

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, 2002

☐ 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 (I.R.S. Employer incorporation or organization) 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 ----- on which registered Common Stock, par value - - -
----- \$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 X 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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b- 2 of the Act). Yes X No .

The aggregate market value of the voting common equity held by non- affiliates of the registrant, computed by reference to the last reported price at which the stock was sold on June 28, 2002 (the last day of the registrant's most recently completed second quarter) was \$2,920,318,000.

The number of outstanding shares of the registrant's Common Stock, \$1.00 par value, as of February 28, 2003 was 88,809,000.

Documents incorporated by reference:

Portions of Arthur J. Gallagher & Co.'s Annual Report to Stockholders for the year ended December 31, 2002 are incorporated by reference into this Form 10- K in response to Parts I and II to the extent described herein.

Portions of Arthur J. Gallagher & Co.'s definitive 2003 Proxy Statement are incorporated by reference into this Form 10- K in response to Part III to the extent described herein.

ARTHUR J. GALLAGHER & CO.

ANNUAL REPORT ON FORM 10- K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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PART I

Item 1. Business.
General

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 comprehensively structured risk management and brokerage services 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 more than 250 sales and service offices located throughout the United States and six 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 England and other facilities in Australia, Bermuda, Canada, Scotland and Singapore.

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.

Information Concerning Forward- Looking Statements

This annual report contains forward- looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 (the "Act") found at Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Additional written or oral forward- looking statements may be made by Gallagher from time to time in filings with the Securities and Exchange Commission (SEC), press releases, or otherwise. Statements contained in this report that are not historical facts are forward- looking statements made pursuant to the safe harbor provisions of the Act. Forward- looking statements may include, but are not limited to, discussions concerning revenues, expenses, earnings, cash flow, capital structure, financial losses, as well as market and industry conditions, premium rates, financial markets, interest rates, foreign exchange rates, contingencies and

matters relating to Gallagher's operations and income taxes. In addition, when used in this report, the words "anticipates," "believes," "should," "estimates," "expects," "intends," "plans" and variations thereof and similar expressions are intended to identify forward- looking statements. Such forward- looking statements are based on available current market and industry material, experts' reports and opinions and long- term trends, as well as management's expectations concerning future events impacting Gallagher.

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, returns on investments 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.

Readers are cautioned not to place undue reliance on any forward- looking statements contained in this report, which speak only as of the date set forth on the signature page hereto. Gallagher undertakes no obligation to publicly release the result of any revisions to these forward- looking statements that may be made to reflect events or circumstances after such date or to reflect the occurrence of anticipated or unanticipated events.

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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' managing of risk. This segment also provides consulting services, for fee compensation, related to clients' risk financing programs and includes Gallagher's retail, reinsurance and wholesale insurance brokerage operations. Risk Management Services includes Gallagher's third party administration, loss control and risk management consulting and insurance property appraisal operations. Third party administration is principally the management and processing of claims for self insurance 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. The invested assets of Gallagher are managed in this segment in order to maximize the long- term after- tax return to Gallagher. Corporate consists primarily of the operating results of Gallagher's investment in the limited partnership that owns its corporate headquarters building, unallocated administrative costs and the provision for income taxes which is not allocated to Gallagher's operating segments. Only revenues not attributable to one of the three operating segments are recorded in the Corporate segment.

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, 2002, is as follows (in thousands):

	2002		2001 *		2000 *	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commissions						
Insurance Brokerage Services	\$ 662,857	60%	\$ 537,933	58%	\$ 472,878	59%
Risk Management Services	613	—	1,090	—	1,204	—
Fees						
Insurance Brokerage Services	109,046	10%	62,342	8%	51,678	7%
Risk Management Services	279,821	25%	262,522	28%	229,557	29%
Investment income and other						
Insurance Brokerage Services	7,879	1%	11,457	1%	17,157	2%
Risk Management Services	817	—	1,084	—	1,534	—
Financial Services	33,024	3%	39,407	4%	24,318	3%
Corporate	7,165	1%	7,153	1%	2,254	—
Total revenues	\$ 1,101,222	100%	\$ 922,988	100%	\$ 800,580	100%

* Restated to conform to the current year presentation. See Note 3 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on page 39, which is incorporated herein by reference.

See Note 18 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on pages 55 and 56, which is incorporated herein by reference for additional financial information, including earnings before income taxes and identifiable assets, by operating segment, for 2002, 2001 and 2000.

During 2002 and 2001, Gallagher's total revenues and expenses increased sequentially from quarter- to- quarter within the calendar years, except for the second quarter of 2001 and the third quarter of 2002, the latter of which was negatively impacted by \$28.9 million of investment write- downs. However, commission and fee revenues and the related expenses can vary from quarter- to- quarter as a result of the timing of policy inception dates that traditionally are heaviest in the third and fourth quarters. On the other hand, salaries and employee benefits, rent, depreciation and amortization expenses tend to be more uniform throughout the year. In addition, the timing of acquisitions accounted for as purchases will also impact the trends in Gallagher's quarterly operating results. See Note 17 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on page 54, which is incorporated herein by reference for unaudited quarterly operating results for 2002 and 2001.

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Insurance Brokerage Services

The Insurance Brokerage Services segment comprises 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's reinsurance intermediary operations place 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. 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 insureds. 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 estimated 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 comprises two wholly- owned subsidiaries, Gallagher Bassett Services, Inc. (GB) and Gallagher Benefit Administrators, Inc. (GBA).

GB provides a full range of risk management services including claims management, risk control consulting services, information management, property appraisals on a totally integrated or select, stand- alone basis. GB provides these services for Gallagher's clients through a network of service offices located throughout the United States, Canada, England, Scotland and Australia.

GB primarily markets its risk management services directly to clients on an unbundled basis independent of Gallagher. GB also markets these services to BSD's clients who are interested in P/C risk management related services.

In connection with its risk management services, GB provides "self- insurance" programs for large institutions, risk sharing pools and associations, and large commercial and industrial customers. Self- insurance, as administered by GB, 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**.

GB'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 volume of the services to be performed.

Financial Services

Financial Services is primarily responsible for Gallagher's diversified investment portfolio which includes investment strategies- - trading, marketable securities- - trading, tax advantaged investments, real estate partnerships, an investment in Allied World Assurance Holdings, Ltd., venture capital equity investments, a minority investment in an alternative fund manager, notes receivable from investees, and an investment in an airplane leasing company that leases two cargo airplanes to the French postal service. Financial Services manages the invested assets of Gallagher in order to maximize the long- term after- tax return to Gallagher. See Note 4 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on pages 40 to 43, which is incorporated herein by reference for a summary of Gallagher's investments and notes receivable and for a summary of the assets and liabilities related to Gallagher's unconsolidated investment portfolio, accounted for using the equity method.

Gallagher's equity investment philosophy generally consists of investing in tax advantaged investments and venture capital equity projects which take a long- term view toward private sale or public offering. Gallagher uses the limited partnership or limited liability company forms of legal ownership to fund many of its investments in order to obtain favorable tax treatment with respect to gains, losses and distributions, while limiting its liability. Based on the ownership structure of these investments, management believes that Gallagher's exposure to losses related to these investments is limited to the combination of its net carrying value, funding commitments, letters of credit and financial guarantees. In the event that certain of these limited partnerships or limited liability companies were to default on their debt obligations and Gallagher's net carrying value became impaired, the amount to be written- off could have a material effect on Gallagher's consolidated financial position or operating results. See Note 4 (pages 40 to 43) and Note 15 (pages 51 and 52) to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders, which is incorporated herein by reference for a summary of outstanding letters of credit, financial guarantees and funding commitments and Note 7 on page 45 for a summary of outstanding debt and contingent commitments.

International Operations

Total revenues by geographic area for each of the three years in the period ended December 31, 2002 are as follows (in thousands):

	2002		2001 *		2000 *	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United States	\$ 995,656	90%	\$ 847,361	92%	\$ 734,731	92%
Foreign, principally United Kingdom, Australia and Bermuda	105,566	10%	75,627	8%	65,849	8%
Total revenues	\$ 1,101,222	100%	\$ 922,988	100%	\$ 800,580	100%

* Restated to conform to the current year presentation. See Note 3 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on page 39, which is incorporated herein by reference.

The Insurance Brokerage Services segment's international operations comprise the following: 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) is a wholly- owned London based subsidiary of Gallagher. It provides brokerage and other services to clients primarily located outside 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. AJG UK's brokerage services encompass most classes of business within the general categories of aviation, marine, reinsurance (treaty and facultative) and property/casualty. The thrust of AJG UK's 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's non- United Kingdom subsidiaries, other independent agents and brokers and major business corporations requiring direct insurance and reinsurance placements.

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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 in 1994 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 foreign insurers for both direct and reinsurance placements. It also acts as a wholesaler to Gallagher's marketing efforts by accessing global 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.

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 wholly- owned subsidiary of Gallagher that is headquartered in Sydney, Australia. This subsidiary provides reinsurance placements for international or local Australian companies, and specialty programs and coverages for Australian and other clients through underwriting facilities with Lloyd's of London underwriters.

Arthur J. Gallagher Pte Ltd is a 51% owned joint- venture of AJG UK that is based in Singapore. It specializes in treaty and facultative reinsurance placements for insurance companies located throughout Asia. These placements are made directly with reinsurance companies or through Gallagher's subsidiaries and encompass several lines of business. Insurance Brokerage Services also has strategic alliances 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 the United Kingdom and Australia.

Gallagher Bassett International Ltd. (UK) (GB UK), a wholly- owned subsidiary of GB, 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, GB 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 GB that is headquartered in Brisbane, Australia with facilities located throughout Australia. 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 Note 16 (pages 53 and 54) and Note 18 (pages 55 and 56) to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders which is incorporated herein by reference for additional financial information related to Gallagher's foreign operations, including earnings before income taxes and identifiable assets, by operating segment, for 2002, 2001 and 2000.

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. Gallagher's clients include United States and multi- national 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 more than 250 sales and service offices in the United States and six 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 customer would not have a materially adverse effect on Gallagher. In 2002, the largest single customer represented less

than 2% of total revenues.

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Gallagher believes that its ability to deliver comprehensively structured risk management and brokerage services, including the placement of insurance and 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 that it forms with clients when providing a variety of risk management services on an ongoing 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 (third largest in the United States) 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.

2002 Acquisitions

In 2002, Gallagher acquired the net assets of ten insurance brokerage and risk management firms in exchange for its common stock and/or cash using the purchase method for recording business combinations. See Note 2 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on pages 38 and 39, which is incorporated herein by reference for a summary of the entities acquired, the amount and nature of the consideration paid and the dates of acquisition.

2003 Acquisitions

The following acquisitions accounted for as purchases have occurred since December 31, 2002:

Effective on January 1, 2003, Gallagher acquired substantially all of the net assets of W. E. Kingsley Company, Inc., a Kentucky corporation engaged in the wholesale insurance brokerage and services business, in exchange for 101,000

shares of Gallagher's common stock.

Effective on January 1, 2003, Gallagher acquired substantially all of the net assets of McRory & Company and Harman & McRory Company, Washington corporations engaged in the insurance brokerage and services business, in exchange for 54,000 and 49,000 shares of Gallagher's common stock, respectively.

Effective on March 1, 2003, Gallagher acquired substantially all of the net assets of Benefits Planning & Insurance Agency, Inc., a California corporation engaged in the benefits insurance business, in exchange for 577,000 shares of Gallagher's common stock and a contingent obligation of \$8,500,000 that, if any is earned, will be paid in additional shares of Gallagher common stock.

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Gallagher believes that the net effect of these acquisitions has been and will be to expand 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 number of candidates for possible future acquisitions and has received signed, non-binding letters of intent from three 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, 2002, Gallagher employed approximately 7,100 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.

Available Information

Gallagher makes available free of charge on its website at www.ajg.com its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after electronically filing or furnishing such material to the Securities and Exchange Commission.

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 264,000 square feet of space. The lease commitment on this property expires February 28, 2006. Gallagher has an equity interest in the limited partnership that owns the Two Pierce Place property. See Note 4 (pages 40 to 43), Note 7 (page 45) and 15 (pages 51 and 52) to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders which is incorporated herein by reference for additional information with respect to this ownership interest. 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 15 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on pages 51 and 52, which is incorporated herein by reference for information with respect to Gallagher's lease commitments at December 31, 2002.

Item 3. Legal Proceedings.

Information regarding legal proceedings of Gallagher is included in Note 15 to the Consolidated Financial Statements on page 52 of Gallagher's 2002 Annual Report to Stockholders and is incorporated herein by reference.

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, 2002.

Item 4A. Executive Officers of the Registrant.

The executive officers of Gallagher are as follows:

Name	Age	Position and Year First Elected
Robert E. Gallagher	80	Chairman since 1990, Chief Executive Officer from 1963 until 1995
J. Patrick Gallagher, Jr.	51	President since 1990, Chief Executive Officer since 1995
James J. Braniff III	63	Vice President since 1995, President and Chief Operating Officer of BSD from 1999 to June 2002
Elizabeth J. Brinkerhoff	59	Vice President since 1993
Richard C. Cary	40	Chief Accounting Officer since 2001, Acting Chief Financial Officer since September 2002
James W. Durkin, Jr.	53	Vice President since 1985, President of GBS since 1985
Nicholas M. Elsberg	60	Vice President since 1994
James S. Gault	51	Vice President since 1992, President and Chief Operating Officer of BSD since June 2002
David E. McGurn, Jr.	49	Vice President from 1993, President--Specialty Marketing and International Division since 2001
Richard J. McKenna	56	Vice President since 1994, President of GB since 2000
John C. Rosengren	56	Vice President and General Counsel since 1995

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, 2001 through December 31, 2002 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.

	High	Low	Dividends Declared Per Common Share
Quarterly Periods			
2002			
First	\$ 37.240	\$ 31.000	\$.150
Second	37.200	32.150	.150
Third	34.900	21.700	.150
Fourth	29.800	22.100	.150
2001			
First	32.094	21.875	\$.130
Second	29.200	22.230	.130
Third	34.000	25.370	.130
Fourth	38.820	32.900	.130

As of February 28, 2003, there were approximately 700 holders of record of Gallagher's common stock.

Item 6. Selected Financial Data.

The following selected consolidated financial data for each of the five years in the period ended December 31, 2002 have been derived from Gallagher's consolidated financial statements. Such data should be read in conjunction with Gallagher's audited Consolidated Financial Statements and related notes thereto, which have been incorporated by reference in Item 8 of this annual report.

Consolidated Statement of Earnings Data:						
Commissions	\$ 663,470	\$ 539,023	\$ 474,082	\$ 440,828	\$ 421,256	
Fees	388,867	324,864	281,235	235,879	213,360	
Investment income and other	48,885	59,101	45,263	39,230	24,980	
Total revenues	1,101,222	922,988	800,580	715,937	659,596	
Total expenses	915,880	781,135	666,841	588,913	576,430	
Earnings before income taxes	185,342	141,853	133,739	127,024	83,166	
Provision for income taxes	55,603	16,597	40,784	43,784	16,287	
Net earnings	\$ 129,739	\$ 125,256	\$ 92,955	\$ 83,240	\$ 66,879	
Per Share Data:						
Basic net earnings per share (2)	\$ 1.49	\$ 1.48	\$ 1.11	\$ 1.02	\$.83	
Diluted net earnings per share (3)	1.41	1.39	1.04	.97	.80	
Dividends declared per common share (4)	.60	.52	.46	.40	.35	
Share Data:						
Shares outstanding at year end	88,548	85,111	84,540	82,157	81,169	
Weighted average number of common share outstanding	87,303	84,795	83,558	81,678	80,757	
Weighted average number of common and common equivalent shares outstanding	91,861	90,127	88,967	85,606	83,973	
Consolidated Balance Sheet Data:						
Total assets	\$ 2,463,574	\$ 2,145,342	\$ 1,626,771	\$ 1,364,302	\$ 1,243,946	
Long-term debt less current portion	128,349	96,698	103,856	13,900	15,500	
Total stockholders' equity	528,155	371,613	328,900	260,801	268,668	
Return on Beginning Stockholders' Equity (5)	35%	38%	36%	31%	28%	
Employee Data:						
Number of employees at year end	7,111	6,499	5,714	5,344	5,128	
Total revenue per employee (6)	\$ 155	\$ 142	\$ 140	\$ 134	\$ 129	
Net earnings per employee (6)	\$ 18	\$ 19	\$ 16	\$ 16	\$ 13	

- (1) Restated to conform to the current year presentation. See Note 3 to the Consolidated Financial Statements of Gallagher's 2002 Annual Report to Stockholders on page 39, which is incorporated herein by reference.
- (2) Based on the weighted average number of common shares outstanding during the year.
- (3) Based on the weighted average number of common and common equivalent shares outstanding during the year.
- (4) Based on the total dividends declared on a share of common stock outstanding during the entire year.
- (5) Represents annual net earnings divided by stockholders' equity as of the beginning of the year.
- (6) Based on the number of employees at year end.

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

Information regarding Management's Discussion and Analysis of Financial Condition and Results of Operations is included in Gallagher's 2002 Annual Report to Stockholders under the caption entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 22 to 30 and is incorporated herein by reference. All of such information should be read in conjunction with Gallagher's Consolidated Financial Statements and related notes thereto, which have been incorporated by reference in Item 8 of this annual report.

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

Information regarding Quantitative and Qualitative Disclosures About Market Risk is included in Gallagher's 2002 Annual Report to Stockholders under the caption entitled "Market Risk Exposure" on page 30 and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Gallagher's Consolidated Financial Statements, the related notes thereto, Management's Report and Report of Independent Auditors are included in Gallagher's 2002 Annual Report to Stockholders on pages 31 to 58 and are incorporated herein by reference.

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

There were no changes in or disagreements with accountants on accounting and financial disclosure.

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 2003 Proxy Statement and is incorporated herein by reference. Information regarding executive officers of Gallagher is included under the caption entitled "Executive Officers of the Registrant" in Part I of this annual report.

Item 11. Executive Compensation.

Information regarding executive compensation of Gallagher's directors and executive officers is included in the 2003 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 2003 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Not applicable.

Item 14. Controls and Procedures.

Within the 90- day period prior to filing this report, Gallagher management carried out an evaluation, under the supervision and with the participation of Gallagher's Chief Executive Officer ("CEO") and Acting Chief Financial Officer ("ACFO"), of the effectiveness of Gallagher's disclosure controls and procedures pursuant to Exchange Act Rule 13a- 14. Based on this evaluation, the CEO and ACFO have concluded that Gallagher's disclosure controls and procedures were effective as of the date of such evaluation.

There have been no significant changes in Gallagher's internal controls or in other factors that could significantly affect the internal controls subsequent to the date of Gallagher's evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART IV**Item 15. 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 from Gallagher's 2002 Annual Report to Stockholders which are incorporated herein by reference:
 - (a) Consolidated Statements of Earnings for each of the three years in the period ended December 31, 2002 (page 31)

(b) Consolidated Balance Sheets as of December 31, 2002 and 2001

(page 32).

(c) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2002 (page 33).

(d) Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2002 (page 34).

- (e) Notes to Consolidated Financial Statements (pages 35 to 56).
 - (f) Management's Report (page 57).
 - (g) Report of Independent Auditors (page 58).
2. Consolidated Financial Statement Schedules required to be filed by Item 8 of this Form:
 - (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.

3. Exhibits:

Included in this Form 10- K

10.8.9 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Ninth Amendment to Credit Agreement Dated as of November 13, 2002.

13.0 Pages 21 to 58 of Gallagher's 2002 Annual Report to Stockholders incorporated herein by reference.

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.

99.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Acting CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Not included in this Form 10-K

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 quarterly period ended June 30, 2000, File No. 1- 9761).

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3.1.2 Certificate of Amendment of Restated Certificate of Incorporation of Arthur J. Gallagher & Co., Amended as of May 23, 2001 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended June 30, 2001, 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).

10.5 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).

10.7.1 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 quarterly 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 quarterly period

ended September 30, 2000, File No. 1- 9761).

10.8.2 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Second

Amendment to Credit Agreement Dated as of May 31, 2001

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2001, File No. 1- 9761).

10.8.3 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Third Amendment to Credit Agreement Dated as of September 7, 2001

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period

ended September 30, 2001, File No. 1- 9761).

10.8.4 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Fourth Amendment to Credit Agreement Dated as of November 7, 2001

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period

ended September 30, 2001, File No. 1- 9761).

