

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**

☐ **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
(State or other jurisdiction of
incorporation or organization)

36- 2151613
(I.R.S. Employer
Identification Number)

Two Pierce Place
Itasca, Illinois
(Address of principal executive offices)

60143- 3141
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	New York Stock Exchange
Common Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b- 2 of the Act). Yes ☒ 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 30, 2004 (the last day of the registrant's most recently completed second quarter) was \$2,683,592,000.

The number of outstanding shares of the registrant's Common Stock, \$1.00 par value, as of December 31, 2004 was 92,125,000.

Documents incorporated by reference:

Portions of Arthur J. Gallagher & Co.'s Annual Report to Stockholders for the year ended December 31, 2004 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 2005 Proxy Statement are incorporated by reference into this Form 10- K in response to Part III to the extent described herein.

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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 its investment portfolio.

Gallagher operates through a network of more than 250 sales and service offices located throughout the United States and seven 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, Malaysia, 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, though not necessarily to the same extent; 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 insurance brokerage industry is subject to a great deal of uncertainty due to investigations into its business practices by various governmental authorities and related private litigation; 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 or the outcome of litigation concerning Gallagher's Syn/Coal production, Gallagher's revenues and net earnings may be subject to reduction due to the elimination of contingent commission arrangements in 2005 and related developments in the insurance industry; and Gallagher's effective income tax rate may be subject to increase as a result of changes in income tax laws, unfavorable interpretations of such laws or developments resulting in the loss or unavailability of Syn/Coal Credits. Gallagher's ability to grow has been enhanced through acquisitions, which may or may not be available on acceptable terms in the future and which, if consummated, may or may not be advantageous to Gallagher. Accordingly, actual results may differ materially from those set forth in the forward- looking statements.

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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.

Operating Segments

Gallagher has identified three operating segments: Brokerage, Risk Management and Financial Services. The Brokerage segment, for commission or fee compensation, primarily places commercial property/casualty (P/C) and employee benefit- related insurance on behalf of its customers. The Risk Management segment provides P/C and health claim third- party administration, loss control and risk management consulting and insurance property appraisals. Third party administration is principally the management and processing of claims for self- insurance programs of Gallagher's clients or clients of other brokers. The Financial Services segment is responsible for managing Gallagher's investment portfolio.

The two major sources of operating revenues for Gallagher are commissions from brokerage operations and service fees from brokerage and 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, 2004, is as follows (in millions):

	2004		2003		2002	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commissions						
Brokerage	\$ 801.9	55%	\$ 746.2	59%	\$ 662.9	63%
Fees						
Brokerage	152.4	10%	135.5	11%	109.0	10%
Risk Management	370.9	25%	320.7	25%	280.4	26%
Investment income and other						
Brokerage	13.4	1%	7.5	1%	9.4	1%
Risk Management	1.7	0%	1.0	0%	0.8	0%
Financial Services	181.3	12%	93.6	7%	38.9	4%
Gross revenues	1,521.6	103%	1,304.5	103%	1,101.4	104%
Less brokerage	(41.3)	(3)%	(40.7)	(3)%	(41.1)	(4)%
Total revenues	\$ 1,480.3	100%	\$ 1,263.8	100%	\$ 1,060.3	100%

See Note 19 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which are incorporated herein by reference for additional financial information, including earnings before income taxes and identifiable assets, by operating segment, for 2004, 2003 and 2002.

During 2004, 2003 and 2002, Gallagher's total revenues and expenses each increased sequentially from quarter- to- quarter within the calendar years, except for third quarter 2002, 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 historically are heaviest in third and fourth quarters. Alternatively, salaries and employee benefits, rent, depreciation and amortization expenses generally tend to be more uniform throughout the year. In addition, the timing of acquisitions will also impact the trends in Gallagher's quarterly operating results. See Note 18 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which are incorporated herein by reference for unaudited quarterly operating results for 2004 and 2003.

Brokerage

The Brokerage segment comprises three operating divisions: the Brokerage Services- Retail Division (BSD), Specialty Marketing and International (SMI) 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. SMI places insurance for and services commercial, industrial, institutional, governmental, religious and personal accounts throughout the United States and abroad. BSD and SMI act as agents in soliciting,

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negotiating and effecting contracts of insurance through insurance companies worldwide, as brokers in procuring contracts of insurance on behalf of insureds, and as administrators in setting up and managing self- insured programs. In addition, SMI places insurance on behalf of other brokers. BSD and SMI both have the capability to handle insurable risks and related coverages for all forms of P/C products. SMI 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, SMI'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 income tax deferral plans), and provides other professional services in connection therewith.

The primary source of Gallagher's compensation for its Brokerage 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. Historically, Gallagher also has received 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. On October 26, 2004, Gallagher announced that it will not enter into any new volume- based or profit- based contingent commissions agreements as a retail broker effective January 1, 2005. Accordingly, it is expected that future contingent commission revenues could be substantially reduced.

Risk Management

The Risk Management segment comprises two wholly- owned subsidiaries: Gallagher Bassett Services (GB) and Gallagher Benefit Administrators (GBA). Approximately 90% of this segment's total revenues are generated by GB.

GB provides a full range of risk management services including claims management, risk control consulting services, information management, and 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 and SMI clients who use 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 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 investment portfolio, which includes tax advantaged investments, real estate partnerships, an investment in Allied World Assurance Holdings, Ltd., an alternative investment 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. During first quarter 2003, Gallagher decided to withdraw virtually all continued support for its venture capital investments, except to the limited extent needed to realize value from the remaining assets. Without Gallagher's support, it was doubtful that these operations would be able to execute their business plans. Therefore, Gallagher's venture capital

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investments were determined to be other- than- temporarily impaired resulting in a \$25.7 million pretax charge in first quarter 2003. In addition, effective July 1, 2003, Gallagher early adopted FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which required Gallagher to consolidate one partially- owned entity, that was determined to be a variable interest entity (VIE) and previously not consolidated because it was not controlled by Gallagher through a majority voting interest. The adoption of FIN 46 did not result in any additional debt on Gallagher's consolidated balance sheet nor did it have any impact on its 2003 consolidated net earnings or December 31, 2003 stockholders' equity. During third quarter 2004, Gallagher sold a portion of its interest in this investment, which eliminated the requirement to consolidate the investment under the FIN 46 rules. This investment is now accounted for using equity method accounting. See Note 3 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which are incorporated herein by reference for a summary of Gallagher's investments.

Gallagher's overall non- fiduciary investment strategy going forward will be primarily focused on tax advantaged investments and real estate partnerships. 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. 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. In some cases, Gallagher may be at risk for tax credits taken in previous years, which may also be material to its operations. See Note 3 and Note 16 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which are incorporated herein by reference for a summary of outstanding letters of credit, financial guarantees and funding commitments and Note 7 for a summary of outstanding debt and contingent commitments. In addition, see Note 3 to the Consolidated Financial Statements for a summary of Gallagher's tax credit exposure.

International Operations

Total revenues by geographic area for each of the three years in the period ended December 31, 2004 are as follows (in millions):

	2004		2003		2002	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United States	\$ 1,333.0	90%	\$ 1,133.8	90%	\$ 954.7	90%
Foreign, principally United Kingdom, Australia and Bermuda	147.3	10%	130.0	10%	105.6	10%
Total revenues	\$ 1,480.3	100%	\$ 1,263.8	100%	\$ 1,060.3	100%

The Brokerage segment's international operations comprise the following: a Lloyd's of London broker and an insurance brokerage and risk management operation in the United Kingdom; an insurance brokerage operation and two "rent- a- captive" insurance company facilities 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) (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 London underwriters and insurance companies worldwide. In addition, AJG UK is a Financial Services Authority (FSA) registered broker and an approved Lloyd's of London broker. AJG UK's brokerage services encompass most classes of business within the general categories of aviation, marine, reinsurance (treaty and facultative) and P/C. 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.

Risk Management Partners (RMP) is a wholly- owned London- based subsidiary of Gallagher 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.

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Arthur J. Gallagher (Bermuda) is a wholly- owned subsidiary of Gallagher that 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, 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 for clients to insure their risks 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 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 Asia 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. Gallagher also has brokerage operations in Malaysia that are not material to Gallagher's Brokerage segment.

The Brokerage segment 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 globally, Gallagher is able to fully serve its clients' coverage and service needs in virtually any geographic area where their operations are located.

The Risk Management segment's international operations principally comprise risk management companies in the United Kingdom and Australia.

Gallagher Bassett International (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 additional offices in 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 is a wholly- owned subsidiary of GB that is headquartered in Brisbane, Australia with additional facilities located throughout Australia. Wyatt Gallagher Bassett is principally engaged in providing claims adjusting and risk management services in Australia. Services include consulting, claims management, crisis management, information management, loss control and property valuations.

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

See Note 17 and Note 19 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which are 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 2004, 2003 and 2002.

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. Gallagher services its clients through its network of more than 250 sales and service offices in the United States and seven 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 2004, 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

According to *Business Insurance* magazine (July 19, 2004 edition), Gallagher 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 on a global basis who actively compete with Gallagher in every area of its business. Three competing firms are significantly larger, two of which 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.

Business Combinations

In 2004, Gallagher acquired the net assets of nineteen insurance brokerage firms (eighteen asset purchases and one stock purchase) in exchange for its common stock and/or cash and accounted for as business combinations. See Note 4 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which are incorporated herein by reference for a summary of the 2004 acquisitions, the amount and nature of the consideration paid and the dates of acquisition.

The following acquisitions accounted for as business combinations occurred since December 31, 2004:

Effective on January 1, 2005, Gallagher acquired substantially all of the net assets of Marine Insurance Service, LLC, a corporation engaged in the insurance brokerage and services business, in exchange for cash of \$1.5 million and a contingent earnout obligation of \$0.8 million that, if any is earned, will be paid in cash or stock.

Effective on January 1, 2005, Gallagher acquired substantially all of the net assets of Horton Insurance Agency, Inc. of Oklahoma, a corporation engaged in the insurance brokerage and services business, in exchange for cash of \$4.0 million and a contingent earnout obligation of \$2.8 million that, if any is earned, will be paid in cash or 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. 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, 2004, Gallagher employed approximately 8,200 employees, none of whom is represented by a labor union. Gallagher continuously reviews benefits and other matters of interest to its employees and considers its relations with its employees to be satisfactory.

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.

Gallagher's Governance Guidelines, Audit Committee Charter, Compensation Committee Charter and Nominating/Governance Committee Charter are also available on our website or upon written or verbal request. Requests for copies of any of these documents should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143- 3141, or by telephone to (630) 773- 3800.

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 265,000 square feet of space. The lease commitment on this property expires February 28, 2006. Gallagher has a 60% ownership interest in the limited partnership that owns the Two Pierce Place property. This investment is consolidated into Gallagher's Consolidated Financial Statements. See Note 3, Note 7 and Note 16 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which are 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 16 to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements, which is incorporated herein by reference for information with respect to Gallagher's lease commitments at December 31, 2004.

Item 3. Legal Proceedings.

Information regarding legal proceedings of Gallagher is included in Note 16 (Litigation) to the Consolidated Financial Statements of Gallagher's 2004 Financial Statements 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 quarter ended December 31, 2004.

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Item 4A. Executive Officers of the Registrant.

The executive officers of Gallagher are as follows:

<u>Name</u>	<u>Age</u>	<u>Position and Year First Elected</u>
Robert E. Gallagher	82	Chairman since 1990, Chief Executive Officer from 1963 until 1995
J. Patrick Gallagher, Jr.	53	President since 1990, Chief Executive Officer since 1995
Elizabeth J. Brinkerhoff	61	Vice President since 1993
Richard C. Cary	42	Controller since 1997, Chief Accounting Officer since 2001, Acting Chief Financial Officer September 2002 to April 2003
James W. Durkin, Jr.	55	Vice President since 1985, President of GBS since 1985
Nicholas M. Elsberg	62	Vice President since 1994
James S. Gault	53	Vice President since 1992, President and Chief Operating Officer of BSD since June 2002
Douglas K. Howell	43	Vice President since March 2003 and Chief Financial Officer since April 2003
David E. McGurn, Jr.	51	Vice President since 1993, President of SMI since 2001
Richard J. McKenna	58	Vice President since 1994, President of GB since 2000
John C. Rosengren	58	Vice President and General Counsel since 1995, Secretary since 2002

With the exception of Mr. Howell, 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.

