstanding shares of the registrant's Common Stock, \$1.00 par value, as of February 28, 2001 was 79,670,000.

Portions of documents incorporated by Part of Form 10- K into which document reference into this report is incorporated

ARTHUR J. GALLAGHER & CO. PART III

2001 Proxy Statement

PART I

Item 1. Business.

Arthur J. Gallagher & Co. and its subsidiaries (collectively referred to as "Gallagher" unless the context otherwise requires) are engaged in providing insurance brokerage, risk management and related services to clients in the United States and abroad. Gallagher's principal activity is the negotiation and placement of insurance for its clients. Gallagher also specializes in furnishing risk management services. Risk management involves assisting clients in analyzing risks and determining whether proper protection is best obtained through the purchase of insurance or through retention of all or a portion of those risks and the adoption of corporate risk management policies and cost-effective loss control and prevention programs. Risk management services also include claims management, loss control consulting and property appraisals. Gallagher believes that its ability to deliver a comprehensively structured risk management and brokerage service is one of its major strengths. In addition, Gallagher has a financial services operation that manages Gallagher's investment portfolio.

Gallagher operates through a network of approximately 200 offices located throughout the United States and eight countries abroad and through a network of correspondent brokers and consultants in more than 100 countries around the world. Some of these offices are fully staffed with sales, marketing, claims and other service personnel; others function as servicing offices for the brokerage and risk management service operations of Gallagher. Gallagher's international operations include a Lloyd's of London broker and affiliated companies in London, England and other facilities in Australia, Bermuda, Canada, Scotland, Singapore, New Zealand and Papua New Guinea.

Gallagher was founded in 1927 and was reincorporated as a Delaware corporation in 1972. Gallagher's executive offices are located at Two Pierce Place, Itasca, Illinois 60143- 3141, and its telephone number is (630) 773- 3800.

Stock Split

In November 2000, the Board of Directors declared a two- for- one stock split of Gallagher's common stock, effected in the form of a 100% stock dividend paid on January 18, 2001 to shareholders of record as of January 2, 2001. As a result of this action, par value of the common stock remains at \$1.00 per share. All information relating to the number of common shares and per common share amounts appearing in this Annual Report on Form 10- K have been restated to give retroactive effect to the stock split for all periods presented.

Operating Segments

Gallagher has identified three operating segments in addition to its corporate operations. Insurance Brokerage Services encompasses operations that, for commission or fee compensation, place or arrange to place insurance directly related to the clients' funding of risk. This segment also provides consulting services for fee compensation related to clients' risk financing programs. Risk Management Services includes Gallagher's third party administration, loss control and risk management consulting, workers' compensation investigations and insurance property appraisal operations. Third party administration is principally claims management programs for Gallagher's clients or clients of other brokers. Financial Services is responsible for the management of Gallagher's diversified investment portfolio, which includes fiduciary funds, marketable and other equity securities, and tax advantaged and other strategic investments. It combines the invested assets of Gallagher in order to maximize the return to the company. Corporate consists primarily of unallocated administrative costs and the provision for income taxes which is not allocated to Gallagher's operating segments. The two major sources of operating revenues for Gallagher are commissions from insurance brokerage operations and service fees primarily from risk management operations. Information with respect to all sources of revenue, by operating segment, for each of the three years in the period ended December 31, 2000, is as follows (in thousands):

	2000	% of	1999*	% of	1998*	% of
	Amount	Total	Amount	Total	Amount	Total
Commissions						
Insurance Brokerage Services....	\$417,603	56	\$390,984	60	\$369,388	61
Risk Management Services.....	1,204	--	--	--	467	--
Fees						
Insurance Brokerage Services....	50,812	7	42,424	6	40,539	7
Risk Management Services.....	229,557	31	192,853	29	172,377	28
Investment income and other						
Insurance Brokerage Services....	15,853	3	9,610	1	10,801	2
Risk Management Services.....	1,534	--	769	--	996	--
Financial Services.....	24,130	3	19,764	4	9,142	2
Corporate.....	(97)	--	--	--	--	--
Total revenues.....	\$740,596	100	\$656,404	100	\$603,710	100

*Restated for twelve 2000 acquisitions accounted for as poolings of interests. See Note 2 to the Consolidated Financial Statements for a summary of the effects of these restatements on the 1999 and 1998 consolidated financial statements.

See Note 14 to the Consolidated Financial Statements for additional financial information, including earnings before income taxes and identifiable assets, by operating segment, for 2000, 1999 and 1998.

Gallagher's revenues vary significantly from quarter to quarter as a result of the timing of policy inception dates, which traditionally are heaviest in the third quarter, whereas expenses are fairly uniform throughout the year. See Note 13 to the Consolidated Financial Statements for unaudited quarterly operating results for 2000 and 1999.

Insurance Brokerage Services

The Insurance Brokerage Services segment is principally comprised of two divisions, the Brokerage Services Division (BSD) and Gallagher Benefit Services (GBS).

BSD places insurance for and services commercial, industrial, institutional, governmental, religious and personal accounts throughout the United States and abroad. BSD acts as an agent in soliciting, negotiating and effecting contracts of insurance through insurance companies worldwide, as a broker in procuring contracts of insurance on behalf of insureds, and in setting up and managing self- insured programs. BSD has the capability to handle insurable risks and related coverages for all forms of property/casualty products. BSD also places surplus lines coverages, which are coverages for various specialized risks not available from insurance companies licensed by the states in which the risks are located. In addition, BSD places reinsurance coverages for its insurance company clients.

GBS specializes in the management of employee benefit programs through fully insured and self- insured programs. GBS provides services in connection with the design, financing, implementation, administration and communication of compensation and employee benefit programs (including pension and profit- sharing plans, group life, health, accident and disability insurance programs and tax deferral plans), and provides other professional services in connection therewith.

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The primary source of Gallagher's compensation for its Insurance Brokerage Services segment is commissions paid by insurance companies which are usually based upon a percentage of the premium paid by the insured. Commission rates are dependent on a number of factors including the type of insurance, the particular insurance company and the capacity in which Gallagher acts. In some cases, Gallagher is compensated for brokerage or advisory services directly by fees from clients. Gallagher may also receive contingent commissions which are based on the profit the underwriting insurance company earns and/or the overall volume of business placed by Gallagher in a given period of time. Occasionally, Gallagher shares commissions with other brokers who have participated with Gallagher in placing insurance or servicing insureds. GBS receives a fee for acting in the capacity of advisor and administrator with respect to employee benefit programs and receives commissions in connection with the placement of insurance under such programs.

Risk Management Services

The Risk Management Services segment is principally comprised of two wholly owned subsidiaries, Gallagher Bassett Services, Inc. (Gallagher Bassett) and Gallagher Benefit Administrators, Inc. (GBA).

Gallagher Bassett provides a variety of professional consulting services to assist clients in analyzing risks and in determining whether proper protection is best obtained through the purchase of insurance or through retention of all or a portion of those risks and the adoption of risk management policies and cost- effective loss control and prevention programs. A full range of risk management services is offered including claims management, risk control consulting services, information management, property appraisals and insurance related investigative services on a totally integrated or select, stand- alone basis. Gallagher Bassett provides these services for Gallagher's clients through a network of over 120 service offices located throughout the United States, Canada, England, Scotland, Australia, New Zealand and Papua New Guinea.

Gallagher Bassett primarily markets its risk management services directly to clients on an unbundled basis independent of Gallagher's Insurance Brokerage Services. Gallagher Bassett also markets these services to Insurance Brokerage Services' clients who are interested in risk management related services.

In connection with its risk management services, Gallagher Bassett provides "self- insurance" programs for large institutions, risk sharing pools and associations, and large commercial and industrial customers. Self- insurance, as administered by Gallagher Bassett, is a program in which the client assumes a manageable portion of its insurance risks, usually (although not always) placing the less predictable and larger loss exposures with an insurance carrier that specializes in these less predictable exposures.

GBA is a third- party administrator that serves the self- funded employee health benefit marketplace by integrating effective managed care and quality assurance programs with claims administration services. The employee health benefit services provided by GBA are, in many instances, directly supported by

GBS.

Gallagher Bassett's and GBA's revenues for risk management services are substantially in the form of fees. These fees are typically negotiated in advance on an annual basis based upon the estimated value of the services to be performed.

Financial Services

The Financial Services segment is primarily responsible for Gallagher's diversified investment portfolio which includes investment strategies- trading, marketable securities- available for sale, tax advantaged investments, investments accounted for using the equity method, real estate partnerships and notes receivable from investees. It combines the invested assets of Gallagher in order to maximize the return to the company.

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Tax advantaged investments represent amounts invested by Gallagher in limited partnerships that operate qualified affordable housing or alternative energy projects. Gallagher receives tax benefits in the form of tax deductions for operating losses and tax credits from these investments. Investments in real estate partnerships primarily represent an investment in a limited partnership that owns the building that Gallagher leases for its corporate headquarters and several subsidiary operations, and an investment in a limited partnership that owns 11,000 acres of land near Orlando, Florida, that is currently under development. Notes receivable from investees represent secured loans made by Gallagher to several of its equity and limited partnership investments.

International Operations

Total revenues by geographic area for each of the three years in the period ended December 31, 2000 are as follows (in thousands):

	2000		1999*		1998*	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United States.....	\$677,515	91	\$607,447	93	\$558,946	93
Foreign, principally United Kingdom, Australia and Bermuda...	63,081	9	48,957	7	44,764	7
Total revenues.....	\$740,596	100	\$656,404	100	\$603,710	100

*Restated for twelve 2000 acquisitions accounted for as poolings of interests.

The Insurance Brokerage Services segment's international operations are principally comprised of a Lloyd's of London broker and an insurance brokerage and risk management joint venture in the United Kingdom; an insurance brokerage operation and a "rent- a- captive" insurance company facility in Bermuda; reinsurance intermediary operations in Australia and Singapore; and a network of correspondent brokers and consultants in more than 100 countries around the world. Arthur J. Gallagher (UK) Limited (AJG UK), a wholly owned Lloyd's of London brokerage subsidiary of Gallagher based in London, provides brokerage and other services to clientele primarily located outside of the United Kingdom. The principal activity of AJG UK is to negotiate and place insurance and reinsurance with Lloyd's of London underwriters and insurance companies worldwide. Its brokerage services encompass four major categories: aviation, marine, reinsurance (treaty and facultative) and property/casualty (risks predominantly located in North America). Although AJG UK is located in London, the thrust of its business development has been with non- United Kingdom brokers, agents and insurers rather than domestic United Kingdom retail business. Its clients are primarily insurance and reinsurance companies, underwriters at Lloyd's of London, Gallagher and its non- United Kingdom subsidiaries, other independent agents and brokers and major business corporations requiring direct insurance and reinsurance placements.

Risk Management Partners Ltd. (RMP) is a 50% owned joint venture between Gallagher and Munich- American Re Corporation that markets customized insurance and risk management products and services to United Kingdom public entities through offices in England and Scotland. RMP was formed seven years ago and Gallagher believes that RMP is now the third largest provider of insurance brokerage related services to the public entity market in the United Kingdom. Arthur J. Gallagher & Co. (Bermuda) Limited provides clients with direct access to the risk- taking capacity of Bermuda-based insurers for both direct and reinsurance placements. It also acts as a wholesaler to Gallagher's marketing efforts by accessing foreign insurance and reinsurance companies in the placement of United States and foreign risks. In addition, it provides services relating to the formation and management of offshore captive insurance companies.

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Gallagher has ownership interests in two Bermuda- based insurance companies that operate "rent- a- captive" facilities; Artex Insurance Company Ltd., a partially owned joint venture, and Protected Insurance Company, a wholly owned subsidiary. Rent- a- captives enable clients to receive the benefits of owning a captive insurance company without certain disadvantages of ownership. Captive insurance companies are created to insure risk and capture underwriting profit and

investment income, which is then available for use by the insured generally for reducing future costs of their insurance programs.

Arthur J. Gallagher Australasia Pty Ltd. is a 60% owned joint venture of Gallagher that is headquartered in Sydney, Australia. This subsidiary provides reinsurance placements for Australia and New Zealand insurance companies and speciality programs. Gallagher's reinsurance intermediary operations in Singapore are not material to Gallagher's Insurance Brokerage Services segment.

Insurance Brokerage Services also has relationships with a variety of international brokers in countries where Gallagher does not have a physical presence. Through a network of correspondent brokers and consultants in more than 100 countries around the world, Gallagher is able to fully serve its clients' coverage and service needs wherever their operations are located.

The Risk Management Services segment's international operations are principally comprised of risk management companies in London, Australia, New Zealand and Papua New Guinea.

Gallagher Bassett International Ltd. (UK) (Gallagher Bassett (UK)), a wholly owned subsidiary of Gallagher Bassett, provides risk management services for foreign operations, as well as United States operations that are foreign controlled. Headquartered in London with offices throughout England and Scotland, Gallagher Bassett (UK) works with insurance companies, reinsurance companies, overseas brokers, and risk managers of overseas organizations. Services include consulting, claims management, information management, loss control and property valuations.

Wyatt Gallagher Bassett Pty Ltd is a 50% owned joint venture of Gallagher Bassett that is headquartered in Brisbane, Australia with facilities located throughout Australia, New Zealand and Papua New Guinea. Wyatt Gallagher Bassett is principally engaged in providing claims adjusting and risk management services in Australasia.

Gallagher also has risk management service facilities in Canada that are not material to Gallagher's Risk Management Services segment.

See Notes 12 and 14 to the Consolidated Financial Statements for additional financial information related to Gallagher's foreign operations, including earnings before income taxes and identifiable assets, by operating segment, for 2000, 1999 and 1998.

Markets and Marketing

A large portion of the commission and fee business of Gallagher is derived from all types of business institutions, not-for-profit organizations, associations and municipal and other governmental entities. In addition, Gallagher's clients include large United States and multinational corporations engaged in a broad range of commercial and industrial businesses. Gallagher also places insurance for individuals, although this portion of the business is not material to Gallagher's operations. Gallagher services its clients through its network of approximately 200 offices in the United States and eight countries abroad. No material part of Gallagher's business is dependent upon a single customer or on a few customers, the loss of any one or more of which would have a materially adverse effect on Gallagher. In 2000, the largest single customer represented less than 2% of total revenues.

Gallagher believes that its ability to deliver comprehensively structured risk management and brokerage services, including the placement of reinsurance, is one of its major strengths. Gallagher also believes that its

risk management business enhances and attracts insurance brokerage business due to the nature and strength of business relationships which it forms with clients when providing a variety of risk management services on an on-going basis. Gallagher requires its employees serving in a sales or marketing capacity, including all executive officers of Gallagher, to enter into agreements with Gallagher restricting disclosure of confidential information and solicitation of clients and prospects of Gallagher upon their termination of employment. The confidentiality and non-solicitation provisions of such agreements terminate in the event of a hostile change in control of Gallagher, as defined therein.

Competition

Gallagher believes it is the fourth largest insurance broker worldwide in terms of total revenues. The insurance brokerage and service business is highly competitive and there are many insurance brokerage and service organizations as well as individuals throughout the world who actively compete with Gallagher in every area of its business. Two competing firms are significantly larger and have several times the commission and/or fee revenues of Gallagher. There are firms in a particular region or locality that are as large or larger than the particular local office of Gallagher. Gallagher believes that the primary factors determining its competitive position with other organizations in its industry are the quality of the services rendered and the overall costs to its clients.

Gallagher is also in competition with certain insurance companies that write insurance directly for their customers.

Government benefits relating to health, disability, and retirement are also alternatives to private insurance and hence indirectly compete with the business of Gallagher. To date, such direct writing and government benefits have had, in the opinion of Gallagher, relatively little effect on its business and operations, but Gallagher can make no prediction as to their effect in the future.

Regulation

In every state and foreign jurisdiction in which Gallagher does business, Gallagher or an employee is required to be licensed or receive regulatory approval in order for Gallagher to conduct business. In addition to licensing requirements applicable to Gallagher, most jurisdictions require that individuals who engage in brokerage and certain insurance service activities be personally licensed.

Gallagher's insurance brokerage and risk management operations depend on its continued good standing under the licenses and approvals pursuant to which it operates. Licensing laws and regulations vary from jurisdiction to jurisdiction. In all jurisdictions, the applicable licensing laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally such authorities are vested with relatively broad and general discretion as to the granting, renewing and revoking of licenses and approvals.

2000 Acquisitions

In 2000, Gallagher acquired fourteen insurance brokerage firms and two benefits consulting companies.

On November 30, 2000, Gallagher acquired substantially all of the net assets of Persing, Dyckman & Toynbee, Inc., a Washington corporation engaged in the insurance brokerage and services business in exchange for 246,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Two principals entered into three-year employment agreements with Gallagher and two key employees entered into two- year employment agreements with Gallagher.

On November 30, 2000, Gallagher acquired substantially all of the net assets of Castle Insurance Associates, Inc., a Massachusetts corporation engaged in the insurance brokerage and services business in exchange for 144,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Four principals and one key employee entered into three- year employment agreements with Gallagher.

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On November 30, 2000, Gallagher acquired substantially all of the net assets of SiliconInsurance, Inc., an Illinois corporation engaged in the insurance brokerage and services business in exchange for 33,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. The principal entered into a two- year employment agreement with Gallagher.

On August 31, 2000, Gallagher acquired substantially all of the net assets of John P. Woods Co., Inc., a New Jersey corporation engaged in the reinsurance brokerage and services business in exchange for 1,816,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Fourteen principals entered into three- year employment agreements with Gallagher.

On August 31, 2000, Gallagher acquired substantially all of the net assets of Atlantic Risk Management Corporation, a Maryland corporation engaged in the insurance brokerage and services business in exchange for 208,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Three principals and two key employees entered into three- year employment agreements with Gallagher.

On August 31, 2000, Gallagher acquired substantially all of the net assets of R. G. Speno, Inc., a California corporation engaged in the insurance brokerage and services business in exchange for 88,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. The principal entered into a three- year employment agreement with Gallagher and a key employee entered into a two- year employment agreement with Gallagher.

On August 31, 2000, Gallagher acquired substantially all of the net assets of Murphy Consultants, an Illinois company engaged in the benefits insurance business in exchange for 58,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. The principal and a key employee entered into three- year employment agreements with Gallagher.

On May 31, 2000, Gallagher acquired substantially all of the net assets of Universico Group, Ltd., a Michigan corporation engaged in the insurance brokerage and services business in exchange for 292,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Four principals and a key employee entered into three- year employment agreements with Gallagher and four key employees entered into two- year employment agreements with Gallagher.

On May 31, 2000, Gallagher acquired substantially all of the net assets of Davis- Poston & Associates, Inc., a Texas corporation engaged in the insurance brokerage and services business in exchange for 150,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Two principals entered into three- year employment agreements with Gallagher and three principals entered into nineteen- month employment agreements with Gallagher.

On May 31, 2000, Gallagher acquired substantially all of the net assets of Bultman/Bell Associates, Inc., a South Carolina corporation engaged in the insurance brokerage and services business in exchange for 136,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Three principals entered into three- year employment agreements with Gallagher.

On May 1, 2000, Gallagher acquired substantially all of the net assets of Joe E. Martin, Inc., a Missouri corporation engaged in the benefits insurance business in exchange for an initial cash payment of \$340,000. This acquisition was accounted for as a purchase. The principal entered into a three- year employment agreement with Gallagher. On February 29, 2000, Gallagher acquired 60% of the net assets of MBR Pty Limited, an Australian company engaged in the reinsurance brokerage and services business in exchange for an initial cash payment of \$2,100,000. This acquisition was accounted for as a purchase. Eight principals and seven key employees entered into three- year employment agreements with Gallagher.

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On February 29, 2000, Gallagher acquired substantially all of the net assets of R. L. Youngdahl & Associates, Inc., a Minnesota corporation engaged in the insurance brokerage and services business in exchange for 138,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. One principal entered into a three- year employment agreement with Gallagher and one key employee entered into a two- year employment agreement with Gallagher.

On February 29, 2000, Gallagher acquired substantially all of the net assets of Rebholz Insurance Agency, Inc., a Missouri corporation engaged in the insurance brokerage and services business in exchange for 84,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Three principals entered into three- year employment agreements with Gallagher.

On February 29, 2000, Gallagher acquired substantially all of the net assets of Towle Agency, Inc., a Minnesota corporation engaged in the insurance brokerage and services business in exchange for 74,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Two principals entered into three- year employment agreements with Gallagher and two key employees entered into two- year employment agreements with Gallagher.

On February 29, 2000, Gallagher acquired substantially all of the net assets of Powell Insurance Services, Inc., an Illinois corporation engaged in the insurance brokerage and services business in exchange for 39,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. The principal entered into a three- year employment agreement with Gallagher.

For the 2000 acquisitions accounted for as poolings of interests, the consolidated financial statements for all periods prior to the acquisition dates have been restated to include the operations of these companies. See Note 2 to the Consolidated Financial Statements for a summary of the effects of these restatements on the 1999 and 1998 consolidated financial statements.

2001 Acquisitions

The following acquisitions have occurred since December 31, 2000:

On February 28, 2001, Gallagher acquired substantially all of the net assets of MDM Insurance Associates, Inc., a California corporation engaged in the insurance brokerage and services business in exchange for 752,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Three principals entered into three- year employment agreements with Gallagher and ten key employees entered into two- year employment agreements with Gallagher.

On February 28, 2001, Gallagher acquired substantially all of the net assets of SKANCO International, Ltd., an Arizona corporation engaged in the insurance brokerage and services business in exchange for 263,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. Two principals entered into three- year employment agreements with Gallagher.

On February 28, 2001, Gallagher acquired substantially all of the net assets of Madison Scott & Associates, Inc., a Texas corporation engaged in the benefits insurance business in exchange for 34,000 shares of Gallagher's common stock. This acquisition was accounted for as a pooling of interests. The principal entered into a three- year employment agreement with Gallagher.

Gallagher believes that the net effect of these acquisitions has been and will be to expand significantly the volume of general services rendered by Gallagher and the geographical areas in which Gallagher renders such services and not to change substantially the nature of the services performed by Gallagher.

Gallagher is considering and intends to consider from time to time additional acquisitions and divestitures on terms that it deems advantageous. Gallagher at this time is engaged in preliminary discussions with a

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number of candidates for possible future acquisitions and has received signed, non- binding letters of intent from four acquisition candidates. No assurances can be given that any additional acquisitions or divestitures will be consummated, or, if consummated, will be advantageous to Gallagher.

Employees

As of December 31, 2000, Gallagher employed approximately 5,200 employees, none of whom is represented by a labor union. Gallagher continuously reviews benefits and other matters of interest to its employees and considers its relations with its employees to be satisfactory.

Item 2. Properties.

Gallagher's executive offices and certain subsidiary and branch facilities are located at Two Pierce Place, Itasca, Illinois, where Gallagher leases approximately 225,000 square feet of space. The lease commitment on this property expires February 28, 2006. In September 2000, Gallagher acquired an equity interest in the limited partnership that owns the Two Pierce Place property. Gallagher generally operates in leased premises. Certain office space leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of leases contain annual escalation clauses generally related to increases in an inflation index. See Note 11 to the Consolidated Financial Statements for information with respect to Gallagher's lease commitments at December 31, 2000.

Item 3. Legal Proceedings.

Gallagher is engaged in various legal actions incident to the nature of its business. Management is of the opinion that none of the litigation will have a material effect, individually or in the aggregate, on Gallagher's consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during Gallagher's fourth fiscal quarter ended December 31, 2000.

Item 4A. Executive Officers of the Registrant.

The executive officers of Gallagher are as follows:

Name	Age	Position and Year First Elected
J. Patrick Gallagher, Jr..	49	President since 1990, Chief Executive Officer since 1995
Michael J. Cloherty.....	53	Executive Vice President since 1996, Chief Financial Officer since 1981 and Vice President--Finance 1981-1996
James J. Braniff III.....	61	Vice President since 1995
James W. Durkin, Jr.....	51	Vice President since 1985
David E. McGurn, Jr.....	47	Vice President--Specialty Marketing & International since 1996, Vice President from 1993 to 1996
Richard J. McKenna.....	54	Vice President since 1994

Each such person has been principally employed by Gallagher in management capacities for more than the past five years. All executive officers are elected annually and serve at the pleasure of the Board of Directors.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

Gallagher's common stock is listed on the New York Stock Exchange, trading under the symbol "AJG." The following table sets forth information as to the price range of Gallagher's common stock for the two- year period January 1, 1999 through December 31, 2000 and the dividends declared per common share for such period. The table reflects the range of high and low sales prices per share as reported on the New York Stock Exchange composite listing. All of the information in the table has been adjusted to reflect a two- for- one stock split, effected in the form of a 100% stock dividend, that was declared in November 2000 and paid on January 18, 2001.