10.8.5 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Fifth Amendment to Credit Agreement Dated as of February 21, 2002

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- K Annual Report for 2001, File No. 1- 9761).

10.8.6 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Sixth Amendment to Credit Agreement Dated as of April 23, 2002 (incorporated by reference to the same exhibit number to Gallagher's Form 10-Q Quarterly Report for the quarterly period ended March 31, 2002, File No. 1-9761).

10.8.7 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Seventh Amendment to Credit Agreement Dated as of August 9, 2002

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2002, File No. 1- 9761).

10.8.8 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Eighth Amendment to Credit Agreement Dated as of August 29, 2002

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period

ended September 30, 2002, 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

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- K Annual Report for 2000, File No. 1- 9761).

*10.17 Executive Bonus Agreement dated June 2, 2000 between Gallagher and Michael J. Cloherty (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2000, File No. 1- 9761).

*10.18 Promissory Note dated March 15, 2001 in the principal amount of \$2,382,900 from Michael J. Cloherty, payable to Gallagher

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- K Annual Report for 2000, File No. 1- 9761).

*10.19 Employment Agreement dated January 1, 1999 between Gallagher and James J. Braniff III (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2000, File No. 1- 9761).

*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 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2000, File No. 1- 9761).

*10.21 Promissory Note dated February 1, 1999 in the principal amount of
\$100,000 from James J. Braniff III, payable to Gallagher

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- K Annual Report for 2000, File No. 1- 9761).

*10.22 Arthur J. Gallagher & Co. Brokerage Services Division Management
Bonus Plan Amended and Restated as of March 21, 2002

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period ended March 31, 2002, File No. 1- 9761).

*10.22.1 Employment Agreement dated September 3, 2002 between Gallagher and Michael J. Cloherty (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended September 30, 2002, File No. 1- 9761).

*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).

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*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 quarterly period ended June 30, 2000, File No. 1- 9761).

*10.27.2 Amendment No. 2 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 18, 2001

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2001, File No. 1- 9761).

*10.27.3 Amendment No. 3 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 17, 2002

(incorporated by reference to the same exhibit number to

Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2002, 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

quarterly period ended June 30, 2000, File No. 1- 9761).

*10.28.2 Amendment No. 3 to the Arthur J. Gallagher & Co. Restated 1989

Non- Employee Directors' Stock Option Plan, Amended as of

January 18, 2001 (incorporated by reference to the same exhibit

number to Gallagher's Form 10- Q Quarterly Report for the

quarterly period ended June 30, 2001, File No. 1- 9761).

*10.28.3 Amendment No. 4 to the Arthur J. Gallagher & Co. Restated 1989

January 17, 2002 (incorporated by reference to the same exhibit

number to Gallagher's Form 10- Q Quarterly Report for the

quarterly period ended June 30, 2002, File No. 1- 9761).

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.

* 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 24th day of March, 2003.

ARTHUR J. GALLAGHER & CO.
By /S/ J. PATRICK GALLAGHER, JR.

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 24th day of March, 2003 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 (Principal Executive Officer)
J. Patrick Gallagher, Jr.	
/S/ RICHARD C. CARY	Acting Chief Financial Officer and Controller (Principal Financial and Accounting Officer)
Richard C. Cary	
*JAMES J. BRANIFF III	Director
James J. Braniff III	
*T. KIMBALL BROOKER	Director
T. Kimball Brooker	
*GARY P. COUGHLAN	Director
Gary P. Coughlan	
*JAMES W. DURKIN, JR.	Director
James W. Durkin, Jr.	
*ILENE S. GORDON	Director
Ilene S. Gordon	
*ELBERT O. HAND	Director
Elbert O. Hand.	
*DAVID E. MCGURN, JR.	Director
David E. McGurn, Jr.	
*RICHARD J. MCKENNA	Director
Richard J. McKenna	
*JAMES R. WIMMER	Director
James R. Wimmer	
*By: /S/ JOHN C. ROSENGREN	
John C. Rosengren, Attorney-in-Fact	

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ARTHUR J. GALLAGHER & CO.

CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES- OXLEY ACT OF 2002

CERTIFICATION

I, J. Patrick Gallagher, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Arthur J. Gallagher & Co.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 14 and 15d- 14) for the registrant and have:
 - a.) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b.) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c.) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a.) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

/s/ J. PATRICK GALLAGHER, JR.
J. Patrick Gallagher, Jr.
President and Chief Executive Officer
(principal executive officer)

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ARTHUR J. GALLAGHER & CO.
CERTIFICATIONS PURSUANT TO
SECTION 302 OF

THE SARBANES-OXLEY ACT OF 2002 (Continued)

CERTIFICATION

I, Richard C. Cary, certify that:

1. I have reviewed this annual report on Form 10- K of Arthur J. Gallagher & Co.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 14 and 15d- 14) for the registrant and have:

a.) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b.) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c.) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a.) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

/s/ RICHARD C. CARY

Richard C. Cary
Acting Chief Financial Officer and Chief
Accounting Officer
(principal financial officer)

SCHEDULE II

ARTHUR J. GALLAGHER & CO.

VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Additions Charged to Earnings	Adjustments	Balance at End of Year
			(In thousands)	
Year ended December 31, 2002				
Allowance for doubtful accounts	\$ 1,730	\$ 4,691	\$ (4,396) (1)	\$ 2,025
Allowance for estimated policy cancellations	2,500	500	-	3,000
Accumulated amortization of goodwill	7,129	-	(9) (2)	7,120
Accumulated amortization of expiration lists and noncompete agreements	1,602	6,647	(798) (3)	7,451
Year ended December 31, 2001				
Allowance for doubtful accounts	\$ 3,132	\$ 1,657	\$ (3,059) (1)	\$ 1,730
Allowance for estimated policy cancellations	2,000	500	-	2,500
Accumulated amortization of goodwill	5,836	2,624	(1,331) (2)	7,129
Accumulated amortization of expiration lists and noncompete agreements	4,089	881	(3,368) (3)	1,602
Year ended December 31, 2000				
Allowance for doubtful accounts	\$ 1,531	\$ 4,456	\$ (2,855) (1)	\$ 3,132
Allowance for estimated policy cancellations	-	2,000	-	2,000
Accumulated amortization of goodwill	5,588	2,363	(2,115) (2)	5,836
Accumulated amortization of expiration lists and noncompete agreements	3,118	1,283	(312) (3)	4,089

- (1) Bad debt write- offs net of recoveries.
- (2) Elimination of fully amortized goodwill and intangible asset/amortization reclassifications.
- (3) Elimination of fully amortized expiration lists and non- compete agreements and intangible asset/amortization reclassifications.

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ARTHUR J. GALLAGHER & CO.

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 EXHIBIT INDEX

- 10.8.9 Arthur J. Gallagher & Co. and AJG Financial Services, Inc. Ninth Amendment to Credit Agreement Dated as of November 13, 2002.
- 13.0 Pages 21 to 58 of Gallagher's 2002 Annual Report to Stockholders incorporated herein by reference.

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.
- 99.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Acting CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

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Exhibit 10.8.9

ARTHUR J. GALLAGHER & CO. AND AJG FINANCIAL SERVICES, INC. NINTH AMENDMENT TO CREDIT AGREEMENT

Harris Trust and Savings Bank	Citibank, N.A.
Chicago, Illinois	New York, New York

Bank of America, N.A.	LaSalle Bank National Association
Chicago, Illinois	Chicago, Illinois
The Northern Trust Company	
Chicago, Illinois	
Ladies and Gentlemen:	

This Ninth Amendment to Credit Agreement dated as of November 13, 2002 (herein, the "Amendment") is entered into by and between the undersigned, Arthur J. Gallagher & Co, a Delaware corporation ("Gallagher"), AJG Financial Services, Inc., a Delaware corporation ("AJG"; Gallagher and AJG being referred to herein collectively as the "Borrowers" and individually as a "Borrower"), Citibank, N.A., Bank of America, N.A., LaSalle Bank National Association, The Northern Trust Company and Harris Trust and Savings Bank, individually and as Agent (the "Agent"). Reference is hereby made to that certain Credit Agreement dated as of September 11, 2000, as amended, between the Borrowers, the Banks and the Agent (the "Credit Agreement"). All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

The Borrowers desire to modify certain provisions with respect to the issuance of Letters of Credit, and the Banks are willing to do so under the terms and conditions set forth in this Amendment.

SECTION 1. AMENDMENTS.

Subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement shall be and hereby is amended as follows:

1.1. Section 1.3(b) of the Credit Agreement shall be amended and

restated in its entirety to read as follows:

"(b) Applications. At any time on or after the Effective Date and

before the Termination Date, the Agent shall, at the request of the relevant Borrower, issue one or more Letters of Credit for the account of such Borrower, in a form satisfactory to the Agent, with expiration

dates no later than the earliest of (i) 12 months from the date of

issuance or (ii) 365 days after the Termination Date, in an

aggregate face amount as set forth above, upon the receipt of a duly

executed application for the relevant Letter of Credit in the form

customarily prescribed by the Agent for the type of Letter of Credit,

whether standby or commercial, requested (each an "Application");

provided, that with respect to any Letter of Credit with an expiration date that is later than the Termination Date, the relevant Borrower

shall deliver to the Agent no later than 20 days prior to the

Termination Date cash collateral in an amount equal to the full amount then available for drawing under such Letter of Credit. Any such cash collateral required by this Section 1.3(b) shall be held by the Agent pursuant to the terms of Section 10.4 hereof. Notwithstanding anything

contained in any Application to the contrary (i) the Borrowers'

obligation to pay fees in connection with each Letter of Credit shall

be as exclusively set forth in Section 5.1(b) hereof, (ii) except

during the continuance of an Event of Default, the Agent will not call

for the funding by the Borrowers of any amount under a Letter of

Credit before being presented with a drawing thereunder, and (iii) if the Agent is not timely reimbursed for the amount of any drawing under a Letter of Credit on the date such drawing is paid, the Borrowers' obligation to reimburse the Agent for the amount of such drawing shall

bear interest (which the Borrowers hereby jointly and severally

promise to pay) from and after the date such drawing is paid until

payment in full thereof (i) in the case of a drawing under a Letter of Credit denominated in U.S. Dollars, at a rate per annum equal to the sum of 2% plus the Domestic Rate from time to time in effect and (ii) in the case of a drawing under a Letter of Credit denominated in an Alternative Currency, at a rate per annum equal to the sum of 2% plus

the Applicable Margin for Eurocurrency Loans under the Revolving

Credit plus the Overnight Eurocurrency Rate. The Agent will promptly notify the Banks of each issuance by it of a Letter of Credit. If the

Agent issues any Letters of Credit with expiration dates that are

automatically extended under the terms set forth in such Letter of

Credit, then the Agent will give notice of non-renewal before the time necessary to prevent such automatic extension if before such required

notice date (i) the expiration date of such Letter of Credit if so

extended would be later than 365 days after the Termination Date, (ii)

the Commitments have been terminated or (iii) an Event of Default

exists and the Required Banks have given the Agent instructions not to

so permit the extension of the expiration date of such Letter of

Credit. The Agent agrees to issue amendments to the Letters of Credit increasing the amount, or extending the expiration date, thereof at

the request of the relevant Borrower subject to the conditions of

Section 8.2 and the other terms of this Section 1.3. Without limiting

the generality of the foregoing, the Agent's obligation to

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issue, amend or extend the expiration date of a Letter of Credit is subject to the conditions of Section 8.2 and the other terms of this

Section 1.3 and the Agent will not issue, amend or extend the

expiration date of any Letter of Credit if any Bank notifies the Agent of any failure to satisfy or otherwise comply with such conditions and

terms and directs the Agent not to take such action. Except as

specifically provided for in this Section 1.3(b), no amendment to a Letter of Credit shall extend the expiration date of such Letter of Credit beyond the Termination Date without the consent of each Bank having a Revolving Credit Commitment."

1.2. Section 10.1(b) of the Credit Agreement shall be amended and

restated in its entirety to read as follows:

"(b) default in the observance or performance of any covenant set forth in Sections 1.3(b), 9.5, 9.7, 9.8, 9.9, 9.10, 9.12, 9.13, 9.14, 9.15, 9.16 or 9.20 hereof; or"

SECTION 2. CONDITIONS PRECEDENT.

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.1. The Borrowers and the Banks shall have executed and delivered

this Amendment.

2.2. Legal matters incident to the execution and delivery of this

Amendment shall be satisfactory to the Agent and its counsel.

SECTION 3. REPRESENTATIONS.

In order to induce the Agent and the Banks to execute and deliver this Amendment, the Borrowers hereby represent to the Agent and the Banks that as of the date hereof the representations and warranties set forth in Section 7 of the Credit Agreement are and shall be and remain true and correct (except that the representations contained in Section 7.5 shall be deemed to refer to the most recent financial statements of the Borrowers delivered to the Agent and the Banks) and the Borrowers are in compliance with the terms and conditions of the Credit Agreement and no Default or Event of Default has occurred and is continuing under the Credit Agreement or shall result after giving effect to this Amendment.

SECTION 4. MISCELLANEOUS.

4.1. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Reference to this specific Amendment need not be made in the Credit Agreement, the Notes, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made

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pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

4.2. The Borrowers agree to pay on demand all costs and expenses of or incurred by the Agent in connection with the negotiation, preparation, execution and delivery of this Amendment, including the fees and expenses of counsel for the Agent.

4.3. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. This Amendment shall be governed by the internal laws of the State of Illinois.

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This Ninth Amendment to Credit Agreement is entered into as of the date and year first above written.

ARTHUR J. GALLAGHER & CO.

By /s/ JACK H. LAZZARO

Name: Jack H. Lazzaro

Title: Vice President & Treasurer

AJG FINANCIAL SERVICES, INC.

By /s/ JACK H. LAZZARO

Name: Jack H. Lazzaro

Title: Chief Financial Officer

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Accepted and agreed to.

HARRIS TRUST AND SAVINGS BANK,

individually and as Agent

By /s/ M. JAMES BARRY, III

Name M. James Barry, III

Title Vice President

CITIBANK, N.A.

By /s/ PETER C. BICKFORD

Name Peter C. Bickford

Title Vice President

BANK OF AMERICA, N.A.

By /s/ R. GUY STAPLETON

Name R. Guy Stapleton

Title Managing Director

LASALLE BANK NATIONAL ASSOCIATION

By /s/ KYLE FREIMUTH

Name Kyle Freimuth

Title Vice President

THE NORTHERN TRUST COMPANY

By /s/ ERIC DYBING

Name Eric Dybing

Title Second Vice President

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EXHIBIT 13.0

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion and analysis should be read in conjunction with Arthur J. Gallagher & Co.'s Consolidated Financial Statements and the related notes thereto that are included elsewhere in this annual report.

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 primarily 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 (P/C) market or human resource/employee benefits market. Investment income and other revenue 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 operations in seven countries and does business in more than 100 countries around the world through a network of correspondent brokers and consultants.

This Management's Discussion And Analysis Of Financial Condition And Results Of Operations contains certain statements relating to future results which are forward- looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Cautionary Language Regarding Forward- Looking Statements" on page 68 of this annual report.

INSURANCE MARKET OVERVIEW

During the period from 1986 to 2000, heavy competition for market share among P/C insurance carriers resulted in low premium rates. This "soft market" (i.e., low premium rates) generally resulted in flat or reduced renewal commissions. During this soft market period, natural catastrophes and other losses resulted in billions of dollars in underwriting losses to the insurance market. Substantial mergers, both domestically and internationally, resulted in fewer insurance companies. Increased property replacement costs and increasingly large litigation awards 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 were opposing 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 was that P/C premium rates remained low through 1999. Years of underwriting losses coupled with the downward turn in equity markets and interest rates for the past three years, have placed insurers in the position of having to replenish depleted reserves. In order to restore reserves, many carriers began to increase premium rates in 2000 and continued to do so throughout 2001 and 2002, particularly after the events described below.

The insurance industry was jolted by the tragic terrorist attacks that occurred on September 11, 2001. The devastation caused by those events resulted in the largest insurance loss ever. Along with this historic loss, larger than anticipated loss experience across most risks, the stock market's steep decline, lower interest rates and diminished risk capacity have led to the unprecedented acceleration of premium rate increases. A higher premium rate environment is referred to as a "hard market" and generally results in increased commission revenues. Fluctuations in premiums charged by insurance companies have a direct and potentially material impact on the insurance brokerage industry. Commission revenues are generally based on a percentage of the premiums paid by insureds and normally follow premium levels. Thus, a hard market will generally contribute positively to Gallagher's operating results. Since September 11th, the increased premium rates charged by insurance companies have had a positive impact on Gallagher's 2001 and 2002 operating results in spite of some insurance companies' efforts to reduce commission rates during the upturn in premium pricing. Although management believes this hard market will continue during 2003, the longevity of the hard market and its future effect on Gallagher's operations is difficult to predict. However, the rate of increase in premiums in the P/C marketplace has begun to level off, but certain types of coverages, such as directors and officers and medical malpractice liability, continue to have a high rate of increase.

In a period of rising insurance costs, there is resistance among certain "risk" buyers (Gallagher's clients) to pay increased premiums and the higher commissions generated by these premiums. Such resistance is causing some buyers to raise their deductibles and/or reduce the overall amount of insurance coverage they purchase. In addition, some buyers are switching to negotiated fee in lieu of commission arrangements with Gallagher for placing their risks. Other buyers are moving toward the alternative insurance market, which could have a favorable effect on Gallagher's Risk Management Services

segment. These factors tend to reduce commission revenue to Gallagher. Gallagher anticipates that new sales and renewal increases in the areas of risk management, claims management, captive insurance and self- insurance services will continue to be a major factor in Gallagher's fee revenue growth during 2003. Though inflation tends to increase the levels of insured values and risk exposures, premium rates charged by insurance companies have had a greater impact on Gallagher's revenues than inflation.

CRITICAL ACCOUNTING POLICIES

Gallagher's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP), which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. See Note 1 to the Consolidated Financial Statements for a summary of the significant accounting policies used to prepare Gallagher's consolidated financial statements. Gallagher believes that of the significant accounting policies disclosed in Note 1, the following may involve a higher degree of judgment and complexity.

REVENUE RECOGNITION

Commission revenues are recognized at the latter of the billing or the effective date of the related insurance policies, net of an allowance for estimated policy cancellations. Commission revenues related to installment premiums are recognized periodically as billed. Contingent commissions and commissions on premiums directly billed by insurance companies are recognized as revenue when the data necessary to reasonably determine such amounts has been obtained by Gallagher. Typically, these types of commission revenues cannot be reasonably determined until the cash or the related policy detail is received by Gallagher from the insurance company. A contingent commission is a commission, paid by an insurance company, that is based on the overall estimated profit and/or volume of the business placed with that insurance company. Commission on premiums billed directly by insurance companies relates to a large number of small premium transactions, whereby the billing and policy issuance process is controlled entirely by the insurance company. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

Fee revenues are recognized ratably as the services are rendered. Fee revenues generated from the Insurance Brokerage Services segment primarily relate to fees negotiated in lieu of commissions, which are recognized in the same manner as commission revenues. Fee

revenues generated from the Risk Management Services segment relate to third- party claims administration, loss control and other risk management consulting services, which are provided over a period of time, typically one year. The income effects of subsequent fee adjustments are recorded when the adjustments become known.

Premiums and fees receivable in the consolidated balance sheets are net of allowances for estimated policy cancellations and doubtful accounts. The allowance for estimated policy cancellations is established through a charge to revenues, while the allowance for doubtful accounts is established through a charge to other operating expenses. Both of these allowances are based on estimates and assumptions using historical data to project future experience. Gallagher periodically reviews the adequacy of these allowances and makes adjustments as deemed necessary. The use of different estimates or assumptions could produce different results.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Investment strategies are considered trading securities and consist primarily of limited partnerships that invest in common and preferred stocks and bonds. These securities 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 and preferred stocks and bonds that are primarily based on quoted market prices.

Marketable securities consist primarily of common and preferred stocks and bonds and are carried at fair value in the accompanying consolidated balance sheets. Prior to September 30, 2002, these securities were classified as available for sale and the unrealized gains and losses, less related deferred income taxes, were excluded from net earnings and reported as accumulated other comprehensive earnings (loss) in the stockholders' equity section of the consolidated balance sheets. Effective September 30, 2002, Gallagher reclassified its marketable securities portfolio from available for sale to trading. As a result of this reclassification, changes in unrealized gains and losses are now recorded in investment income in the consolidated statements of earnings. The fair value for marketable securities is primarily based on quoted market prices. To the extent that quoted market prices are not available, fair value is determined based on other relevant factors including dealer price quotations, price quotations for similar instruments in different markets and pricing models. Pricing models

and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized and the use of different pricing models or assumptions could produce different results.