Prior to joining Gallagher on March 3, 2003, Mr. Howell was employed as Senior Vice President and Chief Financial Officer of 21st Century Insurance Group (NYSE:TW) from April 2001 to February 2003 and prior thereto as Senior Vice President and Chief Financial Officer of GuideOne Insurance Group since 1997.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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, 2003 through December 31, 2004 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			
2004			
First	\$ 34.25	\$ 30.77	\$.25
Second	33.97	30.13	.25
Third	33.50	28.87	.25
Fourth	34.10	25.42	.25
2003			
First	\$ 29.75	\$ 23.28	\$.18
Second	29.00	23.35	.18
Third	29.06	24.64	.18
Fourth	32.74	26.74	.18

As of December 31, 2004, there were approximately 850 holders of record of Gallagher's common stock.

Issuer Purchases of Equity Securities (in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 to October 31, 2004	-	\$ -	-	4,385.0
November 1 to November 30, 2004	500.0	29.58	500.0	3,885.0
December 1 to December 31, 2004	113.0	31.18	113.0	3,772.0
Total	613.0	\$ 29.88	613.0	

- (1) As set forth in its public filings, Gallagher has a common stock repurchase plan that was adopted by the Board of Directors on May 10, 1988. On July 22, 2004, Gallagher announced that the Board of Directors had authorized the repurchase of up to an additional 5.0 million shares under the plan. Under the provisions of the repurchase plan, as of December 31, 2004, Gallagher was authorized to repurchase approximately 3.8 million additional shares. There is no expiration date for the plan and Gallagher is under no commitment or obligation to repurchase any particular amount of common stock under the plan. At its discretion Gallagher may suspend the repurchase plan at any time.

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Item 6. Selected Financial Data.

The following selected consolidated financial data for each of the five years in the period ended December 31, 2004 have been derived from Gallagher's Consolidated Financial Statements. Such data 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.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
(In millions, except per share and employee data)					
Consolidated Statement of Earnings Data:					
Commissions	\$ 801.9	\$ 746.2	\$ 662.9	\$ 537.9	\$ 472.9
Fees	523.3	456.2	389.4	325.9	282.4
Investment income and other	196.4	102.1	49.1	59.2	45.3
Gross revenues	1,521.6	1,304.5	1,101.4	923.0	800.6
Less brokerage	(41.3)	(40.7)	(41.1)	(35.0)	(26.1)
Total revenues	1,480.3	1,263.8	1,060.3	888.0	774.5
Total expenses	1,244.8	1,070.5	874.8	746.2	640.8
Earnings before income taxes	235.5	193.3	185.5	141.8	133.7
Provision for income taxes	47.0	47.1	55.6	16.5	40.7
Net earnings	\$ 188.5	\$ 146.2	\$ 129.9	\$ 125.3	\$ 93.0
Per Share Data:					
Basic net earnings per share (1)	\$ 2.06	\$ 1.63	\$ 1.49	\$ 1.48	\$ 1.11
Diluted net earnings per share (2)	1.99	1.57	1.41	1.39	1.04
Dividends declared per common share (3)	1.00	.72	.60	.52	.46
Share Data:					
Shares outstanding at year end	92.1	90.0	88.5	85.1	84.5
Weighted average number of common shares outstanding	91.5	90.0	87.3	84.8	83.6
Weighted average number of common and common equivalent shares outstanding	94.5	93.3	91.9	90.1	89.0
Consolidated Balance Sheet Data:					
Total assets	\$ 3,237.9	\$ 2,901.6	\$ 2,463.6	\$ 2,145.3	\$ 1,626.8
Long- term debt less current portion	140.0	122.1	128.3	96.7	103.9
Total stockholders' equity	761.0	619.1	528.2	371.6	328.9
Return on Beginning Stockholders' Equity (4)					
	30%	28%	35%	38%	36%
Employee Data:					
	8,204	7,206	7,111	6,499	5,714

Number of employees at year end								
Total gross revenue per employee (5)	\$	185,000	\$	181,000	\$	155,000	\$	142,000
Net earnings per employee (5)	\$	23,000	\$	20,000	\$	18,000	\$	19,000
								\$ 16,000

- (1) Based on the weighted average number of common shares outstanding during the year.
- (2) Based on the weighted average number of common and common equivalent shares outstanding during the year.
- (3) Based on the total dividends declared on a share of common stock outstanding during the entire year.
- (4) Represents annual net earnings divided by stockholders' equity as of the beginning of the year.
- (5) 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 2004 Financial Statements under the caption entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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 2004 Financial Statements under the caption entitled "Quantitative and Qualitative Disclosures about Market Risk" and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Gallagher's Consolidated Financial Statements, the related notes thereto and Report of Independent Registered Public Accounting Firm are included in Gallagher's 2004 Financial Statements 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.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

As of December 31, 2004, Gallagher's management, including Gallagher's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), have conducted an evaluation of the effectiveness of its disclosure controls and procedures pursuant to Rule 13a- 15(b) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that Gallagher's disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely manner.

Design and Evaluation of Internal Control Over Financial Reporting.

Pursuant to Section 404 of the Sarbanes- Oxley Act of 2002, Gallagher included a report of management's assessment of the design and effectiveness of its internal controls as part of this Annual Report on Form 10- K for the fiscal year ended December 31, 2004. The independent registered public accounting firm of Gallagher also attested to, and reported on, management's assessment of the effectiveness of internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in Gallagher's 2004 Financial Statements under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" and are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting.

There has been no change in Gallagher's internal control over financial reporting during fourth fiscal quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, Gallagher's internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

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 2005 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. Information regarding Gallagher's Audit Committee is included under the caption entitled "Board of Directors and Committees - Audit Committee" in the 2005 Proxy Statement and is incorporated herein by reference.

The Board of Directors has determined that Gary P. Coughlan qualifies as an audit committee financial expert, as such term is defined in rules of the Securities and Exchange Commission implementing requirements of the Sarbanes- Oxley Act of 2002.

Gallagher has adopted a Code of Business Conduct and Ethics that applies to all of Gallagher's employees and directors, including its principal executive officer, principal financial officer and principal accounting officer. Gallagher's Code of Business Conduct and Ethics covers all areas of professional conduct including, but not limited to, conflicts of interest, disclosure obligations, insider trading, confidential information, as well as compliance with all laws, rules and regulations applicable to Gallagher's business.

A copy of Gallagher's Code of Business Conduct and Ethics is posted on its website at www.ajg.com. In the event that an amendment to, or a waiver from, a provision of Gallagher's Code of Business Conduct and Ethics that applies to any of Gallagher's officers or directors is necessary, Gallagher intends to post such information on its website.

Gallagher undertakes to provide without charge to any person, upon written or verbal request of such person, a copy of Gallagher's Code of Business Conduct and Ethics. Requests should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141, or by telephone to (630) 773- 3800.

There have been no material changes to the procedures by which stockholders may recommend nominees to Gallagher's Board of Directors since Gallagher's disclosure of such procedures under the caption entitled "Corporate Governance - Nomination of Directors" in the 2004 Proxy Statement.

Item 11. Executive Compensation.

Information regarding executive compensation of Gallagher's directors and executive officers is included in the 2005 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 and Related Stockholder Matters.

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 2005 Proxy Statement and is incorporated herein by reference.

Information regarding the number of shares of Common Stock available under Gallagher's equity compensation plans is included under the caption entitled "Equity Compensation Plan Information" in the 2005 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Not applicable.

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant services is included in the 2005 Proxy Statement under the caption entitled "Principal Accountant Fees and Services," and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as a part of this report:

1. Consolidated Financial Statements from Gallagher's 2004 Financial Statements which are incorporated herein by reference:
 - (a) Consolidated Statement of Earnings for each of the three years in the period ended December 31, 2004.
 - (b) Consolidated Balance Sheet as of December 31, 2004 and 2003.
 - (c) Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 2004.
 - (d) Consolidated Statement of Stockholders' Equity for each of the three years in the period ended December 31, 2004.
 - (e) Notes to Consolidated Financial Statements.
 - (f) Report of Independent Registered Public Accounting Firm on Financial Statements.
 - (g) Management's Report on Internal Control Over Financial Reporting.
 - (h) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.
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.

- | | |
|----------|--|
| *10.26.1 | Amendment No. 1 to the Arthur J. Gallagher & Co. Restated 1988 Incentive Stock Option Plan, Amended as of January 19, 2005. |
| *10.27.5 | Amendment No. 5 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 22, 2004. |
| *10.27.6 | Amendment No. 6 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 19, 2005. |
| *10.30.1 | Amendment No. 1 to the Arthur J. Gallagher & Co. Employee Stock Purchase Plan, Amended as of January 19, 2005. |

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- *10.31 Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1988 Incentive Stock Option Plan.
- *10.32 Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan.
- *10.33 Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan (Retainer Grant).
- *10.34 Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan (Discretionary Grant).
- *10.35 Form of Agreement for Restricted Stock Awards under the Arthur J. Gallagher & Co. Restricted Stock Plan.
- 13.0 Gallagher's 2004 Financial Statements.
- 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 Registered Public Accounting Firm.
- 24.0 Powers of Attorney.
- 31.1 Rule 13a- 14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a- 14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.

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).
- 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).
- 3.6 Amendment No. 2 to Exhibit 3.3 (incorporated by reference to Exhibit 4.4 to Gallagher's Form 8- A/A Registration Statement filed on April 20, 2004, File No. 1- 9761).
- 3.7 Amendment to Exhibit 3.3 (incorporated by reference to Exhibit 4.5 to Gallagher's Form 8- A/A Registration Statement filed on April 20, 2004, 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).

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- 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 July 21, 2003 Among Arthur J. Gallagher & Co., The Guarantors Party Thereto, The Banks Party Thereto, Citibank, N.A, as Syndication Agent, and Harris Trust and Savings Bank, as Agent and Lead Arranger. (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2003, 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).
- *10.18 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).
- *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).

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- *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).
- *10.27.4 Amendment No. 4 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 23, 2003.
- *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 Non- Employee Directors' 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).
- *10.28.4 Amendment No. 5 to the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan, Amended as of January 23, 2003.
- *10.29 Arthur J. Gallagher & Co. Restricted Stock Plan (incorporated by reference to Exhibit 4.6 to Gallagher's Form S- 8 Registration Statement, No. 333- 106539).
- *10.30 Arthur J. Gallagher & Co. Employee Stock Purchase Plan (incorporated by reference to Exhibit A of Gallagher's Proxy Statement dated April 7, 2003 for its Annual Meeting of Stockholders, 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.

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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 27th day of January, 2005.

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 27th day of January, 2005 by the following persons on behalf of the Registrant in the capacities indicated.

<u>Name</u>	<u>Title</u>
*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/ DOUGLAS K. HOWELL	Vice President and Chief Financial Officer (Principal Financial Officer)
Douglas K. Howell	
/s/ RICHARD C. CARY	Controller (Principal Accounting Officer)
Richard C. Cary	
*T. KIMBALL BROOKER	Director
T. Kimball Brooker	
*GARY P. COUGHLAN	Director
Gary P. Coughlan	
*ILENE S. GORDON	Director
Ilene S. Gordon	
*ELBERT O. HAND	Director
Elbert O. Hand	
*BERNARD L. HENGESBAUGH	Director
Bernard L. Hengesbaugh	
*DAVID S. JOHNSON	Director
David S. Johnson	
*JAMES R. WIMMER	Director
James R. Wimmer	

*By: /s/ JOHN C. ROSENGREN
John C. Rosengren, Attorney-in-Fact

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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 millions)								
Year ended December 31, 2004								
Allowance for doubtful accounts	\$	2.7	\$	1.8	\$	(1.5)(1)	\$	3.0
Allowance for estimated policy cancellations		3.0		1.5		-		4.5
Accumulated amortization of goodwill		6.8		-		0.3(2)		7.1
Accumulated amortization of expiration lists and noncompete agreements		16.4		18.5		(1.5)(3)		33.4
Year ended December 31, 2003								
Allowance for doubtful accounts	\$	2.0	\$	1.9	\$	(1.2)(1)	\$	2.7
Allowance for estimated policy cancellations		3.0		-		-		3.0
Accumulated amortization of goodwill		7.1		-		(0.3)(2)		6.8
Accumulated amortization of expiration lists and noncompete agreements		7.5		9.9		(1.0)(3)		16.4
Year ended December 31, 2002								
Allowance for doubtful accounts	\$	1.7	\$	4.7	\$	(4.4)(1)	\$	2.0
Allowance for estimated policy cancellations		2.5		0.5		-		3.0
Accumulated amortization of goodwill		7.1		-		-		7.1
Accumulated amortization of expiration lists and noncompete agreements		1.7		6.6		(0.8)(3)		7.5

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

(2) Elimination of fully amortized goodwill, intangible asset/amortization reclassifications and disposal of acquired businesses.