Quarterly Periods	High	Low	Dividends Declared Per Common Share
2000			
First.....	\$16.438	\$11.531	\$.115
Second.....	21.719	14.938	.115
Third.....	30.250	20.063	.115

Fourth.....	34.250	25.219	.115
1999			
First.....	\$12.656	\$10.563	\$.100
Second.....	12.609	11.500	.100
Third.....	14.125	12.313	.100
Fourth.....	16.563	12.313	.100

As of February 28, 2001, there were approximately 660 holders of record of Gallagher's common stock.

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Item 6. Selected Financial Data.

ARTHUR J. GALLAGHER & CO.

GROWTH RECORD: 1991- 2000(a)(b)

	Average Annual Growth	-----	-----	-----
(in thousands, except per share and employee data)	-----	2000	1999	1998
Revenue Data				
Commissions.....		\$ 418,807	\$390,984	\$369,855
Fees.....		280,369	235,277	212,916
Investment income and other.....		41,420	30,143	20,939
Total revenues.....		\$ 740,596	\$656,404	\$603,710
Dollar growth.....		\$ 84,192	\$ 52,694	\$ 38,240
Percent growth.....	9%	13%	9%	7%
Pretax Earnings Data				
Pretax earnings.....		\$ 125,394	\$108,094	\$ 86,993
Dollar growth.....		\$ 17,300	\$ 21,101	\$ 1,172
Percent growth.....	14%	16%	24%	1%
Pretax earnings as a percentage of total revenues.....		17%	16%	14%
Net Earnings Data				
Net earnings.....		\$ 87,776	\$ 70,250	\$ 58,683
Dollar growth.....		\$ 17,526	\$ 11,567	\$ 960
Percent growth.....	14%	25%	20%	2%
Net earnings as a percentage of total revenues.....		12%	11%	10%
Net Earnings Per Share Data				
Shares outstanding at year end.....		79,497	77,114	76,126
Net earnings per share (c).....		\$ 1.05	\$.87	\$.74
Percent growth.....	13%	21%	18%	(3%)
Employee Data				
Number at year end.....		5,201	4,906	4,721
Number growth.....		295	185	267
Percent growth.....	5%	6%	4%	6%
Total revenues per employee (d).....		\$ 142	\$ 134	\$ 128
Net earnings per employee (d).....		\$ 17	\$ 14	\$ 12
Common Stock Dividend Data				
Dividends declared per common share (e).....		\$.46	\$.40	\$.35
Total dividends declared.....		\$ 35,539	\$ 29,202	\$ 24,218
Percent of same year net earnings.....		40%	42%	41%
Balance Sheet Data				

Total assets.....	\$1,062,298	\$935,709	\$795,498
Long-term debt less current portion.....	--	--	--
Total stockholders' equity.....	\$ 314,372	\$249,750	\$210,402
Return On Beginning Stockholders' Equity..	35%	33%	33%

Notes:

- (a) The financial information for all periods prior to 2000 has been restated for twelve 2000 acquisitions accounted for using the pooling of interests method.
- (b) All information relating to shares of common stock of Gallagher has been adjusted to reflect a two- for- one stock split, effected in the form of a 100% stock dividend, that was declared in November 2000 and paid on January 18, 2001.
- (c) Based on the weighted average number of common and common equivalent shares outstanding during the year.
- (d) Based on the number of employees at year end.
- (e) Based on the total dividends declared on a share of common stock outstanding during the entire year.

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Years Ended December 31,						
1997	1996	1995	1994	1993	1992	1991
\$343,826	\$333,325	\$323,184	\$300,343	\$269,412	\$247,576	\$239,033
185,642	176,048	165,759	146,928	134,116	115,203	95,998
36,002	26,321	24,929	15,827	22,383	18,482	16,035
\$565,470	\$535,694	\$513,872	\$463,098	\$425,911	\$381,261	\$351,066
\$ 29,776	\$ 21,822	\$ 50,774	\$ 37,187	\$ 44,650	\$ 30,195	\$ 20,364
6%	4%	11%	9%	12%	9%	6%
\$ 85,821	\$ 69,715	\$ 71,914	\$ 63,756	\$ 57,472	\$ 41,670	\$ 35,116
\$ 16,106	\$ (2,199)	\$ 8,158	\$ 6,284	\$ 15,802	\$ 6,554	\$ (2,090)
23%	(3%)	13%	11%	38%	19%	(6%)
15%	13%	14%	14%	13%	11%	10%
\$ 57,723	\$ 46,622	\$ 45,187	\$ 40,675	\$ 34,730	\$ 25,996	\$ 24,068
\$ 11,101	\$ 1,435	\$ 4,512	\$ 5,945	\$ 8,734	\$ 1,928	\$ (982)
24%	3%	11%	17%	34%	8%	(4%)
10%	9%	9%	9%	8%	7%	7%
74,214	73,678	73,966	74,790	76,410	74,190	74,996
\$.76	\$.61	\$.58	\$.53	\$.44	\$.34	\$.31
25%	5%	9%	20%	29%	10%	(4%)
4,454	4,548	4,494	4,139	3,943	3,683	3,481
(94)	54	355	196	260	202	127
(2%)	1%	9%	5%	7%	6%	4%
\$ 127	\$ 118	\$ 114	\$ 112	\$ 108	\$ 104	\$ 101
\$ 13	\$ 10	\$ 10	\$ 10	\$ 9	\$ 7	\$ 7
\$.31	\$.29	\$.25	\$.22	\$.18	\$.16	\$.16
\$ 20,408	\$ 18,399	\$ 15,270	\$ 13,209	\$ 10,808	\$ 8,767	\$ 8,439
35%	39%	34%	32%	31%	34%	35%
\$722,185	\$659,185	\$628,194	\$582,163	\$604,324	\$547,939	\$530,095
--	1,130	2,260	3,390	28,166	23,888	24,432
\$176,782	\$146,894	\$136,570	\$115,263	\$135,772	\$106,708	\$101,036
39%	34%	39%	30%	33%	26%	24%

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Fluctuations in premiums charged by insurance companies have a direct and potentially material effect on the insurance brokerage industry. Commission revenues are generally based on a percentage of the premiums paid by insureds and normally follow premium levels. For more than a decade and into 1999, lower premium rates prevailed among property/casualty insurance carriers resulting in heavy competition for market share. This "soft market" (i.e., lower premium rates) generally resulted in flat or reduced renewal commissions.

In recent years, natural catastrophes have resulted in billions of dollars in underwriting losses to the insurance market. Substantial mergers, both domestically and internationally, have resulted in fewer insurance companies. Increased property replacement costs and increasingly large litigation awards have caused some clients to seek higher levels of insurance coverage. These factors would generally have the effect of generating higher premiums to clients and higher commissions to Gallagher. In spite of these forces, there have been mitigating factors including favorable equity markets, increased underwriting capital causing heavy competition for market share and improved economies of scale following consolidations, all of which tended to lower premium rates. The net result is property/casualty premium rates have remained low through mid- 1999.

Underwriting losses and the downward turn in equity markets in 2000 have placed insurers in the situation of having to replenish depleted reserves. To accomplish this, many carriers began to increase premium rates in the latter part of 1999 and throughout 2000, across many sectors of the insurance marketplace. These increases are viewed as a "hardening of the market" (i.e., higher premium rates), and generally, result in increased commission revenues. Although a hardening market contributes positively to Gallagher's results, the longevity of a hard market and its effect on Gallagher's business are difficult to predict.

Though inflation tends to increase the levels of insured values and risk exposures, premium rates have historically had a greater effect on Gallagher's revenues than inflation.

Because of rising insurance costs, management believes there is a trend for certain "risk" buyers to move toward the alternative insurance market, which would tend to have a favorable effect on Gallagher's Risk Management Services segment. Gallagher anticipates that new sales in the areas of risk management, claims management, insurance captive and self- insurance services will continue to be a major factor in Gallagher's fee revenue growth during 2001. Gallagher continues to look to the future and to pursue expansion not only in the core segments of Insurance Brokerage and Risk Management Services, but also within Financial Services. Management believes these areas continue to hold opportunities for diversification and profitable growth.

Results of Operations- - Consolidated

Gallagher's results of operations for periods prior to 2000 have been restated for acquisitions accounted for as poolings of interests as if they had operated as part of Gallagher prior to the date of merger. Gallagher continues to search for merger partners which complement existing operations, provide entry into new markets, add new products and enhance local sales and service capabilities. For the effect of these restatements, in the aggregate, on year- to- year comparisons, see Note 2 to the Consolidated Financial Statements.

Commission revenues increased by \$27.8 million or 7% in 2000. This increase generated by the Insurance Brokerage Services segment is the result of new business and rate increases partially offset by lost business and a reduction in revenue from national insurance revenue sharing programs. Commission revenues increased by \$21.2 million or 6% in 1999. This increase was the result of new business production partially offset by lost business.

Fee revenues increased by \$45.1 million or 19% in 2000. This increase, generated primarily from the Risk Management Services segment, resulted from strong new business production of \$41.4 million and renewal rate increases and favorable retention rates on existing business partially offset by lost business of \$13.2 million.

Fee revenues increased by \$22.4 million or 11% in 1999. This increase, also generated primarily from Risk Management Services, resulted from new business production of \$42.5 million and favorable retention rates on existing business partially offset by lost business of \$22.7 million.

Investment income and other increased by \$11.3 million or 37% in 2000 due primarily to \$9.2 million in income related to Gallagher's alternative energy related investments, and higher returns on fiduciary income investments. Investment income and other increased \$9.2 million or 44% in 1999. This increase was due primarily to higher returns on Gallagher's independently managed investment portfolio which was positively affected by robust equity markets during 1999 and a gain of \$3.0 million recognized in 1999 which resulted from the sale of a portion of its interests in limited partnerships that operate qualified affordable housing projects.

Salaries and employee benefits increased by \$42.7 million or 13% in 2000 due primarily to a 6% increase in employee head count, salary increases, increases in incentive compensation linked to Gallagher's overall operating results and the performance of a portion of Gallagher's investment portfolio and the annualized effect of prior year new hires along with a corresponding increase in employee benefit expenses. In 1999, salaries and employee benefits increased by \$23.0 million or 7% due to salary increases, the annualized effect of prior year new hires and a 4% increase in employee head count along with a corresponding increase in employee benefit expenses.

Other operating expenses increased by \$24.1 million or 12% in 2000 due primarily to increases in professional fees related to acquisition activity and investment projects, management fees related to positive investment results, commissions paid to sub- brokers, write- off of doubtful accounts, increased leased space, temporary help needed to service the new risk management and claims business and travel and entertainment. Other operating expenses increased by \$8.6 million or 4%

in 1999 due primarily to temporary personnel costs for new business, technology upgrades, office consolidation expenses, commissions paid to sub-brokers and increases associated with travel and entertainment.

Gallagher's effective income tax rates were 30.0%, 35.0% and 32.5% in 2000, 1999 and 1998, respectively. These rates include the effect of benefits generated by tax advantaged investments which are partially offset by state and foreign taxes. See Note 12 to the Consolidated Financial Statements.

Gallagher's foreign operations recorded earnings before income taxes of \$7.9 million, \$5.0 million and \$5.3 million in 2000, 1999 and 1998, respectively. The increase in 2000 is due primarily to new business and the \$1.2 million write-off in 1999 of intangible assets associated with lost business. The decrease in 1999 is due primarily to new business offset by the intangible asset write-off just described. See Notes 12 and 14 to the Consolidated Financial Statements.

Gallagher's revenues vary from quarter-to-quarter generally as a result of the timing of policy inception dates which traditionally are heaviest in the third quarter. Expenses, on the other hand, are fairly uniform throughout the year. See Note 13 to the Consolidated Financial Statements.

Results of Operations- - Segment Information

As discussed in Note 14 to the Consolidated Financial Statements, Gallagher operates in three business segments; Insurance Brokerage Services, Risk Management Services and Financial Services, as well as a Corporate segment. The Insurance Brokerage Services segment includes Gallagher's retail, reinsurance and wholesale brokerage operations. Total revenues in 2000 were \$484.3 million, a 9% increase over 1999. This increase is due primarily to new business production offset by lost business. Domestic revenues of \$443.7 million were up 8% over 1999. Revenues in 2000 from foreign operations, principally in the United Kingdom and Bermuda, were up 22% or \$7.3 million over 1999 with \$2.2 million attributable to the 2000 acquisition of MBR Pty

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Limited. Earnings before income taxes in 2000 increased 17% over 1999 principally as a result of increased revenues. Total revenues in 1999 were \$443.0 million, an increase of 5% over 1998. This increase again is due to new business production partially offset by lost business. Domestic revenues of \$409.8 million were up 6% over 1998 mainly due to new business partially offset by lost business. Revenues in 1999 from foreign operations, primarily in the United Kingdom and Bermuda, were up 3% over 1998 mainly due to new business partially offset by lost business. Earnings before income taxes of \$78.4 million in 1999 increased 12% over 1998 due mainly to increased revenues.

The Risk Management Services segment includes Gallagher's third party claims administration operations which are principally engaged in providing claims management services. Total revenues in 2000 were \$232.3 million or 20% over 1999 due to strong new business production and favorable retention rates on existing business. Domestic revenues of \$210.4 million in 2000 were up 17% over 1999 due primarily to new business and substantially less lost business than in 1999. In 2000, foreign revenues of \$21.9 million, principally from the United Kingdom and Australia, increased 57% over 1999 due to new business production and a significant increase in revenues from Australian operations for claims work performed as a result of tainted aviation fuel in Australia. Earnings before income taxes in 2000 of \$33.2 million increased 43% over 1999 due primarily to revenue increases and moderate increases in expenses. Total revenues in 1999 were \$193.6 million or 11% over 1998 due mainly to new business production. In 1999, domestic revenues increased 11% over 1998 due primarily to new business partially offset by lost business. In 1999, foreign revenues of \$13.9 million, principally from the United Kingdom and Australia, increased 16% over 1998 due principally to new business partially offset by revenues from Australian operations for claims work performed as a result of a pervasive and extended power outage in New Zealand in 1998. Earnings before income taxes in 1999 increased 42% over 1998 due primarily to increased revenues offset by a moderate increase in expenses.

The Financial Services segment is responsible for the management of Gallagher's diversified investment portfolio, which includes fiduciary funds, marketable and other equity securities, and tax advantaged and other strategic investments. It combines the invested assets of Gallagher in order to maximize the return to the company. Revenues in 2000 were \$24.1 million or 22% more than revenues in 1999. This increase is due primarily to \$9.2 million of income related to Gallagher's alternative energy related investments, and higher returns on short-term investments. Earnings before income taxes decreased \$532,000 or 4% from 1999 due primarily to increases in incentive compensation linked to the performance of a portion of Gallagher's investment portfolio and increased management fees associated with positive investment results for Gallagher's independently managed investment portfolio. Revenues in 1999 increased 116% over 1998 and earnings before income taxes in 1999 increased 184% over 1998. These increases were due primarily to more favorable returns on funds invested with independent managers and the effect of the \$3.0 million gain recognized in 1999 which resulted from the sale of a portion of its interests in limited partnerships that operate qualified affordable housing projects.

The Corporate segment consists of unallocated administrative costs and the provision for income taxes which is not allocated to Gallagher's operating entities. Only revenues not attributable to one of the three operating segments are recorded in Corporate. All costs are generated in the United States.

Financial Condition and Liquidity

The insurance brokerage industry is not capital intensive. Gallagher has historically been profitable, and cash flows from operations and short- term borrowings under various credit agreements have been sufficient to fund operating, investment and capital expenditure needs of the company. Cash generated from operating activities was \$136.2 million, \$73.0 million and \$59.6 million in 2000, 1999 and 1998, respectively. Because of the variability related to the timing of premiums and fees receivable and premiums payable, net cash flows from operations vary substantially from year to year. Funds restricted as to Gallagher's use, primarily premiums held as fiduciary funds, have not been included in determining Gallagher's overall liquidity.

Gallagher had a \$20.0 million unsecured revolving credit agreement (the "Credit Agreement") requiring repayment of any loans under the agreement no later than June 30, 2001. During 2000 and 1999, Gallagher

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borrowed and repaid \$10.0 million and \$20.0 million, respectively, of short- term borrowings under the Credit Agreement. These borrowings were primarily used to finance a portion of Gallagher's operating and investment activity. In September 2000, Gallagher terminated this agreement.

Gallagher also had three line of credit facilities totaling \$45.0 million that were to expire on April 30, 2001. Periodically, Gallagher made short- term borrowings under these facilities to meet short- term cash flow needs and had a balance of \$15.0 million outstanding at December 31, 1999. During 2000, Gallagher borrowed \$35.0 million and repaid \$50.0 million of borrowings under these facilities. During 1999, Gallagher borrowed \$78.5 million and repaid \$78.5 million of short- term borrowings under these facilities. The repayments satisfied all remaining loan balances under these facilities and these agreements were terminated in September 2000. Borrowings under these facilities were primarily used to finance a portion of Gallagher's operating and investment activities.

As of September 11, 2000, Gallagher and one of its significant subsidiaries entered into a three- year unsecured Revolving Credit Agreement (the "Revolving Credit Agreement") for loans and letters of credit with a group of five financial institutions. This agreement replaces the \$20.0 million Credit Agreement and the \$45.0 million line of credit facilities mentioned above. The Revolving Credit Agreement provides for short- term and long- term revolving credit commitments of \$100.0 million and \$50.0 million, respectively. All letter of credit arrangements issued under the Revolving Credit Agreement are applied against the \$50.0 million long- term facility in the determination of net funds available for future borrowing. As of December 31, 2000, under this agreement, Gallagher has contingently committed to funding \$41.7 million through letter of credit arrangements related to certain of its investments and insurance programs. The Revolving Credit Agreement requires the maintenance of certain financial covenants and Gallagher is in compliance with these covenants.

Gallagher paid \$33.8 million in cash dividends on its common stock in 2000. Gallagher's dividend policy is determined by the Board of Directors. Quarterly dividends are declared after considering Gallagher's available cash from earnings and its anticipated cash needs. In each quarter of 2000, Gallagher paid a dividend of \$.115 per share which was \$.015 or 15% greater than each quarterly dividend in 1999.

Net capital expenditures were \$14.6 million, \$17.0 million and \$14.0 million in 2000, 1999 and 1998, respectively. In 2001, Gallagher expects to make expenditures for capital improvements of approximately \$17.0 million. Capital expenditures by Gallagher are related primarily to office moves and expansions and updating computer systems and equipment.

In 1988, Gallagher adopted a common stock repurchase plan that has been extended through June 30, 2001. Under the plan, Gallagher has repurchased 1,500,000 shares at a cost of \$31.3 million, 1,524,000 shares at a cost of \$18.4 million and 860,000 shares at a cost of \$8.7 million in 2000, 1999 and 1998, respectively. The repurchased shares are held for reissuance in connection with exercises of options under Gallagher's stock option plans. Gallagher is authorized to repurchase, under the provisions of the plan, approximately 3.2 million additional shares through June 30, 2001. Gallagher is under no commitment or obligation to repurchase any particular amount of common stock and at its discretion may suspend the repurchase plan at any time.

Effective with changes in the United States federal income tax laws in 1997, Gallagher no longer provides for federal income taxes on the undistributed earnings of its foreign subsidiaries which are considered permanently invested outside the United States. At December 31, 2000, Gallagher had \$29.0 million of undistributed earnings from its foreign subsidiaries. See Note 12 to the Consolidated Financial Statements. Although not considered available for domestic needs, the undistributed earnings generated by certain foreign subsidiaries referred to above may be used to finance foreign operations and acquisitions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Gallagher is exposed to various market risks, including changes in interest rates and foreign currency exchange rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest and foreign currency exchange rates and equity prices. Gallagher does not enter into derivatives or

other similar financial instruments for trading or speculative purposes. The following analyses present the hypothetical loss in fair value of the financial instruments held by Gallagher at December 31, 2000 and 1999, that are sensitive to changes in interest rates and equity prices. The range of changes in interest rates used in the analyses reflects Gallagher's view of changes that are reasonably possible over a one year period. This discussion of market risks related to Gallagher's consolidated balance sheets includes estimates of future economic environments caused by changes in market risks. The effect of actual changes in these risk factors may differ materially from Gallagher's estimates. In the ordinary course of business, Gallagher also faces risks that are either nonfinancial or unquantifiable, including credit risk and legal risk. These risks are not included in the following analyses.

Gallagher has a comprehensive and diversified investment portfolio. Gallagher's invested assets are held as cash and cash equivalents, investment strategies- - trading and marketable securities- - available for sale. Accordingly, these assets are subject to various market risk exposures such as interest rate risk and equity price risk.

The fair value of Gallagher's cash and cash equivalents investment portfolio at December 31, 2000 and 1999 approximated its carrying value due to its short- term duration. Market risk was estimated as the potential decrease in fair value resulting from a hypothetical one percentage point increase in interest rates for the instruments contained in the cash and cash equivalents investment portfolio. The resulting fair value was not materially different from the carrying values at December 31, 2000 and 1999, respectively.

At December 31, 2000 and 1999, the fair value of Gallagher's investment strategies- - trading portfolio was \$59.9 million and \$63.9 million, respectively. From an investment management perspective, this portfolio, which is managed by several independent fund managers, consists of two different components: an equity portfolio of \$8.1 million and \$7.6 million and an alternative investment strategies portfolio of \$51.8 million and \$56.3 million at December 31, 2000 and 1999, respectively.

The equity portfolio is subject to equity price risk. It is not hedged, consists of common stocks and is primarily managed to produce realized gains for Gallagher. The estimated potential loss in fair value of this equity component resulting from a hypothetical decrease in prices quoted by stock exchanges of 10% would be approximately \$810,000 and \$760,000 at December 31, 2000 and 1999, respectively.

Gallagher's alternative investment strategies portfolio is also subject to equity pricing risk. However, these investments are actively managed in order to minimize Gallagher's exposure to equity pricing risk. The objective of this portfolio is to maximize the overall return to Gallagher, while minimizing the downward price risk in order to preserve the investments' underlying principal balances. The independent fund managers for these alternative investment strategies hedge their strategies by "selling short" common equity securities in order to mitigate the effects of changes in equity prices thereby making any such fluctuations immaterial. Accordingly, hypothetical changes in equity prices would not cause the resulting fair value to be materially different from the carrying value for this portfolio at December 31, 2000 and 1999, respectively. The fair value of Gallagher's marketable securities- - available for sale portfolio was \$23.3 million (\$4.2 million less than its aggregate amortized cost) and \$20.3 million (\$4.4 million less than its aggregate amortized cost) at December 31, 2000 and 1999, respectively. The overall objective of this portfolio is to provide Gallagher with a stable after tax yield. This portfolio, which is not hedged, consists primarily of dividend yielding preferred stocks. Accordingly, this portfolio is more sensitive to interest rate risk than it is to equity pricing risk. The estimated potential loss in fair value resulting from a hypothetical one percentage point increase in short- term interest rates would be approximately \$2.7 million and \$2.2 million at December 31, 2000 and 1999, respectively.

At December 31, 1999, the fair value of Gallagher's borrowings under the line of credit facilities approximated the carrying value due to their short- term duration and variable interest rates. These agreements were terminated in September 2000 and replaced by the Revolving Credit Agreement. At December 31, 2000,

there were no borrowings under this agreement. Market risk was estimated as the potential increase in the fair value resulting from a hypothetical one percentage point decrease in Gallagher's weighted average short- term borrowing rate at December 31, 1999 and the resulting fair value was not materially different from the year end carrying value.