INTANGIBLE ASSETS

Intangible assets consist of the excess of cost over the value of net tangible assets of acquired businesses, expiration lists and non- compete agreements. Expiration lists and non- compete agreements are amortized using the straight- line method over their estimated useful lives (5 to 15 years for expiration lists and 5 to 6 years for non- compete agreements).

Allocation of intangible assets between goodwill, expiration lists and non- compete agreements and the determination of estimated useful lives are based on valuations Gallagher received from qualified independent appraisers. The calculations of these amounts are based on estimates and assumptions using historical and pro forma data and recognized valuation methods. The use of different estimates or assumptions could produce different results.

In accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," goodwill and indefinite lived assets are not amortized, but are subject to periodic reviews for impairment (at least annually or more frequently if impairment indicators arise). Gallagher reviews goodwill and other intangible assets for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Under those circumstances, if the fair value were less than the carrying amount of the asset, a loss would be recognized for the difference. The determinations of impairment indicators and fair value are based on estimates and assumptions related to the amount and timing of future cash flows and future interest rates. The use of different estimates or assumptions could produce different results.

USE OF ESTIMATES

In the preparation of Gallagher's consolidated financial statements in accordance with GAAP, certain estimates and assumptions are made that affect the amounts reported in the financial statements and accompanying notes. Estimates and assumptions are used in the following areas to calculate the liabilities and expenses recorded in the consolidated financial statements and the amounts disclosed in the notes: defined benefit pension plan, retiree health benefits plan, self- funded employee benefit plans, self- funded professional liability and other insurance programs and pro forma stock option information. The calculations of these amounts are based on estimates and assumptions using historical data and recognized actuarial methods to project future experience. Gallagher periodically reviews the adequacy of the assumptions used and makes adjustments as deemed necessary. The use of different estimates or assumptions could produce different results.

EFFECT OF NEW PRONOUNCEMENTS

GUARANTEES

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (Interpretation 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which will significantly change current practice in the accounting for, and disclosure of, guarantees.

Interpretation 45 requires certain guarantees to initially be recorded as a liability at fair value, which is different from the current practice of recording a liability only when a loss is probable and estimable, as those terms are defined in Statement of Financial Accounting Standards No. 5 (SFAS 5), "Accounting for Contingencies." Interpretation 45 also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote, which is also a change from general current practice.

The Interpretation's disclosure requirements are effective for all guarantees, regardless of the initiation date, for financial statements of interim or annual periods ending after December 15, 2002, while the initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued, renewed or modified after December 31, 2002. Gallagher implemented the disclosure requirements of Interpretation 45 in 2002, which is presented in Note 15 to the Consolidated Financial Statements. Gallagher is currently evaluating the impact Interpretation 45 will have on Gallagher's consolidated financial statements for those current guarantees that are anticipated to renew in 2003. The adoption of Interpretation 45 could have a material effect on Gallagher's consolidated operating results or financial position.

CONSOLIDATION OF PARTIALLY- OWNED ENTITIES

In January 2003, the FASB issued FASB Interpretation No. 46 (Interpretation 46), "Consolidation of Variable Interest Entities." Interpretation 46 generally defines a variable interest entity (VIE) as a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its own activities.

Prior to Interpretation 46, a partially owned entity was only consolidated into the investor company's consolidated financial statements if it was controlled by the investor company through voting interests. Regardless of voting interests, Interpretation 46 generally requires a VIE to be

consolidated by an investor company if that VIE's equity is less than 10% of its assets and the investor company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residual returns or both. Interpretation 46 also requires disclosures about VIEs in circumstances where the investor company is not required to consolidate but in which it has a significant variable interest.

The consolidation requirements of Interpretation 46 apply immediately to VIEs created or invested in after January 31, 2003. The consolidation requirements apply to entities created or invested in as of January 31, 2003 or earlier, in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the VIE was created or invested in.

Gallagher has a number of investments it believes may be deemed to be VIEs. These investments include qualified affordable housing and alternative energy projects intended primarily to be income tax credit generators, a synthetic fuel facility intended to produce both tax credits and pretax income, real estate development projects intended to generate gains and venture capital investees intended to generate equity income and realized gains. Total assets of these investments approximates \$650 million in the aggregate. Gallagher's maximum exposure to losses related to these investments is approximately \$14 million including net book value, letters of credit, financial guarantees and funding commitments. Management is currently evaluating the impact Interpretation 46 will have on Gallagher's consolidated financial statements. However, management anticipates that the adoption of Interpretation 46 will not have a material effect on Gallagher's consolidated net earnings or stockholders' equity.

INTANGIBLE ASSETS

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations," and SFAS 142. SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. In addition, SFAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS 141 were effective for business combinations accounted for by the purchase method completed after June 30, 2001.

Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized, but are subject to periodic review for impairment (at least annually or more frequently if impairment indicators arise). Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their estimated useful lives. The amortization provisions of SFAS 142 initially applied only to goodwill and intangible assets related to business combinations accounted for by the purchase method that were completed after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies were required to adopt SFAS 142 in their fiscal year beginning after December 15, 2001 (i.e., January 1, 2002 for calendar year companies). Because of the different transition dates for goodwill and intangible assets acquired before June 30, 2001 and those acquired after that date, pre-existing goodwill and intangible assets were amortized during the transition period from June 30 to December 31, 2001. Effective January 1, 2002, Gallagher adopted the remaining provisions of SFAS 142 with respect to pre-existing goodwill and intangible assets, the effect of which was not material to Gallagher's consolidated operating results or financial position.

RECLASSIFICATIONS OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS

During the first quarter of 2002, Gallagher undertook a review of how it was accounting for all of its partially-owned entities. Given the current environment regarding ownership/control relationships with respect to partially-owned entities, Gallagher determined it would be appropriate to consolidate three operations that were previously accounted for using the equity method of accounting. In addition, prior to 2002, the premiums and claims receivable and payable of a reinsurance intermediary subsidiary of Gallagher were reported on a net basis in Gallagher's consolidated balance sheets with the gross amounts disclosed in the Notes to the Consolidated Financial Statements. During 2002, Gallagher determined it would be appropriate to include these amounts on a gross basis in its consolidated balance sheets in order to conform to a more common industry practice. Reclassifications have been made to the previously reported financial statements in order to conform them to the current year presentation. These reclassifications had no impact on the previously reported net earnings or stockholders' equity. For additional information, see Note 3 to the Consolidated Financial Statements.

2002 ACQUISITIONS

During 2002, Gallagher acquired substantially all the net assets of 10 insurance brokerage and risk management firms in exchange for its common stock and/or cash using the purchase method of accounting for recording business combinations.

Gallagher continues to search for merger partners that complement existing operations, provide entry into new markets, add new products and enhance local sales and service capabilities. See Note 2 to the Consolidated Financial Statements for a discussion of the 2002 business combinations.

In the second quarter of 2002, a 90% owned subsidiary of Gallagher acquired a leasing company that leases two cargo airplanes to the French postal service. As part of this acquisition, the subsidiary acquired assets of \$47.0 million and assumed non-recourse long-term debt of \$38.2 million, in exchange for \$3.1 million of cash and \$5.7 million of other assets. During the second quarter of 2002, Gallagher consolidated the financial results of this leasing company into its consolidated financial statements.

RESULTS OF OPERATIONS - - CONSOLIDATED

Commission revenues increased \$124.4 million, or 23%, to \$663.5 million in 2002. This increase generated by the Insurance Brokerage Services segment was primarily the result of record new business of \$145.9 million and above average rate increases partially offset by lost business of \$85.3 million. Commission revenues increased \$64.9 million, or 14%, to \$539.0 million in 2001. This increase, also generated by the Insurance Brokerage Services segment, was the result of new business production of \$99.8 million and rate increases partially offset by lost business of \$60.3 million and a reduction in contingent commission revenue. Organic growth represents the increase in revenues before the impact of the 2002 and 2001 acquisitions accounted for as purchases. Organic growth in commission revenues in 2002 was 17%.

Commission revenues from purchase acquisitions completed in 2002 and 2001 totaled \$29.5 million for 2002.

Fee revenues increased \$64.0 million, or 20%, to \$388.9 million in 2002. This increase, generated primarily from the Insurance Brokerage Services segment, resulted primarily from new business production of \$65.1 million and favorable retention rates on existing business, partially offset by lost business of \$34.2 million. Fee revenues increased \$43.6 million, or 16%, to \$324.9 million in 2001. This increase, generated primarily from the Risk Management Services segment, resulted from new business production of \$55.3 million and favorable retention rates on existing business, partially offset by lost business of \$24.6 million. Organic growth in fee revenues in 2002 was 15%. Fee revenues from purchase acquisitions completed in 2002 and 2001 totaled \$15.4 million for 2002.

Interest income from fiduciary funds, primarily interest on cash and restricted funds, decreased \$3.9 million, or 29%, to \$9.3 million in 2002 and \$6.3 million, or 32%, to \$13.2 million in 2001 due to significant declines in short-term interest rates during 2002 and 2001.

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Rates of return on interest bearing accounts and certificates of deposit were down over 40% and 70% in 2002 and 2001, respectively, putting considerable pressure on short-term interest returns.

Income from investment strategies and marketable securities decreased \$14.1 million, or 171%, to a loss of \$5.9 million in 2002. This decrease was substantially due to other-than-temporary impairments that resulted from a sharp decline in the equity markets in 2002, most of which occurred during the third quarter. During 2002, Gallagher recognized other-than-temporary impairments of \$10.6 million in the consolidated statement of earnings related to its marketable securities portfolio. Effective September 30, 2002, Gallagher reclassified its marketable securities portfolio from available for sale to trading. Changes in unrealized gains and losses in this portfolio are now recorded in investment income in the consolidated statements of earnings, instead of in stockholders' equity as accumulated other comprehensive earnings (loss). As a result of this reclassification, \$425,000 of net unrealized losses, previously classified in accumulated other comprehensive earnings (loss), was recognized in earnings before income taxes in 2002. Income from investment strategies and marketable securities increased \$1.7 million, or 26%, to \$8.3 million in 2001 due primarily to realized gains of \$2.8 million generated from Gallagher's investment strategies and marketable securities portfolios.

Income from equity investments and partnerships decreased \$23.6 million, or 293%, to a loss of \$15.5 million in 2002. This decrease was substantially due to \$19.6 million of write-downs of loans and equity holdings in five venture capital investments recognized in 2002 and a \$3.0 million loss associated with Gallagher's equity investment in Asset Alliance Corporation (AAC) that is discussed below. In addition, Gallagher incurred a \$3.6 million loss in 2002 on the sale of a venture capital investment. Income from equity investments and partnerships increased \$4.8 million, or 148%, to \$8.0 million in 2001. This increase was due primarily to results generated by Gallagher's unconsolidated equity investment portfolio and income generated from commitment fees paid to Gallagher for providing letters of credit and financial guarantees to three of its investees.

The \$11.8 million gain on the sale of a portion of a minority interest in an investment relates to the gain recognized on the sale of a portion of Gallagher's minority equity position in AAC to an international financial institution that was completed in the second quarter of 2002. After the sale and subsequent equity transactions of AAC, Gallagher owns approximately 25% of AAC, which is a holding company for alternative fund managers.

On November 7, 2002, one of the major fund managers of AAC, Beacon Hill Asset Management LLC (Beacon Hill), agreed to the entry of a preliminary injunction in an action by the Securities and Exchange Commission (SEC). In accordance with the court's order, Beacon Hill withdrew from managing its hedge funds, which reported approximately \$400 million in losses. AAC reports that assets under management by AAC and its 14 affiliate fund managers are currently in excess of \$4.0 billion. While Gallagher does not have a direct investment in Beacon Hill or its hedge funds, Gallagher recognized a \$3.0 million loss in the fourth quarter of 2002 using the equity method of accounting for AAC's write-down of its investment in Beacon Hill. Gallagher is monitoring these developments but there can be no assurance that as the result of further SEC action against Beacon Hill or otherwise, including investor claims, that there will not be further negative developments which could be material to Gallagher.

Installment gains from alternative energy partnership sales primarily relate to five sales of Gallagher's interests in limited partnerships that operate synthetic fuel facilities discussed below. Installment gains from alternative energy partnership sales increased \$22.9 million, or 195%, to \$34.6 million in 2002, and \$2.5 million, or 27%, to \$11.7 million in 2001. As discussed below, Gallagher expects to continue to recognize additional installment gains over time through 2007 based on the amount of qualified fuel processed by these facilities. Production at these facilities, which ultimately determines the amount of the installment gains realized, did not meet full expectations in 2002 due to the unusually mild winter in 2001 and a short-term shut down of production in the first quarter of 2002 at one of the major facilities, as the movable equipment was relocated to permanent sites to accommodate the delivery of synthetic fuel.

During the third quarter of 2001, Gallagher completed the sale of a 95% interest in one of its synthetic fuel facilities located in South Carolina. Under the sale agreement, Gallagher received an initial nonrefundable down-payment of \$6.7 million and will receive additional installment payments over time through 2007 based on the amount of qualified fuel processed by the facility. Gallagher retains a 5% partnership interest in this synthetic fuel facility.

During the fourth quarter of 2001 and the first and fourth quarters of 2002, Gallagher completed a series of sales totaling 95% of its interest in a partnership that owns a 59.9% interest in another South Carolina synthetic fuel facility. Gallagher received aggregate down-payments of \$4.5 million and will receive additional installment payments over time through 2007 based on the amount of qualified fuel processed by the facility. The buyer has the option to put the purchased interest back to Gallagher if certain adverse tax consequences occur through 2007. In the event of a put, Gallagher would retain all installment payments made through the put date and a pro-rated portion of the initial down-payment. Gallagher retains a 3% partnership interest in this synthetic fuel facility.

Effective December 31, 2000, Gallagher completed the sale of its interests in several partnerships that operate landfill gas facilities. Gallagher received an initial down-payment of \$8.7 million and will receive additional installment payments over time through 2007 based on qualified fuel production generated by the facilities. This transaction had no impact on Gallagher's 2000 results.

In 2000, Gallagher recognized \$7.2 million of income related to the forfeiture of a non-refundable down-payment from the termination of an installment sale of a synthetic fuel facility and \$2.0 million of income related to an investment development fee generated from one of Gallagher's alternative energy investments.

Income from real estate ventures represents revenue related to Gallagher's consolidation of its investments in two real estate partnerships. These real estate partnerships 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 Birchwood Acres, a limited partnership that owns 11,000 acres of land under development near Orlando, Florida. This residential, recreational and commercial development is being marketed under the name of Harmony. Income from real estate ventures decreased \$2.8 million, or 23%, to \$9.3 million in 2002 due primarily to a one-time gain of \$4.5 million generated from the sale of land by Harmony that was reported in the first quarter of 2001. Income from real estate ventures increased \$9.0 million, or 288%, to \$12.1 million in 2001, due primarily to the \$4.5 million gain noted above and the full year impact of Gallagher's fourth quarter 2000 investment in the limited partnership that owns its corporate headquarters building.

Other income consists primarily of gains on the sales of books of insurance brokerage and benefits business and interest income on employee loans and compensation arrangements. Other income decreased \$584,000, or 10%, to \$5.2 million in 2002 and increased \$2.2 million, or 59%, to \$5.8 million in 2001. During 2002 and 2001, Gallagher recognized gains on sales of books of business of \$2.5 million

Salaries and employee benefits increased \$97.9 million, or 20%, to \$576.5 million in 2002 and \$63.2 million, or 15%, to \$478.6 million in 2001. These increases are higher than usual and are due primarily to a 9% and 14% increase in employee headcount in 2002 and 2001, respectively, salary increases, increases in incentive compensation linked to Gallagher's overall operating results and the performance of Gallagher's investment portfolio, the annualized effect of prior year new hires, a corresponding increase in employee benefit expenses, and increases in pension and medical insurance costs in 2002. The increase in employee headcount relates to the hiring of additional production and support staff to generate the recent and future new business growth and the addition of employees associated with the acquisitions accounted for as purchases that were made in the last 15 months. Salaries and employee benefits as a percentage of commission and fee revenues were 54.8%, 55.4% and 55.0% in 2002, 2001 and 2000, respectively.

Other operating expenses increased \$41.9 million, or 17%, to \$293.6 million in 2002 due primarily to increases in business insurance costs and shared commissions paid to non-affiliated brokers on the retail P/C brokerage business, both of which are due to the effects of the hard market. Also contributing to the increase in other operating expenses are increases in travel and entertainment costs, due primarily to new business development from new producers, and interest expense due to higher levels of short-term borrowings in 2002 and increased long-term debt related to the 2002 acquisition of the airplane leasing company. Other operating expenses increased \$21.6 million, or 9%, to \$251.7 million in 2001, due primarily to fees for professional services and business insurance related to Gallagher's investments and to performance-related investment management fees. In addition, Gallagher experienced increases in expenses in 2001 related to increased leased space, temporary help needed to service new risk management and claims business, and commissions paid to non-affiliated brokers on the retail P/C brokerage business.

Operating expenses of alternative energy partnerships represent Gallagher's portion of the production costs associated with the operations of the synthetic fuel facilities owned by the partnerships. These expenses decreased \$14.9 million, or 71%, to \$6.1 million in 2002 and increased \$21.1 million in 2001. The decrease in 2002 is directly attributable to the sales of Gallagher's interests in limited partnerships that operate these facilities that were completed in the third and fourth quarters of 2001 and the first and fourth quarters of 2002. Because of the sales, Gallagher's portion of these expenses was substantially reduced. The increase in 2001 relates to the production costs incurred by the alternative energy partnerships that generated a substantial portion of the tax credits earned by Gallagher in 2001. There were no similar costs incurred in 2000.

Expenses of real estate ventures represent expenses related to Gallagher's consolidation of the two investments in real estate partnerships discussed above. Expenses of real estate ventures increased \$625,000, or 9%, to \$7.3 million in 2002 due primarily to the development, marketing and operating expenses of Harmony, partially offset by a decrease in minority interest expense associated with the two investments in real estate partnerships. Expenses of real estate ventures increased \$4.7 million, or 238%, to \$6.6 million in 2001 due primarily to the full-year impact of Gallagher's fourth quarter 2000 investment in the limited partnership that owns its corporate headquarters building and to an increase in minority interest expense.

Depreciation increased \$6.1 million, or 31%, to \$25.8 million in 2002 and \$3.9 million, or 24%, to \$19.6 million in 2001. These increases are due primarily to the purchases of furniture, equipment and leasehold improvements related to office expansions and moves made during the three-year period ended December 31, 2002. Also contributing to the increase in depreciation expense in 2002 is the depreciation expense associated with the acquisitions accounted for as purchases that were made in the last 18 months and to the increase in fixed assets related to the 2002 acquisition of the airplane leasing company. In addition, a portion of the increase in depreciation expense in 2001 was due to the full-year impact of Gallagher's investment in the limited partnership that owns its corporate headquarters building.

Amortization increased \$3.1 million, or 90%, to \$6.6 million in 2002 due primarily to Gallagher's adoption of SFAS 141 and the amortization expenses associated with acquisitions accounted for as purchases that were made in the fourth quarter of 2001 and throughout 2002. Amortization expense for 2001 was relatively unchanged compared to 2000. See Note 2 to the Consolidated Financial Statements for a discussion on the 2002 business combinations.

Gallagher's effective income tax rates were 30.0%, 11.7% and 30.5% in 2002, 2001 and 2000, respectively. These rates are net of the effect of tax credits generated by investments in alternative energy related partnerships that operate synthetic fuel facilities and limited partnerships that operate qualified affordable housing, which are partially offset by amortization expense and state and foreign income taxes. The increase in the effective income tax rate in 2002 is due primarily to a reduction in the amount of tax credits earned in 2002. This decrease in tax credits is directly attributable to the sales of Gallagher's interests in limited partnerships that operate synthetic fuel facilities. These sales were completed in the third and fourth quarters of 2001 and the first and fourth quarters of 2002. The reduction in the effective income tax rate in 2001 is due to a \$23.4 million increase in tax credits earned in 2001, net of the related amortization expense. This increase in the amount of tax credits earned was generated from Gallagher's alternative energy related partnerships. See Note 16 to the Consolidated Financial Statements. The 2003 effective income tax rate will be higher than the 2002 rate due to the anticipated growth in pretax earnings the decrease in tax credits that will be generated for Gallagher's use in 2003.