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

ARTHUR J. GALLAGHER & CO.
ANNUAL REPORT ON FORM 10- K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

EXHIBIT INDEX

10.26.1	Amendment No. 1 to the Arthur J. Gallagher & Co. Restated 1988 Incentive Stock Option Plan, Amended as of January 19, 2005.
10.27.5	Amendment No. 5 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 22, 2004.
10.27.6	Amendment No. 6 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 19, 2005.
10.30.1	Amendment No. 1 to the Arthur J. Gallagher & Co. Employee Stock Purchase Plan, Amended as of January 19, 2005.
10.31	Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1988 Incentive Stock Option Plan.
10.32	Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan.
10.33	Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan (Retainer Grant).
10.34	Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan (Discretionary Grant).
10.35	Form of Agreement for Restricted Stock Awards under the Arthur J. Gallagher & Co. Restricted Stock Plan.
13.0	Gallagher's 2004 Financial Statements.
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 Registered Public Accounting Firm.
24.0	Powers of Attorney.
31.1	Rule 13a- 14(a) Certification of Chief Executive Officer.
31.2	Rule 13a- 14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

**AMENDMENT NO. ONE TO THE
ARTHUR J. GALLAGHER & CO.
1988 INCENTIVE STOCK OPTION PLAN
(Restated as of May 19, 1998)**

WHEREAS, Arthur J. Gallagher & Co., a Delaware corporation (the "Company"), maintains the Arthur J. Gallagher & Co. 1988 Incentive Stock Option Plan, as restated as of May 19, 1998 (the "Plan");

WHEREAS, pursuant to Section 18 of the Plan, the Company has reserved the power to amend the Plan; and

WHEREAS, the Company desires to amend the Plan to allow the Compensation Committee, in its sole discretion, (i) to accelerate the period during which options granted under the Plan shall become exercisable, (ii) to provide that options granted under the Plan shall continue to become exercisable following a termination of employment with the Company and (iii) to extend the period during which options granted under the Plan shall remain exercisable following a termination of employment with the Company.

NOW, THEREFORE, pursuant to the power of amendment contained in Section 18 of the Plan, the Plan is hereby amended as follows, effective as of the date hereof:

1. Section 9 of the Plan is hereby amended by adding the following at the end thereof:

The Committee may, in its sole discretion and for any reason at any time, take action such that (i) any or all outstanding options shall become exercisable in part or in full, (ii) any or all outstanding options shall continue to become exercisable in part or in full following termination of an optionee's employment with the Company or a subsidiary for any reason specified by the Committee and (iii) any or all outstanding options shall remain exercisable in part or in full following termination of an optionee's employment with the Company or a subsidiary for any reason specified by the Committee.

Except as may be otherwise expressly provided herein, or as may be otherwise provided by the Committee in its sole discretion on or after the date on which an option is granted hereunder, options shall terminate upon the earlier of the date of the expiration of such option or upon termination of the employment relationship between the Company or a subsidiary and the optionee for any reason other than death or disability as described below.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized officer this 19th day of January, 2005.

ARTHUR J. GALLAGHER & CO.

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

**AMENDMENT NO. FIVE TO THE
ARTHUR J. GALLAGHER & CO. RESTATED 1988 NONQUALIFIED
STOCK OPTION PLAN**

THIS AMENDMENT NO. FIVE to the ARTHUR J. GALLAGHER & CO. 1988 NONQUALIFIED STOCK OPTION PLAN (as restated January 22, 1998), dated January 22, 2004, is made by Arthur J. Gallagher & Co., a Delaware corporation (the "Company").

WHEREAS, the Arthur J. Gallagher & Co. 1988 Nonqualified Stock Option Plan (the "Plan") was adopted by the Company's Board of Directors and approved by the Company's Stockholders in 1988; and

WHEREAS, the Company's Board of Directors has determined that the Plan should be amended to limit the number of shares of the Company's Common Stock to be granted under the Plan at less than fair market value to 500,000 shares over the life the Plan.

NOW, THEREFORE, in consideration of the foregoing and in order to reflect the approval of the Board of Directors of the Company:

1. Section 6 of the Plan is hereby amended in its entirety to read as follows:

"The purchase price per share of Common Stock subject to an option shall be fixed by the Committee. In no event shall options for more than 500,000 shares of Common Stock be granted under the Plan at less than fair market value over the life of the Plan."

2. Except as expressly amended and supplemented by this Amendment, the Plan is hereby ratified and confirmed in all respects.

IN WITNESS WHEREOF, the Company has caused its President and Secretary to execute this Amendment No. Five to the Restated Plan as of the 22nd day of January, 2004.

ARTHUR J. GALLAGHER & CO.

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

ATTEST:

/s/ John C. Rosengren
Secretary

**AMENDMENT NO. SIX TO THE
ARTHUR J. GALLAGHER & CO.
1988 NONQUALIFIED STOCK OPTION PLAN
(Restated as of January 22, 1998)**

WHEREAS, Arthur J. Gallagher & Co., a Delaware corporation (the "Company"), maintains the Arthur J. Gallagher & Co. 1988 Nonqualified Stock Option Plan, as restated as of January 22, 1998 (the "Plan");

WHEREAS, pursuant to Section 17 of the Plan, the Company has reserved the power to amend the Plan; and

WHEREAS, the Company desires to amend the Plan to allow the Compensation Committee, in its sole discretion, (i) to accelerate the period during which options granted under the Plan shall become exercisable, (ii) to provide that options granted under the Plan shall continue to become exercisable following a termination of employment with the Company and (iii) to extend the period during which options granted under the Plan shall remain exercisable following a termination of employment with the Company.

NOW, THEREFORE, pursuant to the power of amendment contained in Section 17 of the Plan, the Plan is hereby amended as follows, effective as of the date hereof:

1. Section 9 of the Plan is hereby amended by adding the following at the end thereof:

The Committee may, in its sole discretion and for any reason at any time, take action such that (i) any or all outstanding options shall become exercisable in part or in full, (ii) any or all outstanding options shall continue to become exercisable in part or in full following termination of an optionee's employment with the Company or a subsidiary for any reason specified by the Committee and (iii) any or all outstanding options shall remain exercisable in part or in full following termination of an optionee's employment with the Company or a subsidiary for any reason specified by the Committee.

Except as may otherwise be provided by the Committee in its sole discretion on or after the date on which an option is granted hereunder, a termination of the employment relationship for any reason other than those so provided in Section 2(C)(i), (ii) and (iii) shall act to terminate an option grant as of the effective date of such termination of the employment relationship, as reflected in the records of the Company.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized officer this 19th day of January, 2005.

ARTHUR J. GALLAGHER & CO.

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

**FIRST AMENDMENT TO THE
ARTHUR J. GALLAGHER & CO.
EMPLOYEE STOCK PURCHASE PLAN**

WHEREAS, Arthur J. Gallagher & Co. (the "Company") has heretofore adopted and maintains the Arthur J. Gallagher & Co. Employee Stock Purchase Plan (the "Plan"), an employee stock purchase plan within the meaning of section 423 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, the Company desires to amend the Plan to disregard certain stock- based compensation in determining the amount of payroll deductions elected by participants under the Plan.

NOW, THEREFORE, pursuant to the power of amendment contained in Section 8 of the Plan, Section 4 of the Plan is hereby amended, effective January 1, 2004, by deleting the last sentence of the second paragraph therein, and by inserting the following sentence in lieu thereof:

For purposes of the Plan, a participant's "Compensation" shall have the same meaning as set forth in the Company's 401(k) retirement plan, as in effect from time to time, but shall exclude any compensation payable in the form of Company stock, including without limitation any compensation received by the participant upon the issuance or vesting of restricted stock, restricted stock unit or bonus stock awards or upon the exercise of stock options.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its duly authorized officer on this 19th day of January, 2005.

ARTHUR J. GALLAGHER & CO.

By: /s/ Elizabeth Brinkerhoff
Elizabeth Brinkerhoff

**ARTHUR J. GALLAGHER & CO.
1988 INCENTIVE STOCK OPTION AGREEMENT**

AGREEMENT, dated _____, 20__ (the "Effective Date"), between ARTHUR J. GALLAGHER & CO., a Delaware corporation (the "Corporation"), and _____, an employee of the Company (the "Employee"). For purposes of this Agreement, the term "Company" shall mean the Corporation and any corporation 50% or more of the stock of which is beneficially owned directly by the Corporation or indirectly through another corporation or corporations in which the Corporation is the beneficial owner of 50% or more of the stock.

WITNESSETH

WHEREAS, in order to provide option holders with the benefits of Section 422A of the Internal Revenue Code, as amended, the Company on May 10, 1988 adopted the "Arthur J. Gallagher & Co. 1988 Incentive Stock Option Plan" (herein, as the same may be amended from time to time, called the "Plan"); and

WHEREAS, the purpose of the Plan is to attract, retain and reward employees, to increase stock ownership and identification with the Company's interests, and to provide incentive for remaining with and enhancing the long- term value of the Company;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereby agree as follows:

1. As a matter of separate inducement and agreement in connection with his employment by the Company, the Employee is hereby granted the option to purchase from the Company all or part of _____ shares of Common Stock (par value \$1.00 per share) of the Company at \$_____ per share, during the period and upon the terms and conditions stated herein and in the Plan as amended. The Employee recognizes that under Section 422A of the Internal Revenue Code, any stock acquired under the Plan is intended to be eligible for certain favorable tax treatment under the Internal Revenue Code only if sold more than two years from the date of the granting of the option and more than one year after acquisition of the stock. The Employee understands and agrees that determination of the personal tax consequences of any exercise of this option or subsequent disposition of shares so acquired is entirely and solely the responsibility of the Employee.

2. Subject to the provisions of the Plan and this Agreement, shares subject to this stock option shall be purchasable at any time during the term of the option after the Effective Date of this Agreement. This option shall terminate entirely on the earliest of the following:

(a) _____, 20__ (not more than 10 years from date of grant);

(b) upon the severance of the employment relationship between the Company and the Employee for any reason other than by death or retirement from the Company's employ for reasons of disability as defined in subparagraph (d), below;

(c) three months after the Employee's death prior to retirement; or

(d) the date one year following retirement for disability where the Employee is disabled within the meaning of Internal Revenue Code Section 105(d)(4).

3. Subject to the provisions of Section 2 hereof, this option may be exercised at any time as to all or any of the shares then purchasable hereunder (but not for less than the smaller of (a) 100 shares of Common Stock, or (b) 10% of the shares of Common Stock subject to the option, unless a purchase of fewer shares would entirely exhaust the option) and provided further that the optionee's cumulative purchases of Common Stock subject to this option may not exceed the following:

Years Following Date of Grant

**Percentage of
Common Stock
Subject to Option**

[Vesting schedule varies by award]

An option shall be exercised by giving notice to the Company, on a form which the Secretary of the Company will supply upon request, specifying the number of whole shares to be purchased and accompanied by payment of the purchase price therefor. Such exercise shall be effective upon receipt by the Secretary of the Company, at the main office of the Company, of such written notice and payment. Furthermore, in addition, an Employee's ability to exercise an option may be limited by the Company's policy regarding insider trading.

4. (a) In the event the shares issuable on an exercise of this option have not been registered under the Securities Act of 1933, as amended (the "Act"), or if the effectiveness of any such registration shall lapse, any certificates evidencing shares of the Common Stock of the Company issued pursuant to such exercise of option or right hereunder shall bear upon its face the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Act or any applicable state securities laws:

"THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT UPON SUCH REGISTRATION OR UPON THE RECEIPT BY THE CORPORATION OF ANY OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION THAT REGISTRATION IS NOT REQUIRED FOR SUCH SALE OR TRANSFER."

(b) The Employee agrees and represents that the shares of Common Stock acquired by him upon exercise will be acquired for investment and not with a view to the sale or

distribution thereof. The Employee further agrees that he will not sell or transfer any shares except in strict compliance with applicable securities laws. The Company may, but shall in no event be obligated to, register any securities issued in connection with this Agreement pursuant to the Act (as now in effect or as hereafter amended); and in the event any shares are so registered the Company may remove any legend on certificates representing such shares.