Gallagher is subject to foreign currency exchange rate risk primarily due to the fact that its United Kingdom based subsidiaries incur expenses denominated in British pounds while receiving their revenues in U.S. dollars. Gallagher does not hedge this foreign currency exchange rate risk. The foreign currency gains (losses) related to this market risk are recorded in earnings before income taxes as they are incurred. Assuming a hypothetical adverse change of 10% in the average foreign currency exchange rate for 2000 and 1999 (a weakening of the U.S. dollar), earnings before income taxes would decrease by approximately \$2.8 million and \$2.9 million, respectively. Gallagher is also subject to foreign currency exchange rate risk associated with the translation of its foreign subsidiaries into U.S. dollars. However, it is management's opinion that this foreign currency exchange risk is not material to Gallagher's consolidated operating results or financial position. Gallagher manages the balance sheets of its foreign subsidiaries such that foreign liabilities are matched with equal foreign assets thereby maintaining a "balanced book" which minimizes the effects of currency fluctuations.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This annual report contains forward- looking statements. Forward- looking statements made by or on behalf of Gallagher are subject to risks and uncertainties, including but not limited to the following: Gallagher's commission revenues are highly dependent on premiums charged by insurers, which are subject to fluctuation; lower interest rates reduce Gallagher's income earned on invested funds; the alternative insurance market continues to grow which could unfavorably impact commission and favorably impact fee revenue; Gallagher's revenues vary significantly from period to period as a result of the timing of policy inception dates and the net effect of new and lost business production; the general level of economic activity can have a substantial impact on Gallagher's renewal business; Gallagher's operating results, return on investment and financial position may be adversely impacted by exposure to various market risks such as interest rate, equity pricing, foreign exchange rates and the competitive environment, and changes in income tax laws. Gallagher's ability to grow has been enhanced through acquisitions, which may or may not be available on acceptable terms in the future and which, if consummated, may or may not be advantageous to Gallagher. Accordingly, actual results may differ materially from those set forth in the forward- looking statements.

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Item 8. Financial Statements and Supplementary Data.

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ARTHUR J. GALLAGHER & CO.

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2000	1999	1998
	(in thousands, except per share data)		
Operating Results			
Revenues:			
Commissions.....	\$418,807	\$390,984	\$369,855
Fees.....	280,369	235,277	212,916
Investment income and other.....	41,420	30,143	20,939
Total revenues.....	740,596	656,404	603,710
Expenses:			
Salaries and employee benefits.....	384,164	341,421	318,408
Other operating expenses.....	231,038	206,889	198,309
Total expenses.....	615,202	548,310	516,717
Earnings before income taxes.....	125,394	108,094	86,993
Provision for income taxes.....	37,618	37,844	28,310
Net earnings.....	\$ 87,776	\$ 70,250	\$ 58,683
Net earnings per common share.....	\$ 1.12	\$.92	\$.78
Net earnings per common and common equivalent share.....	1.05	.87	.74
Dividends declared per common share.....	.46	.40	.35

See notes to consolidated financial statements.

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ARTHUR J. GALLAGHER & CO.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 99,904	\$ 72,153
Restricted cash.....	158,228	129,194
Premiums and fees receivable.....	405,164	373,478
Investment strategies--trading.....	59,945	63,857
Other.....	54,481	45,717
Total current assets.....	777,722	684,399
Marketable securities--available for sale.....	23,306	20,274
Deferred income taxes.....	46,775	21,625
Other noncurrent assets.....	158,528	155,324
Fixed assets.....	120,361	123,166
Accumulated depreciation and amortization.....	(80,325)	(83,133)
Net fixed assets.....	40,036	40,033
Intangible assets--net.....	15,931	14,054
	\$1,062,298	\$935,709

<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Premiums payable to insurance companies.....	\$ 562,166	\$499,605
Accrued salaries and bonuses.....	36,326	23,385
Accounts payable and other accrued liabilities.....	98,467	96,759
Unearned fees.....	18,983	15,537
Income taxes payable.....	9,786	9,116
Other.....	3,023	22,732
Total current liabilities.....	728,751	667,134
Other noncurrent liabilities.....	19,175	18,825
Stockholders' equity:		
Common stock--issued and outstanding 79,497 shares in 2000 and 77,114 shares in 1999.....	79,497	77,114
Capital in excess of par value.....	--	(13,290)
Retained earnings.....	237,373	188,595
Accumulated other comprehensive earnings (loss).....	(2,498)	(2,669)
Total stockholders' equity.....	314,372	249,750
	\$1,062,298	\$935,709

See notes to consolidated financial statements.

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ARTHUR J. GALLAGHER & CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Cash flows from operating activities:			
Net earnings.....	\$ 87,776	\$ 70,250	\$ 58,683
Adjustments to reconcile net earnings to net cash provided by operating activities:			

Net gain on investments and other.....	(2,006)	(6,011)	(4,144)
Gain on sales of operations.....	(1,823)	--	--
Depreciation and amortization.....	16,316	16,613	13,394
(Increase) decrease in restricted cash.....	(29,034)	(31,103)	3,028
Increase in premiums receivable.....	(27,839)	(70,588)	(56,100)
Increase in premiums payable.....	62,561	98,625	37,520
Decrease (increase) in trading investments-- net.....	5,784	(4,021)	6,963
(Increase) decrease in other current assets..	(2,141)	(6,125)	6,126
Increase in accrued salaries and bonuses.....	12,941	323	3,382
Decrease in accounts payable and other accrued liabilities.....	(1,214)	(1,258)	(616)
Increase (decrease) in income taxes payable..	670	(3,639)	1,907
Tax benefit from issuance of common stock....	20,027	5,502	4,273
Net change in deferred income taxes.....	(30,629)	749	(4,872)
Other.....	24,840	3,638	(9,932)
Net cash provided by operating activities..	136,229	72,955	59,612
Cash flows from investing activities:			
Purchases of marketable securities.....	(25,832)	(44,009)	(33,331)
Proceeds from sales of marketable securities...	22,471	39,778	47,665
Proceeds from maturities of marketable securities.....	762	1,495	2,600
Net additions to fixed assets.....	(14,568)	(17,000)	(13,957)
Proceeds from sales of operations.....	2,334	--	--
Other.....	(38,144)	(20,833)	(52,280)
Net cash used by investing activities.....	(52,977)	(40,569)	(49,303)
Cash flows from financing activities:			
Proceeds from issuance of common stock.....	27,837	16,029	13,655
Repurchases of common stock.....	(31,344)	(18,428)	(8,651)
Dividends paid.....	(33,759)	(28,010)	(23,185)
Retirement of long-term debt.....	--	--	(1,130)
Borrowings on line of credit facilities.....	45,000	98,500	75,000
Repayments on line of credit facilities.....	(60,000)	(98,500)	(75,000)
Equity transactions of pooled companies prior to dates of acquisition.....	(3,235)	(2,911)	(8,107)
Net cash used by financing activities.....	(55,501)	(33,320)	(27,418)
Net increase (decrease) in cash and cash equivalents.....	27,751	(934)	(17,109)
Cash and cash equivalents at beginning of year...	72,153	73,087	90,196
Cash and cash equivalents at end of year.....	\$ 99,904	\$ 72,153	\$ 73,087
Supplemental disclosures of cash flow information:			
Interest paid.....	\$ 981	\$ 1,592	\$ 2,083
Income taxes paid.....	20,808	27,198	20,596

See notes to consolidated financial statements.

ARTHUR J. GALLAGHER & CO.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Capital In Excess Of Retained		Accumulated Other Comprehensive Earnings (Loss)	Total Stockholders' Equity
	Shares	Amount	Par Value	Earnings		
	(in thousands)					
Balance at December 31, 1997 as previously reported.....	70,780	\$70,780	\$ (20,762)	\$120,657	\$ 1,658	\$ 172,333
Acquisition of pooled companies.....	3,434	3,434	(2,126)	3,141	--	4,449
Balance at December 31, 1997.....	74,214	74,214	(22,888)	123,798	1,658	176,782

Net earnings.....	--	--	--	58,683	--	58,683
Net change in unrealized gain (loss) on available for sale securities.....	--	--	--	--	(2,435)	(2,435)
Comprehensive earnings						56,248
Cash dividends declared on common stock.....	--	--	--	(24,218)	--	(24,218)
Common stock issued under stock option plans.....	2,352	2,352	11,303	--	--	13,655
Tax benefit from issuance of common stock.....	--	--	4,273	--	--	4,273
Common stock repurchases.....	(860)	(860)	(7,791)	--	--	(8,651)
Common stock issued in six pooling acquisitions.....	420	420	--	--	--	420
Equity transactions of pooled companies prior to dates of acquisition.....	--	--	(463)	(7,644)	--	(8,107)
Balance at December 31, 1998.....	76,126	76,126	(15,566)	150,619	(777)	210,402
Net earnings.....	--	--	--	70,250	--	70,250
Net change in unrealized gain (loss) on available for sale securities.....	--	--	--	--	(1,892)	(1,892)
Comprehensive earnings						68,358
Cash dividends declared on common stock.....	--	--	--	(29,202)	--	(29,202)
Common stock issued under stock option plans.....	2,512	2,512	13,517	--	--	16,029
Tax benefit from issuance of common stock.....	--	--	5,502	--	--	5,502
Common stock repurchases.....	(1,524)	(1,524)	(16,904)	--	--	(18,428)
Equity transactions of pooled companies prior to dates of acquisition.....	--	--	161	(3,072)	--	(2,911)
Balance at December 31, 1999.....	77,114	77,114	(13,290)	188,595	(2,669)	249,750
Net earnings.....	--	--	--	87,776	--	87,776
Net change in unrealized gain (loss) on available for sale securities.....	--	--	--	--	171	171
Comprehensive earnings						87,947
Cash dividends declared on common stock.....	--	--	--	(35,539)	--	(35,539)
Common stock issued under stock option plans.....	3,811	3,811	24,026	--	--	27,837
Tax benefit from issuance of common stock.....	--	--	20,027	--	--	20,027
Common stock repurchases.....	(1,500)	(1,500)	(30,987)	--	--	(32,487)
Common stock issued in two pooling acquisitions.....	72	72	--	--	--	72
Equity transactions of pooled companies prior to dates of acquisition.....	--	--	224	(3,459)	--	(3,235)

Balance at December 31,							
2000.....	79,497	\$79,497	\$	--	\$237,373	\$	(2,498) \$ 314,372

See notes to consolidated financial statements.

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ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of operations

Arthur J. Gallagher & Co. (Gallagher) provides insurance brokerage and risk management services to a wide variety of commercial, industrial, institutional and governmental organizations. Commission revenue is principally generated through the negotiation and placement of insurance for its clients. Fee revenue is primarily generated by providing other risk management services including claims management, information management, risk control services and appraisals in either the property/casualty market or human resource/employee benefit market. Investment income and other is generated from Gallagher's investment portfolio, which includes fiduciary funds, equity securities, and tax advantaged and other strategic investments. Gallagher is headquartered in Itasca, Illinois, has more than 200 offices in nine countries and does business in more than 100 countries around the world through a network of correspondent brokers and consultants.

Basis of presentation

The accompanying consolidated financial statements include the accounts of Gallagher and all of its majority owned subsidiaries. Investments in partially owned entities in which ownership is 20% to 50% are accounted for using the equity method. Accordingly, Gallagher's share of the net earnings of these entities is included in consolidated net earnings. Investments in partially owned entities in which ownership is less than 20% are carried at cost. All material intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior years' financial statements in order to conform to the current year presentation.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

Revenue recognition

Commission income is generally recognized as of the effective date of insurance policies except for commissions on installment premiums which are recognized periodically as billed. Contingent commissions are generally recognized when received. Fee income is primarily recognized ratably as services are rendered. The income effects of subsequent premium and fee adjustments are recorded when the adjustments become known. Premiums and fees receivable are net of allowance for doubtful accounts of \$2,939,000 and \$1,153,000 at December 31, 2000 and 1999, respectively.

Earnings per share

Earnings per share is computed based on the weighted average number of common and common equivalent shares outstanding during the respective period. Common equivalent shares include incremental shares from dilutive stock options, which are calculated from the date of grant under the treasury stock method using the average market price for the period.

Cash and cash equivalents

Short- term investments, consisting principally of commercial paper and certificates of deposit which have a maturity of ninety days or less at date of purchase, are considered cash equivalents.

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ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

1. Summary of Significant Accounting Policies- - (Continued)

Restricted cash

In its capacity as an insurance broker, Gallagher collects premiums from insureds and, after deducting its commissions and/or fees, remits these premiums to insurance carriers. Unremitted insurance premiums are held in a fiduciary capacity until disbursed by Gallagher. Various state and foreign agencies that regulate insurance brokers provide specific requirements that limit the type of investments that may be made with such funds. Accordingly Gallagher invests these funds in cash, money market accounts, commercial paper and certificates of deposit. Gallagher earns interest income on these unremitted funds, which is reported as investment income and other in the accompanying consolidated statements of earnings.

Premiums collected from insureds but not yet remitted to insurance carriers are restricted as to use by laws in certain states and foreign jurisdictions in which Gallagher's subsidiaries operate. These unremitted amounts are reported as restricted cash in the accompanying consolidated balance sheets, with the related liability reported as premiums payable to insurance companies. Additionally, one of Gallagher's United Kingdom subsidiaries is required by Lloyd's of London to meet certain liquidity requirements.

Investments

Investment strategies are considered trading securities and consist primarily of limited partnerships which invest in common stocks. Securities designated as trading are carried at fair value in the accompanying consolidated balance sheets, with unrealized gains and losses included in the consolidated statements of earnings. The fair value of investment strategies is determined by reference to the fair values of the underlying common stocks which are based on quoted market prices.

Marketable securities are considered available for sale and consist primarily of preferred and common stocks. Securities designated as available for sale are carried at fair value in the accompanying consolidated balance sheets, with unrealized gains and losses, less related deferred income taxes, excluded from net earnings and reported as accumulated other comprehensive earnings or loss. Gains and losses are recognized in net earnings when realized using the specific identification method. The fair value for marketable securities is based on quoted market prices.

Fixed assets

Fixed assets are carried at cost in the accompanying consolidated balance sheets. Furniture and equipment with a cost of \$104,210,000 and \$106,468,000 at December 31, 2000 and 1999, respectively, are depreciated using the straight- line method over the estimated useful lives (three to ten years) of the assets. Leasehold improvements with a cost of \$16,151,000 and \$16,698,000 at December 31, 2000 and 1999, respectively, are amortized using the straight- line method over the shorter of the estimated useful lives of the assets or the lease terms. Gallagher periodically reviews long- lived assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss would be recognized for the difference.

Intangible assets

Intangible assets consist of the excess of cost over the value of net tangible assets of acquired businesses, non- compete agreements and expiration lists. The excess of cost over the value of net tangible assets is amortized over fifteen to forty years using the straight- line method. Non- compete agreements and expiration lists are amortized over two to ten years using the straight- line method. Accumulated amortization at December 31, 2000 and 1999 was \$9,925,000 and \$8,063,000, respectively. Amortization expense was

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

1. Summary of Significant Accounting Policies- - (Continued)

\$2,150,000, \$3,444,000 and \$1,491,000 for 2000, 1999 and 1998, respectively. Gallagher periodically reviews intangible assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss would be recognized for the difference.

Stock based compensation

Gallagher primarily grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. Gallagher accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense for these stock options granted to employees.

Per common share information

In November 2000, the Board of Directors declared a two- for- one stock split of Gallagher's common stock, effected in the form of a 100% stock dividend paid on January 18, 2001 to shareholders of record as of January 2, 2001. As a result of this action, par value of the common stock remains at \$1.00 per share. All information relating to the number of common shares and per common share amounts in the accompanying consolidated financial statements and notes thereto have been restated to give retroactive effect to the stock split for all periods presented. Accordingly, \$39,749,000 in the aggregate was transferred to common stock from capital in excess of par value (\$14,032,000) and retained earnings (\$25,717,000) in the accompanying December 31, 2000 consolidated balance sheet.

Effect of new pronouncements

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended, which is effective for fiscal years beginning after June 15, 2000. Because of Gallagher's minimal use of derivatives, management anticipates that the adoption of SFAS 133 will not have a significant effect on Gallagher's consolidated operating results or financial position. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements," as amended, which was effective no later than the fourth fiscal quarter of 2000 for calendar year companies. SAB 101 summarizes the SEC staff's views regarding the recognition and reporting of revenues in financial statements for certain types of transactions. In consideration of the views expressed in SAB 101, during the fourth quarter of 2000, Gallagher reexamined its historical application of generally accepted accounting principles relating to revenue recognition and the general terms underlying the types of transactions in which Gallagher provides services to its clients. As disclosed in Note 1, Gallagher's historical accounting policies related to revenue recognition are consistent with the general provisions of SAB 101. As a result, the adoption of the applicable provisions of SAB 101 by Gallagher in the fourth quarter of 2000 was not material to Gallagher's consolidated operating results or financial position.

In March 2000, the FASB issued FASB Interpretation No. 44 (Interpretation 44), "Accounting for Certain Transactions Involving Stock Compensation," which was effective July 1, 2000. Interpretation 44 clarifies the application of APB 25. Because Gallagher historically has not modified the terms of its outstanding stock option grants, management anticipates that the adoption of Interpretation 44 will not have a significant effect on Gallagher's consolidated operating results or financial position.

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

2. Business Combinations

In 2000, Gallagher acquired substantially all of the net assets of the following insurance brokerage firms in exchange for its common stock: John P. Woods Co., Inc., 1,816,000 shares; Universico Group, Ltd., 292,000 shares; Persing, Dyckman & Toynbee, Inc., 246,000 shares; Atlantic Risk Management Corporation, 208,000 shares; Davis- Poston & Associates, Inc., 150,000 shares; Castle Insurance Associates, Inc., 144,000 shares; R. L. Youngdahl & Associates, Inc., 138,000 shares; Bultman/Bell Associates, Inc., 136,000 shares; R. G. Speno, Inc., 88,000 shares; Rebholz Insurance Agency, Inc., 84,000 shares; Towle Agency, Inc., 74,000 shares; Powell Insurance Services, Inc., 39,000 shares; and SiliconInsurance, Inc., 33,000 shares. In addition, Gallagher acquired substantially all of the net assets of Murphy Consultants, a benefits consulting firm, in exchange for 58,000 shares of its common stock.

In 1999, Gallagher acquired substantially all of the net assets of the following insurance brokerage firms in exchange for its common stock: Goodman Insurance Agency, Inc., 630,000 shares; Dodson- Bateman & Company, 590,000 shares; Associated Risk Managers of California, Insurance Producers, dba ARM of California, 396,000 shares; and Sternfels Insurance Agency, Inc., 192,000 shares. In addition, Gallagher acquired substantially all of the net assets of the following benefit consulting firms in 1999 in exchange for its common stock: Group Benefit Concepts, Inc., 182,000 shares; and Stanley E. Clarke & Associates, Inc., 122,000 shares.

These acquisitions were accounted for as poolings of interests and, except for two of the 2000 acquisitions whose results were not significant, the consolidated financial statements for all periods prior to the acquisition dates have been restated to include the operations of these companies. The following summarizes the restatement of the 1999 and 1998 consolidated financial statements to reflect the operations of the 2000 acquisitions (in thousands, except per share data):

As	Attributable
Previously	to Pooled As

1999	Reported	Companies	Restated
Total revenues.....	\$605,836	\$50,568	\$656,404
Net earnings.....	67,753	2,497	70,250
Net earnings per common share.....	.93	(.01)	.92
Net earnings per common and common equivalent share.....	.88	(.01)	.87
1998			
Total revenues.....	\$559,647	\$44,063	\$603,710
Net earnings.....	58,137	546	58,683
Net earnings per common share.....	.80	(.02)	.78
Net earnings per common and common equivalent share.....	.77	(.03)	.74

In 2000, Gallagher acquired 60% of the net assets of MBR Pty Limited, an Australian company engaged in the reinsurance brokerage and services business in exchange for an initial cash payment of \$2,100,000. Also in 2000, Gallagher acquired substantially all of the net assets of Joe E. Martin, Inc., an employee benefits broker and consultant, in exchange for an initial cash payment of \$340,000. These acquisitions were accounted for as purchases. In 1999, Gallagher acquired substantially all of the net assets of R.W. Thom & Company, Inc., an insurance brokerage firm, in exchange for a cash payment of \$250,000. This acquisition was also accounted for as a purchase. These purchase acquisitions were not material to either the 2000 or 1999 consolidated financial statements.

3. Insurance Company Receivables and Payables

A reinsurance intermediary subsidiary of Gallagher includes only amounts relating to brokerage commission revenue in premiums and fees receivable in the accompanying consolidated balance sheets. The

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ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

3. Insurance Company Receivables and Payables- - (Continued)

premiums and claims receivable and payable, as well as the related excise taxes payable, associated with the reinsurance brokerage commission revenue, are not included in the accompanying consolidated balance sheets because they are not assets and liabilities of Gallagher. The excluded amounts are as follows (in thousands):

	December 31,	
	2000	1999
Premiums and Claims:		
Receivable.....	\$373,764	\$331,320
Payable.....	378,166	340,746

The differences between the receivable and payable balances represent fiduciary funds received by the reinsurance intermediary subsidiary, which are included in restricted cash and premiums payable to insurance companies in the accompanying consolidated balance sheets.

4. Investments

The following is a summary of marketable securities- - available for sale (in thousands):

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2000				
Preferred stocks.....	\$ 15,127	\$ 615	\$ 1,525	\$ 14,217
Common stocks.....	8,423	593	3,079	5,937
Fixed maturities.....	3,919	10	777	3,152
	\$ 27,469	\$ 1,218	\$ 5,381	\$ 23,306
December 31, 1999				
Preferred stocks.....	\$ 15,583	\$ 225	\$ 1,997	\$ 13,811
Common stocks.....	4,975	37	2,567	2,445
Fixed maturities.....	4,164	26	172	4,018
	\$ 24,722	\$ 288	\$ 4,736	\$ 20,274

The gross realized gains on sales of marketable securities totaled \$884,000, \$1,579,000, and \$3,054,000 for 2000, 1999 and 1998, respectively. The gross realized losses totaled \$750,000, \$1,051,000, and \$1,179,000 for 2000, 1999 and 1998, respectively.

The cost or amortized cost and fair value of fixed maturities at December 31, 2000, by contractual maturity, are as follows (in thousands):

	Cost or Amortized Cost	Fair Value
Due in 2001.....	\$ 147	\$ 147
Due in 2002 through 2005.....	1,136	794
Due in 2006 through 2010.....	103	100
Due in 2011 and thereafter.....	2,533	2,111
	\$3,919	\$3,152

The expected maturities may differ from contractual maturities in the foregoing table because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

4. Investments- - (Continued)

The following is a summary of other noncurrent assets (in thousands):

	December 31,	
	2000	1999
Tax advantaged investments.....	\$ 40,243	\$ 58,457
Assets related to non-real estate equity investments.....	33,021	25,013
Real estate partnerships.....	26,563	13,332
Notes receivable from investees.....	22,593	37,206
Other investments.....	22,176	12,987
Deferred compensation plan assets.....	7,365	2,419
Other.....	6,567	5,910
	\$158,528	\$155,324

Tax advantaged investments represent amounts invested by Gallagher in limited partnerships that operate qualified affordable housing or alternative energy projects. Gallagher receives tax benefits in the form of tax deductions for operating losses and tax credits from these investments. The tax advantaged investments are primarily accounted for using the effective yield method and are carried at amortized cost in the consolidated balance sheets. Under the effective yield method, Gallagher recognizes the tax credits as they are allocated by the partnerships, which are included, net of amortization of the investment, as a component of the provision for income taxes. During 2000 and 1999, Gallagher received tax benefits related to \$40,243,000 and \$37,180,000 of the aggregate amount invested in the tax advantaged investments at December 31, 2000 and 1999, respectively. Investments in real estate partnerships at December 31, 2000 primarily represent an investment in a limited partnership that owns the building that Gallagher leases for its corporate headquarters and several of its subsidiary operations, and an investment in a limited partnership that owns 11,000 acres of land near Orlando, Florida, that is currently under development. At December 31, 1999 investments in real estate partnerships primarily represented the Florida real estate investment. Investments in real estate partnerships are primarily carried on the equity basis at December 31, 2000 and on the cost basis at December 31, 1999 in the consolidated balance sheets, which approximated fair value at December 31, 2000 and 1999. Notes receivable from investees represent secured loans made by Gallagher to several of its equity and limited partnership investments. Interest rates on the loans at December 31, 2000 and 1999 ranged from 6.0% to 11.5%. The carrying value of these loans at December 31, 2000 and 1999 approximated fair value.