Gallagher anticipates that the 2003 effective income tax rate will be in the mid- 30% range.

Diluted net earnings per share increased \$.02, or 1%, to \$1.41 in 2002 and \$.35, or 34%, to \$1.39 in 2001. Basic net earnings per share increased \$.01, or 1%, to \$1.49 in 2002 and \$.37, or 33%, to \$1.48 in 2001. Earnings per share in 2002 were negatively impacted by the investment impairments and write-downs discussed above, an increase in the effective income tax rate in 2002 and an increase in both the weighted average number of common shares and common equivalent shares outstanding. The increase in earnings per share in 2001 is primarily due to the increase in total revenues, which was partially offset by moderate increases in expenses, and to the reduction in the effective income tax rate in 2001.

Gallagher's foreign operations recorded earnings before income taxes of \$13.8 million, \$8.5 million and \$7.9 million in 2002, 2001 and 2000, respectively. The increases in 2002 and 2001 are due primarily to new business production partially offset by lost business. Also contributing to the increase in 2002 was the effect of a United Kingdom-based acquisition accounted for as a purchase that was made in the fourth quarter of 2001. See Notes 16 and 18 to the Consolidated Financial Statements.

During 2002 and 2001, Gallagher's total revenues and expenses increased sequentially from quarter-to-quarter within the calendar years, except for the second quarter of 2001 and the third quarter of 2002, the latter of which was negatively impacted by \$28.9 million of investment write-downs. However, commission and fee revenues and the related expenses can vary from quarter-to-quarter as a result of

the timing of policy inception dates that traditionally are heaviest in the third and fourth quarters. On the other hand, salaries and employee benefits, rent, depreciation and amortization expenses tend to be more uniform throughout the year. In addition, the timing of acquisitions accounted for as purchases will also impact the trends in Gallagher's quarterly operating results. See Note 17 to the Consolidated Financial Statements.

RESULTS OF OPERATIONS - - SEGMENT INFORMATION

As discussed in Note 18 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.

INSURANCE BROKERAGE SERVICES

The Insurance Brokerage Services segment encompasses operations that, for commission or fee compensation, place or arrange to place insurance directly related to the clients' managing of risk. This segment also provides consulting, for fee compensation, related to the clients' risk financing programs and includes Gallagher's retail, reinsurance and wholesale insurance brokerage operations.

Total revenues for this segment increased \$168.1 million, or 27%, to \$779.8 million in 2002. Total domestic revenues were up \$140.2 million, or 25%, to \$700.6 million in 2002 and total foreign revenues, principally in the United Kingdom, Australia and Bermuda, were up \$27.8 million, or 54%, to \$79.2 million in 2002. These increases are due principally to new business, renewal rate increases and the effect of acquisitions accounted for as purchases that were made in the fourth quarter of 2001 and throughout 2002, partially offset by lost business. Earnings before income taxes increased \$38.9 million, or 33%, to \$155.4 million in 2002 due primarily to the new business production and rate increases mentioned above.

Total revenues increased \$70.0 million, or 13%, to \$611.7 million in 2001. This increase is due primarily to new business production offset partially by lost business and a \$5.6 million reduction in interest income generated from the float on fiduciary funds in 2001. The decrease in the fiduciary interest income is due to the decrease in short-term interest rates during 2001. Total domestic revenues were up \$62.0 million, or 12%, to \$560.4 million in 2001 and total foreign revenues, principally in the United Kingdom, Australia and Bermuda, were up \$8.0 million, or 18%, to \$51.3 million in 2001. These increases are due primarily to new business production offset partially by lost business. Earnings before income taxes increased \$16.2 million, or 16%, to \$116.5 million in 2001 principally as a result of increased revenues.

RISK MANAGEMENT SERVICES

The Risk Management Services segment primarily represents Gallagher Bassett (GB), which is Gallagher's P/C third-party administration, loss control and risk management consulting and insurance property appraisal operation. The Risk Management Services segment also includes the operations of Gallagher Benefit Administrators, which is Gallagher's third-party administrator of health claims. Third-party administration is principally the management and processing of claims for self-insurance programs of Gallagher's clients or clients of other brokers.

Total revenues for this segment increased \$16.6 million, or 6%, to \$281.3 million in 2002 due primarily to new business production substantially offset by reductions in existing business volume and by lost business. Total domestic revenues were up \$14.3 million, or 6%, to \$256.7 million in 2002 and total foreign revenues, principally from the United Kingdom

and Australia, were up \$2.2 million, or 10% to \$24.5 million in 2002. The slowdown in total revenue growth from historical double-digit percentages to recent single-digit percentages, is primarily the result of the events of September 11, 2001, combined with a general economic slowdown in the United States. GB provides services to several airline, hospitality and restaurant-related clients, all of whose businesses were particularly hard hit following September 11th. Because those clients experienced declines in their business, including reductions in their headcount, the rate of increase in new GB claim counts slowed, and for some clients, actual claim counts decreased from the same period in 2001. In addition, the hard market had an unfavorable impact on GB as several of its managing general agent programs were unable to renew their coverages in the reinsurance marketplace during 2002. GB's 2002 operating results were also negatively impacted by several insurance carrier insolvencies in 2002 and 2001. As GB's revenues are generally based on the number of new claims it handles, the reduction in claims has had a direct impact on revenue. As revenues slow, expenses in the short-term do not experience the same immediate reduction. The net result of the above is that earnings before income taxes for the segment were down \$2.7 million, or 8%, to \$32.6 million in 2002.

Total revenues were up \$32.4 million, or 14%, to \$264.7 million in 2001 due to strong new business production and favorable retention rates on existing business. Total domestic revenues were up \$32.0 million, or 15%, to \$242.4 million in 2001 and total foreign revenues, principally from the United Kingdom and Australia, were up \$382,000, or 2%, to \$22.3 million in 2001 due primarily to new business and substantially less lost business than in 2000. Earnings before income taxes increased \$2.1 million, or 6%, to \$35.3 million in 2001 due primarily to revenue increases, which were partially offset by moderate increases in expenses.

FINANCIAL SERVICES

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. The invested assets of Gallagher are managed in this segment in order to maximize the long-term after-tax return to Gallagher.

Total revenues for this segment decreased \$6.4 million, or 16%, to \$33.0 million in 2002. This decrease is primarily due to the following previously discussed items:

- . Other-than-temporary impairments that resulted from the sharp decline in the equity markets during 2002, most of which occurred in the third quarter. During 2002, Gallagher recognized other-than-temporary impairments of \$10.6 million in the consolidated statements of earnings related to its marketable securities portfolio.
- . An unrealized loss of \$425,000 that was recognized in the third quarter of 2002 related to reclassifying the marketable securities portfolio from available for sale to trading.

- . Aggregate write-downs of loans and equity holdings of \$19.6 million related to venture capital investments that were recognized in 2002. In addition, Gallagher incurred a \$3.6 million loss in 2002 on the sale of a venture capital investment.
- . The \$3.0 million loss that was recognized by Gallagher in the fourth quarter of 2002 through the equity method of accounting for AAC's write-down of its investment in Beacon Hill.

- . A one-time gain of \$4.5 million generated from the sale of land by Harmony that was recognized in the first quarter of 2001.

These decreases are partially offset by installment gains from the sales of Gallagher's interests in limited partnerships that operate synthetic fuel facilities that were completed in the third and fourth quarters of 2001 and the first and fourth quarters of 2002. These installment gains increased \$22.9 million, or 195%, to \$34.6 million in 2002. In addition, the \$11.8 million gain on the sale of a portion of Gallagher's minority interest in AAC also offset the 2002 decreases discussed above.

Earnings before income taxes increased \$1.6 million, or 28%, to \$7.1 million in 2002. This increase is primarily due to the \$14.9 million reduction in the operating expenses of alternative energy partnerships, the \$22.9 million increase in installment gains and the \$11.8 million gain on the sale of a portion of Gallagher's minority interest in AAC, all of which were significantly offset by the impairments and write-downs discussed above.

Total revenues increased \$15.1 million, or 62%, to \$39.4 million in 2001 due primarily to realized gains of \$2.8 million generated from Gallagher's investment strategies and marketable securities portfolios, increased installment gains on the alternative energy sale transactions previously discussed in "Results Of Operations - Consolidated," and to income generated from commitment fees paid to Gallagher for providing letters of credit and financial guarantees to three of its

investees. Also contributing to the increase in total revenues was income from real estate ventures related to the \$4.5 million gain from Harmony mentioned above and the \$2.4 million gain recognized on the sale of a benefits administration book of business in 2001.

Earnings before income taxes decreased \$7.5 million, or 58%, to \$5.5 million in 2001 due primarily to the increase in operating expenses of alternative energy partnerships of \$21.1 million in 2001, which represents Gallagher's portion of the production costs associated with the operations of the synthetic fuel facilities. The increase in these expenses in 2001 relates to the production costs incurred by the alternative energy partnerships that generated a substantial portion of the tax credits earned by Gallagher in 2001. The tax credits generated by these investments are included in the provision for income taxes, which is not allocated to Gallagher's operating entities. The impact of the increase in operating expenses of alternative energy partnerships on 2001 earnings before income taxes was partially offset by the revenue increases discussed above.

CORPORATE

The Corporate segment consists of the operating results of Gallagher's investment in the limited partnership that owns its corporate headquarters building, 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 the Corporate segment. All costs are generated in the United States.

FINANCIAL CONDITION AND LIQUIDITY

The insurance brokerage industry is not capital intensive. The capital used to fund Gallagher's investment portfolio has been primarily generated from the excess cash provided by its operations, including tax credits generated from tax advantaged investments. Cash generated from operating activities was \$149.7 million, \$131.5 million and \$169.4 million in 2002, 2001 and 2000, 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 quarter to quarter and 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. Currently, Gallagher believes it has sufficient capital to meet its cash flow needs. However, in the event that Gallagher needs capital to fund its operations and investing requirements, it would use borrowings under its credit agreement to meet its short- term needs and would consider other alternatives for its long- term needs. Such alternatives may include raising capital through public markets or restructuring its operations in the event that cash flows from operations are reduced dramatically due to lost business. However, historically Gallagher has been profitable, and cash flows from operations and short- term borrowings under its credit agreements have been sufficient to fund Gallagher's operating, investment and capital expenditure needs. Gallagher expects this favorable cash flow trend to continue in the foreseeable future.

In 2000, Gallagher and its financial services subsidiary entered into an unsecured Revolving Credit Agreement (the 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 \$100.0 million and \$50.0 million, respectively. The Credit Agreement provides for loans and letters of credit. Letters of credit are limited to \$75.0 million, of which up to \$50.0 million may be issued under the long- term facility and up to \$25.0 million may be issued under the short- 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 and Eurocurrency Loans, as defined in the Credit Agreement. Interest rates on borrowings under the Domestic Rate Loan option are based on the prime commercial rate. Interest rates on borrowings under the Eurocurrency Loan option are based on LIBOR plus .40% for short- term and long- term revolving credit commitments. The facility fee related to the Credit Agreement is .10% of the used and unused portions of the short- term and long- term revolving credit commitments. Terms of the Credit Agreement include various covenants that require Gallagher to maintain specified levels of net worth and restrict the amount of payments on certain expenditures and debt outside the facility. Gallagher was in compliance with these covenants as of December 31, 2002. As of December 31, 2002, under the Credit Agreement, Gallagher has contingently committed to funding \$54.3 million through letter of credit arrangements related to its corporate insurance programs and several of its equity and other strategic investments. Also, as of December 31, 2002, there were \$25.0 million of short- term borrowings outstanding under the Credit Agreement. Accordingly, Gallagher had \$70.7 million available at December 31, 2002 for future borrowing. In 2002, Gallagher borrowed \$258.0 million and repaid \$268.0 million of short- term borrowings under the Credit Agreement. In 2001, Gallagher borrowed \$206.7 million and repaid \$171.7 million of short- term borrowings under the Credit Agreement. The 2002 and 2001 borrowings were used on a short- term basis to finance a portion of Gallagher's operating and investment activities and common stock repurchases. There were \$35.0 million in short- term borrowings outstanding under the Credit Agreement as of December 31, 2001.

As of December 31, 2002, there were \$17.0 million of borrowings on a line of credit facility and \$134.1 million of long-term debt (of which \$5.8 million is current) related to the previously discussed airplane leasing company and two real estate partnerships. In 2002, these partnerships borrowed \$13.4 million on the line of credit facility and \$500,000 of long-term debt and repaid \$4.4 million of long-term debt. In 2001, these partnerships borrowed \$3.5 million on the line of credit facility and repaid \$4.0 million of long-term debt. These borrowings were used by the partnerships (three in 2002 and two in 2001) for their own operating, investing and financing activities. Borrowings under these facilities are not available to Gallagher and as such have not been included in determining Gallagher's

overall liquidity. Based on the ownership structure of these three investments, management believes that Gallagher's exposure to losses related to these investments is limited to the combination of its net carrying value of its investments, funding commitments, letters of credit and financial guarantees.

In the event that any of these operations were to default on their debt obligations and Gallagher's net carrying value became impaired, the amount to be written-off could have a material effect on Gallagher's consolidated financial position or operating results. For additional information, see Note 4 to the Consolidated Financial Statements.

The issue of off-balance sheet financing is a concern of many investors. Gallagher's unconsolidated investment portfolio includes investments in limited partnerships and venture capital equity projects where Gallagher's ownership is between 3% and 50%. As a result, these investments are accounted for using either the lower of amortized cost/cost or fair value, or the equity method, whichever is appropriate depending on the legal form of Gallagher's ownership interest and the applicable percentage of the entity owned. As such, the balance sheets of these investees are not consolidated in Gallagher's consolidated balance sheets as of December 31, 2002 and 2001. The December 31, 2002 and 2001 balance sheets of several of these unconsolidated investments contain outstanding debt, which is not required to be included in Gallagher's consolidated balance sheets. See Note 4 to the Consolidated Financial Statements for a summary of the outstanding debt and contingent commitments related to Gallagher's unconsolidated investment portfolio, accounted for using the equity method.

Gallagher uses the limited partnership or limited liability company forms of legal ownership to fund many of its investments in order to obtain favorable tax treatment with respect to gains, losses and distributions, while limiting its liability. Based on the ownership structure of these investments, management believes that Gallagher's exposure to losses related to these investments is limited to the combination of its net carrying value, funding commitments, letters of credit and financial guarantees. In the event that certain of these limited partnerships or limited liability companies were to default on their debt obligations and Gallagher's net carrying value became impaired, the amount to be written-off could have a material effect on Gallagher's consolidated financial position or operating results. See Notes 7 and 15 to the Consolidated Financial Statements for additional commitments and contingencies.

Gallagher paid \$50.4 million in cash dividends on its common stock in 2002. 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 2002, Gallagher paid a dividend of \$.15 per share that was \$.02 or 15% greater than each quarterly dividend declared in 2001. On January 23, 2003, Gallagher declared a 20% increase in its quarterly cash dividend to \$.18, payable on April 15, 2003 to Shareholders of Record as of March 31, 2003.

Net capital expenditures were \$45.4 million, \$31.5 million and \$20.6 million in 2002, 2001 and 2000, respectively. These amounts include net capital expenditures of the two previously discussed real estate partnerships of \$11.5 million, \$7.2 million and \$5.4 million in 2002, 2001 and 2000, respectively, the majority of which are related to the Harmony land development project. In 2003, exclusive of the net capital expenditures of the two real estate partnerships, Gallagher expects total capital expenditures to be approximately \$30.0 million. Capital expenditures by Gallagher are related primarily to office moves and expansions and updating computer systems and equipment. The capital expenditures related to office moves and expansions in 2002 were higher than originally anticipated due to the increase in employee headcount related to the hiring of additional production personnel and to the acquisitions that were made in the last 15 months.

In 1988, Gallagher adopted a common stock repurchase plan that has been extended through June 30, 2003. Under the plan, Gallagher has repurchased 478,000 shares at a cost of \$11.7 million, 3.4 million shares at a cost of \$104.1 million and 1.5 million shares at a cost of \$31.3 million in 2002, 2001 and 2000, respectively. The repurchased shares are held for reissuance in connection with exercises of options under Gallagher's stock option plans. Under the provisions of the repurchase plan, Gallagher is authorized to repurchase approximately 4.5 million additional shares through June 30, 2003. 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, 2002, Gallagher had \$42.0 million of undistributed earnings from its foreign subsidiaries. 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. See Note 16 to the Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In connection with its operating and investing activities, Gallagher has entered into certain contractual obligations, as well as commitments to fund certain investments. See Notes 4, 7 and 15 to the Consolidated Financial Statements for an additional discussion of these obligations and commitments.

Gallagher's future cash payments, excluding interest, associated with its contractual obligations pursuant to the Credit Agreement, limited partnership and airplane leasing company debt obligations and operating leases as of December 31, 2002 are as follows (in thousands):

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD					TOTAL
	2003	2004 TO 2005	2006 TO 2007	THEREAFTER		
Revolving Credit Agreement	\$ 25,000	\$ --	\$ --	\$ --	\$ 25,000	
Florida real estate limited partnership debt	7,857	15,260	--	12,410	35,527	
Corporate headquarters limited partnership mortgage loan	746	1,693	1,999	74,145	78,583	
Airplane leasing company debt	2,180	4,904	29,937	--	37,021	
Total debt obligations	35,783	21,857	31,936	86,555	176,131	
Operating leases	51,006	86,830	52,049	41,019	230,904	
Total contractual obligations	\$ 86,789	\$ 108,687	\$ 83,985	\$ 127,574	\$ 407,035	

The debt of the limited partnerships and the airplane leasing company disclosed in the table above represents the debt directly associated with three of Gallagher's investments that are accounted for on a consolidated basis in the accompanying consolidated balance sheets. This debt is secured by the partnerships' assets and supports their operations. Approximately \$32.4 million of the limited partnership debt is recourse to Gallagher through the letters of credit and financial guarantees, which are included in the amounts disclosed below.

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Gallagher's total commitments associated with outstanding letters of credit, financial guarantees and funding commitments as of December 31, 2002 are as follows (in thousands):

OTHER COMMITMENTS	AMOUNT OF COMMITMENT EXPIRATION BY PERIOD				TOTAL AMOUNTS COMMITTED
	2003	2004 TO 2005	2006 TO 2007	THEREAFTER	
Letters of credit	\$ 1,025	\$ 8,883	\$ 561	\$ 43,781	\$ 54,250
Financial guarantees	16,500	20,000	--	5,100	41,600
Funding commitments	200	18,481	--	--	18,681
Total other commitments	\$ 17,725	\$ 47,364	\$ 561	\$ 48,881	\$ 114,531

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect the actual future cash funding requirements of Gallagher.

MARKET RISK EXPOSURE

Gallagher is exposed to various market risks in its day- to- day operations. 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, 2002 and 2001 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 - - trading. 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, 2002 and 2001 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 values were not materially different from the carrying values at December 31, 2002 and 2001.

At December 31, 2002 and 2001, the fair value of Gallagher's investment strategies - - trading portfolio was \$55.9 million and \$52.6 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 \$6.1 million and \$6.9 million and an alternative investment strategies portfolio of \$49.8 million and \$45.7 million at December 31, 2002 and 2001, respectively.

The equity portfolio is subject to equity price risk. It is not hedged, consists primarily of common and preferred stocks and is 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 \$610,000 and \$690,000 at December 31, 2002 and 2001, 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" 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, 2002 and 2001, respectively. While these fund managers attempt to perfectly hedge their investment strategies, equity pricing risk cannot be completely eliminated.

The fair value of Gallagher's marketable securities portfolio was \$14.6 million (trading basis) and \$18.3 million (available for sale basis, which was \$4.4 million less than its aggregate amortized cost) at December 31, 2002 and 2001, respectively. The overall objective of this portfolio is to provide Gallagher with a stable after- tax yield. This unhedged portfolio consists primarily of dividend- yielding preferred stocks, and accordingly, 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 \$1.7 million and \$2.1 million at December 31, 2002 and 2001, respectively.