5. (a) If, at any time within (i) the ten year term of this grant; (ii) two years after the termination of employment; or (iii) two years after the Employee exercises any portion of this grant, whichever is the latest, the Employee, in the determination of the management of the Company, engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including, but not limited to: (A) conduct related to his employment for which either criminal or civil penalties against him may be sought, (B) violation of Company policies, including, without limitation, the Company's Insider Trading Policy, (C) directly or indirectly, soliciting, placing, accepting, aiding, counseling or consulting in the renewal, discontinuance or replacement of any insurance or reinsurance by, or handling self- insurance programs, insurance claims or other insurance administrative functions (A insurance services@) for, any existing Company account or any actively solicited prospective account of the Company for which he performed any of the foregoing functions during the two- year period immediately preceding such termination or providing any employee benefit brokerage, consulting, or administration services, in the areas of group insurance, defined benefit and defined contribution pension plans, individual life, disability and capital accumulation products, and all other employee benefit areas (A benefit services@) the Company is involved with, for any existing Company account or any actively solicited prospective account of the Company for which he performed any of the foregoing functions during the two- year period immediately preceding such termination or, if the Employee has not terminated employment, the date of the prohibited activity (the term Company account as used in this paragraph shall be construed broadly to include all users of insurance services or benefit services including commercial and individual consumers, risk managers, carriers, agents and other insurance intermediaries), (D) the rendering of services for any organization which is competitive with the Company, (E) employing or recruiting any current or former employee of the Company, (F) disclosing or misusing any confidential information or material concerning the Company, or (G) participating in a hostile takeover attempt of the Company, then this option and all other stock options held by the Employee shall terminate effective the date on which the Employee enters into such activity, unless terminated sooner by operation of another term or condition of this grant or the Plan, and any option gain realized by the Employee from exercising all or a portion of this or any other option shall be paid by the Employee to the Company.

(b) By accepting this grant, the Employee consents to deductions from any amounts the Company owes the Employee from time to time (including amounts owed as wages or other compensation, fringe benefits or vacation pay, as well as any other amounts owed to the Employee by the Company) to the extent of the amounts the Employee owes the Company under Paragraphs 5(a) above. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount owed, calculated as set forth above, the Employee agrees to pay immediately the unpaid balance to the Company.

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

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

(b) The term "Change in Control" of the Corporation means and includes each and all of the following occurrences:

1. A Business Combination, unless:

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

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

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

(d) all of the following conditions are satisfied:

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

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

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

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

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

(ii) A timely mailing shall have been made to the stockholders of the Corporation containing in a prominent place (x) any recommendations as to the advisability (or inadvisability) of the Business Combination that the Continuing Directors or Outside Directors may choose to state, if there are at the time any such directors, and (y) the opinion of a reputable nationally recognized investment banking or financial services firm as to the fairness from the financial point of view of the terms of the Business Combination to the stockholders of the Corporation other than the Related Person (such firm to be engaged solely on behalf

of such other stockholders, to be paid a reasonable fee for its services by the Corporation upon receipt of such opinion, to be a firm that has not previously been significantly associated with the Related Person and, if there are at the time any such directors, to be selected by a majority of the Continuing Directors and Outside Directors).

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

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

4. A change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Act of 1934, as amended.

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

(d) The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity which, together with their "Affiliates" and "Associates" (as defined as of November 1, 1983, in Rule 12b- 2 under the Securities Exchange Act of 1934), "Beneficially Owns" (as defined as of November 1, 1983, in Rule 13d- 3 under the Securities Exchange Act of 1934) in the aggregate 20% or more of the outstanding shares of the voting stock of the Corporation, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity; provided that Related Person shall not include

any person who beneficially owned 20% or more of the outstanding shares of the voting stock of the Corporation on November 1, 1983. Without limitation, any shares of voting stock of the Corporation that any Related Person has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed beneficially owned by the Related Person.

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

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

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

7. All determinations and interpretations made by the Option Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive on the Employee and on his legal representatives and beneficiaries.

(a) all the terms and conditions of the Plan as amended (which is hereby incorporated by reference with the same effect as if fully recited herein) as now or hereafter in effect;

(b) all the terms and conditions of this Agreement as now in effect or as hereafter modified at the discretion of the Company to conform with the Plan as amended from time to time; and

(c) all the terms and conditions of Section 422A of the Internal Revenue Code, as amended.

The Employee acknowledges receipt of a copy of the Plan and represents and warrants that he has read the Plan and agrees that this option shall be subject to all of the terms and conditions of the Plan.

9. (a) The Employee shall have none of the rights of a shareholder with respect to shares subject to this option until such shares shall be issued on exercise of the option; and, except as

otherwise provided in Section 9(b) hereof, no adjustment for dividends, or otherwise, shall be made if the record date thereof is prior to the date of issuance of such shares.

(b) In the event that the outstanding Common Stock of the Company is changed by reason of a stock dividend, stock split, recapitalization, merger, consolidation, or a combination or exchange of shares, the number of shares subject to this option shall be adjusted so that the Employee shall receive upon exercise of the option in whole or in part thereafter that number of shares of the class of the capital stock of the Company or its successor that the Employee would have been entitled to receive had he exercised the option immediately prior to the record date for such event. In the event of such an adjustment, the per share option price shall be adjusted accordingly, so that there will be no change in the aggregate purchase price payable upon exercise of the option.

10. This Agreement shall not impose upon the Company any obligation to continue to employ the Employee and the Company's right to terminate him shall not be diminished or affected by reasons of the option granted him under this Agreement.

11. This Agreement shall bind and inure to the benefit of the successors and assigns of the Company. The rights of the Employee under this Agreement shall not be transferable other than to the Employee's executors, administrators, legatees and heirs to the extent permitted by the Plan as amended. During the lifetime of the Employee, this option shall be exercisable only by him. Whenever required by the context hereof, the singular shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; and the neuter gender shall include the masculine and feminine genders.

12. This Agreement has been executed in two counterparts, each of which shall be deemed an original and both of which constitute one and the same document.

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

ARTHUR J. GALLAGHER & CO.

By: _____

EMPLOYEE

**ARTHUR J. GALLAGHER & CO.
1988 NONQUALIFIED STOCK OPTION AGREEMENT**

AGREEMENT, dated _____, 20__ (the "Effective Date"), between ARTHUR J. GALLAGHER & CO., a Delaware corporation (the "Corporation"), and _____, an employee of the Company (the "Employee"). For purposes of this Agreement, the term "Company" shall mean the Corporation and any corporation 50% or more of the stock of which is beneficially owned directly by the Corporation or indirectly through another corporation or corporations in which the Corporation is the beneficial owner of 50% or more of the stock.

WITNESSETH

WHEREAS, the Company on May 10, 1988 adopted the "Arthur J. Gallagher & Co. 1988 Nonqualified Stock Option Plan" (herein, as the same may be amended from time to time, called the "Plan"); and

WHEREAS, the purpose of the Plan is to attract, retain and reward employees, to increase stock ownership and identification with the Company's interests, and to provide incentive for remaining with and enhancing the long- term value of the Company;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereby agree as follows:

1. As a matter of separate inducement and agreement in connection with his employment by the Company, the Employee is hereby granted the option to purchase from the Company all or part of _____ shares of Common Stock (par value \$1.00 per share) of the Company at \$_____ per share, during the period and upon the terms and conditions stated herein and in the Plan as amended. The Employee understands and agrees that determination of the personal tax consequences of any exercise of this option or subsequent disposition of shares so acquired is entirely and solely the responsibility of the Employee.

2. Subject to the provisions of the Plan and this Agreement, shares subject to this stock option shall be purchasable at any time during the term of the option after the Effective Date of this Agreement. This option shall terminate entirely on the earliest of the following:

(a) _____, 20__ (not more than 10 years from date of grant);

(b) upon the severance of the employment relationship between the Company and the Employee for any reason other than by death, disability or retirement of the Employee as such conditions are defined in the Plan.

3. Subject to the provisions of Section 2 hereof, this option may be exercised at any time as to all or any of the shares then purchasable hereunder (but not for less than the smaller of

(a) 100 shares of Common Stock, or (b) 10% of the shares of Common Stock subject to the option, unless a purchase of fewer shares would entirely exhaust the option) and provided further that the optionee's cumulative purchases of Common Stock subject to this option may not exceed the following:

Years Following Date of Grant	Percentage of Common Stock Subject to Option
_____	_____

[Vesting schedule varies by award]

An option shall be exercised by giving notice to the Company, on a form which the Secretary of the Company will supply upon request, specifying the number of whole shares to be purchased and accompanied by payment of the purchase price therefor. Such exercise shall be effective upon receipt by the Secretary of the Company, at the main office of the Company, of such written notice and payment. If the Employee's employment with the Company is terminated due to death, disability or retirement (as defined in the Plan) and, to the extent Section 5 is applicable, the Employee has neither engaged in nor expressed an intention to engage in any of the activities described in Section 5(a), then the restrictions contained in the above vesting schedule are removed as of the date employment is terminated for those reasons and the Employee may thereafter exercise any portion or all of the shares subject to grant, subject only to the fact that the entire grant and all rights to exercise all or any portion thereunder shall expire on _____. Furthermore, in addition, an Employee's ability to exercise an option may be limited by the Company's policy regarding insider trading.

4. (a) In the event the shares issuable on an exercise of this option have not been registered under the Securities Act of 1933, as amended (the "Act"), or if the effectiveness of any such registration shall lapse, any certificates evidencing shares of the Common Stock of the Company issued pursuant to such exercise of option or right hereunder shall bear upon its face the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Act or any applicable state securities laws:

"THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT UPON SUCH REGISTRATION OR UPON THE RECEIPT BY THE CORPORATION OF ANY OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION THAT REGISTRATION IS NOT REQUIRED FOR SUCH SALE OR TRANSFER."

(b) The Employee agrees and represents that the shares of Common Stock acquired by him upon exercise will be acquired for investment and not with a view to the sale or distribution thereof. The Employee further agrees that he will not sell or transfer any shares except in strict compliance with applicable securities laws. The Company may, but shall in no

event be obligated to, register any securities issued in connection with this Agreement pursuant to the Act (as now in effect or as hereafter amended); and in the event any shares are so registered the Company may remove any legend on certificates representing such shares.

5. (a) If, at any time within (i) the ten year term of this grant; (ii) two years after the termination of employment; or (iii) two years after the Employee exercises any portion of this grant, whichever is the latest, the Employee, in the determination of the management of the Company, engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including, but not limited to: (A) conduct related to his employment for which either criminal or civil penalties against him may be sought, (B) violation of Company policies, including, without limitation, the Company's Insider Trading Policy, (C) directly or indirectly, soliciting, placing, accepting, aiding, counseling or consulting in the renewal, discontinuance or replacement of any insurance or reinsurance by, or handling self- insurance programs, insurance claims or other insurance administrative functions ("insurance services") for, any existing Company account or any actively solicited prospective account of the Company for which he performed any of the foregoing functions during the two- year period immediately preceding such termination or providing any employee benefit brokerage, consulting, or administration services, in the areas of group insurance, defined benefit and defined contribution pension plans, individual life, disability and capital accumulation products, and all other employee benefit areas ("benefit services") the Company is involved with, for any existing Company account or any actively solicited prospective account of the Company for which he performed any of the foregoing functions during the two- year period immediately preceding such termination or, if the Employee has not terminated employment, the date of the prohibited activity (the term Company account as used in this paragraph shall be construed broadly to include all users of insurance services or benefit services including commercial and individual consumers, risk managers, carriers, agents and other insurance intermediaries), (D) the rendering of services for any organization which is competitive with the Company, (E) employing or recruiting any current or former employee of the Company, (F) disclosing or misusing any confidential information or material concerning the Company, or (G) participating in a hostile takeover attempt of the Company, then this option and all other stock options held by the Employee shall terminate effective the date on which the Employee enters into such activity, unless terminated sooner by operation of another term or condition of this grant or the Plan, and any option gain realized by the Employee from exercising all or a portion of this or any other option shall be paid by the Employee to the Company.

(b) By accepting this grant, the Employee consents to deductions from any amounts the Company owes the Employee from time to time (including amounts owed as wages or other compensation, fringe benefits or vacation pay, as well as any other amounts owed to the Employee by the Company) to the extent of the amounts the Employee owes the Company under Paragraphs 5(a) above. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount owed, calculated as set forth above, the Employee agrees to pay immediately the unpaid balance to the Company.

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

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

(b) The term "Change in Control" of the Corporation means and includes each and all of the following occurrences:

1. A Business Combination, unless:

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

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

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

(d) all of the following conditions are satisfied:

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

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

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

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

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

(ii) A timely mailing shall have been made to the stockholders of the Corporation containing in a prominent place (x) any recommendations as to the advisability (or inadvisability) of the Business Combination that the Continuing Directors or Outside Directors may

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

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

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

4. A change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Act of 1934, as amended.

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

(d) The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity which, together with their

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

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

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

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

7. All determinations and interpretations made by the Option Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive on the Employee and on his legal representatives and beneficiaries.