Significant components of investment income and other are as follows (in thousands):

Years Ended December 31,		
2000	1999	1998

Interest.....	\$21,894	\$17,704	\$13,962
Dividends.....	2,955	2,345	2,771
Net realized and unrealized gains.....	2,006	6,011	4,144
Gains on sales of operations.....	1,823	--	--
Other income.....	11,708	2,025	807
Income (loss) from equity investments.....	1,034	2,058	(745)
Total investment income and other.....	\$41,420	\$30,143	\$20,939

The net change in unrealized gain (loss) on investment strategies included in the foregoing table amounted to \$628,000 in 2000, \$889,000 in 1999 and (\$611,000) in 1998. In 2000, Gallagher recognized \$7,200,000 of

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ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

4. Investments- - (Continued)

income related to the forfeiture of a non- refundable down payment from the termination of an installment sale of a synthetic fuel facility and \$2,000,000 of income related to an investment development fee generated from one of Gallagher's alternative energy investments. This income has been included in other income in the foregoing table. In 2000, Gallagher sold several underperforming or geographically undesirable operations and recorded aggregate gains on these sales of \$1,823,000. The net assets sold and the operating results included in the consolidated statements of earnings related to these operations were not material to the consolidated financial statements. In 1999, Gallagher sold a portion of its interests in limited partnerships that operate qualified affordable housing projects for cash proceeds of \$6,264,000. The gain recognized in 1999 on this sale of limited partnership interests was \$3,015,000, which has been included in net realized and unrealized gains in the foregoing table.

The components of other comprehensive earnings, including the related income tax effects, consist of the following (in thousands):

	Years Ended December 31,		
	2000	1999	1998
Change in unrealized gain (loss) on available for sale securities during the year, net of income taxes of \$95, (\$1,251) and (\$844), respectively.....	\$ 143	\$ (1,877)	\$ (1,267)
Reclassification adjustment for losses (gains) realized in net earnings during the year, net of income taxes of \$19, (\$10) and (\$778), respectively.	28	(15)	(1,168)
Net change in unrealized gain (loss) on available for sale securities during the year, net of income taxes of \$114, (\$1,261) and (\$1,622), respectively.....	\$ 171	\$ (1,892)	\$ (2,435)

5. Credit Agreements

In 2000, Gallagher and one of its significant subsidiaries entered into an unsecured revolving credit agreement, which expires on September 10, 2003, with a group of five financial institutions. The credit agreement provides for short- term and long- term revolving credit commitments of \$100,000,000 and \$50,000,000, respectively. The facility provides for loans and letters of credit. Letters of credit are limited to \$50,000,000 and are applied against the \$50,000,000 long- term facility in the determination of net funds available for future borrowing. The credit agreement provides for borrowings to be denominated in either U.S. dollars or Alternative Currencies, as defined in the credit agreement. In addition, the credit agreement has two borrowing options, Domestic Rate Loans, as defined in the credit agreement, or Eurocurrency Loans. Interest rates on borrowings under the Domestic Rate Loan option are based on the prime commercial rate and interest rates on borrowings under the Eurocurrency Loan option are based on LIBOR plus .425% and LIBOR plus .400% for short- term and long- term revolving credit commitments, respectively. The facility fee related to this credit agreement is based on .075% and .100% of the used and unused portions of the short- term and long- term revolving credit commitments, respectively.

As of December 31, 2000, under this credit agreement, Gallagher has contingently committed to funding \$41,700,000 through letter of credit arrangements related to one of its equity investments and to several of its other investments and

insurance programs. Accordingly, Gallagher has \$108,300,000 available for future borrowing. Terms of the credit agreement include various covenants that require Gallagher to maintain specified levels of tangible net worth and restrict the amount of payments on certain expenditures. Gallagher was in compliance with these covenants as of December 31, 2000. There were no borrowings under this credit agreement in 2000.

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

5. Credit Agreements- - (Continued)

At December 31, 1999, Gallagher had a \$20,000,000 variable rate (based on LIBOR plus .400%) unsecured revolving credit agreement. As of December 31, 1999, there were no borrowings outstanding under this credit agreement. Gallagher also had three line of credit facilities that totaled \$45,000,000 in the aggregate as of December 31, 1999. Short- term borrowings under these facilities totaled \$15,000,000 at December 31, 1999. The weighted average interest rates on the short- term borrowings were 7.2% and 6.1% during 2000 and 1999, respectively. In 2000, Gallagher paid the remaining loan balances under these facilities and terminated these agreements. These agreements were replaced by the \$150,000,000 credit agreement mentioned above.

6. Capital Stock and Stockholders' Rights Plan

Capital Stock

The table below summarizes certain information about Gallagher's capital stock at December 31, 2000 and 1999 (in thousands, except per share data):

Class	Par Value	Authorized Shares
Preferred stock.....	No par	1,000
Common stock.....	\$ 1.00	200,000

Stockholders' Rights Plan

Non- voting Rights, authorized by the Board of Directors on March 10, 1987 and approved by stockholders on May 12, 1987, are outstanding on each share of outstanding common stock. The Rights Plan was amended in 1996 to extend the expiration of the Rights to May 12, 2007. Under certain conditions, each Right may be exercised to purchase one share of common stock at an exercise price of \$25. The Rights become exercisable and transferable after a public announcement that a person or group (as defined) has acquired 20% or more of the common stock or after commencement or public announcement of a tender offer for 30% or more of the common stock. If Gallagher is acquired in a merger or business combination, each Right exercised gives the holder the right to purchase \$50 of market value of common stock of the surviving company for the \$25 exercise price. The Rights may be redeemed by Gallagher at \$.0125 per Right at any time prior to the public announcement of the acquisition of 20% of the common stock.

7. Earnings Per Share

The following table sets forth the computation of net earnings per common share and net earnings per common and common equivalent share (in thousands, except per share data):

	Years Ended December 31,		
	2000	1999	1998
Net earnings.....	\$ 87,776	\$ 70,250	\$ 58,683
Weighted average number of common shares outstanding.....	78,515	76,635	75,714
Dilutive effect of stock options using the treasury stock method.....	5,409	3,928	3,216
Weighted average number of common and common equivalent shares outstanding.....	83,924	80,563	78,930
Net earnings per common share.....	\$ 1.12	\$.92	\$.78
Net earnings per common and common equivalent share.....	1.05	.87	.74

ARTHUR J. GALLAGHER & CO.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)****7. Earnings Per Share- - (Continued)**

Options to purchase 313,000, 40,000 and 80,000 shares of common stock were outstanding at December 31, 2000, 1999 and 1998, respectively, but were not included in the computation of the dilutive effect of stock options. These options were excluded from the computation because the options' exercise prices were greater than the average market price of the common shares during the respective year and, therefore, would be antidilutive to earnings per share under the treasury stock method.

8. Stock Option Plans

Gallagher has incentive and nonqualified stock option plans for officers and key employees of Gallagher and its subsidiaries. The options are primarily granted at the fair value of the underlying shares at the date of grant. Options granted under the nonqualified plan primarily become exercisable at the rate of 10% per year beginning the calendar year after the date of grant or earlier in the event of death, disability or retirement. Options expire ten years from the date of grant, or earlier in the event of termination of the employee.

In addition, Gallagher has a non- employee directors' stock option plan which currently authorizes 940,000 shares for grant, with Discretionary Options granted at the direction of the Option Committee and Retainer Options granted in lieu of the directors' annual retainer. Discretionary Options shall be exercisable at such rates as shall be determined by the Committee on the date of grant. Retainer Options shall be cumulatively exercisable at the rate of 25% of the total Retainer Option at the end of each full fiscal quarter succeeding the date of grant. The excess of fair value at the date of grant over the option price for these nonqualified stock options is considered compensation and is charged against earnings ratably over the vesting period.

Gallagher also has an incentive stock option plan for its officers and key employees resident in the United Kingdom. The United Kingdom plan is essentially the same as Gallagher's domestic employee stock option plans, with certain modifications to comply with United Kingdom law and to provide potentially favorable tax treatment for grantees resident in the United Kingdom.

All of the aforementioned stock option plans provide for the immediate vesting of all outstanding stock option grants in the event of a change in control of Gallagher. A change in control of Gallagher is defined as the acquisition by a person (or entity) of the beneficial ownership of 50% or more of Gallagher's common stock; the cessation, for any reason, of a majority of directors of Gallagher to serve as directors during any two year period; or the approval by the stockholders of Gallagher of the sale of substantially all of the assets of Gallagher.

Gallagher accounts for stock option grants in accordance with APB 25 and, accordingly, recognizes no compensation expense for stock options that are granted to employees at the fair value of the underlying shares at the date of grant. Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock- Based Compensation," requires disclosure of pro forma information regarding net earnings and net earnings per share, using pricing models to estimate the fair value of stock option grants. Had compensation expense for Gallagher's stock option plans been determined based on the estimated fair value at the date of grant consistent with the methodology prescribed under SFAS 123, approximate net earnings and net earnings per share would have been as follows (in thousands, except per share data):

	Years Ended December 31,		
	2000	1999	1998
Pro forma net earnings.....	\$85,730	\$68,775	\$57,631
Pro forma net earnings per common share.....	1.09	.90	.76
Pro forma net earnings per common and common equivalent share.....	1.03	.86	.74

ARTHUR J. GALLAGHER & CO.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)**

8. Stock Option Plans- - (Continued)

For purposes of the pro forma disclosures, the estimated fair values of the stock option grants are amortized to expense over the options' expected lives. The fair value of stock options at the date of grant was estimated using the Black- Scholes option pricing model with the following weighted- average assumptions:

	Years Ended December 31,		
	2000	1999	1998
Dividend yield.....	2.5%	3.1%	3.1%
Risk-free interest rate.....	5.1%	6.6%	4.9%
Volatility.....	24.6%	22.9%	24.1%
Expected life (years).....	6.0	8.0	8.0

The Black- Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Gallagher's employee and director stock options have characteristics significantly different from those of traded options, and because changes in the selective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee and director stock options.

The pro forma disclosures above only include the effect of options granted subsequent to January 1, 1995. Accordingly, the effects of applying the SFAS 123 pro forma disclosures to future periods may not be indicative of future effects.

The following is a summary of all of Gallagher's stock option activity and related information (in thousands, except exercise price data):

	Years Ended December 31,					
	2000		1999		1998	
	Shares	Weighted Average	Shares	Weighted Average	Shares	Weighted Average
	Under Option	Exercise Price	Under Option	Exercise Price	Under Option	Exercise Price
Beginning balance.....	15,800	\$ 8.05	17,844	\$ 7.63	17,308	\$7.07
Granted.....	2,642	19.98	944	12.44	3,044	9.48
Exercised.....	(3,811)	7.22	(2,512)	6.36	(2,352)	5.80
Canceled.....	(212)	9.68	(476)	8.46	(156)	8.21
Ending balance.....	14,419	\$10.43	15,800	\$ 8.05	17,844	\$7.63
Exercisable at end of year.....	5,229		6,736		6,972	

Options with respect to 4,553,000 shares were available for grant at December 31, 2000.

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

8. Stock Option Plans- - (Continued)

Other information regarding stock options outstanding and exercisable at December 31, 2000 is summarized as follows (in thousands, except exercise price data):

Options Outstanding			Options Exercisable		
Weighted Average			Weighted Average		
Remaining Contractual Life			Weighted Average		
Outstanding (in years)			Exercise Price		
Range of Exercise Prices	Number		Number		
-----	Outstanding		Exercisable		
\$.25 - \$ 7.97.....	4,942	3.70	2,532	\$ 6.65	
8.00 - 9.25.....	5,723	5.04	2,416	8.63	

9.31 - 25.50.....	3,611	9.06	17.07	281	11.82
29.56 - 30.09.....	143	9.91	30.03	--	--
\$.25 - \$30.09.....	14,419	5.64	\$10.43	5,229	\$ 7.85

9. Retirement Plans

Gallagher has a noncontributory defined benefit pension plan which covers substantially all domestic employees who have attained a specified age and one year of employment. Benefits under the plan are based on years of service and salary history. Plan assets consist primarily of common stocks and bonds invested under the terms of a group annuity contract managed by a life insurance company.

Gallagher accounts for the defined benefit pension plan in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), "Employers' Accounting for Pensions." The difference between the present value of the pension benefit obligation at the date of adoption of SFAS 87 and the fair value of plan assets at that date is being amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

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ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

9. Retirement Plans- - (Continued)

A reconciliation of the beginning and ending balances of the pension benefit obligation and fair value of plan assets and the funded status of the plan is as follows (in thousands):

	Years Ended December 31,	
	2000	1999
Change in pension benefit obligation:		
Pension benefit obligation at beginning of year.....	\$ 80,728	\$ 65,314
Service cost.....	7,754	7,058
Interest cost.....	6,002	5,176
Net actuarial (gain) loss.....	(82)	4,355
Benefits paid.....	(1,610)	(1,175)
Pension benefit obligation at end of year.....	92,792	80,728
Change in plan assets:		
Fair value of plan assets at beginning of year.....	63,148	55,053
Actual return on plan assets.....	(1,742)	9,270
Company contributions.....	6,341	--
Benefits paid.....	(1,610)	(1,175)
Fair value of plan assets at end of year.....	66,137	63,148
Funded status of the plan (underfunded).....	(26,655)	(17,580)
Unrecognized net actuarial gain.....	(5,162)	(13,252)
Unrecognized prior service cost.....	882	992
Unrecognized transition obligation.....	331	387
Accrued pension benefit cost.....	\$ (30,604)	\$ (29,453)

The components of the net periodic pension benefit cost for the plan consists of the following (in thousands):

	Years Ended December 31,		
	2000	1999	1998
Service cost--benefits earned during the year.....	\$ 7,754	\$ 7,058	\$ 7,355
Interest cost on benefit obligation.....	6,002	5,176	4,560
Expected return on plan assets.....	(5,935)	(4,897)	(4,168)
Recognized net actuarial gain.....	(495)	(199)	--
Amortization of prior service cost.....	110	110	110
Amortization of transition obligation.....	56	56	56
Other.....	26	26	26
Net periodic pension benefit cost.....	\$ 7,518	\$ 7,330	\$ 7,939

The following assumptions were used in determining the plan's pension benefit obligation for 2000, 1999 and 1998:

Discount rate.....	7.5%
Rate of increase in future compensation levels.....	6.5%
Expected long-term rate of return on assets.....	9.0%

ARTHUR J. GALLAGHER & CO.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)****9. Retirement Plans- - (Continued)**

Gallagher has a qualified contributory savings and thrift (401(k)) plan covering the majority of its employees. Gallagher's matching contributions (up to a maximum of 2% of eligible compensation) are at the discretion of Gallagher's Board of Directors and may not exceed the maximum amount deductible for federal income tax purposes. Gallagher contributed \$4,638,000, \$4,165,000 and \$4,277,000 in 2000, 1999 and 1998, respectively. Effective January 1, 1999, Gallagher implemented a nonqualified deferred compensation plan for certain employees, who due to Internal Revenue Service rules, cannot take full advantage of the Gallagher matching contributions under the savings and thrift plan. The plan permits these employees to annually elect to defer a portion of their compensation until their retirement. Gallagher's matching contributions to this plan are also at the discretion of Gallagher's Board of Directors. Gallagher contributed \$316,000 and \$236,000 to the plan in 2000 and 1999, respectively. The fair value of the plan's assets as of December 31, 2000 and 1999, including employee contributions and investment earnings thereon, was \$7,365,000 and \$2,419,000, respectively, and has been included in other noncurrent assets and the corresponding liability has been included in other noncurrent liabilities in the accompanying consolidated balance sheets.

Gallagher also has a foreign defined contribution plan which provides for basic contributions by Gallagher and voluntary contributions by employees resident in the United Kingdom which are matched 100% by Gallagher, up to a maximum of 5% of eligible compensation. Net expense for foreign retirement plans amounted to \$2,465,000 in 2000, \$2,253,000 in 1999 and \$3,128,000 in 1998.

10. Postretirement Benefits Other Than Pensions

In 1992, Gallagher amended its health benefits plan to eliminate retiree coverage, except for retirees and those employees who had already attained a specified age and length of service at the time of the amendment. The retiree health plan is contributory, with contributions adjusted annually and is funded on a pay- as- you- go basis.

A reconciliation of the beginning and ending balances of the postretirement benefit obligation and the funded status of the plan is as follows (in thousands):

	Years Ended December 31,	
	2000	1999
Change in postretirement benefit obligation:		
Postretirement benefit obligation at beginning of year.....	\$ 7,883	\$11,277
Service cost.....	--	--
Interest cost.....	491	563
Net actuarial gain.....	(1,238)	(3,622)
Benefits paid.....	(284)	(335)
Postretirement benefit obligation at end of year.....	6,852	7,883
Fair value of plan assets at beginning and end of year.....	--	--
Funded status of the plan (underfunded).....	(6,852)	(7,883)
Unrecognized net actuarial gain.....	(5,357)	(4,444)
Unrecognized prior service cost.....	--	--
Unrecognized transition obligation.....	6,140	6,652
Accrued postretirement benefit cost.....	\$ (6,069)	\$ (5,675)

ARTHUR J. GALLAGHER & CO.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)****10. Postretirement Benefits Other Than Pensions- - (Continued)**

The components of the net periodic postretirement benefit cost include the following (in thousands):

	Years Ended December 31,		
	2000	1999	1998
Service cost--benefits earned during the year.....	\$ --	\$ --	\$ --
Interest cost on benefit obligation.....	491	563	803
Amortization of transition obligation.....	512	512	512
Amortization of net actuarial gain.....	(325)	(253)	--
Net periodic postretirement benefit cost.....	\$ 678	\$ 822	\$ 1,315

The discount rate used to measure the postretirement benefit obligation was 7.5% at December 31, 2000, 1999 and 1998. The transition obligation is being amortized over a 20 year period. For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. This rate was assumed to gradually scale down to 4.5% for 2009 and remain at that level thereafter. The assumed health care cost trend rate has a significant effect on the amounts reported and disclosed herein. A one percentage point change in the assumed health care cost trend rate would have the following effects (in thousands):

	One Percentage Point	
	Increase	(Decrease)
Effect on the net periodic postretirement benefit cost in 2000.....	\$ 54	\$ (47)
Effect on the postretirement benefit obligation at December 31, 2000.....	776	(670)

11. Commitments and Contingencies

Gallagher is engaged in various legal actions incident to the nature of its business. Management is of the opinion that none of the litigation will have a material effect on Gallagher's consolidated financial position or operating results.

Gallagher generally operates in leased premises. Certain office space leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of leases contain annual escalation clauses generally related to increases in an inflation index.

Minimum aggregate rental commitments at December 31, 2000 under noncancelable operating leases having an initial term of more than one year are as follows (in thousands):

	Total
2001.....	\$ 35,602
2002.....	30,542
2003.....	23,896
2004.....	18,128
2005.....	13,906
Subsequent years.....	38,165
	\$160,239

Total rent expense, including rent relating to cancelable leases and leases with initial terms of less than one year, amounted to \$44,455,000 in 2000, \$39,424,000 in 1999 and \$34,656,000 in 1998.

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

12. Income Taxes

Significant components of earnings before income taxes and the provision for income taxes are as follows (in thousands):

	Years Ended December 31,		
	2000	1999	1998
Earnings before income taxes:			
Domestic.....	\$117,529	\$103,120	\$81,723
Foreign, principally United Kingdom, Australia and Bermuda.....	7,865	4,974	5,270

	\$125,394	\$108,094	\$86,993
Provision for income taxes:			
Federal:			
Current.....	\$ 65,003	\$ 33,085	\$27,444
Deferred.....	(33,236)	(1,301)	(6,940)
	31,767	31,784	20,504
State and local:			
Current.....	6,286	5,830	7,124
Deferred.....	(4,748)	(186)	(1,007)
	1,538	5,644	6,117
Foreign:			
Current.....	4,787	1,196	2,629
Deferred.....	(474)	(780)	(940)
	4,313	416	1,689
Total provision for income taxes.....	\$ 37,618	\$ 37,844	\$28,310

A reconciliation of the provision for income taxes with the United States federal income tax rate is as follows (in thousands):

	Years Ended December 31,					
	2000		1999		1998	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal statutory rate.....	\$43,888	35.0	\$37,833	35.0	\$30,448	35.0
State income taxes--net of federal.....	1,796	1.4	3,967	3.7	3,731	4.3
Pre-acquisition earnings of pooled companies taxed to previous owners.....	(293)	(0.2)	(200)	(0.2)	(509)	(0.6)
Foreign taxes.....	1,570	1.3	(712)	(0.7)	349	0.4
Affordable housing and alternative energy tax credits.....	(11,879)	(9.5)	(4,990)	(4.6)	(4,866)	(5.6)
Other--net.....	2,536	2.0	1,946	1.8	(843)	(1.0)
Provision for income taxes.....	\$37,618	30.0	\$37,844	35.0	\$28,310	32.5

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

12. Income Taxes- - (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Gallagher's deferred tax liabilities and assets are as follows (in thousands):

	December 31,	
	2000	1999
Deferred tax assets:		
Accrued and unfunded compensation and employee benefits.....	\$28,916	\$21,359
Accrued liabilities.....	12,395	10,978
Alternative minimum tax credit carryforward.....	11,949	--
Investment-related partnerships.....	7,926	--
Unrealized investment loss.....	1,665	1,779
Other.....	3,713	3,889
Total deferred tax assets.....	66,564	38,005
Valuation allowance for deferred tax assets.....	--	--
Deferred tax assets.....	66,564	38,005
Deferred tax liabilities:		
Investment-related partnerships.....	--	2,808

Other.....	1,532	1,851
Deferred tax liabilities.....	1,532	4,659
Net deferred tax assets.....	\$65,032	\$33,346

At December 31, 2000 and 1999, \$19,789,000 and \$16,380,000, respectively, of deferred tax assets have been included in other current assets in the accompanying consolidated balance sheets. During the period from 1994 to 1996, Gallagher provided for United States federal income taxes on the undistributed earnings of its foreign subsidiaries. Due to changes in the United States federal income tax laws effective in 1997, Gallagher no longer provides for United States federal income taxes on the undistributed earnings (\$29,000,000 at December 31, 2000) of certain foreign subsidiaries which are considered permanently invested outside of the United States. The amount of unrecognized deferred tax liability on these undistributed earnings is \$6,500,000 at December 31, 2000.

13. Quarterly Operating Results (unaudited)

Quarterly operating results for 2000 and 1999 were as follows (in thousands, except per share data):

	1st	2nd	3rd	4th
2000				
Total revenues.....	\$165,434	\$169,625	\$197,078	\$208,459
Earnings before income taxes.....	25,397	24,479	44,688	30,830
Net earnings.....	16,550	15,933	31,341	23,952
Net earnings per common share.....	.21	.20	.40	.30
Net earnings per common and common equivalent share.....	.20	.19	.37	.28
<CAPTION>				
1999				
Total revenues.....	\$149,101	\$154,319	\$172,520	\$180,464
Earnings before income taxes.....	21,672	20,517	36,566	29,339
Net earnings.....	14,181	13,430	23,729	18,910
Net earnings per common share.....	.19	.18	.31	.25
Net earnings per common and common equivalent share.....	.18	.17	.29	.23

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

14. Segment Information

Gallagher has identified three operating segments in addition to its corporate operations. Insurance Brokerage Services encompasses operations that, for commission or fee compensation, place or arrange to place insurance directly related to the clients' funding of risk. This segment also provides consulting, for fee compensation, related to clients' risk financing programs. Risk Management Services includes Gallagher's third party administration, loss control and risk management consulting, workers' compensation investigations and insurance property appraisal operations. Third party administration is principally claims management services for Gallagher's clients. Financial Services is responsible for the management of Gallagher's diversified investment portfolio, which includes fiduciary funds, marketable and other equity securities, and tax advantaged and other strategic investments. It combines the invested assets of Gallagher in order to maximize the return to the company. Corporate consists primarily of unallocated administrative costs and the provision for income taxes which is not allocated to Gallagher's operating segments.