At December 31, 2002 and 2001, Gallagher had \$25.0 million and \$35.0 million, respectively, in short- term borrowings outstanding under the Credit Agreement. The fair value of these borrowings approximated their carrying value due to their short- term duration and variable interest rates. 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, 2002 and 2001 and the resulting fair values were not materially different from the year- end carrying values.

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 a substantial portion of 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 2002 and 2001 (a weakening of the U.S. dollar), earnings before income taxes would decrease by approximately \$6.1 million and \$3.3 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.

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CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
OPERATING RESULTS			
Revenues:			
Commissions	\$ 663,470	\$ 539,023	\$ 474,082
Fees	388,867	324,864	281,235
Investment income and other:			

Interest income from fiduciary funds	9,289	13,166	19,468
Income (loss) from investment strategies and marketable securities	(5,851)	8,255	6,574
Income (loss) from equity investments and partnerships	(15,534)	8,049	3,243
Gain on sale of portion of minority interest in investment	11,848	--	--
Installment gains from alternative energy partnership sales	34,580	11,703	9,200
Income from real estate ventures	9,324	12,115	3,121
Other income	5,229	5,813	3,657
Total investment income and other	48,885	59,101	45,263
Total revenues	1,101,222	922,988	800,580
Expenses:			
Salaries and employee benefits	576,497	478,563	415,348
Other operating expenses	293,557	251,707	230,100
Operating expenses of alternative energy partnerships	6,131	21,079	--
Expenses of real estate ventures	7,265	6,640	1,967
Depreciation	25,784	19,641	15,780
Amortization	6,646	3,505	3,646
Total expenses	915,880	781,135	666,841
Earnings before income taxes	185,342	141,853	133,739
Provision for income taxes	55,603	16,597	40,784
Net earnings	\$ 129,739	\$ 125,256	\$ 92,955
Basic net earnings per share	\$ 1.49	\$ 1.48	\$ 1.11
Diluted net earnings per share	1.41	1.39	1.04
Dividends declared per common share	.60	.52	.46

See notes to consolidated financial statements.

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CONSOLIDATED

BALANCE SHEETS

	DECEMBER 31,	
(in thousands)	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 152,536	\$ 98,530
Restricted cash	256,323	209,509
Premiums and fees receivable	1,183,737	1,117,238
Investment strategies -- trading	55,937	52,588
Marketable securities -- trading	14,619	--
Other	110,458	85,142
Total current assets	1,773,610	1,563,007
Marketable securities -- available for sale	--	18,290
Deferred income taxes	102,361	99,263
Other investments and notes receivable	168,413	192,002
Other noncurrent assets	33,133	24,194
Fixed assets	367,273	283,807
Accumulated depreciation and amortization	(116,278)	(100,562)
Net fixed assets	250,995	183,245
Goodwill -- net	84,217	55,475
Amortizable intangible assets -- net	50,845	9,866
	\$ 2,463,574	\$ 2,145,342
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Premiums payable to insurance and reinsurance companies	\$ 1,488,222	\$ 1,366,516
Accrued salaries and bonuses	58,066	56,572
Accounts payable and other accrued liabilities	107,542	111,618
Unearned fees	19,427	16,527
Income taxes payable	11,036	33,746
Borrowings on line of credit facility	25,000	35,000
Borrowings on line of credit facilities -- limited partnerships	16,996	3,552
Current portion of long-term debt -- limited partnerships	5,786	3,152
Other	17,529	11,273
Total current liabilities	1,749,604	1,637,956
Long-term debt -- limited partnerships	128,349	96,698
Other noncurrent liabilities	57,466	39,075
Commitments and contingencies -- Note 15		
Stockholders' equity:		
Common stock -- issued and outstanding 88,548 shares in 2002		

and 85,111 shares in 2001	88,548	85,111
Capital in excess of par value	92,716	8,768
Retained earnings	360,958	283,796
Unearned deferred compensation	(6,544)	(3,438)
Unearned restricted stock	(7,523)	--
Accumulated other comprehensive earnings (loss)	--	(2,624)
Total stockholders' equity	528,155	371,613
	\$ 2,463,574	\$ 2,145,342

See notes to consolidated financial statements.

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CONSOLIDATED
STATEMENTS OF CASH FLOWS

(in thousands)	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 129,739	\$ 125,256	\$ 92,955
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net loss (gain) on investments and other	13,562	(2,895)	(2,006)
Gain on sales of operations	(2,500)	(2,375)	(1,823)
Depreciation and amortization	32,430	23,146	19,426
Increase in restricted cash	(46,814)	(50,863)	(29,350)
Increase in premiums receivable	(57,705)	(297,758)	(53,395)
Increase in premiums payable	103,000	380,464	97,105
(Increase) decrease in trading investments -- net	(1,758)	1,051	6,498
(Increase) decrease in other current assets	(21,787)	(9,160)	7,876
Increase in accrued salaries and bonuses	4,534	18,094	14,073
Decrease in accounts payable and other accrued liabilities	(8,795)	(1,478)	(1,479)
(Decrease) increase in income taxes payable	(22,842)	23,456	105
Tax benefit from issuance of common stock	18,683	24,806	20,027
Net change in deferred income taxes	(6,577)	(77,751)	(30,613)
Other	16,513	(22,452)	30,019
Net cash provided by operating activities	149,683	131,541	169,418
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(16,004)	(13,957)	(25,832)
Proceeds from sales of marketable securities	10,568	23,051	22,471
Proceeds from maturities of marketable securities	3,185	398	762
Net additions to fixed assets	(45,430)	(31,457)	(20,649)
Cash paid for acquisitions, net of cash acquired	(5,443)	(17,893)	(14,801)
Proceeds from sales of operations	2,500	2,700	2,334
Other	1,897	(47,804)	(35,632)
Net cash used by investing activities	(48,727)	(84,962)	(71,347)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	15,546	27,255	27,837
Repurchases of common stock	(11,662)	(104,122)	(31,344)
Dividends paid	(50,359)	(41,618)	(33,759)
Borrowings on line of credit facilities	271,444	210,252	45,000
Repayments on line of credit facilities	(268,000)	(171,700)	(60,000)
Borrowings of long-term debt	500	--	12,410
Repayments of long-term debt	(4,419)	(4,006)	(2,315)
Equity transactions of pooled companies prior to dates of acquisition	--	(13,497)	(4,937)
Net cash used by financing activities	(46,950)	(97,436)	(47,108)
Net increase (decrease) in cash and cash equivalents	54,006	(50,857)	50,963
Cash and cash equivalents at beginning of year	98,530	149,387	98,424
Cash and cash equivalents at end of year	\$ 152,536	\$ 98,530	\$ 149,387
Supplemental disclosures of cash flow information:			
Interest paid	\$ 10,743	\$ 10,477	\$ 4,937
Income taxes paid	63,067	36,470	25,371

See notes to consolidated financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		CAPITAL IN		UNEARNED	UNEARNED
(in thousands)	SHARES	AMOUNT	EXCESS OF PAR VALUE	RETAINED EARNINGS	DEFERRED COMPENSATION	RESTRICTED STOCK
Balance at December 31, 1999	82,157	\$ 82,157	\$ 8,847	\$ 172,466	\$ --	\$ --
Net earnings	--	--	--	92,955	--	--
Net change in unrealized gain (loss)						
on available for sale securities	--	--	--	--	--	--
COMPREHENSIVE EARNINGS						
Cash dividends declared on						
common stock	--	--	--	(35,539)	--	--
Common stock issued under stock						
option plans	3,811	3,811	24,026	--	--	--
Tax benefit from issuance of						
common stock	--	--	20,027	--	--	--
Common stock repurchases	(1,500)	(1,500)	(30,987)	--	--	--
Common stock issued in two						
pooling acquisitions	72	72	--	--	--	--
Equity transactions of pooled companies						
prior to dates of acquisition	--	--	(151)	(4,786)	--	--
Balance at December 31, 2000	84,540	84,540	21,762	225,096	--	--
Net earnings	--	--	--	125,256	--	--
Net change in unrealized gain (loss)						
on available for sale securities	--	--	--	--	--	--
COMPREHENSIVE EARNINGS						
Cash dividends declared on						
common stock	--	--	--	(43,534)	--	--
Common stock issued under stock						
option plans	3,007	3,007	24,248	--	--	--
Tax benefit from issuance of						
common stock	--	--	24,806	--	--	--
Common stock repurchases	(3,359)	(3,359)	(90,151)	(9,470)	--	--
Common stock issued in three						
pooling acquisitions	93	93	--	--	--	--
Common stock issued in three						
purchase acquisitions	678	678	24,200	--	--	--
Common stock issued under						
deferred compensation	152	152	3,848	--	(3,438)	--
Equity transactions of pooled companies						
prior to dates of acquisition	--	--	55	(13,552)	--	--
Balance at December 31, 2001	85,111	85,111	8,768	283,796	(3,438)	--
Net earnings	--	--	--	129,739	--	--
Net change in unrealized gain (loss)						
on available for sale securities	--	--	--	--	--	--
COMPREHENSIVE EARNINGS						
Cash dividends declared on						
common stock	--	--	--	(52,577)	--	--
Common stock issued under stock						
option plans	1,896	1,896	13,650	--	--	--
Tax benefit from issuance of						
common stock	--	--	18,683	--	--	--
Common stock repurchases	(478)	(478)	(11,184)	--	--	--
Common stock issued in seven						
purchase acquisitions	1,590	1,590	49,166	--	--	--
Common stock issued under						
deferred compensation	123	123	3,908	--	(3,106)	--
Common stock issued under						
restricted stock	306	306	9,725	--	--	(7,523)
Balance at December 31, 2002	88,548	\$ 88,548	\$ 92,716	\$ 360,958	\$ (6,544)	\$ (7,523)

<CAPTION>

	ACCUMULATED	TOTAL
(IN THOUSANDS)	OTHER COMPREHENSIVE EARNINGS (LOSS)	STOCKHOLDERS' EQUITY
Balance at December 31, 1999	\$ (2,669)	\$ 260,801
Net earnings	--	92,955
Net change in unrealized gain (loss)		
on available for sale securities	171	171
COMPREHENSIVE EARNINGS		93,126
Cash dividends declared on		
common stock	--	(35,539)
Common stock issued under stock		
option plans	--	27,837
Tax benefits from issuance of		
common stock	--	20,027
Common stock repurchases	--	(32,487)
Common stock issued in two		
pooling acquisitions	--	72
Equity transactions of pooled companies		
prior to dates of acquisition	--	(4,937)
Balance at December 31, 2000	(2,498)	328,900
Net earnings	--	125,256
Net change in unrealized gain (loss)		
on available for sale securities	(126)	(126)
COMPREHENSIVE EARNINGS		125,130
Cash dividends declared on		
common stock	--	(43,534)
Common stock issued under stock		
option plans	--	27,255

Tax benefit from issuance of common stock	--	24,806
Common stock repurchases	--	(102,980)
Common stock issued in three pooling acquisitions	--	93
Common stock issued in three purchase acquisitions	--	24,878
Common stock issued under deferred compensation	--	562
Equity transactions of pooled companies prior to dates of acquisition	--	(13,497)
Balance at December 31, 2001	(2,624)	371,613
Net earnings	--	129,739
Net change in unrealized gain (loss) on available for sale securities	2,624	2,624
		132,363
COMPREHENSIVE EARNINGS		
Cash dividends declared on common stock	--	(52,577)
Common stock issued under stock option plans	--	15,546
Tax benefit from issuance of common stock	--	18,683
Common stock repurchases	--	(11,662)
Common stock issued in seven purchase acquisitions	--	50,756
Common stock issued under deferred compensation	--	925
Common stock issued under restricted stock	--	2,508
Balance at December 31, 2002	\$ --	\$ 528,155

See notes to consolidated financial statements.

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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 revenue 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 operations in seven 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 (50% or greater ownership). Investments in partially owned entities in which Gallagher's ownership is less than 50% are accounted for using either the lower of amortized cost/cost or fair value, or the equity method, whichever is appropriate depending on the legal form of Gallagher's ownership interest and the applicable percentage of the entity owned. For partially owned entities accounted for using the equity method, Gallagher's share of the net earnings of these entities is included in consolidated net earnings. 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 accounting principles generally accepted in the United States 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

Gallagher's revenues are derived from commissions, fees and investment income.

Commission revenues, as well as the related premiums receivable and premiums payable to insurance companies, are recognized at the latter of the billing or the effective date of the related insurance policies, net of an allowance for estimated policy cancellations. Commission revenues related to installment premiums are recognized periodically as billed. Contingent commissions and commissions on premiums directly billed by insurance companies are recognized as revenue when the data necessary to reasonably determine such amounts has been obtained by Gallagher. Typically, these types of commission revenues cannot be reasonably determined until the cash or the related detail is received by Gallagher from the insurance company. A contingent commission is a commission, paid by an insurance company, that is based on the overall estimated profit and/or volume of the business placed with that insurance company. Commissions on premiums billed directly by insurance companies relates to a large number of small premium transactions, whereby the billing and policy issuance process is controlled entirely by the insurance company. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

Fee revenues are recognized ratably as the services are rendered. Fee revenues generated from the Insurance Brokerage Services segment primarily relate to fees negotiated in lieu of commissions, which are recognized in the same manner as commission revenues. Fee revenues generated from the Risk Management Services segment relate to third- party claims administration, loss control and other risk management consulting services, which are provided over a period of time, typically one year. The income effects of subsequent fee adjustments are recorded when the adjustments become known. Premiums and fees receivable in the accompanying consolidated balance sheets are net of allowances for estimated policy cancellations and doubtful accounts. The allowance for estimated policy cancellations was \$3,000,000 and \$2,500,000 at December 31, 2002 and 2001, respectively, which represents a reserve for future reversals in commission and fee revenues related to the potential cancellation of client insurance policies that were in force as of year end. The allowance for doubtful accounts was \$2,025,000 and \$1,730,000 at December 31, 2002 and 2001, respectively. Gallagher periodically reviews the adequacy of the allowances for estimated policy cancellations and doubtful accounts and adjusts them as deemed necessary.

Investment income and other primarily includes interest income, dividend income, net realized and unrealized gains (losses), income (loss) from equity investments, and gains on sales of operations and invested assets. Interest income is recorded as earned. Dividend income is recognized as income based on the date that the underlying security trades "ex-dividend." For revenue recognition policies pertaining to net realized and unrealized gains (losses), see the accounting policy on investments below. Income (loss) from equity investments represents Gallagher's proportionate share of income or losses from investments accounted for using the equity method.

EARNINGS PER SHARE

Basic net earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the respective period. Diluted net earnings per share is computed by dividing net earnings by 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 that have a maturity of 90 days or less at date of purchase, are considered cash equivalents.

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 interest income from fiduciary funds 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 and marketable securities are considered trading securities. Investment strategies consist primarily of limited partnerships, which invest in common and preferred stocks and bonds. Marketable securities consist primarily of common and preferred stocks and bonds. Investments 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 and preferred stocks and bonds, which are based primarily on quoted market prices. The fair value of marketable securities is based primarily on quoted market prices.

Effective September 30, 2002, Gallagher reclassified its marketable securities portfolio which consists primarily of common and preferred stocks and bonds, from available for sale to trading based on changes in its investment philosophy. Prior to September 30, 2002, marketable securities were considered available for sale and were 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 (loss). Gains and losses were recognized in net earnings when realized using the specific identification method. The fair value of marketable securities held as available for sale were based primarily on quoted market prices. As a result of this reclassification, \$425,000 of net pretax unrealized losses, previously classified in accumulated other comprehensive earnings (loss), was recognized in earnings before income taxes in the third quarter of 2002.

FIXED ASSETS

Fixed assets are carried at cost in the accompanying consolidated balance sheets. 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. Under those circumstances, if the fair value were less than the carrying amount of the asset, a loss would be recognized for the difference. Depreciation for fixed assets is computed using the straight- line method over the following estimated useful lives:

	YEARS
Furniture and equipment	3- 10 years
Buildings and improvements	3- 40 years
Airplanes of the leasing company	15 years
Leasehold improvements	Lesser of remaining life of the asset or life of lease

INTANGIBLE ASSETS

Intangible assets consist of the excess of cost over the value of net tangible assets of acquired businesses, expiration lists and non- compete agreements. Expiration lists and non- compete agreements are amortized using the straight- line method over their estimated useful lives (5 to 15 years for expiration lists and 5 to 6 years for non- compete agreements). In accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," goodwill and indefinite lived assets are not amortized, but are subject to periodic reviews for impairment (at least annually or more frequently if impairment indicators arise). Gallagher reviews goodwill and other intangible assets for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Under those circumstances, if the fair value were less than the carrying amount of the asset, a loss would be recognized for the difference.

STOCK- BASED COMPENSATION

At December 31, 2002, Gallagher has four stock- based employee compensation plans, which are described more fully in Note 10. Gallagher primarily grants stock options for a fixed number of shares to employees, with an exercise price equal to the fair value of the underlying shares at the date of grant. Gallagher accounts for stock option grants under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations and, accordingly, recognizes no compensation expense for these stock options granted to employees. The following table illustrates the effect on net earnings and net earnings per share if Gallagher had applied the fair value recognition provisions of Statement of Financial Accounting Standards Board No. 123 (SFAS 123), "Accounting for Stock- Based Compensation," to stock- based employee compensation.

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Net earnings, as reported	\$ 129,739	\$ 125,256	\$ 92,955
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards (see Note 10), net of related tax effects	(4,013)	(6,232)	(2,046)
Pro forma net earnings	\$ 125,726	\$ 119,024	\$ 90,909
Basic net earnings per share -- as reported	\$ 1.49	\$ 1.48	\$ 1.11
Basic net earnings per share -- pro forma	1.44	1.40	1.09
Diluted net earnings per share -- as reported	1.41	1.39	1.04
Diluted net earnings per share -- pro forma	1.38	1.33	1.03

As presented in the table above, had Gallagher applied the fair value recognition provisions of SFAS 123, diluted net earnings per share as reported would have been reduced by \$.03 in 2002, \$.06 in 2001 and \$.01 in 2000. 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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheets for cash and cash equivalents, restricted cash, premiums and fees receivable, premiums payable to insurance companies, accrued salaries and bonuses, accounts payable and other accrued liabilities, unearned fees and income taxes payable, at December 31, 2002 and 2001, approximate fair value because of the short maturity of these instruments. The financial assets that comprise investment strategies and marketable securities are carried at fair value in the accompanying consolidated balance sheets. Fair values for other investments and notes receivable are disclosed in Note 4. The carrying amount of borrowings outstanding under Gallagher's credit agreement approximates fair value at December 31, 2002 because the borrowings are at floating interest rates.

EFFECT OF NEW PRONOUNCEMENTS

GUARANTEES

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (Interpretation 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which will significantly change current practice in the accounting for, and disclosure of, guarantees. Interpretation 45 requires certain guarantees to initially be recorded as a liability at fair value, which is different from the current practice of recording a liability only when a loss is probable and estimable, as those terms are defined in Statement of Financial Accounting Standards No. 5 (SFAS 5), "Accounting for Contingencies." Interpretation 45 also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote, which is also a change from general current practice.

The Interpretation's disclosure requirements are effective for all guarantees, regardless of the initiation date, for financial statements of interim or annual periods ending after December 15, 2002, while the initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued, renewed or modified after December 31, 2002. Gallagher implemented the disclosure requirements of Interpretation 45 in 2002, which is presented in Note 15. Gallagher is currently evaluating the impact Interpretation 45 will have on Gallagher's consolidated financial statements for those current guarantees that are anticipated to renew in 2003. The adoption of Interpretation 45 could have a material effect on Gallagher's consolidated operating results or financial position.

CONSOLIDATION OF PARTIALLY- OWNED ENTITIES

In January 2003, the FASB issued FASB Interpretation No. 46 (Interpretation 46), "Consolidation of Variable Interest Entities." Interpretation 46 generally defines a variable interest entity (VIE) as a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its own activities. Prior to Interpretation 46, a partially owned entity was only consolidated into the investor company's consolidated financial statements if it was controlled by the investor company through voting interests. Regardless of voting interests,

Interpretation 46 generally requires a VIE to be consolidated by an investor company if that VIE's equity is less than 10% of its assets and the investor company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residual returns or both. Interpretation 46 also requires disclosures about VIEs in circumstances where the investor company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of Interpretation 46 apply immediately to VIEs created or invested in after January 31, 2003. The consolidation requirements apply to entities created or invested in as of January 31, 2003 or earlier, in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the VIE was created or invested in.