(a) all the terms and conditions of the Plan as amended (which is hereby incorporated by reference with the same effect as if fully recited herein) as now or hereafter in effect; and

(b) all the terms and conditions of this Agreement as now in effect or as hereafter modified at the discretion of the Company to conform with the Plan as amended from time to time.

The Employee acknowledges receipt of a copy of the Plan and represents and warrants that he has read the Plan and agrees that this option shall be subject to all of the terms and conditions of the Plan.

9. (a) The Employee shall have none of the rights of a shareholder with respect to shares subject to this option until such shares shall be issued on exercise of the option; and, except as otherwise provided in Section 9(b) hereof, no adjustment for dividends, or otherwise, shall be made if the record date thereof is prior to the date of issuance of such shares.

(b) In the event that the outstanding Common Stock of the Company is changed by reason of a stock dividend, stock split, recapitalization, merger, consolidation, or a combination or exchange of shares, the number of shares subject to this option shall be adjusted so that the Employee shall receive upon exercise of the option in whole or in part thereafter that number of shares of the class of the capital stock of the Company or its successor that the Employee would have been entitled to receive had he exercised the option immediately prior to the record date for such event. In the event of such an adjustment, the per share option price shall be adjusted accordingly, so that there will be no change in the aggregate purchase price payable upon exercise of the option.

10. This Agreement shall not impose upon the Company any obligation to continue to employ the Employee and the Company's right to terminate him shall not be diminished or affected by reasons of the option granted him under this Agreement.

11. This Agreement shall bind and inure to the benefit of the successors and assigns of the Company. The rights of the Employee under this Agreement shall not be transferable other than to the Employee's executors, administrators, legatees and heirs to the extent permitted by the Plan as amended. During the lifetime of the Employee, this option shall be exercisable only by him. Whenever required by the context hereof, the singular shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; and the neuter gender shall include the masculine and feminine genders.

12. This Agreement has been executed in two counterparts, each of which shall be deemed an original and both of which constitute one and the same document.

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

ARTHUR J. GALLAGHER & CO.

By: _____

EMPLOYEE

**ARTHUR J. GALLAGHER & CO.
1989 NON- EMPLOYEE DIRECTORS' STOCK OPTION PLAN
(GRANT OF RETAINER OPTION)**

You have elected to participate in the Arthur J. Gallagher & Co. 1989 Non- Employee Directors' Stock Option Plan and to receive a retainer stock option grant. This letter will set forth a number of the terms and conditions of the grant; however, the grant is subject also to all of the terms and conditions of the 1989 Non- Employee Directors' Stock Option Plan (Plan). The grant is also subject to the rules and regulations adopted by the Compensation Committee of the Board of Directors of Gallagher for the administration of the Plan.

Effective _____, you are granted the option to purchase from Gallagher all or part of _____ shares of the Common Stock (par value \$1.00 per share) at an exercise price of \$_____ per share. In the event of termination of your association with Gallagher, this option shall terminate completely on _____.

There are limitations on the amount of shares you may exercise. Your cumulative exercise to purchase the Common Stock of Gallagher subject to this grant may not exceed the following vesting schedule:

Years Following Date of Grant	Percentage of Total Grant Subject to Exercise
Date of Grant through three months	0%
Three months through six months	25%
Six months through nine months	50%
Nine months through twelve months	75%
Twelve months and thereafter	100%

While the vesting schedule sets forth the maximum amount of shares that may be subject to exercise at a given time, there is also a requirement that any exercise of an option for less than 100 shares be at least equal to 10% of your total vested shares subject to exercise. Finally, with respect to vesting, should your association with Gallagher be terminated, the restrictions contained in the above vesting schedule are removed as of the date your association is terminated and you may thereafter exercise any portion or all of the shares subject to grant, subject only to the fact that all rights to exercise an option shall expire on _____.

A termination of association after _____ shall act to terminate all rights hereunder as of the date of termination of association.

The Plan contains a number of additional terms and conditions, and you are urged to read the Plan carefully. For example, this grant does not give you any rights as a stockholder of Gallagher unless and until you actually exercise the option and purchase the shares at the option price. Also, you have no right (except upon death) to transfer the option rights granted to you to any other party. In

addition, your ability to exercise an option may be limited by the Company's policy regarding insider trading. Contact the Legal Department to see if and how this policy is applicable to you.

An exercise to purchase stock under this grant means that you will be purchasing the stock at the price indicated above and not at the actual market value of the stock as of the date of that exercise. You, of course, are under no obligation to exercise any purchase option at any time. Should you purchase the stock at an option price less than the then current market value, there will be income tax consequences to you upon exercise, as well as at the time you may actually dispose of the stock. While Company personnel may generally advise you of certain taxation aspects of a stock option exercise, you are urged to consult with your own personal tax adviser and in no event shall Gallagher be responsible for any tax consequences to you arising out of this grant.

As you see from the vesting schedule, your first ability to exercise a purchase option is as of _____. Should you wish to exercise an option, contact _____ of the Legal Department to obtain the documentation and information necessary to exercise an option. You should contact _____ at least several days in advance of the date you intend to actually exercise your option.

No action is required on your part to accept this option and acceptance does not impose any obligations on you. However, should you have any questions, please do not hesitate to contact _____.

**ARTHUR J. GALLAGHER & CO.
1989 NON- EMPLOYEE DIRECTORS' STOCK OPTION PLAN
(GRANT OF DISCRETIONARY OPTION)**

You have been selected to participate in the Arthur J. Gallagher & Co. 1989 Non- Employee Directors' Stock Option Plan and to receive a stock option grant. This letter will set forth a number of the terms and conditions of the grant; however, the grant is subject also to all of the terms and conditions of the 1989 Non- Employee Directors' Stock Option Plan (Plan). The grant is also subject to the rules and regulations adopted by the Compensation Committee of the Board of Directors of Gallagher for the administration of the Plan.

Effective _____, you are granted the option to purchase from Gallagher all or part of _____ shares of the Common Stock (par value \$1.00 per share) at an exercise price of \$_____ per share. This option shall terminate completely on _____.

There are limitations on the amount of shares you may exercise. Your cumulative exercise to purchase the Common Stock of Gallagher subject to this grant may not exceed the following vesting schedule:

Years Following Date of Grant	Percentage of Total Grant Subject to Exercise
_____	_____
Date of Grant through 12 months	0%
12 months through 24 months	34%
24 months through 36 months	67%
36 months through expiration	100%

While the vesting schedule sets forth the maximum amount of shares that may be subject to exercise at a given time, there is also a requirement that any exercise of an option for less than 100 shares be at least equal to 10% of your total vested shares subject to exercise. Finally, with respect to vesting, should your association with Gallagher be terminated, the restrictions contained in the above vesting schedule are removed as of the date your association is terminated and you may thereafter exercise any portion or all of the shares subject to grant, subject only to the fact that all rights to exercise an option shall expire on _____.

The Plan contains a number of additional terms and conditions, and you are urged to read the Plan carefully. For example, this grant does not give you any rights as a stockholder of Gallagher unless and until you actually exercise the option and purchase the shares at the option price. Also, you have no right (except upon death) to transfer the option rights granted to you to any other party. In addition, your ability to exercise an option may be limited by the Company' policy regarding insider trading. Contact the Legal Department to see if and how this policy is applicable to you.

An exercise to purchase stock under this grant means that you will be purchasing the stock at the price indicated above and not at the actual market value of the stock as of the date of that exercise. You, of course, are under no obligation to exercise any purchase option at any time. Should you purchase the stock at an option price less than the then current market value, there will be income tax consequences to you upon exercise, as well as at the time you may actually dispose of the stock. While Company personnel may generally advise you of certain taxation aspects of a stock option exercise, you are urged to consult with your own personal tax adviser and in no event shall Gallagher be responsible for any tax consequences to you arising out of this grant.

As you see from the vesting schedule, your first ability to exercise a purchase option is as of _____. Should you wish to exercise an option, contact _____ of the Legal Department to obtain the documentation and information necessary to exercise an option. You should contact _____ at least several days in advance of the date you intend to actually exercise your option.

No action is required on your part to accept this option and acceptance does not impose any obligations on you. However, should you have any questions, please do not hesitate to contact _____.

RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement (the "Agreement") is made this ____ day of _____, 20____, by and between Arthur J. Gallagher & Co., a Delaware corporation (the "Company"), and _____ (the "Employee").

WHEREAS, the Company desires to grant an award of Restricted Stock to the Employee under and pursuant to the Company's Restricted Stock Plan (the "Plan"); and

WHEREAS, the Company desires to evidence the award of Restricted Stock to the Employee and to have the Employee acknowledge the terms and conditions of the award of Restricted Stock by this Restricted Stock Agreement; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company has approved this award of Restricted Stock;

NOW, THEREFORE, IT IS AGREED:

1. Grant of Restricted Stock. Subject to the terms and conditions of the Plan and this Restricted Stock Agreement, the Company hereby grants to the Employee, on the terms and conditions set forth herein, a Restricted Stock award with respect to _____ shares of common stock, \$1.00 par value, of the Company.

2. Vesting. This award of Restricted Stock shall vest [vesting schedule varies by award]. The restrictions set forth in this paragraph shall apply to Restricted Stock until the Restricted Stock vests. Subject to the provisions of this Restricted Stock Agreement, the grant of Restricted Stock may not be revoked.

The Employee shall not have a beneficial ownership interest in, or any of the rights and privileges of a stockholder as to, such Restricted Stock, including the right to receive dividends and the right to vote such Restricted Stock until such Restricted Stock vests in accordance with the terms of this Restricted Stock Agreement. An account established by the Company on behalf of the Employee shall be credited with the amount of all dividends that would have been paid on the shares of Restricted Stock if such shares were actually held by the Employee ("Dividend Equivalents"). Notwithstanding the foregoing, the Employee shall not be entitled to delivery of the stock certificate or Dividend Equivalents on the Restricted Stock until the shares have vested; the Restricted Stock may not be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of until vested; all of the unvested Restricted Stock shall be forfeited and all rights of the Employee to such unvested Restricted Stock shall terminate without further obligation on the part of the Company under the circumstances set forth in the next paragraph; and all unvested Restricted Stock shall vest under the circumstances set forth in the next paragraph.

Any unvested portion of the award of Restricted Stock will become fully earned, vested and distributable in the event a Employee dies or becomes permanently and totally disabled. In order to earn and vest in the award of Restricted Stock, the Employee must at the time of vesting either (i)

remain employed as an active, regular, full- time employee through the vesting date, (ii) have retired at age 55 or older; (iii) qualify for severance under the ARTHUR J. GALLAGHER & CO. SEVERANCE PAY PLAN, or (iv) have been terminated by the Company for any reason other than for cause. Termination "for cause" shall include a termination based on management's determination that the Employee has:

Committed any dishonest or fraudulent act to the detriment of the Company;

Been convicted of any felony or crime involving moral turpitude;

Been insubordinate;

Failed to perform his or her duties to the expectation of management;

Violated any policy or procedure established by management; or

Lost any professional licenses required for the performance of the Employee's duties.

3. Payment of Restricted Stock. On the vesting dates of each grant of Restricted Stock or at such earlier time as provided for in the preceding paragraph hereof or as the Company may determine, all restrictions applicable to the Restricted Stock vesting on that date shall lapse and a stock certificate for a number of shares of Common Stock equal to the number of vested shares, free of all restrictions, shall be issued or delivered to the Employee or his beneficiary or estate, as the case may be, upon the request of such person. The Company shall not be required to deliver any fractional share of Common Stock but shall pay in cash, in lieu thereof, the fair market value (measured as of the date the restrictions lapse) of such fractional share to the Employee or his beneficiary or estate, as the case may be. If an amount is payable by the Employee to the Company under applicable income tax laws in connection with the lapse of such restrictions, the Company may, in its discretion and subject to such rules as it may adopt, permit the Employee to make such payment, in whole or in part, by electing to authorize the Company to transfer to the Company shares of Restricted Stock otherwise deliverable to the Employee having a fair market value equal to the amount to be paid under such income tax laws.

4. Regulatory Approvals and Listing. The Company shall not be required to issue or deliver any certificate or certificates for shares of Common Stock upon the vesting of Restricted Stock granted hereby prior to (i) the obtaining of any approval from any governmental agency which the

Company shall, in its sole discretion, determine to be necessary or advisable, (ii) the admission of such shares to listing on any stock exchange on which the Common Stock may then be listed, and (iii) the completion of any registration or other qualification of such shares under any state or Federal law or rulings or regulations of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

5. Adjustment in Event of Changes in Capitalization. In the event of a recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation, rights offering, separation, reorganization or liquidation, or any other change in the corporate structure or shares of the Company, the Board of Directors of the Company shall make such equitable adjustments, designed to protect against dilution, as it may deem appropriate in the number and kind of shares covered hereby.