Allocations of investment income and certain expenses are based on assumptions and estimates, and reported operating results by segment would change if different methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated based on formulas. Financial information relating to Gallagher's operating segments for 2000, 1999 and 1998 is as follows (in thousands):

	Insurance Brokerage Services	Risk Management Services	Financial Services	Corporate	Total
Year Ended December 31, 2000					
Revenues:					

Commissions.....	\$417,603	\$ 1,204	\$ --	\$ --	\$ 418,807
Fees.....	50,812	229,557	--	--	280,369
Investment income and other.....	15,853	1,534	24,130	(97)	41,420
Total revenues.....	\$484,268	\$232,295	\$ 24,130	\$ (97)	\$ 740,596
Earnings (loss) before income taxes.....	\$ 91,920	\$ 33,216	\$ 12,997	\$ (12,739)	\$ 125,394
Provision for income taxes.....	--	--	--	37,618	37,618
Net earnings (loss).....	\$ 91,920	\$ 33,216	\$ 12,997	\$ (50,357)	\$ 87,776
Income (loss) from equity investments.....	\$ 777	\$ --	\$ 354	\$ (97)	\$ 1,034
Depreciation and amortization expense.....	10,023	5,913	--	380	16,316
Interest expense.....	286	174	212	309	981
Net foreign exchange gain (loss).....	(290)	20	--	(23)	(293)
Revenues:					
United States.....	\$443,723	\$210,384	\$ 23,505	\$ (97)	\$ 677,515
Foreign, principally United Kingdom, Australia and Bermuda.....	40,545	21,911	625	--	63,081
Total revenues.....	\$484,268	\$232,295	\$ 24,130	\$ (97)	\$ 740,596

<CAPTION>

At December 31, 2000

Identifiable assets:

United States.....	\$425,222	\$ 47,919	\$217,340	\$ 96,696	\$ 787,177
Foreign, principally United Kingdom, Australia and Bermuda.....	254,938	13,744	6,439	--	275,121
Total identifiable assets.....	\$680,160	\$ 61,663	\$223,779	\$ 96,696	\$1,062,298
Identifiable assets related to equity investments.....	\$ 2,079	\$ --	\$ 40,390	\$ 13,461	\$ 55,930

ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (Continued)

14. Segment Information- - (Continued)

	Insurance Brokerage Services	Risk Management Services	Financial Services	Corporate	Total
Year Ended December 31, 1999					
Revenues:					
Commissions.....	\$390,984	\$ --	\$ --	\$ --	\$ 390,984
Fees.....	42,424	192,853	--	--	235,277
Investment income and other.....	9,610	769	19,764	--	30,143
Total revenues.....	\$443,018	\$ 193,622	\$ 19,764	\$ --	\$ 656,404
Earnings (loss) before income taxes.....	\$ 78,447	\$ 23,188	\$ 13,529	\$ (7,070)	\$ 108,094
Provision for income taxes.....	--	--	--	37,844	37,844
Net earnings (loss).....	\$ 78,447	\$ 23,188	\$ 13,529	\$ (44,914)	\$ 70,250
Income from equity investments.....	\$ 746	\$ --	\$ 1,312	\$ --	\$ 2,058
Depreciation and amortization expense.....	10,927	4,553	--	1,133	16,613
Interest expense.....	524	159	226	683	1,592
Net foreign exchange gain (loss).....	(83)	(37)	--	28	(92)
Revenues:					
United States.....	\$409,814	\$ 179,678	\$ 17,955	\$ --	\$ 607,447
Foreign, principally United Kingdom, Australia and					

Bermuda.....	33,204	13,944	1,809	--	48,957
Total revenues.....	\$443,018	\$ 193,622	\$ 19,764	\$ --	\$ 656,404
<CAPTION>					
At December 31, 1999					
Identifiable assets:					
United States.....	\$399,276	\$ 36,498	\$ 232,652	\$ 51,698	\$ 720,124
Foreign, principally United Kingdom, Australia and Bermuda.....	199,046	10,466	6,073	--	215,585
Total identifiable assets.....	\$598,322	\$ 46,964	\$ 238,725	\$ 51,698	\$ 935,709
Identifiable assets related to equity investments.....	\$ 907	\$ --	\$ 24,106	\$ --	\$ 25,013
<CAPTION>					
Year Ended December 31, 1998					
Revenues:					
Commissions.....	\$369,388	\$ 467	\$ --	\$ --	\$ 369,855
Fees.....	40,539	172,377	--	--	212,916
Investment income and other.....	10,801	996	9,142	--	20,939
Total revenues.....	\$420,728	\$ 173,840	\$ 9,142	\$ --	\$ 603,710
Earnings (loss) before income taxes.....					
	\$ 70,061	\$ 16,284	\$ 4,770	\$ (4,122)	\$ 86,993
Provision for income taxes.....	--	--	--	28,310	28,310
Net earnings (loss).....	\$ 70,061	\$ 16,284	\$ 4,770	\$ (32,432)	\$ 58,683
Income (loss) from equity investments.....					
	\$ 234	\$ --	\$ (979)	\$ --	\$ (745)
Depreciation and amortization expense.....					
	9,344	3,732	--	318	13,394
Interest expense.....	930	88	11	1,054	2,083
Net foreign exchange gain (loss).....					
	(176)	126	--	2	(48)
Revenues:					
United States.....	\$388,379	\$ 161,832	\$ 8,735	\$ --	\$ 558,946
Foreign, principally United Kingdom, Australia and Bermuda.....	32,349	12,008	407	--	44,764
Total revenues.....	\$420,728	\$ 173,840	\$ 9,142	\$ --	\$ 603,710
<CAPTION>					
At December 31, 1998					
Identifiable assets:					
United States.....	\$357,632	\$ 34,100	\$ 195,302	\$ 40,007	\$ 627,041
Foreign, principally United Kingdom, Australia and Bermuda.....	156,701	7,373	4,383	--	168,457
Total identifiable assets.....	\$514,333	\$ 41,473	\$ 199,685	\$ 40,007	\$ 795,498
Identifiable assets related to equity investments.....	\$ 139	\$ --	\$ 20,137	\$ --	\$ 20,276

MANAGEMENT'S REPORT

The management of Arthur J. Gallagher & Co. (Gallagher) is responsible for the preparation and integrity of the consolidated financial statements and the related financial comments appearing in this annual report. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States and include certain amounts based on management's best estimates and judgments. Other financial information presented in this annual report is consistent with the consolidated financial statements.

Gallagher maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed as authorized and are recorded and reported properly. This system of controls is based on written policies and procedures, appropriate divisions of responsibility and authority, careful selection and training of personnel and the utilization of an internal audit function. Policies and procedures prescribe that Gallagher and all employees are to maintain the highest ethical standards and that business practices throughout the world are to be conducted in a manner which is above reproach.

Ernst & Young LLP, independent auditors, has audited Gallagher's consolidated financial statements and their report is presented herein.

The Board of Directors has an Audit Committee composed entirely of outside directors. Ernst & Young LLP has direct access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

Itasca, Illinois
January 18, 2001

Arthur J. Gallagher & Co.

/s/ J. Patrick Gallagher, Jr.
J. Patrick Gallagher, Jr.
President and Chief Executive
Officer

/s/ Michael J. Cloherty

Michael J. Cloherty
Executive Vice President and
Chief Financial Officer

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Arthur J. Gallagher & Co.

We have audited the accompanying consolidated balance sheets of Arthur J. Gallagher & Co. (Gallagher) as of December 31, 2000 and 1999, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of Gallagher's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arthur J. Gallagher & Co. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Ernst & Young LLP

Chicago, Illinois
January 18, 2001

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

Information regarding directors and nominees for directors of Gallagher is included under the caption entitled "Election of Directors" in the 2001 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

Information regarding executive compensation of Gallagher's directors and executive officers is included in the 2001 Proxy Statement under the caption entitled "Compensation of Executive Officers and Directors," and is incorporated herein by reference; provided, however, the report of the Compensation Committee on executive compensation and the stock performance graph shall not be deemed to be incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information regarding beneficial ownership of the Common Stock by certain beneficial owners and by management of Gallagher is included under the caption entitled "Principal Holders of Securities" in the 2001 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Information regarding transactions between Gallagher and Mr. James J. Braniff III and Mr. Michael J. Cloherty is included under the caption entitled "Summary Compensation Table" (in footnotes 4 and 5) in the 2001 Proxy Statement and is incorporated herein by reference. Information regarding a transaction between Gallagher and Mr. James R. Wimmer is included under the caption entitled "Compensation Committee Interlocks and Insider Participation" in the 2001 Proxy Statement and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as a part of this report: 1. Consolidated Financial Statements of Arthur J. Gallagher & Co. consisting of:

(a) Consolidated Statements of Earnings for each of the three years in the period ended December 31, 2000.

(b) Consolidated Balance Sheets as of December 31, 2000 and 1999.

(c) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2000.

(d) Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2000.

(e) Notes to Consolidated Financial Statements.

(f) Management's Report.

(g) Report of Independent Auditors.

2. Consolidated Financial Statement Schedules consisting of:

(a) Schedule II- Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto.

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3. Exhibits:

- 3.1 Restated Certificate of Incorporation of Gallagher (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended June 30, 1996, File No. 1-9761).
- 3.1.1 Certificate of Amendment of Restated Certificate of Incorporation of Arthur J. Gallagher & Co., Amended as of May 18, 2000 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the period ended June 30, 2000, File No. 1-9761).
- 3.2 By-Laws of Gallagher (incorporated by reference to the same exhibit number to Gallagher's Form S-1 Registration Statement No. 33-10447).
- 3.3 Rights Agreement between Gallagher and Bank of America Illinois (formerly Continental Illinois National Bank and Trust Company of Chicago) (incorporated by reference to Exhibits 1 and 2 to Gallagher's Form 8-A Registration Statement filed May 12, 1987, File No. 0-13480).
- 3.4 Assignment and Assumption Agreement of Rights Agreement by and among Bank of America Illinois (formerly Continental Illinois National Bank and Trust Company of Chicago), Harris Trust and Savings Bank and Gallagher (incorporated by reference to the same exhibit number to Gallagher's Form S-8 Registration

Statement No. 33-38031).

- 3.5 Amendment No. 1 to Exhibit 3.3 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended June 30, 1996, File No. 1-9761).
- 4.1 Instruments defining the rights of security holders (relevant portions contained in the Restated Certificate of Incorporation and By-Laws of Gallagher and the Rights Agreement in Exhibits 3.1, 3.2, and 3.3, respectively, hereby incorporated by reference).
- **10.25 Arthur J. Gallagher & Co. United Kingdom Incentive Stock Option Plan, Amended and restated as of January 22, 1998 and approved by the Inland Revenue on June 12, 1998 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended June 30, 1998, File No. 1-9761).
- **10.26 Arthur J. Gallagher & Co. 1988 Incentive Stock Option Plan, Amended and restated as of May 19, 1998 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended June 30, 1998, File No. 1-9761).
- **10.27 Arthur J. Gallagher & Co. 1988 Nonqualified Stock Option Plan, Amended and restated as of January 22, 1998 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended June 30, 1998, File No. 1-9761).
- **10.27.1 Amendment No. 1 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 20, 2000 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the period ended June 30, 2000, File No. 1-9761).
- **10.28 Arthur J. Gallagher & Co. 1989 Non-Employee Directors' Stock Option Plan, Amended and restated as of January 22, 1998 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended June 30, 1998, File No. 1-9761).
- **10.28.1 Amendment No. 2 to the Arthur J. Gallagher & Co. Restated 1989 Non-Employee Directors' Stock Option Plan, Amended as of January 20, 2000 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the period ended June 30, 2000, File No. 1-9761).
- 10.5 Lease Agreement between Arthur J. Gallagher & Co. and Itasca Center III Limited Partnership, a Texas limited partnership, dated July 26, 1989 (incorporated by reference to the same exhibit number to Gallagher's Form 10-K Annual Report for 1989, File No. 1-9761).
- 10.7 Letter dated December 31, 1983 from Arthur J. Gallagher & Co. to Bank of America Illinois (formerly Continental Illinois National Bank and Trust Company of Chicago) regarding Common Stock Purchase Financing Program including exhibits thereto and related letters (incorporated by reference to the same exhibit number to Gallagher's Form S-1 Registration Statement No. 2-89195).

- 10.71 Amendment to Exhibit No. 10.7 dated September 11, 1985 (incorporated by reference to the same exhibit number to Gallagher's Form 10-K Annual Report for 1985, File No. 0-13480).
- 10.8 Credit Agreement Dated as of September 11, 2000 Among Arthur J. Gallagher & Co., AJG Financial Services, Inc., The Banks Party Thereto, Harris Trust and Savings Bank, as Agent and Lead Arranger, Citibank, N.A., as Co-Lead Arranger and Syndication Agent, and Bank of America, N.A. as Co-Lead Arranger and

Documentation Agent (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the period ended September 30, 2000, File No. 1-9761).

- 10.8.1 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. First Amendment to Credit Agreement Dated as of November 10, 2000 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the period ended September 30, 2000, File No. 1-9761).
- **10.10 Board of Directors' Resolution from meeting on January 26, 1984 relating to consulting and retirement benefits for certain directors (incorporated by reference to the same exhibit number to Gallagher's Form S-1 Registration Statement No. 2-89195).
- **10.11 Form of Indemnity Agreement between Gallagher and each of its directors and corporate officers (incorporated by reference to Attachment A to Gallagher's Proxy Statement dated April 10, 1987 for its Annual Meeting of Stockholders, File No. 0-13480).
- **10.14 Form of Change in Control Agreement between Gallagher and each of its Executive Officers (incorporated by reference to the same exhibit number to Gallagher's Form 10-K Annual Report for 1998, File No. 1-9761).
- **10.15 Arthur J. Gallagher & Co. Supplemental Savings and Thrift Plan (incorporated by reference to the same exhibit number to Gallagher's Form 10-K Annual Report for 1999, File No. 1-9761).
- * **10.16 Arthur J. Gallagher & Co. Deferred Equity Participation Plan and Deferred Equity Trust Agreement dated March 22, 2001.
- * **10.17 Executive Bonus Agreement dated June 2, 2000 between Gallagher and Michael J. Cloherty.
- * **10.18 Promissory Note dated March 15, 2001 in the principal amount of \$2,382,900 from Michael J. Cloherty, payable to Gallagher.
- * **10.19 Employment Agreement dated January 1, 1999 between Gallagher and James J. Braniff III.
- * **10.20 Secured Promissory Note dated June 19, 1996 in the principal amount of \$1,155,000 from James J. Braniff III, payable to Gallagher.
- * **10.21 Promissory Note dated February 1, 1999 in the principal amount of \$100,000 from James J. Braniff III, payable to Gallagher.
- *21.0 Subsidiaries of Gallagher, including state or other jurisdiction of incorporation or organization and the names under which each does business.
- *23.1 Consent of Ernst & Young LLP, independent auditors.
- *24.0 Powers of Attorney.

All other exhibits are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or Notes thereto.

*Filed as exhibits to this Form 10- K with the Securities and Exchange Commission.

**Such exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to item 601 of Regulation S- K.

(b) Reports on Form 8- K
Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 26th day of March, 2001.

Arthur J. Gallagher & Co.
/s/ J. Patrick Gallagher, Jr.

By _____
J. Patrick Gallagher, Jr.
President and Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 26th day of March, 2001 by the following persons on behalf of the Registrant in the capacities indicated.

Name	Title
*Robert E. Gallagher	Chairman and Director
Robert E. Gallagher /s/ J. Patrick Gallagher, Jr.	President and Director (Chief Executive Officer)
J. Patrick Gallagher, Jr. /s/ Michael J. Cloherty	Executive Vice President and Director (Chief Financial Officer)
Michael J. Cloherty /s/ Richard C. Cary	Controller (Chief Accounting Officer)
Richard C. Cary *T. Kimball Brooker	Director
T. Kimball Brooker *Gary P. Coughlan	Director
Gary P. Coughlan *Peter J. Durkalski	Director
Peter J. Durkalski *Ilene S. Gordon	Director
Ilene S. Gordon *Frank M. Heffernan, Jr.	Director
Frank M. Heffernan, Jr. *Walter F. McClure	Director
Walter F. McClure *Robert Ripp	Director
Robert Ripp *James R. Wimmer	Director
James R. Wimmer	

/s/ John C. Rosengren

*By: _____

John C. Rosengren, Attorney-in-

Fact

SCHEDULE II

ARTHUR J. GALLAGHER & CO.

VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Additions Charged to Expense Adjustments (in thousands)	Balance at End of Year
Year ended December 31, 2000			
Allowance for doubtful accounts....	\$1,153	\$4,426	\$ (2,640) (1)
Accumulated amortization of goodwill.....	4,945	874	17 (2)
Accumulated amortization of non-compete agreements and expiration			5,836

lists.....	3,118	1,276	(305) (3)	4,089
Year ended December 31, 1999				
Allowance for doubtful accounts....	\$1,712	\$ (164)	\$ (395) (1)	\$1,153
Accumulated amortization of goodwill.....	4,367	1,430	(852) (2)	4,945
Accumulated amortization of non-compete agreements and expiration lists.....	1,135	2,014	(31) (3)	3,118
Year ended December 31, 1998				
Allowance for doubtful accounts....	\$ 868	\$ 495	\$ 349 (1)	\$1,712
Accumulated amortization of goodwill.....	3,809	710	(152) (2)	4,367
Accumulated amortization of non-compete agreements and expiration lists.....	3,269	781	(2,915) (3)	1,135

(1) Bad debt write- offs net of recoveries.

(2) Elimination of fully amortized goodwill and intangible asset/amortization reclassifications.

(3) Elimination of fully amortized non- compete agreements and expiration lists and intangible asset/amortization reclassifications.

EXHIBIT 10.16

ARTHUR J. GALLAGHER & CO.

DEFERRED EQUITY PARTICIPATION PLAN

The purpose of this Deferred Equity Participation Plan (the "Plan") is to provide a facility through which Arthur J. Gallagher & Co. ("AJG"), on behalf of its subsidiaries and affiliates (collectively referred to as the "Company") can encourage key executives to stay with the Company until their normal retirement. The retention of key executives will promote the interests of the Company and its shareholders by providing continuity of management and leadership, and capitalizing on the investment in training and experience the Company has made in its key executives over the years. Concurrently with the establishment of the Plan, the Company has formed The Arthur J. Gallagher & Co. Deferred Equity Trust (the "Trust"), pursuant to the trust agreement dated March 22, 2001. Between March 15 and June 15 of each calendar year, beginning in calendar year 2001, the Company will contribute to the Trust shares of AJG Common Stock in an amount approved by the AJG Compensation Committee (the "Annual Funding"). The Trust shall reinvest dividends on an annual basis in AJG Common Stock. The AJG Common Stock acquired by the Trust in a given year, or from the reinvestment of dividends from AJG Common Stock originally acquired in that year, shall be referred to as "Trust Assets". The trustees of the Trust shall have and may exercise all rights of ownership, including voting control, of the Trust Assets prior to distribution.

On or before June 15 of each year, the Chief Executive Officer of AJG, in conjunction with the Compensation Committee, will approve a list of the key executives that will receive an interest in the Trust Assets acquired with the Annual Funding from that year ("Participant"). The list shall set out a percentage for each Participant that represents that Participant's interest in the Trust Assets for that year.

A Participant shall be eligible to receive a distribution from the Plan on the first day of the month following the month he reaches age sixty- two (the "Distribution Date"); provided that the Participant has worked continuously for the Company from the date he first received an interest in the Trust Assets until the Distribution Date. If a Participant dies, or if a Participant's employment with the Company is terminated prior to the Distribution Date because of disability, or in a manner that entitles the Participant to receive severance, or if there is a change in control, all as defined herein, then the Participant, or his estate, shall be entitled to receive an immediate distribution of his interest in the Trust Assets. For purposes of the Plan, disability shall mean the termination of the Participant's employment relationship at a time when the Participant's medical condition, upon such termination, would qualify the Participant to receive long term disability benefits under the Company's employee benefits plan. "Change in control" shall have the meaning ascribed to it in the "Change in Control" Agreement between the Participant and AJG. Termination in a manner that entitles the Participant to receive severance shall mean that the Participant receives a severance payment pursuant to AJG's Severance Plan, as then in effect.

In the event a Participant's employment relationship with the Company terminates before the Distribution Date for any reason other than death, disability, or in a manner that entitles the Participant to receive severance, then any and all interests in Trust Assets previously received by the Participant pursuant to the Plan shall be forfeited. Forfeited Trust Assets shall be returned to the Company, and not subject to claim by any Participant.

A Participant may elect to receive his distribution either in a lump sum on the Distribution Date; or in ten equal annual installments commencing on the Distribution Date, and due on the next nine anniversaries of the Distribution Date; or in five equal annual installments commencing on the Distribution Date, and due on the next four anniversaries of the Distribution Date. If a Participant dies before all installments are distributed, the Participant's estate may elect to receive the remaining distribution in a lump sum. All distributions shall be made in the unrestricted Common Stock of AJG. The distribution to which a Participant is entitled shall equal the aggregate of the Participant's percentage of Trust Assets for each year the Participant was granted an interest in the Trust Assets, and shall include any increase in such interest due to stock splits, stock dividends, the exercise of stock options or the reinvestment of cash dividends.

The Company reserves the right to terminate the Plan, or suspend the Plan for any given calendar year. Receiving an interest in Trust Assets in any year does not in any way entitle the Participant to receive interests in future year Trust Assets.

ARTHUR J. GALLAGHER & CO.

Deferred Equity Trust

March 22, 2001

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Arthur J. Gallagher & Co.

Deferred Equity Trust

This Deferred Equity Trust (this "Trust") is effective this 22nd day of March, 2001 (the "Effective Date"), by and between Arthur J. Gallagher & Co., a Delaware corporation (the "Company"), and Robert E. Gallagher (the "Trustee").

WITNESSETH:

WHEREAS, the Company has adopted a nonqualified plan known as the Arthur J. Gallagher & Co. Deferred Equity Participation Plan (the "Plan"); and

WHEREAS, the Company expects to incur liability under the terms of the Plan with respect to the individuals participating in the Plan; and

WHEREAS, the Company wishes to establish a grantor trust (the "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries (collectively, the "Participants") in such manner and at such times as specified in the Plan; and

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974; and

WHEREAS, it is the intention of Company to make contributions to the Trust to provide itself with a source of funds to assist it in meeting its liabilities under the Plan.

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held, and disposed of as follows:

Article 1. Establishment and Administration of the Trust and Company Contributions

1.1. Establishment. This Trust is hereby established for the benefit of Participants in the Plan, as determined in accordance with the applicable provisions of the Plan, to provide for the payment of Plan benefits on an unfunded, nonqualified basis.

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1.2. Irrevocable. The Trust hereby established shall be irrevocable, subject to the provisions of Article 7 herein.

1.3. Status of the Trust. The Trust is intended to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly. The principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of Participants and general creditors as herein set forth. Participants shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Trust shall be mere unsecured contractual rights of Participants against the Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3.1 herein.

1.4. Company Contributions. Prior to a Change in Control (as defined in the Plan) of the Company, the Company will make deposits of cash or other property, within the period of March 15 through June 15 of each calendar year, in trust with the Trustee to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement.

Upon a Change in Control, the Company shall, as soon as possible, but in no event later than fifteen (15) calendar days following the Change in Control, make an irrevocable contribution to the Trust in an amount that is sufficient to pay each Participant or beneficiary to which the Participants or their beneficiaries would be entitled pursuant to the terms of the Plan as of the date on which the Change in Control occurs.

1.5. Trustee's Acceptance. The Trustee accepts its duties and obligations as Trustee hereunder, agrees to accept delivery of funds delivered to it by the Company pursuant to this Article 1, and agrees to hold such funds (and any proceeds from the investment of such funds) in trust in accordance with the terms and conditions of this Trust.

1.6. The Committee. The Board of Directors of the Company shall designate a committee (the "Committee") which shall have the powers, rights, and duties described herein and in the Plan. The Board of Directors will certify to the Trustee from time to time the person or persons who are acting as the members of the Committee. The Trustee may rely on the latest certificate received from the Board of Directors without further inquiry or verification. The Committee may delegate such of its powers, rights and duties hereunder as it deems appropriate to the plan administrator designated in the Plan. If for any period no persons are acting as members of the Committee, the Board of Directors of the Company shall act on behalf of, and shall have all of the powers, rights, and duties otherwise reserved to, the Committee. The Company warrants that all directions or authorizations by the Committee, whether for the payment of money or otherwise, will comply with the provisions of the Plan and this Trust.