Gallagher has a number of investments it believes may be deemed to be VIEs. These investments include qualified affordable housing and alternative energy projects intended primarily to be income tax credit generators, a synthetic fuel facility intended to produce both tax credits and pretax income, real estate development projects intended to generate gains and venture capital investees intended to generate equity income and realized gains. Total assets of these investments approximates \$650,000,000 in the aggregate. Gallagher's maximum exposure to losses related to these investments is approximately \$14,000,000 including net book value, letters of credit, financial guarantees and funding commitments. Management is currently evaluating the impact Interpretation 46 will have on Gallagher's consolidated financial statements. However, management anticipates that the adoption of Interpretation 46 will not have a material effect on Gallagher's consolidated net earnings or stockholders' equity.

INTANGIBLE ASSETS

In 2001, the FASB issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations," and SFAS 142. SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. In addition, SFAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS 141 were effective for business combinations accounted for by the purchase method completed after June 30, 2001.

Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized, but are subject to periodic review for impairment (at least annually or more frequently if impairment indicators arise). Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their estimated useful lives. The amortization provisions of SFAS 142 initially applied only to goodwill and intangible assets related to business combinations accounted for by the purchase method that were completed after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies were required to adopt SFAS 142 in their fiscal year beginning after December 15, 2001 (i.e., January 1, 2002 for calendar year companies). Because of the different transition dates for goodwill and intangible assets acquired before June 30, 2001 and those acquired after that date, pre-existing goodwill and intangible assets were amortized during the transition period from June 30 to December 31, 2001. Effective January 1, 2002, Gallagher adopted the remaining provisions of SFAS 142 with respect to pre-existing goodwill and intangible assets, the effect of which was not material to Gallagher's consolidated operating results or financial position.

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2. BUSINESS COMBINATIONS

PURCHASE ACQUISITIONS

In 2002, Gallagher acquired substantially all of the net assets of the following insurance brokerage and risk management firms for its common stock and/or cash using the purchase accounting method for recording business combinations (in thousands):

2002 PURCHASE ACQUISITIONS	COMMON SHARES ISSUED	COMMON SHARE VALUE	CASH PAID	ESCROW DEPOSITED	RECORDED PURCHASE PRICE	CONTINGENT PAYABLE
Life Plans Unlimited, Inc. (LPUI), February 28, 2002	127	\$ 3,987	\$ --	\$ 443	\$ 4,430	\$ 3,000
Tom Sherwin Insurance Agency, February 28, 2002	--	--	720	80	800	600
Niis/Apex Group Holdings, Inc. (NAGH), April 1, 2002	643	18,968	--	2,108	21,076	2,000
Cornwall & Stevens Co., Inc., April 30, 2002	--	--	1,800	200	2,000	--
Manning & Smith Insurance, Inc. (MSII), May 31, 2002	274	8,664	--	992	9,656	7,500
Roberts & Roberts Insurance Agency, Inc. (RRIA), May 31, 2002	87	2,773	--	308	3,081	1,700

Mountain View Software Corporation, May 31, 2002	15	491	--	55	546	1,100
Craig M. Ferguson & Co., Inc., July 31, 2002	--	--	2,600	100	2,700	2,300
Grandy Pratt Co. (GPC), October 31, 2002	393	9,470	--	1,052	10,522	800
Encore Insurance & Bonding, Inc. (EIBI), November 30, 2002	51	1,340	1,375	105	2,820	1,500
	1,590	\$ 45,693	\$ 6,495	\$ 5,443	\$ 57,631	\$ 20,500

Common shares exchanged in connection with these acquisitions were valued at closing market prices as of the effective date of the respective acquisition. Escrow deposits returned to Gallagher as a result of purchase price adjustment provisions are recorded as downward adjustments to intangible assets when the escrows are settled. The contingent payables that are disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid per the purchase agreements. These contingent obligations are primarily based upon future earnings of the acquired entities and were not included in the purchase price that was recorded for these acquisitions at their respective dates of acquisition. Future payments made under these arrangements will be recorded as upward adjustments to goodwill when the contingencies are settled.

The following is a summary of the estimated fair values of the assets acquired at the date of each acquisition based on preliminary purchase price allocations (in thousands):

	LPUI	NAGH	MSII	RRIA	GPC	EIBI	FOUR OTHER ACQUISITIONS	TOTAL
Current assets	\$ 107	\$ 2,626	\$ 7,185	\$ 52	\$ 5,250	\$ 1,230	\$ 6,424	\$ 22,874
Other noncurrent assets	--	--	--	--	15	--	320	335
Fixed assets	7	307	196	53	341	--	153	1,057
Goodwill	2,866	13,455	2,381	2,176	4,915	1,107	3,797	30,697
Expiration lists	1,046	4,480	4,113	691	6,143	1,384	2,343	20,200
Non-compete agreements	504	3,030	2,808	333	1,229	277	603	8,784
Total assets acquired	4,530	23,898	16,683	3,305	17,893	3,998	13,640	83,947
Current liabilities	100	2,617	7,027	224	5,991	1,178	7,594	24,731
Other noncurrent liabilities	--	205	--	--	1,380	--	--	1,585
Total liabilities assumed	100	2,822	7,027	224	7,371	1,178	7,594	26,316
Total net assets acquired	\$ 4,430	\$ 21,076	\$ 9,656	\$ 3,081	\$ 10,522	\$ 2,820	\$ 6,046	\$ 57,631

These acquisitions allow Gallagher to expand into desirable geographic locations, further extend its presence in the retail insurance brokerage services and risk management industries and increase the volume of general services currently provided. The excess of the purchase price over the estimated fair value of the tangible net assets acquired at the acquisition date for the 2002 acquisitions was allocated to goodwill, expiration lists and non- compete agreements in the amounts of \$30,697,000, \$20,200,000 and \$8,784,000, respectively. With the exception of the intangible assets related to the MountainView Software Corporation acquisition, which were allocated to the Risk Management Services segment, all of the goodwill, expiration lists, and non- compete agreements were allocated to the Insurance Brokerage Services segment. Purchase price allocations are preliminarily established at the time of the acquisition and are subsequently reviewed within the first year of operation to determine the necessity for allocation adjustments. Expiration lists and non- compete agreements related to the 2002 acquisitions are currently being amortized on a straight- line basis over a weighted average useful life of 14 years and 6 years, respectively. Of the \$20,200,000 of expiration lists and \$8,784,000 of non- compete agreements related to the 2002 acquisitions, Gallagher expects \$3,727,000 and \$880,000, respectively, to be deductible for tax purposes. Accordingly, \$10,530,000 of goodwill and a corresponding deferred tax liability related to the nondeductible amortizable intangible assets were established in the Corporate segment, which is not included in the above table.

2. BUSINESS COMBINATIONS (CONTINUED)

Gallagher's consolidated financial statements for the years ended December 31, 2002 include the operations of these companies from the dates of their respective acquisitions. The following is a summary of the unaudited proforma historical results, as if these entities had been acquired at January 1, 2002 and 2001, respectively (in thousands, except per share data):

	YEARS ENDED DECEMBER 31,	
	2002	2001
Total revenues	\$ 1,119,978	\$ 968,442
Net earnings	130,321	128,028
Basic net earnings per share	1.48	1.48
Diluted net earnings per share	1.41	1.40

The unaudited proforma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations, which actually would have resulted had the acquisitions occurred as of January 1, 2002 and 2001, respectively, nor is it necessarily indicative of future operating results.

In the second quarter of 2002, a 90% owned subsidiary of Gallagher acquired a leasing company that leases two cargo airplanes to the French postal service. As part of this acquisition, the subsidiary acquired assets of \$47.0 million and assumed non-recourse long-term debt of \$38.2 million, in exchange for \$3.1 million of cash and \$5.7 million of other assets. During the second quarter of 2002, Gallagher consolidated the financial results of this leasing company into its consolidated financial statements.

POOLINGS OF INTERESTS ACQUISITIONS

In 2001, Gallagher acquired substantially all of the net assets of the following insurance brokerage firms in exchange for shares of its common stock: The Galtney Group, Inc. dba Healthcare Insurance Services, 3,330,000 shares; MDM Insurance Associates, Inc., 752,000 shares; The InWest Group, Inc., 407,000 shares; SKANCO International, Ltd., 263,000 shares; Nelson/Monarch Insurance Services, Ltd., 109,000 shares; E.S. Susanin, Inc., 109,000 shares; Burgess & Associates, Inc., 73,000 shares; Madison Scott & Associates, Inc., 34,000 shares; Midwest Surety Services, Inc., 32,000 shares; and Central Surety Agency, Inc., 26,000 shares.

These acquisitions were accounted for as poolings of interests and, except for three of these acquisitions whose results were not significant, the consolidated financial statements for all periods prior to the acquisition dates were restated in 2001 to include the operations of these companies.

3. RECLASSIFICATIONS OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS

During the first quarter of 2002, Gallagher undertook a review of how it was accounting for all of its partially owned entities. Given the current environment regarding ownership/control relationships with respect to partially owned entities, Gallagher determined that it would be appropriate to consolidate three operations that were previously accounted for using the equity method of accounting. In addition, prior to 2002, the premiums and claims receivable and payable of a reinsurance intermediary subsidiary of Gallagher were reported on a net basis in Gallagher's consolidated balance sheets, with the gross amounts disclosed in the notes to the consolidated financial statements. During 2002, Gallagher determined that it would be appropriate to include these amounts on a gross basis in its consolidated balance sheets in order to conform to a more common industry practice. Reclassifications have been made to the previously reported financial statements in order to conform them to the current year presentation. These reclassifications had no impact on the previously reported net earnings or stockholders' equity. The following summarizes the reclassifications that were made to the 2001 consolidated financial statements (in thousands, except per share data):

DECEMBER 31, 2002	AS PREVIOUSLY REPORTED	AMOUNTS RECLASSIFIED	AS RECLASSIFIED
Premiums and fees receivable	\$ 555,276	\$ 561,962	\$ 1,117,238
Net fixed assets	51,246	131,999	183,245
Total assets	1,471,823	673,519	2,145,342
Premiums payable to insurance and reinsurance companies	805,595	560,921	1,366,516
Borrowings on line of credit facilities -- limited partnerships	--	3,552	3,552
Total long-term debt -- limited partnerships	--	99,850	99,850
Total stockholders' equity	371,613	--	371,613

EQUITY INVESTMENTS

Gallagher's equity investment philosophy generally consists of investing in tax advantaged and other investment projects that take a long-term view toward private sale or public offering. Gallagher uses the limited partnership or limited liability

company forms of legal ownership to fund many of its investments in order to obtain favorable tax treatment with respect to gains, losses and distributions, while limiting its liability. Based on the ownership structure of these investments, management believes that Gallagher's exposure to losses related to these investments is limited to the combination of its net carrying value, letters of credit, financial guarantees and funding commitments. The following is a summary of Gallagher's investments and notes receivable and the related outstanding letters of credit, financial guarantees and funding commitments (in thousands):

	INVESTMENTS AND RECEIVABLES	LETTERS OF CREDIT AND FINANCIAL GUARANTEES	FUNDING COMMITMENTS
DECEMBER 31, 2002			
Investment strategies -- trading	\$ 55,937 (1)	\$ --	\$ 6,516
Marketable securities -- trading	14,619 (1)	--	--
Other investments and notes receivable:			
Tax advantaged investments:			
Partnership interest	\$ 56,700	5,880	2,600
Notes receivable	20,752	--	--
Equity investment in Asset Alliance Corporation	45,526	15,000	--
Venture capital investments:			
Equity and partnership interests	27,911	14,931	2,565
Notes receivable	19,966	--	--
Equity investment in Allied World Assurance Holdings, Ltd.	20,000	--	--
Other Notes receivable	1,251	--	--
	192,106 (1)	35,811	5,165
Less amounts included in other current assets	(23,693)		
Total other investments and notes receivable per the consolidated balance sheet	\$ 168,413		
Net investment assets, letters of credit, financial guarantees and funding commitments related to investments accounted for on a consolidated basis	33,166 (1)	45,675	7,000
Total net investment assets, letters of credit, financial guarantees and funding commitments related to Gallagher's investment portfolios	\$ 295,828 (2)	\$ 81,486	18,681
DECEMBER 31, 2001			
Investment strategies -- trading	\$ 52,588 (1)	\$ --	\$ 6,650
Marketable securities -- available for sale	\$ 18,290 (1)	--	--
Other investments and notes receivable:			
Tax advantaged investments:			
Partnership interests	\$ 47,219	4,380	--
Notes receivable	16,956	--	--
Equity investment in Assets Alliance Corporation	33,595	25,000	--
Venture capital investments:			
Equity and partnership interests	45,328	10,495	5,900
Notes receivable	31,303	--	--
Equity investment in Allied World Assurance Holdings, Ltd.	20,000	--	--
Other notes receivable	1,417	--	--
	195,818 (1)	39,875	5,900
Less amounts included in other current assets	(3,816)		
Total other investments and notes receivable per the consolidated balance sheet	\$ 192,002		
Net invested assets, letters of credit, financial guarantees and funding commitments related to investments accounted for on a consolidated basis	25,431 (1)	34,175	--
Total net invested assets, letters of credit, financial guarantees and funding commitments related to Gallagher's investment portfolios	\$ 292,127 (2)	\$ 74,050	\$ 12,550

(2) Equals sum of (1)'s above.

	DECEMBER 31,					
	2002			2001		
	DEBT	LETTERS OF CREDIT	GUARANTEES	DEBT	LETTERS OF CREDIT	GUARANTEES
Convertible subordinated debentures payable:						
Issued in connection with various						
acquisitions made by Asset Alliance, fixed						
rates of 3.09% to 6.58%, mature 2003 to 2006	\$ 40,108	\$ --	\$ --	\$ 42,605	\$ --	\$ --
Mortgage loan on commercial (office and retail) real estate complex, secured by the commercial real estate:						

Monthly installments through 2011, 30-year amortization period, fixed rate of 7.40%, balloon payment in 2011	12,763	--	--	12,873	--	--
Line of credit facility on commercial (hotel) real estate complex, secured by the commercial real estate: Permits borrowing up to \$8,750,000, interest only, variable rate of LIBOR plus 4.00%, floor of 8.00%, balloon payment April 2003	8,536	500	--	8,037	500	--
"Warehouse" line of credit facilities of equity investee, secured by loan portfolio: Monthly interest-only payments, variable rates of commercial paper rate plus 1.06%, commercial paper rate plus .95%, LIBOR plus 3.00%, maturities in 2003 and five-day call	226,481	5,000	--	238,824	5,000	--
Unsecured bank credit agreement of Asset Alliance: Due in periodic equal installments through June 2003, variable rate of LIBOR plus 1.00%	14,957	--	15,000	24,942	--	25,000
Redevelopment loan on golf course, secured by the property: Interest-only, variable rate of LIBOR plus 2.25%, balloon payment June 2004	3,866	--	--	--	--	--
Other	--	250	--	--	250	--
Total debt and Gallagher's contingent commitments for Gallagher's investments accounted for using the equity method	\$ 306,711	\$ 5,750	\$ 15,000	\$ 327,281	\$ 5,750	\$ 25,000

See Notes 7 and 15 for additional commitments and contingencies.

INVESTMENT INCOME AND OTHER

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Interest	\$ 15,525	\$ 18,267	\$ 24,148
Dividends	1,839	2,923	2,955
Net change in unrealized gain (loss) on investment strategies	32	(110)	628
Net realized gain on investment strategies	1,518	1,852	1,244
Net realized (loss) gain on marketable securities	(10,458)	1,153	134
Net change in unrealized gain (loss) on marketable securities -- trading	194	--	--
Gain on sale of portion of minority interest in investment	11,848	--	--
Realized loss on sale of equity interest in start-up venture	(3,547)	--	--
Income (loss) from equity investments	(8,002)	(332)	(709)
Write-downs of notes receivables from equity investments	(13,149)	--	--
Income from tax advantaged investments	35,391	13,591	9,200
Income from consolidated investments	11,147	12,115	3,121
Gains on sales of operations	2,500	2,375	1,823
Other income	4,047	7,267	2,719
Total investment income and other	\$ 48,885	\$ 59,101	\$ 45,263

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4. INVESTMENTS (CONTINUED)

INCOME FROM TAX ADVANTAGED INVESTMENTS

Income from tax advantaged investments in 2002 and 2001 primarily relates to the sales of interests in three alternative energy related limited partnerships.

During the third quarter of 2001, Gallagher completed the sale of a 95% interest in one of its synthetic fuel facilities located in South Carolina. Under the sale agreement, Gallagher received an initial nonrefundable down- payment of \$6,700,000 and will receive additional installment payments over time through 2007 based on qualified fuel production generated by the facility. Gallagher recognized installment gains of \$18,208,000 and \$8,242,000 on this sale transaction in 2002 and 2001 respectively. Gallagher retains a 5% partnership interest in this synthetic fuel facility.

During the fourth quarter of 2001 and the first and fourth quarters of 2002, Gallagher completed the sales of 95% of its interest in a partnership that owns a 59.9% interest in a synthetic fuel facility also located in South Carolina. Gallagher received aggregate down- payments of \$4,493,000 and will receive additional installment payments over time through 2007 based on qualified fuel production generated by the facility. The buyer has the option to put the purchased interests back to Gallagher if certain adverse tax consequences occur through 2007. In the event of a put, Gallagher would retain all installment payments made through the put date and a pro- rated portion of the initial down- payments. Gallagher recognized installment gains of \$15,360,000 and \$2,050,000 respectively on this sale transaction in 2002 and 2001 respectively. Gallagher retains a 3% partnership interest in this synthetic fuel facility.

Effective December 31, 2000, Gallagher completed the sale of its interests in several partnerships that operate landfill gas facilities. Gallagher received an initial down- payment of \$8,706,000 and will receive additional installment payments over time through 2007 based on qualified fuel production generated by the facilities. Gallagher recognized installment gains of \$1,012,000 and \$1,411,000 on this sale transaction in 2002 and 2001 respectively. This transaction had no impact on Gallagher's 2000 results.

In 2000, Gallagher recognized \$7,200,000 of 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.

INCOME FROM CONSOLIDATED INVESTMENTS

Income from consolidated investments in 2002, 2001 and 2000 primarily represents rental income related to die airplane leasing company (2002 only) and the two real estate partnerships previously discussed. Rental income of the corporate headquarters limited partnership was \$7,165,000, \$7,428,000 and \$2,351,000 in 2002, 2001 and 2000, respectively. Total expenses associated with this income, including interest and depreciation expenses, were \$7,479,000, \$7,712,000 and \$2,508,000 in 2002, 2001 and 2000, respectively. In 2002, rental income of the airplane leasing company was \$1,943,000 and total expenses associated with this income, including interest and depreciation expenses, was \$2,904,000.

GAINS ON SALES OF OPERATIONS

In 2002, Gallagher sold a P/C book of business and recorded a gain on the sale of \$2,500,000. In 2001, Gallagher sold a benefits administration book of business that was underperforming and recorded a gain on the sale of \$2,375,000. 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.

OTHER INCOME

Other income in 2002 and 2001 consists primarily of investment related fees paid to Gallagher for providing letters of credit and financial guarantees to its investees. Other income in 2000 consists primarily of other income attributable to the restatement effects of the 2001 and 2000 acquisitions accounted for as poolings of interests.

MARKETABLE SECURITIES

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, 2001				
Preferred stocks	\$ 11,567	\$ 215	\$ 991	\$ 10,791
Common stocks	6,635	228	2,161	4,702
Fixed maturities	4,461	20	1,684	2,797
	\$ 22,663	\$ 463	\$ 4,836	\$ 18,290

The gross realized gains on sales of marketable securities -- available for sale totaled \$527,000, \$2,420,000 and \$884,000 for 2002,2001 and 2000, respectively. The gross realized losses totaled \$414,000, \$690,000 and \$750,000 for 2002,2001 and 2000, respectively. In addition, in 2002 and 2001, Gallagher recognized other-than-temporary impairment losses of \$10,571,000 and \$577,000, respectively, related to its marketable securities -- available for sale portfolio. Effective September 30, 2002, Gallagher reclassified its marketable securities portfolio from available for sale to trading based on changes in investment philosophy.