6. Change in Control. In the event of a change in control of the Company, as defined below, this award of Restricted Stock shall immediately vest in full. For all purposes of the Plan, a "change in control of the Company" occurs if: (a) any person or group, as defined in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended, is or becomes the beneficial owner, directly or indirectly of securities of the Company representing 50 percent or more of the combined voting power of the Company's outstanding securities then entitled to vote for the election of directors; or (b) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors and any new directors whose election by the Board or nomination for election by the Company's stockholders was approved by at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election was previously so approved cease for any reason to constitute at least a majority thereof; or (c) the Stockholders of the Company shall approve the sale of all or substantially all of the assets of the Company or any merger, consolidation, issuance of securities or purchase of assets, the result of which would be the occurrence of any event described in clause (a) or (b) above.

7. Beneficiary. The Restricted Stock shall be distributed to the Employee during the lifetime of the Employee. The Employee may designate a beneficiary to receive any undistributed Restricted Stock in the event of the death of the Employee.

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

ARTHUR J. GALLAGHER & CO.

By: _____

EMPLOYEE

Arthur J. Gallagher & Co.

2004 Financial Statements

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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 Gallagher's consolidated financial statements and the related notes thereto that are included elsewhere herein.

Gallagher provides insurance brokerage and risk management services to a wide variety of commercial, industrial, institutional, governmental and personal accounts throughout the United States and abroad. 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, tax advantaged and other investments. Gallagher is headquartered in Itasca, Illinois, has operations in eight countries and does business in more than 100 countries globally 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 the last page of the 2004 Annual Report.

Insurance Market Overview

During the period from 1986 to 2000, heavy competition for market share among P/C insurance carriers (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, 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 Carriers. 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. However, 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 the decline in interest rates during the three- year period that preceded 2003, significantly reduced many Carriers' capital. In order to restore their capital to adequate levels, many Carriers began to increase premium rates in 2000 and continued to do so well into 2003, 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 led to an 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 Carriers 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. Following September 11th, the increased premium rates charged by Carriers had a positive impact on Gallagher's 2002 and 2003 operating results. The magnitude of rate increases began to moderate in 2003 and softening market conditions continued into 2004. A market survey conducted by the Council of Insurance Agents & Brokers indicated that the average premium for commercial accounts declined 5.9% in third quarter 2004 compared to second quarter 2004, with large accounts experiencing the most significant reductions. A similar rate study conducted by the Risk and Insurance Management Society in third quarter 2004 confirmed that price declines were outpacing price gains in every major category except workers compensation. Some of Gallagher's clients are beginning to take advantage of lower premium pricing and are purchasing additional insurance coverage, which partially offsets the impact of rate decreases. Gallagher is unable to predict with a high degree of certainty, future rate and volume movement. However, with the industry apparently in a softer market, the effect of this trend may have a negative impact on Gallagher's brokerage revenues.

In a period of rising insurance costs, there is resistance among certain insureds, who are the buyers of insurance (Gallagher's clients), to pay increased premiums and the higher commissions generated by these premiums. Such resistance often causes some buyers to raise their deductibles and/or reduce the overall amount of insurance coverage they purchase. As the market softens, or costs decrease, these trends have historically reversed. During the most recent hard market period, some buyers switched to negotiated fee in lieu of commission arrangements with Gallagher for placing their risks. Other buyers moved toward the alternative insurance market, a line of business for Gallagher that includes self- insurance, captives, rent- a- captives and risk retention groups. According to industry estimates, these mechanisms now account for nearly 50% of the total commercial P/C market in the U.S. Gallagher's brokerage units are very active in these areas as well. This could also have a favorable effect on Gallagher's Risk Management Services segment. While 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 major factors in Gallagher's fee revenue growth in 2005. Though inflation tends to increase the levels of insured values and risk exposures, premium rates charged by Carriers have had a greater impact on Gallagher's revenues than inflation.

Historically, Gallagher has utilized acquisitions to grow its Brokerage Segment's commission and fee revenues. Acquisitions allow Gallagher to expand into desirable geographic locations and further extend its presence in the retail and wholesale insurance brokerage services industry. Acquisitions also increase the volume of general services currently provided while not substantially changing the nature of the services performed by Gallagher. Gallagher expects that its commission and fee revenues will continue to grow partially from acquisitions. Gallagher is considering and intends to continue to consider from time- to- time, additional acquisitions on terms that it deems advantageous. At this time, Gallagher is engaged in preliminary discussions with several candidates for possible future acquisitions. However, no assurances can be given that any additional acquisitions will be consummated, or, if consummated, will be advantageous to Gallagher.

Contingent Commissions and Other Industry Developments

The insurance industry has recently come under a significant level of scrutiny by various regulatory bodies, including state Attorneys General and the departments of insurance for various states, with respect to contingent compensation arrangements. The Attorney General of the State of New York (the New York AG) has issued subpoenas to various insurance brokerages and Carriers beginning in April 2004. The investigation by the New York AG has, among other things, led to its filing a complaint on October 14, 2004 against Marsh & McLennan Companies, Inc. and its subsidiary, Marsh Inc. (collectively, Marsh) stating claims for, among other things, fraud and violations of New York State antitrust and securities laws. In light of these allegations, Marsh announced on October 15, 2004 that it was suspending its use of contingent commission agreements. On October 26, 2004, Marsh announced that it would permanently eliminate the practice of receiving any form of contingent compensation from Carriers. Within the week following Marsh's initial announcement, two other large insurance brokerage companies, Willis Group and Aon Corporation, each announced that it would discontinue contingent commission agreements and unwind such arrangements by the end of 2004. On October 26, 2004, Gallagher announced that it will not enter into any new volume- based or profit- based contingent commission agreements as a retail broker effective January 1, 2005. Accordingly, it is expected that Gallagher's future contingent commission revenues could be substantially reduced. The New York AG's investigation is continuing, and various press accounts have indicated that the New York AG has served additional subpoenas to certain of the parties initially served, as well as to other insurance industry participants. In connection with its investigation of the insurance industry, the New York AG has brought criminal charges against company executives at various brokers and Carriers. Although the New York AG's October 14, 2004 complaint against Marsh focused primarily upon arrangements with P/C Carriers, subpoenas have been served on a number of group life and disability and traditional health Carriers, as well as the insurance brokerage companies who assist in the placement of such types of insurance. At the press conference announcing its complaint against Marsh, the New York AG indicated that its investigation would look across various lines of insurance.

In first quarter 2004, the New York State Department of Insurance (the Department) commenced an investigation and issued requests to various brokers and Carriers for information, including one of Gallagher's New York brokerage subsidiaries, concerning such arrangements. Fourteen other state attorneys general and other state departments of insurance, including the Attorney General of the State of Illinois and the Illinois Department of Insurance, have also issued subpoenas to Gallagher or initiated investigations relating to Gallagher concerning contingent commissions and other business practices. On December 2, 2004, Gallagher Bassett Services, a third party administrator and a wholly- owned subsidiary of Gallagher, received a subpoena from the New York AG requesting information in connection with an investigation it is conducting. The subpoena did not seek information concerning Gallagher's insurance brokerage operations. Gallagher is fully cooperating with each of these investigations. In addition, the departments of insurance for various states have proposed new regulations, and other state insurance departments have indicated that they will propose new regulations, that address contingent commission arrangements, including prohibitions involving the payment of money by Carriers in return for steering business and enhanced disclosure of contingent commission arrangements to insureds. On December 29, 2004, the National Association of Insurance Commissioners announced that it has proposed model legislation to implement new disclosure requirements related to broker compensation arrangements.

In response to these industry developments, Gallagher retained independent counsel to perform an internal review of certain of its business practices. Such independent counsel has completed its internal review and has found no evidence that Gallagher had engaged in any price fixing or bid rigging of the type alleged in the New York Attorney General's October 14, 2004 complaint against Marsh, nor has it engaged in any improper tying arrangements.

Gallagher is also a defendant in eight lawsuits brought by private litigants which relate to these practices. Gallagher cannot predict the outcome of these investigations, regulatory proceedings, and lawsuits, nor their effect upon Gallagher's business or financial condition.

Gallagher's contingent commissions were \$39.5 million, \$32.6 million and \$25.2 million in 2004, 2003 and 2002, respectively. The following table summarizes Gallagher's contingent commissions for the year ended December 31, 2004. Expenses directly associated with these agreements are not specifically identified, but are minimal.

Contingent Commission Revenue From	Year Ended December 31, 2004		
	Revenues	Approximate Number of	
		Agreements	Carriers
	(in millions)		
Local contingent commission contracts and programs	\$ 22.7	535	160
Local managing general agent, managing general underwriter and program administration contracts	5.7	35	25
National contingent commission contracts	11.1	20	12
Total contingent commission revenue	\$ 39.5	590	197

The amount of contingent commission revenue in 2004, 2003 and 2002 in which Gallagher participated as a retail broker and which involved volume- based or profit- based contingent commission agreements, aggregated to \$33.8 million, \$29.3 million and \$22.9 million, respectively. The loss of revenues from these agreements beginning on January 1, 2005 could have a material adverse effect on Gallagher's results of operations for 2005.

Critical Accounting Policies

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

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 carriers, 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 carrier. A contingent commission is a commission paid by an insurance carrier that is based on the overall profit and/or volume of the business placed with that insurance carrier. Commissions on premiums billed directly by insurance carriers relate to a large number of small premium transactions, whereby the billing and policy issuance process is controlled entirely by the insurance carrier. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

Fee revenues generated from the Brokerage 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 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. These fee revenues are recognized ratably as the services are rendered. The income effects of subsequent fee adjustments are recorded when the adjustments become known.

Premiums and fees receivable in the consolidated balance sheet 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 necessary. The use of different estimates or assumptions could produce different results.

Fair Value of Investments

For investments that do not have quoted market prices, Gallagher utilizes various valuation techniques to estimate fair value and proactively looks for indicators of impairment. Factors, among others, that may indicate that an impairment could exist, include defaults on interest and/or principal payments, reductions or changes to dividend payments, sustained operating losses or a trend of poor operating performance, recent refinancings or recapitalizations, unfavorable press reports, untimely filing of financial information, significant customer or revenue loss, litigation, tax audits, losses by other companies in a similar industry, overall economic conditions, management and expert advisor changes, and significant changes in strategy. In addition, in cases where the ultimate value of an investment is directly dependent on Gallagher for future financial support, Gallagher assesses its willingness and intent to provide future funding.

If an indicator of impairment exists, Gallagher compares the investment's carrying value to an estimate of its fair value. To estimate the fair value of loans, Gallagher discounts the expected future cash flows from principal and interest payments. This requires Gallagher to exercise significant judgment when estimating both the amount and the timing of the expected cash flows. To estimate the fair value of its equity investments, Gallagher compares values established in recent recapitalizations or appraisals conducted by third parties. In some cases, no such recapitalizations or appraisals exist and Gallagher must perform its own valuations. This also requires Gallagher to exercise significant judgment. Even if impairment indicators exist, no write- down may be required if the estimated fair value is not less than the current carrying value or the decline in value is determined to be temporary and Gallagher has the ability and intent to hold the investment for a period of time sufficient for the value to recover. When Gallagher determines an impairment is other- than- temporary, and therefore that a write- down is required, it is recorded as a realized loss against current period earnings.

Both the process to review for indicators of impairment and, if such indicators exist, the method to compute the amount of impairment incorporate quantitative data and qualitative criteria including the receipt of new information that can dramatically change the decision about the valuation of an investment in a short period of time. The determination of whether a decline in fair value is other- than- temporary is necessarily a matter of subjective judgment. The timing and amount of realized losses reported in earnings could vary if management's conclusions were different.

Due to the inherent risk of investments, Gallagher cannot give assurance that there will not be impairments in the future should economic and other conditions change.

Intangible Assets

Intangible assets represent the excess of cost over the value of net tangible assets of acquired businesses. Gallagher classifies its intangible assets as either goodwill, expiration lists or 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), while goodwill is not subject to amortization. Allocation of intangible assets between goodwill, expiration lists and non- compete agreements and the determination of estimated useful lives are based on valuations Gallagher receives 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. Intangible assets are carried at cost, less accumulated amortization in the accompanying consolidated balance sheet.

While goodwill is not amortized, it is subject to periodic reviews for impairment. Gallagher reviews intangible assets for impairment periodically (at least annually) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Such impairment reviews are performed at the division level with respect to goodwill and at the business unit level for amortizable intangible assets. In reviewing intangible assets, if the fair value were less than the carrying amount of the respective (or underlying) asset, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings. In 2004, Gallagher determined that an indicator of impairment existed related to the amortizable assets of one of its 2001 acquisitions. Based on the results of this impairment review, Gallagher wrote- off \$1.8 million of amortizable assets in 2004. No such indicators were noted in 2003 and 2002. 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.