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Article 2. Payments to Plan Participants and Their Beneficiaries

2.1. Payment Schedule. The Committee shall deliver to the Trustee a schedule (the "Payment Schedule") that: (i) indicates the amounts payable in respect of the Participants under the Plan; (ii) provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable; (iii) designates the manner and form in which such amount is to be paid (as provided for or available under the Plan); and (iv) designates the time of commencement for payment of such amounts.

Except as otherwise provided herein, the Trustee shall make payments to the Participants in accordance with such Payment Schedule. Prior to a Change in Control, the Committee shall have the right to modify such schedule during the Plan Year, which modification, upon delivery to the Trustee, shall be binding upon the Trustee.

In the event the Trustee determines that there are insufficient funds in the Trust to make full payments to all Participants as provided in the Payment Schedule or as otherwise determined hereunder, the Trustee shall immediately make a request to the Company for an infusion of sufficient additional assets into the Trust to fully fund the obligations. If no such Company asset contribution is made within a period deemed reasonable by the Trustee, the Trustee shall make payments

to each Participant in an amount equal to the full payment due to such Participant under the Plans multiplied by a fraction, the numerator of which is the total amount available for distribution in the Trust, and the denominator of which is the total amount of aggregate liabilities to all Participants under the Plan. The Company will then be required to pay the balance of the Participant's benefits out of general Company assets.

2.2. Committee Determination of Benefits. The entitlement of a Participant to benefits under the Plan shall be determined by the Committee, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan. If no such provision is contained in the underlying plan document, the procedures contained in Section 2.4 herein shall be followed.

2.3. Direct Payment of Benefits by the Company. The Company may make payment of benefits directly to Participants as they become due under the terms of the Plan. To the extent administratively practicable, the Company shall notify the Trustee of its decision to make payment of benefits directly to Participants prior to the time amounts are payable to Participants. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, the Company shall make the balance of each such payment as it falls due. The Trustee shall notify the Committee where principal and earnings are not sufficient.

The Committee may direct the Trustee in writing to reimburse the Company from the Trust Fund, as defined in Section 5.1 herein, for Plan benefits paid directly to a Participant by the Company upon receipt by the Trustee of satisfactory evidence of such payment(s); provided, however, that the Trustee shall not reimburse the Company for such payment if the Trustee determines that, after making such reimbursement, the Trust Fund assets are insufficient to satisfy anticipated distributions therefrom.

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2.4. Participants' Claim Procedure.

(a) If a payment required under the terms of the Plan has not been made to a Participant (whether due to the failure of the Committee to notify the Trustee as required by this Trust or otherwise), then the Participant may notify the Trustee in writing that a benefit payment is then due, the amount (or a reasonable estimate of the amount) owed to the Participant pursuant to the Plan, and the date such amount was due and payable. The Trustee shall notify the Committee within fifteen (15) calendar days of the receipt of such a payment request. Within fifteen (15) calendar days of the date the Trustee notified the Committee of the payment request, the Committee shall provide the Trustee with a statement that has been certified as being accurate by an independent party agreed to by the Trustee as to the proper amount due and payable to the Participant and, if applicable, a certification as to whether a benefit payment should have been made. The Trustee shall promptly make payment of such amount, if any, to the Participant, and shall provide the Participant with an explanation of how such amount was calculated. If no such certified statement is received by the Trustee, then the Trustee shall make the payment requested by the Participant from the assets of the Trust Fund.

The Trustee may conclusively rely on any payment or payments paid pursuant to the preceding sentence as being the appropriate amount due to such Participants. The Trustee also shall notify the Committee of any such payment(s). The Trustee shall be authorized to employ agents, attorneys, accountants, or other persons to perform such functions referenced in this Section 2.4(a), and the Company hereby consents to such employment.

(b) If Trust Fund assets are not sufficient to make full distributions as provided hereunder and in accordance with the Plan, the Company shall be obligated to make the balance of each such payment when due. The Trustee shall be fully protected in acting without Committee direction under this Section 2.4.

Article 3. Trustee Responsibility Regarding Payments to Trust Beneficiary When Company is Insolvent

3.1. Insolvency. The Trustee shall cease payment of benefits to Participants and their beneficiary if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Trust if (i) the Company is unable to pay its debts as they become due; or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

3.2. Claims of General Creditors. At all times during the continuance of this Trust, as provided in Articles 1 and 7 herein, the principal and income of the Trust shall be subject to the claims of general creditors of the Company under federal and state law as set forth below.

(a) The Board of Directors and the highest ranking officer of the Company shall have the duty to inform the Trustee in writing of the Company's Insolvency. If a person claiming to be a

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creditor of the Company alleges in writing to the Trustee that the Company has become Insolvent, the Trustee shall determine whether the Company is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Participants.

(b) Unless the Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, the Trustee shall have no duty to inquire whether

the Company is Insolvent. The Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(c) If at any time the Trustee has determined that the Company is Insolvent, the Trustee shall discontinue payments to the Participants and shall hold the assets of the Trust for the benefits of the Company's general creditors. Nothing in this Trust shall in any way diminish any rights of Participants to pursue their rights as general creditors of the Company with respect to benefits due under the Plan or otherwise.

(d) The Trustee shall resume the payment of benefits to Participants in accordance with Article 2 of this Trust only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

3.3. Resumption of Payments to Participants. Provided that there are sufficient assets, if the Trustee discontinues the payment of benefits from the Trust pursuant to Section 3.2 hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payment made to Participants by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Article 4. Payments to Company

Except as provided in Section 2.3, Article 3, and Section 7.2 hereof, the Company shall have no right or power to direct the Trustee to return to the Company or to divert to others any of the Trust assets before all payments of benefits have been made to Participants pursuant to the terms of the Plan.

Article 5. Management of the Trust Fund

5.1. The Trust Fund. Unless the context clearly implies or indicates otherwise, the term Trust Fund as of any date means all property of every kind then held under this Trust by the Trustee.

5.2. Investment Authority.

(a) The Trustee may invest in securities (including stock or rights to acquire stock) or obligations issued by the Company or a registered investment company or mutual fund, by June 15

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of each calendar year (or if not reasonably practical to do so by June 15, at the Trustee's earliest opportunity after June 15.) All rights associated with assets of the Trust shall be exercised by the Committee, and shall in no event be exercisable by or rest with Plan Participants. The Committee shall have the right at any time and from time to time, in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by the Committee in a non- fiduciary capacity without the approval or consent of any person in a fiduciary capacity.

(b) Notwithstanding the foregoing provision, the Trustee, without further prior approval of the Committee or the Company, shall have the power, right and authority to invest cash balances held by it from time to time in short- term, cash equivalents having ready marketability and shall have the power, right and authority to sell such assets of the Trust Fund as may be necessary to carryout the instructions of the Committee with respect to investment the Trust Fund, paying expenses or making payments pursuant to this Trust Agreement.

(c) The Trustee shall follow all directions of the Committee with respect to the investment or reinvestment of the Trust Fund and shall have no duty or obligation to review the assets from time to time so acquired, nor to make any recommendations with respect to the investment, reinvestment or retention thereof. The Trustee shall vote any proxies associates with the Trust Fund as directed by the Committee.

5.3. Accounting.

(a) The Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between the committee and the Trustee. Within 120 calendar days following the close of each calendar year and within 120 calendar days after the removal or resignation of the Trustee, the Trustee shall deliver to the Committee a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

(b) In the absence of the filing in writing with the Trustee by the Committee of exceptions or objections to any such account within 90 calendar days of receipt by the Committee of such written account from the Trustee, the Committee shall be deemed to have approved such account, the Trustee shall be released, relieved and discharged with respect to all matters and things set forth in such account as though such account has been settled by the decree of a court of competent jurisdiction.

5.4. Expenses. All expenses (except those specifically described in the next sentence) reasonably incurred by the Trustee and the Committee in the administration of this Trust, including compensation to agents, actuaries, attorneys, accountants,

and other persons employed by the Trustee

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or the Committee, as certified by them shall be paid by the Company directly. To the extent such compensation and expenses are not paid by the Company within ninety (90) calendar days of delivery of an invoice for same by the Trustee, the Trustee may pay such compensation and expenses from the Trust Fund. Expenses solely attributable to investment of the Trust Fund shall be paid from the Trust Fund to the extent not paid directly by the Company.

Article 6. Resignation or Removal of Trustee

6.1. Resignation of Trustee. The Trustee may resign at any time by written notice to the Committee, which shall be effective 30 calendar days after receipt of such notice unless the Committee and the Trustee agree otherwise.

6.2. Removal of Trustee. The Trustee may be removed by the Committee on 30 calendar days notice or upon shorter notice accepted by the Trustee.

6.3. Selection of Successor Trustee. If the Trustee resigns or is removed in accordance with Section 6.1 or 6.2 hereof, the Company shall appoint a successor to replace the Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the Committee or the successor Trustee to evidence the transfer.

6.4. Transfer of Assets to Successor Trustee. Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 30 calendar days after receipt of notice of resignation, removal or transfer, unless the Committee extends the time limit.

6.5. Failure to Appoint Successor Trustee. If the Trustee resigns or is removed, and no successor has been appointed by the effective date of such resignation or removal, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the preceding shall be allowed is administrative expenses of the Trustee.

Article 7. Amendment, Division or Termination

7.1. Amendment of the Trust. This Trust Agreement may be amended by a written instrument executed by the Trustee and the Committee. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable.

7.2. Termination of the Trust.

(a) Except as provided for in (b) below, the Trust shall not terminate until the date on which Plan Participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan. Upon termination of the Trust, any assets remaining in the Trust shall be returned to the Company.

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(b) Upon written approval of all of the Plan Participants or beneficiaries entitled to payment of benefits under the terms of the Plan, the Company may terminate this Trust prior to the time that all benefit payments under the Plan have been made, in which case, all assets in the Trust at termination shall be returned to the Company.

Article 8. Liability and Indemnification

8.1. Liabilities Mutually Exclusive. To the extent permitted by law, the Company, the Trustee, the Committee, and the Board of Directors and each member thereof, shall be responsible only for its or their own acts or omissions.

8.2. Indemnification. The Company hereby agrees to indemnify and hold harmless the Trustee from and against any losses, damages, liabilities, claims, costs, or expenses (including reasonable attorneys' fees) which the Trustee may incur by reason of the negligence or misconduct of the Company or the Committee or its authorized agent. In making any distributions and taking any other action hereunder, the Trustee may rely upon and shall be fully protected in relying upon any notice, certificate, or other paper or written document provided by the Company or the Committee and reasonably believed to be genuine.

8.3. Trustee's Actions Conclusive. Except as otherwise provided by law, the Trustee's exercise or nonexercise of its powers and discretion in good faith shall be conclusive on all persons. No one shall be obliged to see to the application of any money paid or property delivered to the Trustee. The certificate of the Trustee that it is acting in accordance with this Trust will fully protect all persons dealing with the Trustee. If there is a disagreement between the Trustee and anyone as to any act or transaction reported in any accounting, the Trustee shall have the right to a settlement of its account by any court having jurisdiction over the Trust.

Article 9. Miscellaneous

9.1. Severability. Any provision of this Trust prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

9.2. Nonalienation. Benefits payable to Participants under this Trust may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution, or other legal or equitable process.

9.3. Governing Law. This Trust shall be governed by and construed in accordance with the laws of the state of Illinois, to the extent not preempted by federal law.

9.4. Evidence. Evidence required of anyone under this Trust shall be

signed, made, or presented by the proper party or parties and may be by certificate, affidavit, document, or other information which the person acting on it considers pertinent and reliable.

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9.5. Waiver of Notice. Any notice required under this Trust may be waived by the person entitled to such notice.

9.6. Counterparts. This Trust and any amendments hereto may be executed in two or more counterparts, any one of which will be an original without reference to the others.

9.7. Gender and Number. Except when otherwise indicated by the context, words denoting the masculine gender shall include the feminine, the singular shall include the plural, and the plural shall include the singular.

9.8. Scope of this Trust. The Plan and this Trust will be binding on all persons entitled to benefits hereunder and their respective heirs and legal representatives, and upon the Company, the Committee, the Trustee and their successors and assigns.

9.9. Statutory References. Any references in this Trust to a section of the Internal Revenue Code shall include any comparable section or sections of any future legislation that amends, supplements, or supersedes that section.

9.10. Incorporation by Reference. The Company shall promptly supply the Trustee with a copy of the Plan and any amendments thereto. The Plan is by this reference expressly incorporated herein and made a part hereof within the same force and effect as if fully set forth at length herein.

9.11. Headings. The headings contained herein are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge or describe the scope or intent of the Trust and in no way shall affect the Trust or the construction of any provision thereof.

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IN WITNESS WHEREOF, Arthur J. Gallagher & Co. and the Trustee have caused this Trust to be executed on their behalf and their respective seals to be hereunto affixed and attested by their respective officers thereunto duly authorized, as of the day and year first above written.

Arthur J. Gallagher & Co.

By: /s/ J. Patrick Gallagher, Jr.

Name: J. Patrick Gallagher, Jr.

Its: President

Trustee

/s/ Robert E. Gallagher

Robert E. Gallagher

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EXHIBIT 10.17

EXECUTIVE BONUS AGREEMENT

This AGREEMENT is made and entered into as of the 2nd day of June, 2000, by and between MICHAEL J. CLOHERTY (hereinafter referred to as the "Executive") and ARTHUR J. GALLAGHER & CO. ("Corporation"), its subsidiaries, divisions and affiliated and related companies (hereinafter collectively referred to as the "Company").

IN CONSIDERATION of the mutual covenants hereinafter made by each party to the other, the Executive and the Company agree as follows:

EMPLOYMENT AND BONUS COMPENSATION

Paragraph One. The Company agrees to continue to employ the Executive in accordance with the terms of this Agreement. Company shall provide Executive with access to the resources and data of the Company to assist Executive in such

management.

Paragraph Two. The Company agrees that, in addition to the semimonthly payment of compensation as determined by Company, an annual paid vacation and various employee benefit plans, the Executive shall be entitled to participate in the AJG Financial Services, Inc. Bonus Plan, as amended from time to time, subject to the terms and conditions provided therein. A copy of the current AJG Financial Services, Inc. Bonus Plan is attached hereto as Schedule I.

FIDUCIARY OBLIGATIONS

OF THE EXECUTIVE

Paragraph Three. The Executive agrees to devote his full energies, abilities, attention and business time to the performance of his employment obligations and responsibilities as assigned by the Corporation's management. The Executive further agrees that he will not engage in any activity which conflicts or interferes with, or in any way compromises, his performance of those obligations and responsibilities.

Paragraph Four. The Executive recognizes that, by virtue of his employment by the Company and to assist him in the performance of his duties, he will be granted otherwise prohibited access to confidential and proprietary data of the Company which is not known either to its competitors or within the business community generally and which has independent economic value to the Company. This information (hereinafter referred to as "Confidential Information") includes, but is not limited to: data relating to the Company's unique marketing and servicing programs, procedures and techniques; business, financial, management, investment and personnel strategies; the criteria and formulae used by the Company in pricing its products and services; and other data relating to the financial administration and investment strategies of the Company. The Executive recognizes that this Confidential Information constitutes a valuable property of the Company, developed over a long period of time and at substantial expense. Accordingly, the Executive agrees that he will not, at any time during his employment by the Company, divulge such Confidential Information or make use of it for his own purposes or the purposes of another. The Executive agrees that all intellectual property, such as computer programs, systems or software, developed during his employment or as a result of his employment is work for hire performed by the Executive in the scope of his employment. The Company shall retain all proprietary rights to any and all such intellectual property. Executive agrees to execute any documents necessary to perfect Company's interest in such intellectual property upon Company's request.

TERMINATION OF

EMPLOYMENT RELATIONSHIP

Paragraph Five. The Executive and the Company understand and agree that each has the right, upon fourteen (14) days' written notice (hereinafter referred to as the "Notice Period"), to terminate the employment relationship for any reason whatsoever. The Company may, at its option, pay the Executive for the Notice Period in lieu of active employment during the Notice Period. It is further agreed that Company may terminate such employment without any notice in the event Executive breaches this Agreement, commits any dishonest or fraudulent act or is unable to lawfully perform his duties hereunder.

Paragraph Six. The Company agrees to continue in effect during the Notice Period any compensation and benefits to which the Executive may be entitled as an employee of the Company. It is understood and agreed that at the expiration of the Notice Period, the Executive's entitlement to any such compensation and benefits shall cease.

Paragraph Seven. The Executive agrees that during the Notice Period, he will cooperate fully with the Company in all matters relating to the winding up of any pending work and the orderly transfer to other Company employees of work for which he has most recently been responsible. The Executive further agrees that, during the Notice Period (whether or not active employment continues during the Notice Period), Executive's fiduciary duties to Company shall remain in effect.

Paragraph Eight. The Executive agrees that, prior to the expiration of the Notice Period, he will return to the Company all literature, correspondence, memoranda, reports, summaries, manuals, proposals, prospectuses, contracts and other documents of any kind which relate in any way to the business of the Company, including specifically all materials which comprise or refer to the Company's Confidential Information. It is understood and agreed that the Executive will not retain any copy, facsimile or note intended to memorialize any such data.

Paragraph Nine. The Executive understands and agrees that, during or at the expiration of the Notice Period, he will attend any meeting the Company may convene to: (i) review the status of the projects for which the Executive has most recently been responsible; (ii) ensure that the Executive has fully obtained his entitlements under this Agreement; and/or (iii) confirm that the Executive clearly understands the nature and scope of his post-employment obligations.

POST- EMPLOYMENT OBLIGATIONS

OF THE PARTIES

Paragraph Ten. The Company agrees that the Executive, upon the termination of his employment, shall be entitled to such severance pay, if any, as may then be provided for under the Company's personnel policies. It is understood and agreed that the Company may, in its discretion, increase both the amount of severance pay due the Executive, and the time period for distributing same.

Paragraph Eleven. The Executive recognizes the highly sensitive nature of the Confidential Information to which he will have access during his employment, and acknowledges the Company's legitimate interest in safeguarding same from disclosure. Accordingly, the Executive agrees that, for a period of two (2) years following the termination of his employment for any reason whatsoever, he will not divulge the Company's Confidential Information or make use of it for his own purpose or the purpose of another.

Paragraph Twelve. The Executive recognizes that employees of the Company are a valuable resource of the Company. Accordingly, the Executive agrees that, for a period of two (2) years following the termination of his employment for any reason whatsoever, he will not, directly or indirectly, solicit, induce or recruit any employee of the Company to leave the employ of the Company.

Paragraph Thirteen. Notwithstanding anything contained herein to the contrary, the Post- Employment obligations of the Executive contained in Paragraph Eleven and Paragraph Twelve shall become null and void and have no further effect immediately upon a Hostile Change in Control of the Corporation as defined herein. The Company shall send written notice to the Executive within ten (10) days of a Hostile Change in Control of the Corporation, notifying the Executive that such event has taken place. Failure of the Company to send such notice shall not preclude the release of the Executive from the Post- Employment Obligations contained in Paragraph Eleven and Paragraph Twelve. For the purposes of this Paragraph Thirteen, the following definitions apply:

A. The term "Hostile Change in Control" means a transaction, event or election constituting a Change in Control, which was not approved by, or, in an election, the directors elected were not nominated by, at least two- thirds of the members of the Board of Directors of the Corporation in office immediately prior to the Change in Control who have not died or become permanently disabled.

B. The term "Change in Control" of the Corporation means and includes each and all of the following occurrences:

1. A Business Combination, unless:

(a) the Business Combination is approved or authorized by the affirmative vote of the holders of not less than 80% of the outstanding shares of voting stock of the Corporation and the affirmative vote of the holders of not less than 67% of the outstanding shares of the voting stock held by shareholders other than Related Persons; or

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(b) the Continuing Directors of the Corporation by a two- thirds vote (i) have expressly approved in advance the acquisition of outstanding shares of voting stock of the corporation that caused the Related Person to become a Related Person, or (ii) have approved the Business Combination prior to the Related Person involved in the Business Combination having become a Related Person; or

(c) the Business Combination is solely between this corporation and another corporation, 50% or more of the voting stock of which is owned by the Corporation and none of which is owned by the Related Person; or

(d) all of the following conditions are satisfied:

(i) The cash or fair market value of the property, securities or "other consideration to be received" per share by holders of common stock in the Corporation in the Business

Combination is not less than the higher of:

(A) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Related Person in acquiring any of its holdings of the Corporation's common stock, or

(B) an amount that bears that same percentage relationship to the market price of the Corporation's common stock immediately prior to the announcement of such Business Combination as the highest per share price determined in (A) above bears to the market price of the Corporation's common stock immediately prior to the commencement of the acquisition of the Corporation's voting stock that caused such Related Person to become a Related Person, or

(C) an amount calculated by multiplying the earnings per share of the Corporation's common stock for the four fiscal quarters immediately preceding the record date for determination of stockholders entitled to vote on such Business

Combination by the price/earnings multiple of the Related Person as of the record date as customarily computed and reported in the financial press.

Appropriate adjustments shall be made with respect to (A), (B) and (C) above for recapitalizations and for stock splits, stock dividends, and like distributions; and

(ii) A timely mailing shall have been made to the stockholders of the Corporation containing in a prominent place (x) any recommendations as to the advisability (or

inadvisability) of the Business Combination that the Continuing Directors or Outside Directors may choose to state, if there are at

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the time any such directors, and (y) the opinion of a reputable nationally recognized investment banking or financial services firm as to the fairness from the financial point of view of the terms of the Business Combination to the stockholders of the Corporation other than the Related Person (such firm to be engaged solely on behalf of such other stockholders, to be paid a reasonable fee for its services by the Corporation upon receipt of such opinion, to be a firm that has not previously been significantly associated with the Related Person and, if there are at the time any such directors, to be selected by a majority

of the Continuing Directors and Outside Directors).

2. The acquisition of outstanding shares of the Corporation's voting stock that causes an individual, a corporation, partnership or other person or entity to become a Related Person.

3. Individuals who at the beginning of any period of three

consecutive years constitute the entire Board of Directors of the

Corporation shall for any reason other than death or permanent

disability during such period cease to constitute a majority thereof.

4. A change in control of a nature that would be required to be

reported in response to Item 6(e) of Schedule 14A of Regulation 14A

promulgated under the Securities Act of 1934, as amended.

C. The term "Business Combination" shall mean (i) any merger or consolidation of the Corporation or a subsidiary of the Corporation with or into a Related Person, (ii) any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any Substantial Part of the assets either of the Corporation (including without limitation any voting securities of a subsidiary) or of a subsidiary, to a Related Person, (iii) any merger or consolidation of a Related Person with or into the Corporation or a subsidiary of the Corporation, (iv) any sale, lease, exchange, transfer or other disposition of all or any Substantial Part of the assets of a Related Person to the Corporation or a subsidiary of the Corporation, (v) the issuance of any securities of the Corporation or a subsidiary of the Corporation to a Related person, (vi) the acquisition by the Corporation or a subsidiary of the Corporation of any securities issued by a Related Person, (vii) any reclassification of securities, recapitalization or other transaction designed to decrease the number of holders of the Corporation's voting securities remaining, if there is a Related Person, and (viii) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

D. The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity which, together with their "Affiliates" and "Associates" (as defined as of November 1, 1983, in Rule 12b- 2 under the Securities Exchange Act of 1934), "Beneficially Owns" (as defined as of November 1, 1983, in Rule 13d- 3 under the Securities Exchange Act of 1934) in the aggregate 20% or more of the outstanding shares of the voting stock of the Corporation, and any Affiliate or Associate of any such individual,

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corporation, partnership or other person or entity; provided that Related Person shall not include any person who beneficially owned 20% or more of the outstanding shares of the voting stock of the Corporation on November 1, 1983. Without limitation, any shares of voting stock of the Corporation that any Related Person has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed beneficially owned by the Related Person.

E. The term "Substantial Part" shall mean more than 30% of the fair market value of the total assets of the corporation in question, as of the end of its most recent fiscal year ending prior to the time the determination is being made.