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Change in unrealized gain (loss) on available for sale securities during the year, net of income taxes of (\$481) and \$95, respectively	\$ --	\$ (722)	\$ 143
Reclassifications adjustment for losses (gains) realized in net earnings during the year, net of income taxes of \$1,749, \$397 and \$19, respectively	2,624	596	28
Net change in unrealized gain (loss) on available for sale securities during the year, net of income taxes of \$1,749, (\$84) and \$114, respectively	\$ 2,624	\$ (126)	\$ 171

Major classes of fixed assets consist of the following (in thousands):

DECEMBER 31,

2002 2001

Furniture and equipment \$ 137,837 \$ 122,325 Buildings and improvements 96,678 96,647 Land and improvements 54,306 43,254 Airplanes of leasing company 51,793 - - Leasehold improvements 26,659 21,581

\$ 367,273 \$ 283,807

6. INTANGIBLE ASSETS

Major classes of amortizable intangible assets of the following (in thousands):

	DECEMBER 31,	
	2002	2001
Expiration lists	\$ 45,150	\$ 11,233
Accumulated amortization --		
Expiration lists	(5,686)	(1,444)
	39,464	9,789
Non-compete agreements	13,146	235
Accumulated amortization --		
Non-compete agreements	(1,765)	(158)
	11,381	77
	\$ 50,845	\$ 9,866
Estimated aggregate amortization expense for each of the next five years is as follows:		

2003 \$ 7,745 2004 7,576 2005 7,244 2006 6,300 2007 5,625

Total \$ 34,490

The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows (in thousands):

	INSURANCE BROKERAGE SERVICES	RISK MANAGEMENT SERVICES	CORPORATE	TOTAL
Balance as of January 1, 2002	\$ 52,475	\$ 1,882	\$ 1,118	\$ 55,475
Goodwill acquired during the year	30,007	690	10,530	41,227
Adjustments related to independent appraisals and other purchase accounting adjustments	(12,849)	--	450	(12,399)
Goodwill written off related to sales of business units during the year	(29)	(57)	--	(86)
Balance as of December 31, 2002	\$ 69,604	\$ 2,515	\$ 12,098	\$ 84,217

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7. CREDIT AND OTHER DEBT AGREEMENTS

In 2000, Gallagher and its financial services subsidiary entered into an unsecured Revolving Credit Agreement (the 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 Credit Agreement provides for loans and letters of credit. Letters of credit are limited to \$75,000,000, of which up to \$50,000,000 may be issued under the long- term facility and up to \$25,000,000 may be issued under the short- 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 and Eurocurrency Loans, as defined in the Credit Agreement. 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 .40% for short- term and long-term revolving credit commitments. The facility fee related to the Credit Agreement is .10% of the used and unused portions of the short- term and long- term revolving credit commitments. Terms of the Credit Agreement include various covenants that require Gallagher to maintain specified levels of net worth and restrict the amount of payments on certain expenditures and debt outside the facility. Gallagher was in compliance with these covenants as of December 31, 2002. As of December 31, 2002, under the Credit Agreement, Gallagher has contingently committed to funding \$54,250,000 through letter of credit arrangements related to its corporate insurance programs and several of its equity and other strategic investments. Also, as of December 31, 2002 and 2001 respectively, there were \$25,000,000 and \$35,000,000 of short- term borrowings outstanding under the Credit Agreement. Accordingly, Gallagher had \$70,750,000 available at December 31, 2002 for future borrowing.

The following is a summary of Gallagher's Credit Agreement and limited partnership consolidated debt (in thousands):

	DECEMBER 31,					
	DEBT	2002 LETTERS OF CREDIT	FINANCIAL GUARANTEES	DEBT	2001 LETTERS OF CREDIT	FINANCIAL GUARANTEES
Gallagher's line of credit facility: Periodic payments of interest and principal, prime for daily borrowings, .40% plus LIBOR for 30 day plus borrowings, expires September 2003	\$ 25,000	\$ --	\$ --	\$ 35,000	\$ --	\$ --
Line of credit facility on Harmony: Permits borrowings up to \$17,000,000, monthly interest-only payments, variable rate of LIBOR plus 1.45%, expires 2004	16,996	--	17,000	3,552	--	8,500
Line of credit facility on Harmony: Permits borrowings up to \$3,000,000, quarterly interest-only, rate of prime with a collar of 3.00% and 6.00%, expires 2004	--	--	3,000	--	--	--
Bonds payable on Harmony: Monthly interest-only payments through 2010, variable rate based on commercial paper rate, balloon payment 2010	12,410	12,575	--	12,410	12,575	--
Mortgage loan on Harmony: Annual installments, fixed rate of 8.00%, expires 2004	5,700	--	--	8,165	--	--
Equipment loan on Harmony: Fixed monthly payments, fixed rate of 7.00%, expires 2005	421	--	--	--	--	--
Government-issued community development bonds on Harmony: Guaranteed through 2032	--	5,000	5,100	--	5,000	5,100
Loan on airplanes leased to French postal service: Monthly principal and interest payments, variable rate of LIBOR plus 1.62%, balloon payment 2006	37,021	--	--	--	--	--
Mortgage loan on Gallagher's corporate headquarters building: Monthly installments of principal and interest, fixed rate of 8.35%, 30 year amortization, balloon payment 2008	78,583 \$ 176,131	3,000 \$ 20,575	-- \$ 25,100	79,275 \$ 138,402	3,000 \$ 20,575	-- \$ 13,600

See Note 15 for additional discussion on commitments and contingencies.

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8. CAPITAL STOCK AND STOCKHOLDERS' RIGHTS PLAN

CAPITAL STOCK

The table below summarizes certain information about Gallagher's capital stock at December 31, 2002 and 2001 (in thousands, except par value data):

CLASS	PAR VALUE	AUTHORIZED SHARES
Preferred stock	No Par	1,000
Common stock	\$ 1.00	400,000

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 Gallagher's 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 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.

9. EARNINGS PER SHARE

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Net earnings	\$ 129,739	\$ 125,256	\$ 92,955
Weighted average number of common shares outstanding	87,303	84,795	83,558
Dilutive effect of stock options using the treasury stock method	4,558	5,332	5,409
Weighted average number of common and common equivalent shares outstanding	91,861	90,127	88,967
Basic net earnings per share	\$ 1.49	\$ 1.48	\$ 1.11
Diluted net earnings per share	1.41	1.39	1.04

Options to purchase 252,000, 231,000 and 313,000 shares of common stock were outstanding at December 31, 2002, 2001 and 2000, 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.

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10. 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 10 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 1,025,000 shares for grant, with Discretionary Options granted at the direction of the Compensation 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.

For purposes of the pro forma disclosures (see Note 1), 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,		
	2002	2001	2000
Dividend yield	3.0%	3.0%	2.5%
Risk-free interest rate	3.8%	5.0%	5.1%
Volatility	26.1%	24.5%	24.6%
Expected life (in years)	6.0	5.3	6.0

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

	YEARS ENDED DECEMBER 31,					
	2002		2001		2000	
	SHARES	WEIGHTED	SHARES	WEIGHTED	SHARES	WEIGHTED
	UNDER	AVERAGE	UNDER	AVERAGE	UNDER	AVERAGE
	OPTION	EXERCISE	OPTION	EXERCISE	OPTION	EXERCISE
		PRICE		PRICE		PRICE
Beginning balance	14,117	\$ 13.63	14,419	\$ 10.43	15,800	\$ 8.05
Granted	2,342	24.30	2,842	24.95	2,642	19.98
Exercised	(1,896)	8.16	(3,007)	9.00	(3,811)	7.22
Canceled	(113)	17.15	(137)	14.17	(212)	9.68
Ending balance	14,450	\$ 16.05	14,117	\$ 13.63	14,419	\$ 10.43
Exercisable at end of year	5,107		4,808		5,229	

Options with respect to 6,686,000 shares were available for grant at December 31, 2002.

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10. STOCK OPTION PLANS (CONTINUED)

Other information regarding stock options outstanding and exercisable at December 31, 2002 is summarized as follows (in thousands, except exercise price data):

			OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
			WEIGHTED			WEIGHTED		
			AVERAGE			AVERAGE		
			REMAINING			REMAINING		
			CONTRACTUAL			CONTRACTUAL		
			LIFE (IN YEARS)			LIFE (IN YEARS)		
			PRICE			PRICE		
RANGE OF EXERCISE PRICES	NUMBER	OUTSTANDING	WEIGHTED	WEIGHTED	WEIGHTED	NUMBER	EXERCISABLE	WEIGHTED
\$ 1.11 -- \$ 8.44	3,627	2.09	\$ 7.87	2,353	\$ 7.89			
8.56 -- 12.36	3,661	4.75	9.52	1,709	9.61			
12.56 -- 22.70	3,834	8.47	20.41	468	17.51			
22.87 -- 36.94	3,328	8.43	27.10	577	26.01			
\$ 1.11 -- \$ 36.94	14,450	5.91	\$ 16.05	5,107	\$ 11.39			

11. DEFERRED COMPENSATION

In 2001, Gallagher implemented the Deferred Equity Participation Plan, which is a nonqualified plan that provides for distributions to certain key executives of Gallagher upon their normal retirement. Under the provisions of the plan,

Gallagher contributes shares of its common stock, in an amount approved by Gallagher's Board of Directors, to a rabbi trust on behalf of the executives participating in the plan. Distributions under the plan normally may not be made until the participant reaches age 62 and are subject to forfeiture in the event of voluntary termination of employment prior to age 62. All distributions from the plan are made in the form of Gallagher's common stock. In 2002 and 2001, Gallagher contributed \$4,031,000 and \$4,000,000, respectively, to the plan through the issuance of 123,000 and 152,000 shares of Gallagher common stock. Gallagher accounts for the common stock issued to the plan in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No 97- 14, "Accounting for Deferred Compensation Arrangement Where Amounts Earned are Held in Rabbi Trust and Invested." EITF 97- 14 requires that the Gallagher common stock issued to the trust be value at historical cost (fair market value at the date of grant) and the unearned deferred compensation obligation be classified as an equity instrument, with no recognition of changes in the fair value of the amount owed to the participants. The unearned deferred compensation balance is shown as a reduction of stockholders equity in the accompanying 2002 and 2001 consolidated balance sheets and is being amortized ratably over the vesting period of the participants. During 2002 and 2001, \$925,000 and \$562,000, respectively, were charged to expense related to this plan.

12. RESTRICTED STOCK AWARDS

In 2001, Gallagher adopted an incentive compensation plan for several of its key executives and management personnel. The compensation under this plan is determined by a formula applied to the pretax profitability of certain operating divisions and may include an equity award as part of such incentive compensation. Effective on March 31, 2002 Gallagher contributed 274,000 shares of Gallagher common stock to the plan, with an aggregate value of \$8,972,000 as of that date. Also, effective on March 31, 2002, Gallagher granted, to its Chief Executive Officer, a restricted stock award of 32,000 shares of Gallagher common stock with an aggregate value of \$1,059,000 at the time of grant. All of the 2002 restricted stock awards vest over a three- year period at the rate of 33 1/3% per year beginning on March 31, 2003. Gallagher accounts for restricted stock at historical cost, which equals its fair market value at the date of grant. When restricted shares are issued, an unearned restricted stock obligation is recorded as a reduction of stockholders' equity, which will be ratably charged to salary expense over the vesting period of the participants. During 2002, \$2,508,000 was charged to expense related to these awards.

13. RETIREMENT PLANS

Gallagher has a noncontributory defined benefit pension plan that 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 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 service period of employees expected to receive benefits.

13. 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,	
	2002	2001
CHANGE IN PENSION BENEFIT OBLIGATION:		
Pension benefit obligation at beginning of year	\$ 98,787	\$ 92,792
Service cost	11,368	9,108
Interest cost	7,575	6,316
Plan amendments	2,958	-
- Net actuarial loss (gain)	4,558	(7,711)
Benefits paid	(1,960)	(1,718)
Pension benefit obligation at end of year	123,286	98,787

Fair value of plan assets at beginning of year	66,231	66,137
Actual return on plan assets	(6,129)	(3,481)
Company contributions	24,573	5,293
Benefits paid	(1,960)	(1,718)
Fair value of plan assets at end of year	82,715	66,231

Funded status of the plan (underfunded)	(40,571)	(32,556)
Unrecognized net actuarial loss (gain)	14,080	(3,069)
Unrecognized prior service cost	3,345	772
Unrecognized transition obligation	219	275
Accrued pension benefit cost	\$ (22,927)	\$ (34,578)
The components of the net periodic pension benefit cost for the plan consists of the following (in thousands):		

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Service cost -- benefits earned during the year	\$ 11,368	\$ 9,108	\$ 7,754
Interest cost on benefit obligation	7,575	6,316	6,002
Expected return on plan assets	(6,462)	(5,911)	(5,935)
Recognized net actuarial gain	--	(412)	(495)
Amortization of prior service cost	385	110	110
Amortization of transition obligation	56	56	56
Other	26	26	26
Net periodic pension benefit cost	\$ 12,948	\$ 9,293	\$ 7,518

The following assumptions were used in determining the plan's pension benefit obligation:

	2002	2001	2000
Discount rate	6.75%	7.50%	7.50%
Weighted average rate of increase in future compensation levels	6.30%	6.50%	6.50%
Expected long-term rate of return on assets	8.50%	9.00%	9.00%

Gallagher has a qualified contributory savings and thrift (401(k)) plan covering the majority of its domestic 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 \$5,347,000, \$4,605,000, and \$4,638,000 in 2002, 2001 and 2000, 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 \$430,000, \$471,000 and \$316,000 to the plan in 2002, 2001, and 2000, respectively. The fair value of the plan's assets as of December 31, 2002, and 2001 respectively, including employee contributions and investment earnings thereon, was \$16,040,000 and \$12,461,000, 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 that 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 \$4,332,000 in 2002, \$3,392,000 in 2001 and \$2,921,000 in 2000.

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14. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In 1992, Gallagher amended its health plan to eliminate retiree coverage, except for retirees and those employees who had already attained as specified age and length of services 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 balance of the postretirement benefit obligation and the funded status of the plan is as follows (in thousands):

	YEARS ENDED DECEMBER 31,	
	2002	2001
CHANGE IN POSTRETIREMENT BENEFIT OBLIGATION:		
Postretirement benefit obligation at beginning of year	\$ 6,861	\$ 6,852
Service cost	--	--
Interest cost	416	493
Net actuarial gain	(798)	(280)
Benefits paid	(299)	(204)
Postretirement benefit obligation at end of year	6,180	6,861
Fair value of plan assets at beginning and end of year	--	--
Funded status of the plan (underfunded)	(6,180)	(6,861)
Unrecognized net actuarial gain	(5,685)	(5,306)
Unrecognized prior service cost	--	--
Unrecognized transition obligation	5,116	5,628
Accrued postretirement benefit cost	\$ (6,749)	\$ (6,539)

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Service cost -- benefits earned during the year	\$ --	\$ --	\$ --
Interest cost on benefit obligation	416	493	491
Amortization of transition obligation	512	512	512
Amortization of net actuarial gain	(419)	(331)	(325)
Net periodic postretirement benefit cost	\$ 509	\$ 674	\$ 678

The discount rate used to measure the postretirement benefit obligation was 6.75% at December 31, 2002, and 7.50% at December 31, 2001 and 2000. The transition obligation is being amortized over a 20- year period. For measurement purposes, a 6.50% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2003. This rate was assumed to gradually scale down to 4.50% for 2009 and remain at that level thereafter. The assumed healthcare cost trend rate has a significant effect on the amounts reported and disclosed herein. A one percentage point change in the assumed healthcare cost trend rate would have the following effects (in thousands):

	ONE PERCENTAGE POINT	
	INCREASE	(DECREASE)
Effect on the net periodic postretirement benefit cost in 2002	\$ 44	\$ (37)
Effect on the postretirement benefit obligation at December 31, 2002	681	(590)

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15. COMMITMENTS, CONTINGENCIES AND FINANCIAL GUARANTEES

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.

Total rent expense, including rent relating to cancelable leases and leases with initial terms of less than one year, amounted to \$49,900,000 in 2002, \$46,721,000 in 2001 and \$40,231,000 in 2000.

In connection with its investing and operating activities, Gallagher has entered into certain contractual obligations as well as commitments to fund certain investments. Gallagher's future cash payments, excluding interest, associated with its contractual obligations pursuant to the Credit Agreement, limited partnership debt obligations and operating leases as of December 31, 2002 are as follows (in thousands):

	PAYMENTS DUE BY PERIOD							
CONTRACTUAL OBLIGATIONS	2003	2004	2005	2006	2007	THEREAFTER	TOTAL	
Credit Agreement	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,000	

Florida real estate limited partnership debt	7,857	15,161	99	-	-	12,410	35,527
Corporate headquarters limited partnership mortgage loan	746	811	882	958	1,041	74,145	78,583
Airplane leasing company debt	2,180	2,351	2,553	29,937	-	-	37,021
Total debt obligations	35,783	18,323	3,534	30,895	1,041	86,555	176,131
Operating leases	51,006	46,237	40,593	27,008	25,041	41,019	230,904
Total contractual obligations	\$ 86,789	\$ 64,560	\$ 44,127	\$ 57,903	\$ 26,082	\$ 127,574	\$ 407,035

The debt of the limited partnerships and the airplane leasing company disclosed in the table above represents the debt of three of Gallagher's investments that are accounted for on a consolidated basis in the accompanying consolidated balance sheets. This debt is secured by the partnerships' assets and supports their operations. Approximately \$32.4 million of the limited partnership debt is recourse to Gallagher through the letters of credit and financial guarantees which are included below.

Gallagher's commitments associated with outstanding letters of credit (LOC), financial guarantees and funding commitments as of December 31, 2002 are as follows (all dollar amounts in table and related footnotes are in thousands):

DESCRIPTION AND PURPOSE	TYPE	MATURITY	TRIGGER	COLLATERAL	COMPENSATION TO GALLAGHER
INVESTMENTS					
Investment strategies -- trading					
Funding commitments to two funds	Commitment	2004	Agreed conditions met	None	None
Marketable securities -- trading					
Funding commitment to investee	Commitment	2004	Agreed conditions met	None	None
Tax advantaged investments					
Credit support for investee's loan to develop landfill gas projects	Guarantee	2003	Investee defaults on loan	None	None
"Reclamation" collateral for land owned by Gallagher	LOC	After 2007	Activities cease and Gallagher does not proceed with the reclamation process	(3)	None
Funding commitments to two synthetic fuel facilities	Commitment	2004	Agreed conditions met	None	None
Asset Alliance Corporation	Guarantee	2003	Asset Alliance defaults on loan	None	\$2,000 fee received in the second quarter of 2002
Credit support for Asset Alliance's loan used for acquisitions					
Venture capital investments					
Credit support for investee's debt facility used to acquire and develop landfill gas sites	LOC	2003 and after 2007	Investee defaults on loan	(4)	None
Collateral for investee's debt on landfill gas site capital improvement projects	LOC	2003	Investee defaults on loan	None	None
Credit support for e-commerce investee office space lease	LOC	2003	Investee defaults on rent payments	None	None
Credit support for franchise finance investee "warehouse" loans	LOC	after 2007	Investee defaults on loan	None	1.75% per year on amount of guarantee
Credit support for property developer investee loans used to purchase and develop retail properties, two of which are anchored by a large, national, well-known retailer	3 LOCs	2004	Investee defaults on loan	(4)	18.5% of two projects and 37.0% of one project
Credit support for investee's mortgage on hotel	LOC	after 2007	Investee defaults on mortgage	None	None
Funding commitment to investee	Commitment	2003	Agreed conditions met	None	None

<CAPTION>

DESCRIPTION AND PURPOSE	MAXIMUM EXPOSURE	LIABILITY RECORDED
INVESTMENTS		
Investment strategies -- trading		
Funding commitments to two funds	\$ 6,516	\$ --
Marketable securities -- trading		
Funding commitment to investee	2,365	--
Tax advantaged investments		
Credit support for investee's loan to develop landfill gas projects	1,500(1)	--
"Reclamation" collateral for land owned by Gallagher	4,380	--
Funding commitments to two synthetic fuel facilities	2,600	--
Asset Alliance Corporation		
Credit support for Asset Alliance's loan used for acquisitions	15,000	--
Venture capital investments		
Credit support for investee's debt facility used to acquire and develop landfill gas sites	4,100	--
Collateral for investee's debt on landfill gas site capital improvement projects	645	--
Credit support for e-commerce investee office space lease	250	250

Credit support for franchise finance investee "warehouse" loans	5,000	--
Credit support for property developer investee loans used to purchase and develop retail properties, two of which are anchored by a large, national, well-known retailer	4,450	--
Credit support for investee's mortgage on hotel	500	--
Funding commitment to investee	200	--

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15. COMMITMENTS, CONTINGENCIES AND FINANCIAL GUARANTEES (CONTINUED)

DESCRIPTION AND PURPOSE	TYPE	MATURITY	TRIGGER	COLLATERAL	COMPENSATION TO GALLAGHER
Investments accounted for on a consolidated basis					
Credit support for Gallagher's corporate headquarters building mortgage	LOC	2005	Manager (partial owner) defaults on mortgage payment	None	None
Credit support for Harmony property development bonds, loans and lines of credit used for project development	3 LOCs and 2 Guarantees	2004 through 2032	Harmony or Community Development District default on payments	(5)	(6)
Funding commitment to Harmony	Commitment	2004	Agreed conditions met	None	None
OTHER					
Credit support for deductibles due by Gallagher on its own insurance coverages	LOC	After 2007	Gallagher does not reimburse the insurance company for deductibles the insurance company advances on behalf of Gallagher	None	None
Credit support for deductibles due by client of Gallagher on the client's insurance plan	2 LOCs	2004 and after 2007	Client does not fund its deductibles	(7)	Outstanding guarantee multiplied by the current prime interest rate
Credit enhancement for two of Gallagher's Bermuda captive insurance operations to meet minimum statutory capital requirements	2 LOCs	2003 and after 2007	Dissolution or catastrophic financial results of the operations	(8)	Reimbursement of LOC fees
Credit support for Gallagher's subsidiary's line of credit	LOC	2006	Subsidiary defaults on its payments	None	None

<CAPTION>

DESCRIPTION AND PURPOSE	MAXIMUM EXPOSURE	LIABILITY RECORDED
Investments accounted for on a consolidated basis		
Credit support for Gallagher's corporate headquarters building mortgage	\$ 3,000	\$ --
Credit support for Harmony property development bonds, loans and lines of credit used for project development	42,675 (2)	--
Funding commitment to Harmony	7,000	--
OTHER		
Credit support for deductibles due by Gallagher on its own insurance coverages	5,197	3,200
Credit support for deductibles due by client of Gallagher on the client's insurance plan	5,263	--
Credit enhancement for two of Gallagher's Bermuda captive insurance operations to meet minimum statutory capital requirements	3,330	--
Credit support for Gallagher's subsidiary's line of credit	560	560
	\$ 114,531	\$ 4,010

(1) Plus interest and collection expenses.