Business Combinations

See Note 4 to the consolidated financial statements for a discussion on the 2004 business combinations.

Results of Operations

In the discussion that follows regarding Gallagher's results of operations, Gallagher provides organic growth percentages with respect to its commission and fee revenues. This information may be considered a "non- GAAP financial measure" because it is derived from Gallagher's consolidated financial information but is not required to be presented in financial statements that are prepared in conformity with GAAP. Rules and regulations of the Securities and Exchange Commission (SEC) require supplemental explanations and reconciliations of all "non- GAAP financial measures." When Gallagher refers to organic growth percentages with respect to its commission and fee revenues in its discussion of results of operations, Gallagher excludes the first twelve months of net commission and fee revenues generated from the acquisitions in each year presented. These acquisition- related commissions and fees are excluded from organic revenues in order to determine the revenue growth that is associated with the operations that were part of Gallagher in the prior year. Management has historically utilized organic revenue growth as an important indicator when assessing and evaluating the performance of its Brokerage and Risk Management segments. Management also believes that the use of this measure allows financial statement users to measure, analyze and compare the growth from its Brokerage and Risk Management segments in a meaningful and consistent manner. A reconciliation of organic revenue growth percentages to the reported revenue growth percentages for the Brokerage and Risk Management segments is presented in the paragraphs immediately following each table in which such percentages are presented.

Brokerage

The Brokerage segment comprises three operating divisions: the Brokerage Services- Retail Division (BSD), Specialty Marketing and International (SMI) and Gallagher Benefit Services (GBS). The Brokerage segment, for commission or fee compensation, places commercial P/C and employee benefit- related insurance on behalf of its customers. Financial information relating to Gallagher's Brokerage segment is as follows (in millions):

	2004	Percent Change	2003	Percent Change	2002
Commissions	\$ 801.9	7%	\$ 746.2	13%	\$ 662.9
Fees	152.4	12%	135.5	24%	109.0
Investment income - fiduciary	13.4	79%	7.5	(20)%	9.4
Gross revenues	967.7	9%	889.2	14%	781.3
Less brokerage	(41.3)	1%	(40.7)	(1)%	(41.1)
Total revenues	926.4	9%	848.5	15%	740.2
Compensation	532.8	11%	482.1	14%	424.0
Operating	177.5	3%	172.2	15%	150.0
Depreciation	12.9	7%	12.1	11%	10.9
Amortization	18.1	85%	9.8	48%	6.6
Total expenses	741.3	10%	676.2	14%	591.5
Earnings before income taxes	185.1	7%	172.3	16%	148.7
Provision for income taxes	36.9	(12)%	42.1	(6)%	44.6
Net earnings	\$ 148.2	14%	\$ 130.2	25%	\$ 104.1
Growth - revenues	9%		15%		28%
Organic growth in commissions and fees	2%		10%		17%
Growth - pretax earnings	7%		16%		27%
Compensation expense ratio	55%		54%		54%
Other operating expense ratio	18%		19%		19%
Pretax profit margin	19%		19%		19%
Effective tax rate	20%		24%		30%
Identifiable assets at December 31	\$ 2,354.5		\$ 2,042.9		\$ 1,755.2

The increase in commissions for 2004 compared to 2003 was principally due to new business production, renewal rate increases and an increase in contingent commissions, all of which aggregated to \$174.0 million and were offset by lost business of \$118.0 million. The increase in fees for 2004 compared to 2003 resulted from new business production and renewal rate increases of approximately \$35.0 million, which were offset by lost business of \$18.0 million. Also contributing to the increase in commissions and fees in 2004 were revenues associated with the acquisitions that were made in the last 12 months. The increase in commissions for 2003 compared to 2002 was principally due to new business production, renewal rate increases and an increase in contingent commissions, all of which aggregated to \$197.0 million and were offset by lost business of \$114.0 million. The increase in fees for 2003 compared to 2002 resulted from new business production and renewal rate increases of approximately \$39.0 million, which were offset by lost business of \$13.0 million. Also contributing to the increase in commissions and fees in 2003 were revenues associated with the acquisitions that were made in the last 12 months. The organic growth in commission and fee revenues was 2% in 2004, 10% in 2003 and 17% in 2002. The following acquisition- related commission and fee revenues were excluded in deriving the organic growth percentages: \$55.1 million in 2004, \$34.8 million in 2003 and \$69.5 million in 2002.

Investment income - fiduciary, which represents interest income earned on cash and restricted funds, increased in 2004 as rates of return have increased and the amount of invested cash has continued to grow. The investment income earned on these funds decreased in 2003 compared to 2002 primarily due to reductions in short- term interest rates. While the amount of invested cash and rates of return have increased, rates of return are still at historically low levels.

The increase in compensation expense in 2004 compared to 2003 was primarily due to an increase in the average number of employees, salary increases, increases in incentive compensation linked to Gallagher's overall operating results (\$30.8 million in the aggregate), an increase in employee benefit expenses (\$5.6 million), the adverse impact of foreign currency translation (\$5.5 million), one- time compensation related restructuring charges related to Gallagher's London operations (\$3.4 million), the expensing of stock- based compensation in 2004 (\$3.2 million) which began prospectively in 2003 and an increase in the amortization of deferred compensation and restricted stock (\$2.2 million). The increase in employee headcount in 2004 primarily relates to the addition of employees associated with the acquisitions that were made in the last 12 months. Compensation as a percentage of commission and fee revenues was 55% in 2004 and 54% in 2003 and 2002. The increase in compensation expense in 2003 compared to 2002 was primarily due to an increase in the average number of employees, salary increases, increases in incentive compensation linked to Gallagher's overall operating results, a corresponding increase in employee benefit expenses, increases in pension and medical insurance costs, the expensing of stock- based compensation in 2003 and the adverse impact of foreign currency translation. The increase in employee headcount in 2003 primarily relates to the addition of employees associated with the acquisitions that were made in the last 12 months and the full year effect of additional employees hired throughout 2002 as part of an initiative by Gallagher to grow revenues through targeted strategic hiring.

The increases in other operating expenses in 2004 compared to 2003 were due primarily to an increase in fees for professional services (\$8.0 million), costs associated with leased office space and office expansion (\$5.1 million), increases in travel and entertainment costs primarily related to new business development from new producers (\$2.8 million) and expenses associated with the acquisitions that were made in the last 12 months. These increases were offset by a reduction in business insurance costs (\$4.2 million), a net year- over- year foreign exchange gain (\$2.3 million) and a decrease in minority interest expense (\$1.8 million). The decrease in minority interest expense was due to the acquisition of the remaining 50% ownership interest in Risk Management Partners Ltd. in first quarter 2004. Included in fees for professional services in 2004 were \$4.1 million for external costs to implement Sarbanes- Oxley 404 requirements and \$1.7 million related to the subpoenas received from state attorneys general and investigations by governmental authorities as well as the internal review that was conducted by independent counsel and consulting fees related to sourcing and other cost containment initiatives. The increases in other operating expenses in 2003 compared to 2002 were due primarily to an increase in fees for professional services, costs associated with leased office space and office expansion, business insurance costs and expenses associated with the acquisitions that were made in 2003. Also contributing were increases in travel and entertainment costs primarily related to new business development by new producers.

The increases in depreciation expense in 2004 compared to 2003 and 2003 compared to 2002 were due primarily to the purchases of furniture, equipment and leasehold improvements related to office expansions and moves made during 2004 and 2003, respectively. Also contributing to the increases in 2004 and 2003 was the depreciation expense associated with the acquisitions completed during the respective and preceding years.

The increases in amortization in 2004 compared to 2003 and 2003 compared to 2002 were due primarily to amortization expense of intangible assets associated with acquisitions completed in 2004, 2003 and 2002. 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). Also contributing to the increase in amortization expense was the \$1.8 million write- off of amortizable assets in 2004 related to one of Gallagher's 2001 acquisitions.

See the Results of Operations for the Financial Services segment for a discussion on changes in the overall effective income tax rate in 2004 compared to 2003 and 2003 compared to 2002.

Risk Management

The Risk Management segment provides P/C and health claim third- party administration, loss control and risk management consulting and insurance property appraisals. Third- party administration is principally the management and processing of claims for self- insurance programs of Gallagher's clients or clients of other brokers. Approximately 90% of this segment's total revenues relate to the P/C operations. Financial information relating to Gallagher's Risk Management segment is as follows (in millions):

	2004	Percent Change	2003	Percent Change	2002
Fees	\$ 370.9	16%	\$ 320.7	14%	\$ 280.4
Investment income - fiduciary	1.7	70%	1.0	25%	0.8
Total revenues	372.6	16%	321.7	14%	281.2
Compensation	202.6	13%	178.7	12%	159.9
Operating	100.0	10%	90.6	13%	80.4
Depreciation	9.4	0%	9.4	1%	9.3
Amortization	0.4	NMF	0.1	NMF	-
Total expenses	312.4	12%	278.8	12%	249.6
Earnings before income taxes	60.2	40%	42.9	36%	31.6
Provision for income taxes	12.1	16%	10.4	11%	9.4
Net earnings	\$ 48.1	48%	\$ 32.5	46%	\$ 22.2
Growth - revenues	16%		14%		6%
Organic growth in fees	16%		14%		6%
Growth - pretax earnings	40%		36%		1%
Compensation expense ratio	55%		56%		57%
Other operating expense ratio	27%		28%		29%
Pretax profit margin	16%		13%		11%
Effective tax rate	20%		24%		30%
Identifiable assets at December 31	\$ 235.8		\$ 201.8		\$ 73.6

The increase in fees for 2004 compared to 2003 and 2003 compared to 2002 was due primarily to new business production, renewal rate increases and highly favorable retention rates on existing business, all of which aggregated to \$72.0 million in 2004 and \$68.0 million in 2003 and was offset by lost business of \$25.0 million in 2004 and \$28.0 million in 2003. Also, included in 2004 fees are \$2.7 million of one- time revenues related to two client projects that were completed in fourth quarter 2004. The organic growth in fee revenues was 16% in 2004, 14% in 2003 and 6% in 2002. Historically, the Risk Management segment has made few acquisitions, which have not been material to this segment's operations. Thus, there typically is no material difference between reported revenues and organic revenues for this segment.

Investment income - fiduciary, which represents interest income earned on Gallagher's cash and cash equivalents, was relatively unchanged in 2004, 2003 and 2002. While the amount of invested cash and rates of return have increased, rates of return are still at historically low levels.

The increase in compensation expense in 2004 compared to 2003 was due to an increase in the average number of employees and increases in incentive compensation linked to Gallagher's overall operating results (\$19.6 million in the aggregate), an increase in employee benefit expenses (\$2.1 million), the adverse impact of foreign currency translation (\$1.7 million), and the expensing of stock- based compensation in 2004 (\$0.5 million). The increase in compensation expense in 2003 compared to 2002 was due to an increase in the average number of employees, salary increases, a corresponding increase in employee benefit expenses, an increase in the use of temporary staffing, and increases in pension and medical insurance costs in 2003. The increase in employee headcount relates to the hiring of additional claims staff to support new business generated.

The increase in other operating expenses in 2004 compared to 2003 was due primarily to increases in business insurance costs (\$3.5 million), rent and utility costs associated with leased office space and office expansion (\$2.2 million), fees for professional services (\$1.1 million), and increases in travel and entertainment costs (\$1.2 million). The increases in other operating expenses in 2003 compared to 2002 were due primarily to an increase in fees for professional services, costs associated with leased office space and office expansion and business insurance costs.

Depreciation expense was relatively unchanged in 2004 compared to 2003 and 2003 compared to 2002. Changes in depreciation expense from year-to-year are due primarily to the timing of purchases of furniture, equipment and leasehold improvements related to office expansions and moves.

The increase in amortization in 2004 compared to 2003 was due to amortization expense of intangible assets associated with an acquisition that was completed in fourth quarter 2003. 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).

See the Results of Operations for the Financial Services segment for a discussion on changes in the overall effective income tax rate in 2004 compared to 2003 and 2003 compared to 2002.

The increase in identifiable assets in 2003 compared to 2002 is primarily due to the inclusion of client claim funds held by Gallagher Bassett (GB) in a fiduciary capacity in Gallagher's December 31, 2004 and 2003 consolidated balance sheet. These funds relate to GB's third- party administration business, which were not previously reported in Gallagher's December 31, 2002 consolidated balance sheet. GB does not earn any interest income on these funds held. These client funds have been included in restricted cash, along with a corresponding liability, in the accompanying consolidated balance sheet.