F. The term "other consideration to be received" shall include, without limitation, capital stock of the Corporation retained by its existing public stockholders in the event of a Business Combination in which the Corporation is the surviving corporation.

G. The term "Continuing Director" shall mean a director who was a member of the board of directors of the Corporation immediately prior to the time that the Related Person involved in a Business Combination became a Related Person, and the term "Outside Director" shall mean a director who is not (a) an officer or employee of the Corporation or any relative of an officer or employee or (b) a Related Person or an officer, director, employee, Associate or Affiliate of a Related Person, or a relative of any of the foregoing.

ENFORCEMENT

Paragraph Fourteen. The Executive and the Company understand and agree that any breach or evasion of any term of this Agreement will give rise to an action for breach of contract, which may be brought in any court of competent jurisdiction.

Paragraph Fifteen. The Executive recognizes that the rights and privileges granted to him by this Agreement, his services and his corresponding covenants to the Company, are of a special, unique and extraordinary character, the loss of which cannot reasonably or adequately be compensated for in damages in any action at law or through the offset or withholding of any monies to which he otherwise might be entitled from the Company. Accordingly, the Executive understands and agrees that the Company shall be entitled to equitable relief, including a temporary restraining order and preliminary and permanent injunctive relief, to prevent a breach of this Agreement.

Paragraph Sixteen. This Agreement shall be governed by and construed in accordance with the laws of the state of residence of Executive as of the date of this Agreement, as evidenced by the personnel records of the Company.

Paragraph Seventeen. The provisions of this Agreement are intended to be interpreted and construed in a manner which makes such provisions valid, legal and enforceable. In the event any provision of this Agreement is found to be partially or wholly invalid, illegal or unenforceable, such provision shall be modified or restricted to the extent and in the manner necessary to render such provision valid, legal and enforceable. It is expressly understood and agreed between the parties that

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this modification or restriction may be accomplished by mutual accord between the parties or, alternatively, by disposition of a court of law. If such provision cannot under any circumstances be so modified or restricted, it shall be excised from this Agreement without affecting the validity, legality or enforceability of any remaining provisions.

Paragraph Eighteen. The Executive agrees that, in the event of a breach of the provisions of Paragraph Eleven or Twelve, or both, the time period specified in such paragraphs shall be extended by the number of days between the date of such breach and the date such breach is enjoined or other relief is granted the Company by a court of competent jurisdiction. It is the intention of the parties that the Company shall enjoy the faithful performance by Executive of the covenants specified in said paragraphs for the full time periods specified therein.

MISCELLANEOUS

Paragraph Nineteen. Except as hereinafter provided, this Agreement supersedes all existing Company policies, and all previous agreements between the parties, to the extent that such policies and agreements consider subject matters herein addressed. Any and all prior covenants entered into by Executive for the benefit of Company and relating to restrictions on Executive's business activities after termination of employment with Company remain in full force and effect. Company, however, agrees that the contingent release of Post- Employment obligations contemplated by Paragraph Thirteen shall apply with like force and effect to any such prior covenants.

Paragraph Twenty. This Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company and may be enforced by any subsidiary of the Company for whom Executive has provided services hereunder.

Paragraph Twenty- One. As used in this Agreement, all terms of masculine gender shall be construed, where appropriate, to be of the feminine gender.

Paragraph Twenty- Two. In the event either party sues to enforce its rights hereunder, the prevailing party in any such litigation shall have the right to have up to \$100,000 of its reasonable attorneys fees and costs reimbursed by the other party.

ACKNOWLEDGMENT

The Executive and the Company, by its designated representative, hereby acknowledge that they have read and understand each of the provisions of this Agreement, that they have executed this

Agreement voluntarily and with full knowledge of its significance, and that they intend to be fully bound by the same.

THE EXECUTIVE

/s/ Michael J. Cloherty

ARTHUR J. GALLAGHER & CO.

/s/ J. Patrick Gallagher, Jr.

President

Witness:

Attest:

/s/ Marsha J. Akin /s/ Christine D. Greb

Christine D. Greb
Assistant Secretary

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Schedule I

AJG FINANCIAL SERVICES, INC.
BONUS PLAN

Investment banking, fund management and joint venture projects usually reward employees based on performance. Arthur J. Gallagher & Co. ("AJG"), on behalf of its subsidiaries and affiliates (collectively referred to as the "Company") follows a unique long- term investment strategy designed to accumulate capital and provide a long- term flow of cash and income. Our strategy is designed to maximize long- term returns and discourage any attempt to shorten the return periods through bookkeeping/accounting and/or buy versus sell decisions.

Recognizing the unique aspects of our Financial Services Division ("FSD"), we have designed a system to reward the contributing employees on a divisional/portfolio basis. This avoids any influence on the investment decision process either to make an investment or to liquidate it. A simple example is that it may be desirable to hold a long- term high yield investment even though it has a large unrecognized gain.

With this framework in mind, the following bonus plan was designed:

Effective in calendar year 2000 and future years, a bonus pool of 20% of extra- ordinary gains (as defined) will be accrued for payment to the FSD employees set out below ("FSD Team Members") on qualified projects. Subject to the conditions provided below, each FSD Team Member shall be entitled to receive up to the percentage of the accrued bonus pool opposite their name.

. Michael J. Cloherty 30%

. David R. Long 25%

. Mark P. Strauch 25%

. Sally Wasikowski 20%

A. For investments initiated prior to January 1, 2001, extra- ordinary gains shall be defined to include the following items:

1. Net recognized gains on the sale of tax credit investment projects and portfolios.
2. 50% of unrealized annual gains on venture capital investments. This factor of 50% recognizes that losses can and do occur. For the purposes of this calculation, all investments will be marked to market. Public market valuations will be used where applicable. Otherwise:

- a. If a subsequent investor purchases 20% of an unlisted company, the value paid by the investor will be used.
- b. Without a public market or a subsequent investor, an appraisal will be obtained following the fifth year of investment.

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3. Net realized gains on venture type investments (netting out the unrealized gains already recognized during the life of the project in #2 above). This avoids the doubling up effect of any dollars earned.

4. Successful tax settlement gains related to investments made by FSD. For investments with little or no IRS involvement, the finalization of the Company's tax return audit will serve as the computation date. As of January 1, 2000, tax years 1996, 1997 and 1998 are still open to audit.

5. Without including the items in #1 and #3 above (realized gains), the amount by which net investment income exceeds 10% of the adjusted capital base of the FSD. Adjusted capital base will include the Company's basis in specific itemized FSD projects (with the exception of those specifically excluded by notice under #7 below) and will not include corporate cash and restricted cash or its related fiduciary investment portfolio. For purposes of this calculation, income tax credits will be included as investment income at 1.5 times the dollars realized (this puts it on a pre- tax basis).

B. For investments initiated after January 1, 2001, extra- ordinary gains shall be defined to include the following items to the extent these items exceed 10% of the adjusted capital base of the post- 2000 investments. Adjusted capital base will

include the Company's basis in all itemized FSD projects (with the exception of those specifically excluded by notice under #7 below) and will not include corporate cash and restricted cash or its related fiduciary investment portfolio.

1. Net recognized gains on the sale of tax credit investment projects and portfolios.

2. 50% of unrealized annual gains on venture capital investments. This factor of 50% recognizes that losses can and do occur. For the purposes of this calculation, all investments will be marked to market. Public market valuations will be used where applicable.

Otherwise:

a. If a subsequent investor purchases 20% of an unlisted company, the value paid by the investor will be used.

b. Without a public market or a subsequent investor, an appraisal will be obtained following the fifth year of investment.

3. Net realized gains on venture type investments (netting out the unrealized gains already recognized during the life of the project in #2 above). This avoids the doubling up effect of any dollars earned.

4. Successful tax settlement gains related to investments made by FSD. For investments with little or no IRS involvement, the finalization of the Company's tax return audit will serve as the computation date. As of January 1, 2000, tax years 1996, 1997 and 1998 are still open to audit.

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5. Without including the items in #1 and #3 above (realized gains), the amount of net investment income. For purposes of this calculation,

income tax credits will be included as investment income at 1.5 times

the dollars realized (this puts it on a pre- tax basis).

Nothing within the plan is meant to result in any "double counting" of income. It is the intention of the parties to only count gains one time regardless of the periods realized or used for bonus basis.

Recognizing that the parties intend to reward for performance and encourage long- term investment, FSD Team Members have agreed to:

1. A three- year payout of declared bonus dollars - 50% in year one, 25% in years two and three; payable on or before April 15 of each year.

2. Declare a bonus only when the Company recognizes its profit through the calculation of extra- ordinary gains and only on projects to which the FSD Team has contributed. Individual FSD Team Members will be credited with the designated percentage of extra- ordinary gain only on those projects that commenced while the Member was an employee of the Company. Employment by the Company is not a pre- requisite for payment on projects started during the term of employment for FSD Team Members. Both parties recognize this to be a compromise on percentage payouts versus project life and agree to the future payment terms regardless of future employment of the FSD Team Members by the Company, provided, however, that no bonus will be paid on projects started in the year the Member's employment with the Company terminates for any reason. If the Member is terminated for cause, then all deferred bonus and bonus on incomplete projects will be forfeited. A termination for cause shall include a termination based on management's determination that the Member has:

- a. Committed any dishonest or fraudulent act to the detriment of the Company;
- b. Been convicted of any crime involving moral turpitude or for any felony;
or
- c. Violated any major Corporate policy or procedure established by management.

If the Member's employment with the Company is terminated by the Company for reasons other than cause, or due to the death, disability or retirement of the Member, then the agreed bonus will be calculated and paid over the life of the project, to the Member or his or her estate, as the case may be, as if no termination had occurred. "Disability" means that the Member's medical condition, upon such termination, would qualify the Member to receive long term disability benefits

under the Company's employee benefits plan. "Retirement" means that the Member terminates employment when the Member (i) is at least age 60, (ii) is immediately eligible to receive retirement benefits under the Company's pension plan, and (iii) has not committed any act which subsequently leads the Company's management to determine that the Member could have been terminated for cause. If the Member resigns and has not committed any act which subsequently leads the Company's management to determine that the Member could have been terminated for cause, then the agreed bonus will be calculated and paid over the life of the project, to the Member or his or her estate, as the case may be, until the aggregate of such post resignation payments related to all projects equal the lesser of 50% of the calculated bonus or Two Million Dollars (\$2,000,000) and the

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Member shall waive any right to receive any unpaid bonus amount in excess thereof, whether vested or unvested, declared or undeclared. Bonus accruals attributed to Members terminated for cause, or bonus accruals in excess of resignation payments, shall be distributed pro- rata to the remaining Members eligible to receive a distribution in the appropriate years. In this case, the FSD Team Members may receive percentage distributions higher than those set out above.

3. The bonus pool for FSD Team Members will be calculated on contribution and recommended by the FSD Compensation Committee. Michael J. Cloherty and David R. Long shall constitute the initial members of this committee. Final approval of the bonus calculation will always rest with the Chief Executive Officer of AJG in consultation with the Compensation Committee of AJG's Board of Directors. Final approved distributions for FSD Team Members shall be deemed vested for the life of the project. After the bonus pool amount has been calculated and announced for a given year, the FSD Team Members will meet and determine which, if any, of the other employees of the Company should participate in that year's distribution based upon their individual contribution, and the extent to which each such employee should participate. Such additional participation shall be deducted from the total bonus calculation prior to distribution to FSD Team Members. This list will be presented to the FSD Compensation Committee for consideration. The Chief Executive Officer of AJG, in consultation with AJG's Compensation Committee shall have final approval over such list. In no event can the proposed distribution to a non- FSD Team Member be greater than 30% of his/her current annual salary. In addition to the above, it is the intention of the parties to cap the annual aggregate bonus cash payout to FSD Team Members at \$10,000,000. Bonus calculations in excess of the cap will be carried forward for payout in later years as will losses that are not offset by income in a given year. The Compensation Committee of AJG's Board of Directors reserves the right to increase (but not decrease) the cap or accelerate the payments to FSD Team Members.

4. Once distribution of the annual payout bonus pool is assigned to individual FSD Team Members, it cannot be reassigned in later years.

5. In the event of any disputes concerning the bonus calculation or determination of extra- ordinary gains, the Company shall retain Ernst & Young, LLP, to review this plan and the bonus accrual and calculations in dispute. All Company workpapers and correspondence will be made available to the FSD Team Members. Determination by Ernst & Young, LLP, will be considered final.

6. The Company reserves the right to terminate the plan for any given calendar year prior to the start of such year. Vested, declared and payouts already committed and projects already underway will not be affected by such termination.

7. The Company also reserves the right to specifically exclude any corporate investment from the bonus calculation, i.e. those investments where members of the FSD had little or no involvement in the creation, finding or recommendation of the investment. Notification of such determination will be made in writing within 120 days of the investment by the Chief Executive Officer of AJG.

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PROMISSORY NOTE

\$2,382,900.00

EXHIBIT 10.18

Itasca, Illinois
March 15, 2001

Michael J. Cloherty (the "Maker"), for value received, hereby promises to pay to Arthur J. Gallagher & Co. (the "Company"), or order, on demand, the principal sum of Two Million Three Hundred Eighty- Two Thousand Nine Hundred Dollars (\$2,382,900.00), with interest at 5.2% compounded annually, provided, however, that so long as the Maker remains employed with the Company, repayment of the principal hereof shall be forgiven, on an annual basis, at the rate of thirty- three and 1/3 percent (33 1/3%) per annum beginning March 15, 2002 and on each March 15 thereafter. If the Company terminates the employment of the Maker without cause or in the event Maker's employment is terminated as a result of death or permanent disability, the entire principal hereof will be forgiven and this note cancelled and

discharged.

In the event the Maker voluntarily terminates his employment with the Company, or if the Company terminates the employment of the Maker for cause, prior to March 15, 2004, then the remaining principal amount of the loan, excluding any previously forgiven portion, shall be immediately due and payable.

For purposes of this Promissory Note, whether or not a termination is "for cause" shall be determined by the definitions contained in the AJG Financial Services, Inc. Bonus Plan as it may be amended from time to time.

All payments shall be made at Two Pierce Place, Itasca, Illinois 60143, or at such other address as the holder hereof may from time to time specify in writing.

At its sole option, the Company may offset pro tanto any amount of any accrued and unpaid salary or bonus(es) payable to the Maker by the Company after demand for payment of the unpaid principal hereunder has been made upon the Maker by the holder hereof. No demand shall be made by Company so long as Maker is employed by Company and has not notified Company of his intent to voluntarily terminate his employment with Company.

If default be made in the payment of principal as herein specified, the Maker agrees to pay all costs of collection, including a reasonable attorney's fee, whether suit be brought or not.

Presentment for payment, demand or notice of dishonor, protest and notice of protest are hereby waived by the Maker and all endorsers hereof.

IN WITNESS WHEREOF, the Maker has set his hand hereunto as of the date above first written.

/s/ Michael J. Cloherty

Michael J. Cloherty

Exhibit 10.19

EMPLOYMENT AGREEMENT

AGREEMENT dated as of January 1, 1999, between Arthur J. Gallagher & Co., a Delaware corporation (the "Corporation"), and James J. Braniff, III, (the "Executive").

RECITALS

WHEREAS, the Executive is an officer and employee of the Corporation;

WHEREAS, the parties acknowledge that the Corporation has a legitimate interest in retaining the services of the Executive and the taking of the covenants herein; and

WHEREAS, the Executive desires to enter into this Agreement and to

commit to the provision of the services to the Corporation as provided hereunder.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and the mutual covenants and agreements set forth below, the parties agree:

Section 1. Employment, Term and Geographic Location.

The Corporation employs the Executive and the Executive agrees to

serve as the President and Chief Operating Officer of the Brokerage Services Division of the Corporation with the duties set forth in Section 2 for a term (the "Term of Employment") beginning on January 1, 1999 and ending on December 31, 2003, unless earlier terminated under Section 4 or 5. The Executive shall have such responsibilities, duties and authority reasonably accorded to and expected of a President and Chief Operating Officer of the Brokerage Services Division of the Corporation throughout the term of Employment. Employment of Executive shall not necessarily cease as of the expiration of the Term of Employment; however, employment thereafter shall be on an at will basis.

The Executive shall be principally employed at the corporate headquarters of the Corporation in Illinois during the Term of Employment. If the Corporation attempts to relocate the Executive to any location other than Houston, Texas, without his written consent, it will be considered a termination of the Executive without cause and the Executive will be entitled to all the benefits of this Agreement to which he would be entitled in the event of a termination without cause. Corporation also agrees that at any time after December 31, 2001, Executive may choose to relocate his principal place of employment with Corporation to Houston, Texas, in which event this Agreement will remain in full force and effect, a mere relocation of Executive's principal place of employment having occurred. If Executive elects to relocate to Houston, Texas after December 31, 2001, he will be willing to surrender the position of "President and Chief Operating Officer" of the Brokerage Services Division of Corporation.

Section 2. Duties.

(a) The Executive agrees during the Term of Employment to manage and direct the operations of the Brokerage Services Division of the Corporation and to function as its President and Chief Operating Officer. Additionally, the Executive shall solicit, handle business for, sell insurance and render services related to insurance on behalf of the Corporation and to perform such other duties and assignments relating to the business of the Corporation, consistent with his position and experience, as the management of the Corporation reasonably directs.

(b) During the Term of Employment the Executive shall, except during customary vacation periods and periods of illness, devote his entire business time and attention to the performance of the duties hereunder and to promoting the best interests of the Corporation. The

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Executive shall not, either during or outside of normal business hours, directly or indirectly, sell, solicit, service or engage in any aspect of the insurance business for or on behalf of any entity other than the Corporation, nor engage in any activity inimical to the best interests of the Corporation.

(c) During the Term of Employment it shall not be a violation of this Agreement for the Executive to serve on corporate, civic or charitable boards or committees and manage personal investments, so long as the Chief Executive Officer of the Brokerage Services Division has approved such activities in advance, and such activities do not interfere with the performance of the Executive's responsibilities hereunder and as directed by management of the Corporation.

Section 3. Compensation During Term of Employment.

(a) Salary. Unless the Corporation fixes a higher rate for the

Executive during the Term of Employment, the Corporation shall pay Executive a salary at the rate of Six Hundred Thousand Dollars (\$600,000) per year (the "Base Salary") payable in semi-monthly installments. The Executive shall be entitled to receive annual increases in his Base Salary consistent with those increases in compensation received by executive level management employees of Corporation.

(b) Additional Compensation. In addition to the Base Salary, the

Corporation shall pay to the Executive additional compensation as set forth in this Section 3(b).

(i) Debt Forgiveness. The Executive has borrowed One Million, Two Hundred Fifty-Five Thousand Dollars (\$1,255,000) from the Corporation evidenced by two promissory notes, copies of which are attached hereto as Exhibits A and B. The Corporation shall forgive One Hundred Twenty-Five Thousand, Five Hundred Dollars (\$125,500) of the principal amount, together with accrued interest, beginning January 1, 2000 and on each January 1 thereafter;

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so long as the Executive remains an employee of the Corporation. If the Executive ceases to be an employee of the Corporation for any of the reasons specified in Section 4.(a) or (b), or if the Executive is terminated by the Corporation other than a termination for cause as provided in Section 4; then the outstanding balance owed to the Corporation by the Executive and all accrued interest shall immediately be forgiven in full. If the Executive resigns, is terminated for cause or for breaching this Agreement, then the full amount outstanding and all accrued interest shall immediately become due and payable.

(ii) Personal Residence. The Executive agrees to rent the personal

residence located at 1866 Clover Drive, Inverness, Illinois, from the Corporation for Two Thousand, Five Hundred Dollars (\$2,500) per month commencing April 1, 1999 and ending upon ninety (90) days written notice by either party, as provided in the lease attached hereto as Exhibit C.

(iii) Stock Options. The Corporation shall grant to the Executive

options to purchase Fifty Thousand (50,000) shares of the Corporation's stock as of July 7, 1999. Such options shall vest twenty percent (20%) per year on the anniversary of the grant. In addition, the Executive shall be reviewed annually for additional option grants. All such options shall be granted pursuant to the Corporation's Nonqualified Stock Option Plan. Executive shall receive annual stock option grants in an amount consistent with stock option grants to executive level management employees of Corporation.

(iv) Death Benefit. In the event the Executive dies during the Term of Employment, the Corporation shall pay a death benefit of One Million Dollars (\$1,000,000) to the designee of the Executive in ten equal installments of One Hundred Thousand Dollars (\$100,000)

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each. The installments shall be paid commencing on the January 1 following the death of the Executive, and on each January 1 of the following nine years.

(v) The Executive shall participate in the Brokerage Services Division Management Bonus Plan and any other bonus or deferred compensation plan offered to executive level management employees of Corporation.

(c) Employee Benefits. During the Term of Employment, the Executive shall enjoy the customary benefits afforded to executive management level employees of the Corporation. The Executive also shall be entitled to participate in employee benefit plans now or hereafter provided or made available to the Corporation's employees generally, such as group hospitalization, medical, life and disability insurance, and pension plan. Nothing in this Agreement shall require the Corporation to establish, maintain or continue any of the employee benefits already in existence for employees of the Corporation and nothing in this Agreement shall restrict the right of the Corporation to amend, modify or terminate such employee benefit programs.

(d) Vacations. The Executive shall be entitled each year to vacations in accordance with the policies of the Corporation. The Corporation shall not pay the Executive any additional compensation for any vacation time not used by the Executive.

Section 4. Early Termination by Corporation.

Corporation shall have the right to terminate the employment of

Executive prior to the end of the Term of Employment and with no liability on the part of Corporation:

(a) Upon the death of Executive;

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(b) At any time after Executive commences to receive disability

benefits pursuant to the disability plan applicable to employees of Corporation and upon notice to Executive;

(c) Upon the proven material breach of this Agreement by Executive

after having given Executive notice of such breach and a reasonable opportunity to cure such breach; or

(d) Upon notice to Executive specifying that a "termination for cause" has occurred. As used herein, the phrase "termination for cause" shall mean a termination of employment based upon the good faith determination of Corporation that one or more of the following events have occurred:

(i) The Executive has committed any proven dishonest or

fraudulent act to the detriment of Corporation, its subsidiary and affiliated corporations;

(ii) The Executive has been convicted for any crime involving moral turpitude or for any felony;

(iii) Material and persistent insubordination on the part of Executive after notice of such insubordination to Executive and reasonable opportunity for Executive to cease such behavior;

(iv) The loss, for any reason, by Executive of any licenses or professional registrations which are required for the performance of Executive's duties hereunder; or

(v) Conduct on the part of Executive materially inconsistent with the covenants set forth in Section 8 hereof as if such covenants applied during Executive's employment.

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Section 5. Early Termination by Executive.

The Executive may terminate his employment at any time during the term hereof without liability to the Corporation solely in consideration of the cessation of the Corporation's prospective obligations to the Executive which would otherwise be due pursuant to this Agreement were the Executive to have continued in the employ of the Corporation, and the repayment of all outstanding balances under the promissory notes identified in Exhibits A and B hereto.

Section 6. Corporation's Right to Injunctive Relief; Attorneys' Fees.

The Executive acknowledges that the Executive's services to the

Corporation are of a unique character which gives them a special value to the Corporation, the loss of which cannot reasonably or adequately be compensated in damages in an action at law, and that a breach of this Agreement will result in irreparable and continuing harm to the Corporation and that therefore, in addition to any other remedy which the Corporation may have at law or in equity, the Corporation shall be entitled to injunctive relief for a breach of this Agreement by the Executive. The nonprevailing party agrees to pay any expenses and reasonable attorneys' fees incurred by the prevailing party in any dispute hereunder.

(a) The Executive acknowledges that the Corporation's business depends to a significant degree upon the possession of information, which is not generally known to others, and that the profitability of the Corporation's business requires that this information remain proprietary to the Corporation.