(2) Plus interest and collection expenses on \$20,000 of the total. (3) The land.

(4) The property secures the loan.

(5) A portion of the property secures one of the lines of credit and the two bond issues.

(6) Gallagher is in the process of negotiating a retroactive, annual, cumulative fee for \$30,100 of the LOCs and guarantees. The remaining

\$12,575 LOC has a fee of \$750 plus an interest rate differential.

(7) Lien on real property with an appraised value of approximately \$12,500.

(8) The majority owners of the operation that has \$3,100 of the LOCs

pledge their percentage ownership portion of any draw.

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect the actual future cash funding requirements of Gallagher.

LITIGATION

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's financial services subsidiary is party to a lawsuit relating to its investment in the synthetic fuel industry which, if determined adversely to the subsidiary on substantially all claims and for a substantial amount of the damages asserted, could have a material adverse effect on Gallagher. However, Gallagher believes that the plaintiff's claims lack merit. The subsidiary is vigorously defending such claims and has asserted counterclaims against the plaintiff.

See Notes 4 and 7 for additional discussion on commitments and contingencies.

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16. INCOME TAXES

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Earnings before income taxes:			
Domestic	\$ 171,528	\$ 133,350	\$ 125,874
Foreign, principally United Kingdom, Australia and Bermuda	13,814	8,503	7,865
	\$ 185,342	\$ 141,853	\$ 133,739
Provision for income taxes:			
Federal:			
Current	\$ 44,950	\$ 78,995	\$ 63,919
Deferred	(5,691)	(73,552)	(33,305)
	39,259	5,443	30,614
State and local:			
Current	14,213	20,240	10,540
Deferred	(1,203)	(10,507)	(4,683)
	13,010	9,733	5,857
Foreign:			
Current	2,731	1,518	4,787
Deferred	603	(97)	(474)
	3,334	1,421	4,313
Total provision for income taxes	\$ 55,603	\$ 16,597	\$ 40,784

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

	2002		YEARS ENDED DECEMBER 31,		2001		2000	
	AMOUNT	% OF PRETAX INCOME	AMOUNT	% OF PRETAX INCOME	AMOUNT	% OF PRETAX INCOME	AMOUNT	% OF PRETAX INCOME
Federal statutory rate	\$ 64,870	35.0	\$ 49,649	35.0	\$ 46,809	35.0		
State income taxes -- net of federal benefit	8,456	4.6	6,326	4.5	3,807	2.8		
Pre-acquisition earnings of pooled companies taxed to previous owners	--	--	(699)	(0.5)	(293)	(0.2)		
Foreign taxes	(1,509)	(0.8)	(1,561)	(1.1)	1,570	1.2		
Affordable housing and alternative energy tax credits	(19,059)	(10.3)	(40,125)	(28.3)	(26,341)	(19.7)		
Amortization expense of affordable housing and alternative energy investment, net of tax benefit	2,421	1.3	4,821	3.4	14,462	10.8		
Other -- net	424	0.2	(1,814)	(1.3)	770	0.6		
Provision for income taxes	\$ 55,603	30.0	\$ 16,597	11.7	\$ 40,784	30.5		

16. 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,	
	2002	2001
Deferred tax assets:		
Alternative minimum tax (AMT) and other credit carryforwards	\$ 46,617	\$ 42,724
Accrued and unfunded compensation and employee benefits	44,265	41,968
Investment-related partnerships	40,319	46,370
Accrued liabilities	23,960	13,922
Unrealized investment loss	--	1,749
Other	4,822	5,675
Total deferred tax assets	159,983	152,408
Valuation allowance for deferred tax assets	--	--
Deferred tax assets	159,983	152,408
Deferred tax liabilities:		
Nondeductible amortizable intangible assets	10,277	450
Accrued and unfunded compensation and employee benefits	956	1,209
Accrued liabilities	5,095	2,900
Investment-related partnerships	7,811	5,852
Total deferred tax liabilities	24,139	10,411
Net deferred tax assets	\$ 135,844	\$ 141,997

At December 31, 2002 and 2001, \$57,622,000 and \$53,145,000 respectively, of deferred tax assets have been included in other current assets in the accompanying consolidated balance sheets. AMT credits and other have an indefinite and 20 year life, respectively. Gallagher expects to fully utilize the amounts carried forward. 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 (\$42,000,000 at December 31, 2002) 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 \$9,000,000 at December 31, 2002.

17. QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly operating results for 2002 and 2001 were as follows (in thousands, except per share data):

	1ST	2ND	3RD	4TH
2002				
Total revenues	\$ 249,162	\$ 277,091	\$ 268,187	\$ 306,782
Total expenses	200,357	228,559	234,887	252,077
Earnings before income taxes	48,805	48,532	33,300	54,705
Net earnings	33,675	34,461	23,310	38,293
Basic earnings per share	.39	.39	.26	.43
Diluted net earnings per share	.37	.37	.25	.42
2001				
Total revenues	\$ 216,652	\$ 213,947	\$ 235,664	\$ 256,725
Total expenses	182,579	185,175	193,645	219,736
Earnings before income taxes	34,073	28,772	42,019	36,989
Net earnings	27,083	23,197	41,903	33,073
Basic earnings per share	.32	.27	.49	.39
Diluted net earnings per share	.30	.26	.47	.36

18. 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 clients' managing of risk. This segment also provides consulting, for fee compensation, related to the clients' risk financing programs and includes Gallagher's retail, reinsurance and wholesale insurance brokerage operations. Risk Management Services primarily represents Gallagher's third- party administration, loss control and risk management consulting and insurance property appraisal operations. Third- party administration is principally the management and processing of claims for self insurance programs of 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. The invested assets of Gallagher are managed in this segment in order to maximize the long- term after- tax return to Gallagher. Corporate consists primarily of the operating results of Gallagher's investment in the limited partnership that owns its corporate headquarters building, unallocated administrative costs and the provision for income taxes which is not allocated to Gallagher's operating segments. Only revenues not attributable to one of the three operating segments are recorded in the Corporate segment.

Allocations of investment income and certain expenses are based on assumptions and estimates. 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 2002, 2001 and 2000 is as follows (in thousands):

	INSURANCE BROKERAGE SERVICES	RISK MANAGEMENT SERVICES	FINANCIAL SERVICES	CORPORATE	TOTAL
YEAR ENDED DECEMBER 31, 2002					
Revenues:					
Commissions	\$ 662,857	\$ 613	\$ --	\$ --	\$ 663,470
Fees	109,046	279,821	--	--	388,867
Investment income and other	7,879	817	33,024	7,165	48,885
Total revenues	\$ 779,782	\$ 281,251	\$ 33,024	\$ 7,165	\$ 1,101,222
Earnings (loss) before income taxes	\$ 155,438	\$ 32,574	\$ 7,073	\$ (9,743)	\$ 185,342
Provision for income taxes	--	--	--	55,603	55,603
Net earnings (loss)	\$ 155,438	\$ 32,574	\$ 7,073	\$ (65,346)	\$ 129,739
Income (loss) from equity investments	\$ (581)	\$ --	\$ (7,421)	\$ --	\$ (8,002)
Depreciation expense	10,570	9,173	2,114	3,927	25,784
Amortization expense	6,606	40	--	--	6,646
Interest expense	183	123	757	8,425	9,488
Net foreign exchange gain (loss)	282	(10)	--	(17)	255
Revenues:					
United States	\$ 700,630	\$ 256,726	\$ 31,135	\$ 7,165	\$ 995,656
Foreign, principally United Kingdom, Australia and Bermuda	79,152	24,525	1,889	--	105,566
Total revenues	\$ 779,782	\$ 281,251	\$ 33,024	\$ 7,165	\$ 1,101,222
AT DECEMBER 31, 2002					
Identifiable assets:					
United States	\$ 1,259,675	\$ 53,500	\$ 294,217	\$ 303,845	\$ 1,911,237
Foreign, principally United Kingdom, Australia and Bermuda	483,464	20,079	48,794	--	552,337
Total identifiable assets	\$ 1,743,139	\$ 73,579	\$ 343,011	\$ 303,845	\$ 2,463,574
Goodwill -- net	\$ 69,604	\$ 2,515	\$ --	\$ 12,098	\$ 84,217
Amortizable Intangible assets -- net	50,195	650	--	--	50,845
Identifiable assets related to equity investments	375	--	57,222	1,200	58,797

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18. SEGMENT INFORMATION (CONTINUED)

	INSURANCE BROKERAGE SERVICES	RISK MANAGEMENT SERVICES	FINANCIAL SERVICES	CORPORATE	TOTAL
YEAR ENDED DECEMBER 31, 2001					
Revenues:					
Commissions	\$ 537,933	\$ 1,090	\$ --	\$ --	\$ 539,023
Fees	62,342	262,522	--	--	324,864
Investment income and other	11,457	1,084	39,407	7,153	59,101
Total revenues	\$ 611,732	\$ 264,696	\$ 39,407	\$ 7,153	\$ 922,988
Earnings (loss) before income taxes	\$ 116,498	\$ 35,314	\$ 5,513	\$ (15,472)	\$ 141,853
Provision for income taxes	--	--	--	16,597	16,597
Net earnings (loss)	\$ 116,498	\$ 35,314	\$ 5,513	\$ (32,069)	\$ 125,256
Income (loss) from equity investments	\$ (470)	\$ --	\$ 138	\$ --	\$ (332)

Depreciation expense	8,954	7,127	5	3,555	19,641
Amortization expense	3,265	240	--	--	3,505
Interest expense	199	150	2,747	7,381	10,477
Net foreign exchange gain (loss)	(451)	(32)	--	(13)	(496)
Revenues:					
United States	\$ 560,429	\$ 242,403	\$ 37,376	\$ 7,153	\$ 847,361
Foreign, principally United Kingdom, Australia and Bermuda	51,303	22,293	2,031	--	75,627
Total revenues	\$ 611,732	\$ 264,696	\$ 39,407	\$ 7,153	\$ 922,988
AT DECEMBER 31, 2001					
Identifiable assets:					
United States	\$ 1,164,136	\$ 47,203	\$ 283,433	\$ 255,209	\$ 1,749,981
Foreign, principally United Kingdom, Australia and Bermuda	375,531	16,481	3,349	--	395,361
Total identifiable assets	\$ 1,539,667	\$ 63,684	\$ 286,782	\$ 255,209	\$ 2,145,342
Goodwill -- net	\$ 52,475	\$ 1,882	\$ --	\$ 1,118	\$ 55,475
Amortizable Intangible assets - net	9,866	--	--	--	9,866
Identifiable assets related to equity investments	1,175	--	48,115	1,200	50,490
YEAR ENDED DECEMBER 31, 2000					
Revenues:					
Commissions	\$ 472,878	\$ 1,204	\$ --	\$ --	\$ 474,082
Fees	51,678	229,557	--	--	281,235
Investment income and other	17,157	1,534	24,318	2,254	45,263
Total revenues	\$ 541,713	\$ 232,295	\$ 24,318	\$ 2,254	\$ 800,580
Earnings (loss) before income taxes	\$ 100,265	\$ 33,216	\$ 12,997	\$ (12,739)	\$ 133,739
Provision for income taxes	--	--	--	40,784	40,784
Net earnings (loss)	\$ 100,265	\$ 33,216	\$ 12,997	\$ (53,523)	\$ 92,955
Income from equity investments	\$ (384)	\$ --	\$ (325)	\$ --	\$ (709)
Depreciation expense	8,879	5,814	11	1,076	15,780
Amortization expense	3,547	99	--	--	3,646
Interest expense	517	174	212	2,175	3,078
Net foreign exchange gain (loss)	(290)	20	--	(23)	(293)
Revenues:					
United States	\$ 498,400	\$ 210,384	\$ 23,693	\$ 2,254	\$ 734,731
Foreign, principally United Kingdom, Australia and Bermuda	43,313	21,911	625	--	65,849
Total revenues	\$ 541,713	\$ 232,295	\$ 24,318	\$ 2,254	\$ 800,580
AT DECEMBER 31, 2000					
Identifiable assets:					
United States	\$ 875,876	\$ 47,919	\$ 242,969	\$ 183,194	\$ 1,349,958
Foreign, principally United Kingdom, Australia and Bermuda	256,630	13,744	6,439	--	276,813
Total identifiable assets	\$ 1,132,506	\$ 61,663	\$ 249,408	\$ 183,194	\$ 1,626,771
Goodwill -- net	\$ 9,602	\$ 2,122	\$ --	\$ 1,373	\$ 13,097
Amortizable intangible assets -- net	2,992	--	--	--	2,992
Identifiable assets related to equity investments	945	--	33,396	1,200	35,541

Arthur J. Gallagher & Co. 2002 ANNUAL REPORT

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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, have 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.

Arthur J. Gallagher & Co.

Itasca, Illinois

January 29, 2003

/s/ J. PATRICK GALLAGHER, JR. /s/ RICHARD C. CARY J. Patrick Gallagher, Jr. Richard C. Cary

President and Chief Executive Acting Chief Financial Officer Officer and Chief Accounting Officer

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, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Chicago, Illinois

January 29, 2003

EXHIBIT 21.0

SUBSIDIARIES OF GALLAGHER

In the following list of subsidiaries of Gallagher, those companies that 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
Arthur J. Gallagher & Co. of Texas, 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
Risk Placement Services of Pennsylvania, Inc.	Pennsylvania
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
MRS Holdings Limited	England
Morgan Read & Sharman Limited	England
Arthur J. Gallagher Asia Pte Ltd/(4)/	Singapore
Arthur J. Gallagher Asia Limited	Hong Kong

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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 Gallagher Bassett (NSW) Ptd 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
Craig M. Ferguson & Co., Inc.	Connecticut
C. W. Excess Incorporated	New York
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, Inc.	Arizona
AJG Financial Services, Inc.	Delaware
AJG Capital, Inc./(5)/	Illinois
Aviacargo Leasing Limited	Ireland
AJG Investments, Inc.	Delaware
AJG Premium Finance, Inc.	Illinois

AJG Coal, Inc.	Delaware
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
Gallagher Benefit Services of Alabama	Alabama
GBS Insurance and Financial Services	Delaware

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Name	State or Other Jurisdiction of Incorporation
Generation 2000 Loss Control Services, Inc.	Tennessee
Arthur J. Gallagher Service Company	Delaware
Arthur J. Gallagher Australasia Pty Ltd.	Australia
Arthur J. Gallagher Professional Services Australasia Pty Ltd	Australia
Arthur J. Gallagher Reinsurance Australasia Pty Ltd	Australia
AJG Two Pierce, Inc.	Delaware
John P. Woods Co., Inc.	Delaware
Gallagher Healthcare Insurance Services, Inc.	Texas
Gallagher Healthcare Insurance Services of Kansas City, LLC/(6)/	Missouri
Specialty Catastrophe Services, Inc.	New Jersey
Manning & Smith Insurance, Inc.	Kansas
Arthur J. Gallagher & Co. of Iowa, Inc.	Iowa

(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, Bryce Insurance, CMC Claims Management Corporation, 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) 49% of the Common Stock of this subsidiary is owned by a third party.

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EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report on Form 10-K of Arthur J. Gallagher & Co. (Gallagher) of our report dated January 29, 2003, included in Gallagher's 2002 Annual Report to Stockholders.

Our audits also included the consolidated financial statement schedule of Gallagher listed in Item 15(a)(2). This schedule is the responsibility of Gallagher's management. Our responsibility is to express an opinion based on our audits. In our opinion, 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, Form S- 8, No. 333- 40000 and Form S- 8, No. 333- 87320) pertaining to the Arthur J. Gallagher & Co. 1988 Nonqualified and Non- Employee Directors' Stock Option Plans, in the Registration Statement (Form S- 8, No. 333- 62930) pertaining to the Arthur J. Gallagher & Co. 1988 Nonqualified and Non- Employee Directors' Stock Option Plans and the Gallagher Healthcare Insurance Services, Inc. 2001 Nonqualified Stock Option Plan, 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 29, 2003 with respect to the consolidated financial statements of Gallagher incorporated by reference 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 for the year ended December 31, 2002.

/S/ ERNST & YOUNG LLP

Ernst & Young LLP

Chicago, Illinois
March 24, 2003

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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/s/ JAMES J. BRANIFF III

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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/s/ JAMES W. DURKIN, JR.

James W. Durkin, Jr.

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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/s/ ILENE S. GORDON

Ilene S. Gordon

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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/s/ ELBERT O. HAND

Elbert O. Hand

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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/s/ DAVID E. McGURN, JR.

David E. McGurn, 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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/s/ RICHARD J. McKENNA

Richard J. McKenna

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, 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, 2002 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, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 20th day of March, 2003.

/s/ JAMES R. WIMMER

James R. Wimmer

EXHIBIT 99.1

Certificate Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code

I, J. Patrick Gallagher, Jr., the chief executive officer of Arthur J. Gallagher & Co., certify that (i) the Annual Report on Form 10- K of Arthur J. Gallagher & Co. for the year ended December 31, 2002 (the "Form 10- K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10- K fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: March 24, 2003

/s/ J. PATRICK GALLAGHER, JR.
J. Patrick Gallagher, Jr.
President and Chief Executive Officer
(principal executive officer)

A signed original of this written statement required by Section 906 has been provided to Arthur J. Gallagher & Co. and will be retained by Arthur J. Gallagher & Co. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.2

Certificate Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code

I, Richard C. Cary, the acting chief financial officer of Arthur J. Gallagher & Co., certify that (i) the Annual Report on Form 10- K of Arthur J. Gallagher & Co. for the year ended December 31, 2002 (the "Form 10- K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10- K fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: March 24, 2003

/s/ RICHARD C. CARY

Richard C. Cary
Acting Chief Financial Officer and Chief

Accounting Officer
(principal financial officer)

A signed original of this written statement required by Section 906 has been provided to Arthur J. Gallagher & Co. and will be retained by Arthur J. Gallagher & Co. and furnished to the Securities and Exchange Commission or its staff upon request.