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(b) The Executive recognizes that by virtue of his employment by the Corporation, he will be granted otherwise prohibited access to confidential and proprietary data of the Corporation which is not known either to its competitors or within the insurance agency and brokerage business generally. This information (hereinafter referred to as "Confidential Information") includes, but is not limited to, data relating to the Corporation's unique marketing and servicing programs, procedures and techniques; the criteria and formulae used by the Corporation in pricing its insurance and employee benefits products and claims management, loss control and information management services; the structure and pricing of special insurance packages that the Corporation has negotiated with various underwriters; lists of prospects compiled by the Corporation's management and research staff; the identity, authority and responsibilities of key contacts at Corporation accounts, including accounts of the Acquired Business; the composition and organization of accounts' businesses; the peculiar risks inherent in their operations; highly sensitive details concerning the structure, conditions and extent of their existing insurance coverages; policy expiration dates; premium amounts; commission rates; risk management service arrangements; loss histories; and other data showing the particularized insurance requirements and preferences of the accounts. The Executive recognizes that this Confidential Information constitutes a valuable property of the Corporation, developed over a long period of time and at substantial expense. Accordingly, the Executive agrees that he will not, at any time during his employment by the Corporation, divulge such Confidential Information or make use of it for his own purposes or the purposes of another.

(c) The Executive recognizes the highly sensitive nature of the

Confidential Information to which he will have access during his employment, and acknowledges the

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Corporation's legitimate interest in safeguarding same from disclosure. Accordingly, the Executive agrees that, for a period of two (2) years following the termination of his employment for any reason whatsoever, he will not divulge the Corporation's Confidential Information or make use of it for his own purpose or the purpose of another.

(d) The Executive agrees that all intellectual property such as

computer programs, systems or software developed during his employment or as a result of his employment is work for hire performed by the Executive in the scope of his employment. The Corporation shall retain all proprietary rights to any and all such intellectual property. Executive agrees to execute any documents necessary to perfect Corporation's interest in such intellectual property upon Corporation's request.

Section 8. Protection of Corporation's Business.

The Executive recognizes the Corporation's legitimate interest in

protecting, for a reasonable period of time following the termination of the Executive's employment, those Corporation accounts with which the Executive will be associated during his employment. Accordingly, the Executive understands and agrees that for a period of two (2) years following the termination of his employment except if terminated without cause, he will not, directly or indirectly, solicit, place, market, accept, aid, counsel or consult in the renewal, discontinuance or replacement of any insurance (including self- insurance) by, or handle self- insurance programs, insurance claims, risk management services or other insurance administrative or service functions for, any Corporation account for which he performed any of the foregoing functions during the two- year period immediately preceding such termination.

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Section 9. Assignment.

Except as provided in Section 10 hereof, this Agreement shall not be affected by any merger or consolidation or other reorganization of the Corporation and this Agreement shall be binding upon and shall inure to the benefit of the continuing entity or to any successor in interest to the Corporation. In addition, Corporation may assign this Agreement to any subsidiary corporation of Corporation, in which event: (i) such subsidiary shall be the employer of Executive for all purposes; and (ii) except for purposes of Section 10 hereof, all references to "Corporation" and all rights of Corporation

shall include and inure to the benefit of such employing subsidiary.

This Agreement may not be assigned nor obligations hereunder delegated by the Executive.

Section 10. Release of Certain Obligations.

Notwithstanding anything contained herein to the contrary, the

obligations of the Executive contained in Sections 7 and 8 shall become null and void and have no further effect immediately upon a Hostile Change in Control of the Corporation as defined herein. The Corporation shall send written notice to the Executive within ten (10) days of a Hostile Change in Control of the Corporation, notifying the Executive that such event has taken place. Failure of the Corporation to send such notice shall not preclude the release of the Executive from the obligations contained in Sections 7 and 8. For the purposes of this Section 10, the following definitions apply:

(a) The term "Hostile Change in Control" means a transaction, event or election constituting a Change in Control, which was not approved by, or, in an election, the directors elected were not nominated by, at least two-thirds of the members of the Board of Directors of the

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Corporation in office immediately prior to the Change in Control who have not died or become permanently disabled.

(b) The term "Change in Control" of the Corporation means and

includes each and all of the following occurrences:

A. A Business Combination, unless:

(1) The Business Combination is approved or authorized by the affirmative vote of the holders of not less than 80% of the outstanding shares of voting stock of the Corporation and the affirmative vote of the holders of not less than 67% of the outstanding shares of the voting stock held by shareholders other than Related Persons; or

(2) the Continuing Directors of the Corporation by a two-thirds vote (i) have expressly approved in advance the acquisition of outstanding shares of voting stock of the corporation that caused the Related Person to become a Related Person, or (ii) have approved the Business Combination prior to the Related Person involved in the Business Combination having become a Related Person; or

(3) The Business Combination is solely between this corporation and another corporation, 50% or more of the voting stock of which is owned by the Corporation and none of which is owned by the Related Person; or

(4) All of the following conditions are satisfied:

(i) The cash or fair market value of the property, securities or "other consideration to be received" per share by holders of common stock in the Corporation in the Business Combination is not less than the higher of:

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(A) The highest per share price (including brokerage commissions,

transfer taxes and soliciting dealers' fees) paid by the Related Person in acquiring any of its holdings of the Corporation's common stock, or

(B) An amount that bears that same percentage relationship to the

market price of the Corporation's common stock immediately prior to the announcement of such Business Combination as the highest per share price determined in (A) above bears to the market price of the Corporation's common stock immediately prior to the commencement of the acquisition of the Corporation's voting stock that caused such Related Person to become a Related Person, or

(C) An amount calculated by multiplying the earnings per share of the Corporation's common stock for the four fiscal quarters immediately preceding the record date for determination of stockholders entitled to vote on such Business Combination by the price/earnings multiple of the Related Person as of the record date as customarily computed and reported in the financial press.

Appropriate adjustments shall be made with respect to (A), (B) and

(C) above for recapitalizations and for stock splits, stock dividends, and like distributions; and

(ii) A timely mailing shall have been made to the stockholders of the Corporation containing in a prominent place (x) any recommendations as to the advisability (or inadvisability) of the Business Combination that the Continuing Directors or Outside Directors may choose to state, if there are at the time any such directors, and (y) the opinion of a reputable

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nationally recognized investment banking or financial services firm as to the fairness from the financial point of view of the terms of the Business Combination to the stockholders of the Corporation other than the Related Person (such firm to be engaged solely on behalf of such other stockholders, to be paid a reasonable fee for its services by the Corporation upon receipt of such opinion, to be a firm that has not previously been significantly associated with the Related Person and, if there are at the time any such directors, to be selected by a majority of the Continuing Directors and Outside Directors).

B. The acquisition of outstanding shares of the Corporation's voting stock that causes an individual, a corporation, partnership or other person or entity to become a Related Person.

C. Individuals who at the beginning of any period of three consecutive years constitute the entire Board of Directors of the Corporation shall for any reason other than death or permanent disability during such period cease to constitute a majority thereof.

D. A change in control of a nature that would be required to be

reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Act of 1934, as amended.

(c) The term "Business Combination" shall mean (i) any merger or

consolidation of the Corporation or a subsidiary of the Corporation with or into a Related Person, (ii) any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any Substantial Part of the assets either of the Corporation (including without limitation any voting securities of a subsidiary) or of a subsidiary, to a Related Person, (iii)

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any merger or consolidation of a Related Person with or into the Corporation or a subsidiary of the Corporation, (iv) any sale, lease, exchange, transfer or other disposition of all or any Substantial Part of the assets of a Related Person to the Corporation or a subsidiary of the Corporation, (v) the issuance of any securities of the Corporation or a subsidiary of the Corporation to a Related person, (vi) the acquisition by the Corporation or a subsidiary of the Corporation of any securities issued by a Related Person, (vii) any reclassification of securities, recapitalization or other transaction designed to decrease the number of holders of the Corporation's voting securities remaining, if there is a Related Person, and (viii) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

(d) The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity which, together with their "Affiliates" and "Associates" (as defined as of November 1, 1983, in Rule 12b- 2 under the Securities Exchange Act of 1934), "Beneficially Owns" (as defined as of November 1, 1983, in Rule 13d- 3 under the Securities Exchange Act of 1934) in the aggregate 20% or more of the outstanding shares of the voting stock of the Corporation, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity; provided that Related Person shall not include any person who beneficially owned 20% or more of the outstanding shares of the voting stock of the Corporation on November 1, 1983. Without limitation, any shares of voting stock of the Corporation that any Related Person has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed beneficially owned by the Related Person.

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(e) The term "Substantial Part" shall mean more than 30% of the

fair market value of the total assets of the corporation in question, as of the end of its most recent fiscal year ending prior to the time the determination is being made.

(f) The term "other consideration to be received" shall include,

without limitation, capital stock of the Corporation retained by its existing public stockholders in the event of a Business Combination in which the Corporation is the surviving corporation.

(g) The term "Continuing Director" shall mean a director who was a

member of the board of directors of the Corporation immediately prior to the time that the Related Person involved in a Business Combination became a Related Person, and the term "Outside Director" shall mean a director who is not (a) an officer or employee of the Corporation or any relative of an officer or employee or (b) a Related Person or an officer, director, employee, Associate or Affiliate of a Related Person, or a relative of any of the foregoing.

Section 11. General.

- (a) The captions in this Agreement are not part of its provisions, are merely for reference and have no force or effect. If any caption is inconsistent with any provision of this Agreement, such provision shall govern.
- (b) This Agreement is made in and shall be governed by and construed in accordance with the laws of the State of Illinois, without giving effect to conflict of law principles.
- (c) This instrument contains the entire agreement of the parties and supersedes all other prior agreements and understandings relating to the employment of the Executive by the Corporation.

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(d) To the extent that the terms set forth in this Agreement or any word, phrase, clause or sentence is found to be illegal or unenforceable for any reason, such word, phrase, clause or sentence shall be modified or deleted in such manner so as to afford the Corporation the fullest protection commensurate with making this Agreement, as modified, legal and enforceable under applicable laws, and the balance of this Agreement shall not be affected thereby, the balance being construed as severable and independent.

(e) All notices given hereunder shall be in writing and shall be sent by registered or certified mail or delivered by hand and, if intended for the Corporation, shall be addressed to it or delivered to it at its principal office for the attention of the Secretary of the Corporation. If intended for the Executive, notices shall be delivered personally or shall be addressed (if sent by mail) to the Executive's then current residence address as shown on the Corporation's records, or to such other address as the Executive directs in a notice to the Corporation, with a copy of all such notices to Winfield M. Campbell, Campbell & Riggs, P.C., 1980 Post Oak Boulevard, Suite 2300, Houston, Texas 77056- 3810. All notices shall be deemed to be given on the date received at the address of the addressee or, if delivered personally, on the date delivered.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ARTHUR J. GALLAGHER & CO.

a Delaware Corporation

By: /s/ Michael J. Cloherty

/s/ James J. Braniff, III Executive

James J. Braniff, III

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EXHIBIT 10.20

SECURED PROMISSORY NOTE

\$1,155,000.00

June 19, 1996

FOR VALUE RECEIVED, the undersigned James J. Braniff III (the "Borrower") hereby promises to pay to the order of Arthur J. Gallagher & Co., a Delaware corporation ("Payee"), the principal sum of One Million One Hundred Fifty- Five Thousand Dollars (\$1,155,000), together with interest on the unpaid balance of such principal amount from the date hereof at the rate of three percent (3%) compounded annually. The principal balance of and all accrued but unpaid interest on this Promissory Note shall be payable in full by Borrower to Payee on demand.

Payments of principal and interest on this Promissory Note shall be made in legal tender of the United States of America and shall be made at the corporate offices of Payee at Two Pierce Place, Itasca, IL 60143- 3141, Attention: Michael J. Cloherty, Chief Financial Officer, or at such other place as Payee shall have designated in writing to Borrower. If the date set for any payment of principal or interest on this Promissory Note is a Saturday, Sunday or legal holiday, then such payment shall be due on the next succeeding business day.

As of the date hereof, Borrower has acquired 153,127 shares of the common stock (the "Common Stock"), par value \$1.00 (the "Shares"), of Payee pursuant to the terms of that certain Restated Agreement and Plan of Merger and Reorganization dated as of September 27, 1988 by and among Payee, Borrower and certain individuals and corporations. This Promissory Note shall be secured by the Shares as provided in that certain Stock Pledge Agreement of even date herewith by and between Payee and Borrower (the "Pledge Agreement").

The principal of and accrued interest on this Promissory Note may be prepaid at any time, in whole or in part, without premium or penalty. Any such prepayment shall be first applied to the payment of any accrued interest and then to the unpaid balance of the principal amount.

At any time, Payee may, by written notice to Borrower, declare the entire unpaid principal amount of this Promissory Note and all accrued and unpaid interest thereon to be immediately due and payable and, thereupon, the unpaid principal amount and all such accrued and unpaid interest shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower.

The provisions of this Promissory Note shall be governed by and construed in accordance with the Laws of the State of Illinois without regard to the conflicts of law rules thereof. In the event that Payee is required to take any action to collect or otherwise enforce payment of this Promissory Note, Borrower agrees to pay such attorneys' fees and court costs as Payee may incur as a result thereof, whether or not suit is commenced.

IN WITNESS WHEREOF, this Promissory Note has been duly executed and delivered by Borrower on the date first above written.

BORROWER

/s/ James J. Braniff III

/s/ Marsha G. Braniff

Spouse

EXHIBIT 10.21

PROMISSORY NOTE

\$100,000.00 Itasca, Illinois

February 1, 1999

James J. Braniff III (the "Maker"), for value received, hereby promises to pay to Arthur J. Gallagher & Co. (the "Company"), or order, on demand, the principal sum of One Hundred Thousand and 00/100 Dollars (\$100,000.00), without interest.

All payments shall be made at Two Pierce Place, Itasca, Illinois 60143, or at such other address as the holder hereof may from time to time specify in writing.

At its sole option, the Company may offset pro tanto any amount of any accrued and unpaid salary or bonus(es) payable to the Maker by the Company after demand for payment of the unpaid principal hereunder has been made upon the Maker by the holder hereof.

If default be made in the payment of principal as herein specified, the Maker agrees to pay all costs of collection, including a reasonable attorney's fee, whether suit be brought or not.

Presentment for payment, demand or notice of dishonor, protest and notice of protest are hereby waived by the Maker and all endorsers hereof.

IN WITNESS WHEREOF, the Maker has set his hand hereunto as of the date above first written.

/s/ James J. Braniff III

James J. Braniff III

EXHIBIT 21.0

SUBSIDIARIES OF GALLAGHER

In the following list of subsidiaries of Gallagher, those companies which are indented represent subsidiaries of the corporation under which they are indented. Except for directors' qualifying shares, 100% of the voting stock of each of the subsidiaries listed below, other than those indicated by footnote, is owned of record or beneficially by its indicated parent.(1)

Name	State or Other Jurisdiction of Incorporation
Arthur J. Gallagher & Co. (Registrant).....	Delaware
Arthur J. Gallagher & Co. (Illinois).....	Illinois
Arthur J. Gallagher & Co. of Oklahoma, Inc.....	Oklahoma
Arthur J. Gallagher Risk Management Services, Inc.....	Illinois
Arthur J. Gallagher & Co. of Wisconsin, Inc.....	Wisconsin
Arthur J. Gallagher & Co. of Pennsylvania, Inc.....	Pennsylvania
Gallagher Captive Services, Inc.....	Delaware
Arthur J. Gallagher & Co.--Chicago Metro.....	Illinois
Arthur J. Gallagher & Co. (St. Louis).....	Delaware
Gallagher Holt, Inc.....	Texas
Arthur J. Gallagher, Inc.....	Texas
Gallagher Braniff, Inc.....	Texas
Arthur J. Gallagher & Co. (Florida).....	Florida
Arthur J. Gallagher & Co. of New York, Inc.....	New York
Colonial Alternative Risk Services, Inc.	New York
Arthur J. Gallagher & Co. Ohio Agency, Inc.....	Ohio
Risk Placement Services, Inc.....	Illinois
Risk Placement Services of Texas, Inc.	Texas
Risk Placement Services of Arkansas, Inc.	Arkansas
Risk Placement Insurance Services of Massachusetts, Inc. ...	Massachusetts
Risk Placement Services of Louisiana, Inc.	Louisiana
Arthur J. Gallagher & Co.--Greenville.....	South Carolina
Arthur J. Gallagher and Co. of Massachusetts, Inc.....	Massachusetts
Gallagher Insurance Advisors, Inc.....	Massachusetts
Arthur J. Gallagher & Co. of Rhode Island, Inc.....	Rhode Island
Arthur J. Gallagher International, Inc.....	Delaware
Arthur J. Gallagher & Co. (Bermuda) Limited.....	Bermuda
Arthur J. Gallagher Intermediaries (Bermuda) Limited.....	Bermuda
Arthur J. Gallagher Management (Bermuda) Limited.....	Bermuda
Gallagher Captive Services (Cayman) Limited.....	Cayman Islands
Scholastic Risk Services Limited.....	Bermuda
Artex Insurance Company Ltd(2).....	Bermuda
Artex Underwriting Managers Ltd.....	Bermuda
Protected Insurance Company.....	Bermuda
Arthur J. Gallagher & Co.--Little Rock.....	Arkansas
Arthur J. Gallagher & Co. of Georgia, Inc.....	Georgia
Arthur J. Gallagher (UK) Limited.....	England
Risk Management Partners Ltd.(3).....	England
John Plumer & Company Limited.....	England
Morgan Insurance Services Limited.....	England
Arthur J. Gallagher Asia Pte Ltd (4).....	Singapore

Name	State or Other Jurisdiction of Incorporation
Gallagher Bassett Services, Inc.....	Delaware
Gallagher Bassett of New York, Inc.....	New York
Gallagher Bassett International Ltd.....	Delaware
Gallagher Bassett International Ltd. (UK).....	England
Gallagher Bassett Canada Inc.....	Canada
Gallagher Benefit Administrators, Inc.....	Illinois
Gallagher Bassett Investigative Services, Inc.....	Delaware
Wyatt Gallagher Bassett Pty Ltd(3).....	Australia
Gallagher Bassett Australia Pty Ltd.....	Australia
Wyatt Emerson Pty Ltd.....	Australia
Wyatt Group (PNG) Pty Ltd.....	New Guinea
Gallagher Bassett International S.A.....	France
Arthur J. Gallagher & Co. Insurance Brokers of California, Inc.....	California
Charity First Insurance Services, Inc.....	California
Arthur J. Gallagher & Co. of Connecticut, Inc.....	Connecticut
Arthur J. Gallagher Intermediaries, Inc.....	New York

Arthur J. Gallagher & Co.--Denver.....	Colorado
Arthur J. Gallagher & Co. of Michigan, Inc.	Michigan
Arthur J. Gallagher & Co. of Washington, Inc.....	Washington
Gallagher Louisiana, Inc.....	Louisiana
Arthur J. Gallagher of Louisiana, Inc.....	Louisiana
Arthur J. Gallagher & Co. of Mississippi, Inc.....	Mississippi
Arthur J. Gallagher & Co.--Kansas City, Inc.....	Missouri
IMC Insurance Management Corporation.....	Missouri
IMC Services Corporation.....	Missouri
Arthur J. Gallagher & Co. of New Jersey, Inc.....	New Jersey
Arthur J. Gallagher & Co. Ohio Life Agency, Inc.....	Ohio
Gallagher Pipino, Inc.....	Ohio
Arthur J. Gallagher & Co. of Minnesota, Inc.....	Minnesota
Risk Placement Services of Arizona I, Inc.....	Arizona
AJG Financial Services, Inc.....	Delaware
AJG Capital, Inc.(5).....	Illinois
AJG Investments, Inc.....	Delaware
AJG Premium Finance, Inc.....	Illinois
Lamberson Koster & Company.....	California
Arthur J. Gallagher & Co. of Tennessee, Inc.....	Tennessee
Arthur J. Gallagher & Co. of Kentucky, Inc.....	Kentucky
Gallagher Benefit Services, Inc.....	Delaware
Gallagher Benefit Services of Michigan, Inc.....	Michigan
Gallagher Benefit Services of the Carolinas, Inc.....	North Carolina
Gallagher Benefit Services of Colorado, Inc.....	Colorado
Gallagher Benefit Services of Kansas City, Inc.....	Delaware
Gallagher Benefit Services of New York, Inc.....	New York
Gallagher Benefit Services of Texas, Inc.....	Texas
Gallagher Benefit Services of Washington, D.C.....	Delaware
GBS Retirement Services, Inc.....	New York
Generation 2000 Loss Control Services, Inc.....	Tennessee
Arthur J. Gallagher Service Company.....	Delaware
Arthur J. Gallagher Australasia Pty Ltd.(6).....	Australia
AJG Two Pierce, Inc.	Delaware

Name	State or Other Jurisdiction of Incorporation
John P. Woods Co., Inc.	Delaware
Arthur J. Gallagher & Co. of Maryland, Inc.	Maryland

- (1) Gallagher conducts some of its operations under the following names: Gallagher Bassett Information Services; Gallagher Risk Management Services; Pacific Atlantic Administrators; The Boston Insurance Center; Gallagher Heffernan; Broussard, Bush & Hurst; Henley, Williams & Associates; Gallagher Steel Agency; Bryce Insurance; CMC Claims Management Corporation; The Planning Corporation; Environmental Claims Management Incorporated; Gallagher Byerly, Inc.; Innovative Risk Services, Inc.; and International Special Risk Services, Inc.
- (2) 76% of the Common Stock of this subsidiary is owned by two third parties. (3) 50% of the Common Stock of each of these subsidiaries is owned by an unrelated party.
- (4) 30% of the Common Stock of this subsidiary is owned by a third party. (5) 10% of the Common Stock of this subsidiary is owned by an unrelated party. (6) 40% of the Common Stock of this subsidiary is owned by unrelated parties.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

Our audits included the consolidated financial statement schedule of Arthur J. Gallagher & Co. (Gallagher) listed in Item 14(a). This schedule is the responsibility of Gallagher's management. Our responsibility is to express an opinion based on our audits. In our opinion, with respect to which the date is January 18, 2001, the consolidated financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the Registration Statements (Form S- 8, No. 33- 604 and Form S- 8, No. 33- 14625) pertaining to the Arthur J. Gallagher & Co. Incentive and United Kingdom Incentive Plans, in the Registration Statements (Form S- 8, No. 33- 24251, Form S- 8, No. 33- 38031 and Form S- 8, No. 333- 57155) pertaining to the Arthur

J. Gallagher & Co. 1988 Incentive and 1988 Nonqualified Stock Option Plans, in the Registration Statement (Form S- 8, No. 33- 30816) pertaining to the Arthur J. Gallagher & Co. Non- Employee Directors' Stock Option Plan, in the Registration Statements (Form S- 8, No. 33- 64614 and Form S- 8, No. 33- 80648) pertaining to the Arthur J. Gallagher & Co. 1988 Incentive, 1988 Nonqualified, and Non- Employee Directors' Stock Option Plans, in the Registration Statements (Form S- 8, No. 333- 06359 and Form S- 8, No. 333- 40000) pertaining to the Arthur J. Gallagher & Co. 1988 Nonqualified and Non- Employee Directors' Stock Option Plans, in the Registration Statements (Form S- 4, No. 333- 75197, Form S- 3, No. 333- 84139 and Form S- 4, No. 333- 55254), and in the related Prospectuses, of our report dated January 18, 2001 with respect to the consolidated financial statements included herein, and our report included in the preceding paragraph with respect to the consolidated financial statement schedule included in this Annual Report on Form 10- K of Arthur J. Gallagher & Co.

/s/ Ernst & Young LLP

Ernst & Young LLP

Chicago, Illinois
March 26, 2001

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ FRANK M. HEFFERNAN, JR.

Frank M. Heffernan, Jr.

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ T. KIMBALL BROOKER

T. Kimball Brooker

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits

thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ ROBERT E. GALLAGHER

Robert E. Gallagher

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ GARY P. COUGHLAN

Gary P. Coughlan

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ ROBERT RIPP

Robert Ripp

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ WALTER F. McCLURE

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ JAMES R. WIMMER

James R. Wimmer

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren his true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ PETER J. DURKALSKI

Peter J. Durkalski

EXHIBIT 24.0

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints John C. Rosengren her true and lawful attorney- in- fact and agent, with full power of substitution and resubstitution, for her, and in her name, place and stead, in any and all capacities (i) to sign the Arthur J. Gallagher & Co. Annual Report on Form 10- K for the fiscal year ending December 31, 2000 and any and all amendments thereto and (ii) to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney- in- fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in such connection, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney- in- fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 22nd day of March, 2001.

/s/ ILENE S. GORDON

Ilene S. Gordon