Financial Services

The Financial Services segment is responsible for managing Gallagher's investment portfolio. See Note 3 to the consolidated financial statements for a summary of Gallagher's investments as of December 31, 2004 and 2003 and a detailed discussion on the nature of the investments held. Financial information relating to Gallagher's Financial Services segment is as follows (in millions):

	2004	Percent Change	2003	Percent Change	2002
Investment income:					
Trading securities	\$ 0.3	(96)%	\$ 7.0	52%	\$ 4.6
Asset Alliance Corporation (AAC) related investments	3.6	(29)%	5.1	19%	4.3
Low income housing investments	2.3	130%	1.0	(63)%	2.7
Alternative energy investments	45.4	10%	41.3	13%	36.5
Real estate, venture capital and other investments	0.7	240%	(0.5)	(150)%	(0.2)
Consolidated investments	52.0	233%	15.6	59%	9.8
Impact of FIN 46 from consolidated investments	69.9	51%	46.4	NMF	-
Other	(1.0)	(145)%	2.2	(31)%	3.2
Total investment income	173.2	47%	118.1	94%	60.9
Investment gains (losses)	8.1	133%	(24.5)	(11)%	(22.0)
Total revenues	181.3	94%	93.6	141%	38.9
Investment expenses	101.9	90%	53.7	189%	18.6
Impact of FIN 46 on investment expenses	67.2	52%	44.1	NMF	-
Interest	9.5	19%	8.0	(16)%	9.5
Depreciation	9.8	32%	7.4	32%	5.6
Impact of FIN 46 on depreciation	2.7	17%	2.3	NMF	-
Total expenses	191.1	65%	115.5	243%	33.7
Earnings (loss) before income taxes	(9.8)	55%	(21.9)	NMF	5.2
Provision (benefit) for income taxes	(2.0)	63%	(5.4)	NMF	1.6
Net earnings (loss)	\$ (7.8)	53%	\$ (16.5)	NMF	\$ 3.6
Identifiable assets at December 31	\$ 647.6		\$ 656.9		\$ 634.8

Investment income from trading securities decreased in 2004 compared to 2003 due to the liquidation of the trading securities portfolio for cash during the latter part of 2003 and first quarter 2004. Amounts included in investment income from trading securities represent interest and dividend income and normal recurring realized and unrealized gains and losses on trading securities. Prior to September 30, 2002, this portfolio was accounted for as available for sale, with the unrealized gains and losses recorded in stockholder's equity. The increase in 2003 was primarily due to a rebound in the equity markets from the depressed levels in 2002.

Investment income from AAC related investments primarily represents income associated with Gallagher's debt, preferred stock and common stock investments in AAC. Gallagher accounts for the common stock portion of its investment using equity method accounting and accounts for the interest and dividend income on its debt and preferred stock investments as it is earned. The decrease in AAC related income in 2004 compared to 2003 was due to a moderate decline in AAC's operational results in 2004 and to a reduction in the amount invested by Gallagher in AAC debt and preferred stock. The increase in 2003 compared to 2002 was primarily the result of an increase in AAC's operational results in 2003 and dividends received from AAC's preferred stock.

Investment income from low income housing (LIH) developments primarily represents income associated with Gallagher's equity investment in a LIH Developer that is accounted for using equity method accounting and interest income from bridge loans made by Gallagher related to LIH developments. The increase in LIH income in 2004 compared to 2003 was due to the timing of project sale transactions of the LIH developer that generated equity income to Gallagher in 2004 offset by a decrease in bridge loans and the related interest income in 2004. The decrease in 2003 compared to 2002 was due to a reduction in project sale transactions of the LIH developer in 2003.

Investment income from alternative energy investments relates to installment gains from several sales of Gallagher's interests in limited partnerships that operate Syn/Coal facilities that occurred in the latter part of 2001, first quarter 2002 and second and third quarters 2004. The increase in installment gains in both 2004 and 2003 was a direct result of higher Syn/Coal production at the facilities.

Income (losses) from real estate, venture capital and other investments principally relates to Gallagher's portion of the earnings (losses) of these entities accounted for using equity method accounting. The increase in income from these investments in 2004 compared to 2003 is primarily a result of writing off investments in 2003 and 2002 that were generating losses.

Investment income from consolidated investments includes income related to the Florida Community Development, Gallagher's home office building, the airplane leasing company and two Syn/Coal facilities. Investment income related to the Florida Community Development in 2004, 2003 and 2002 was \$10.1 million, \$5.0 million and \$2.2 million, respectively, and primarily relates to sales of lots at the development. Total expenses, including interest and depreciation expenses, relating to this income were \$12.6 million, \$6.1 million and \$2.6 million in 2004, 2003 and 2002, respectively. Rental income of the home office building was \$6.6 million, \$6.8 million and \$7.2 million in 2004, 2003 and 2002, respectively. Total expenses associated with the home office building rental income, including interest and depreciation expenses, were \$6.6 million, \$6.6 million and \$7.5 million in 2004, 2003 and 2002, respectively. In 2004, 2003 and 2002, rental income of the airplane leasing company was \$3.4 million, \$3.2 million and \$1.9 million, respectively, and total expenses associated with this income, including interest and depreciation expenses, was \$4.9 million, \$5.0 million and \$3.4 million, respectively. In 2004 and 2003, income from the Syn/Coal facilities were \$31.9 million and \$1.0 million, respectively. Total expenses, including interest and depreciation expenses, relating to this income were \$61.2 million and \$15.9 million in 2004 and 2003, respectively. There was no income or expense from the Syn/Coal operations in 2002. Gallagher acquired its interest in these two facilities in fourth quarter 2003 and second quarter 2004, which resulted in the 2004 increases in Syn/Coal related income and expenses.

Investment income from consolidated investments for 2004 and 2003 was also impacted by the adoption of FIN 46. Effective July 1, 2003, Gallagher early adopted FIN 46, which required Gallagher to consolidate a Syn/Coal partnership in which it had a 5% ownership interest at the time of consolidation. Prior to July 1, 2003, this partnership was not consolidated because it was not controlled by Gallagher through a majority voting interest. Gallagher recognized both investment income and expenses of \$69.9 million and \$46.4 million in 2004 and 2003, related to the consolidation of the Syn/Coal partnership. During third quarter 2004, Gallagher sold a 4% ownership interest in this investment, which eliminated the requirement to consolidate the investment under the FIN 46 rules. This investment is now accounted for using equity method accounting.

Investment gains (losses) primarily include realized gains and losses that occurred in the respective years related to write- downs, dispositions and recoveries of venture capital investments, which included loans and equity holdings in start- up companies. During 2004, Gallagher recognized a net \$8.1 million investment gain related to assets written- off or losses incurred in 2003, the main components of which were as follows: a \$2.0 million reversal of a loss contingency reserve, a \$1.0 million recovery of previously accrued interest income, a \$3.0 million recovery of unsecured notes receivable, a \$0.5 million gain from a distribution on an investment previously written- off and a \$0.7 million gain related to distributions received from a venture capital fund. The reversal of the loss contingency reserve was made as a result of the successfully completed funding transaction related to a Gallagher partially owned Biogas Project. During 2003, Gallagher incurred \$29.1 million of investment losses and generated \$4.6 million of investment gains, for a net loss of \$24.5 million. Substantially all of these losses (\$25.7 million) related to write- downs and dispositions when Gallagher decided to withdraw virtually all continued support for its venture capital investments in first quarter 2003, except to the limited extent needed to realize value from the remaining assets. Without Gallagher's support at that time, it was doubtful that these operations would be able to execute their business plans. Therefore, Gallagher's investments were determined to be other- than- temporarily impaired. During 2002, Gallagher recognized a net loss of \$28.8 million related to write- downs of loans and equity holdings from its venture capital investments due to a decline in the equity markets and generally poor economic conditions during 2002. Substantially all of these write- downs were recognized in third quarter 2002 when the equity markets were at their lows for the year. In addition, Gallagher incurred a \$3.6 million loss in 2002 on the sale of a venture capital investment and recognized a \$3.0 million loss in 2002 through equity method accounting for AAC's write- down of its investment in Beacon Hill Asset Management LLC. These 2002 losses were partially offset by an \$11.8 million gain related to the sale of a portion of Gallagher's equity position in AAC to an international financial institution that was completed in second quarter 2002. Gallagher also recognized one- time gains in 2002 of \$2.0 million related to guarantee fee income and \$2.5 million related to the disposition of a branch operation. In addition, in 2002, Gallagher incurred \$3.0 million of losses for other- than- temporary impairments related to its directly managed securities portfolio that prior to September 2002 were classified as available for sale. The other- than- temporary impairments resulted from a sharp decline in the equity markets during 2002.

Investment expenses include operating expenses of the alternative energy investments, expenses of the real estate partnerships and airplane leasing company and expenses related to compensation, professional fees and overhead expenses such as rent and utilities. The increase in investment expenses for 2004 compared to 2003 and 2003 compared to 2002 was primarily due to increases in direct operating expenses of the alternative energy investments (\$46.0 million in 2004 and \$14.4 million in 2003) and to increases in expenses of the Florida Community Development related to the sales of lots at the development (\$6.5 million in 2004 and \$3.5 million in 2003). Also contributing to the increase in 2003 investment expenses were increases in management incentive compensation associated with investment results (\$5.9 million).

Investment and depreciation expenses for 2004 and 2003 increased significantly due to the adoption of FIN 46 and the related consolidation of the Syn/Coal partnerships.

The increase in interest expense in 2004 compared to 2003 is due to the additional debt in 2004 related to a Biogas project and one Syn/Coal facility. The decrease in interest expense in 2003 compared to 2002 was due to reductions in the amount of corporate related borrowings and to reductions in short-term interest rates in 2003 compared to 2002.

Gallagher's overall effective income tax rate reflects the tax credits generated by investments in limited partnerships that operate alternative energy projects (IRC Section 29) and low income housing, which are partially offset by state and foreign taxes. The increase in production from the Syn/Coal facilities in each of 2004, 2003 and 2002 resulted in effective tax rates in 2004 of 20%, 2003 of 24% and 2002 of 30%, which are below the statutory rates. Assuming no negative developments occur with respect to the availability of Syn/Coal Credits, Gallagher expects that tax credits will keep the effective tax rate in the lower 20% range for 2005.

IRC Section 29 tax credits expire on December 31, 2007 and, if the law is not extended, Gallagher's effective tax rate in 2008 will likely adjust upward to approximately 35% to 40%. In addition, through December 31, 2007, IRC Section 29 has a phase-out provision that is triggered when the "Market Wellhead Price" of domestic crude oil reaches certain "Phase-out Prices" as determined by the IRS. The "Market Wellhead Prices" of domestic crude and the "Phase-out Prices" as determined by the IRS for the last four years are as follows:

Calendar Year	Market Wellhead Price (1)	Phase-out Price (2)	
		Starts At	Fully Phased Out At
2000	\$ 26.73	\$ 48.07	\$ 60.34
2001	21.86	49.15	61.70
2002	22.51	49.75	62.45
2003	27.56	50.14	62.94
2004 (estimated based on first 10 months 2004)	36.16(3)	51.70	64.90

- (1) Market Wellhead Price is the IRS' estimate of the calendar year average wellhead price per barrel for all domestic crude oil, the price of which is not subject to regulation by the United States. The IRS historically estimates this price based on the monthly average wellhead price of domestic crude oil as published by the Department of Energy as Domestic First Purchase Prices. This Market Wellhead Price has historically been approximately \$3.50 to \$4.00 below the commonly reported crude oil price of futures contracts traded on the New York Mercantile Exchange.
- (2) Phase-out Prices for 2000 to 2003 as established by the IRS. These Phase-out Prices are based on an inflation adjustment factor. This factor represents the change since calendar year 1979 of the first revision of the implicit price deflator for the gross national product of the United States as computed and published by the U.S. Department of Commerce. The IRS will not publish the Phase-out Prices for calendar year 2004 until April or May 2005. The 2004 Phase-out Prices represent management's best estimate using the latest public information available. There can be no assurance that management's estimated Phase-out Prices will approximate what the IRS ultimately publishes.
- (3) This amount represents an estimated, ten-month average of Market Wellhead Prices. The table below shows the published prices through October 2004 (latest Department of Energy data available). November and December prices have been estimated by management. There can be no assurance that management's estimate will approximate what is ultimately published by the Department of Energy or the IRS. The 2004 monthly rates are as follows:

January	\$ 30.35	April	\$ 33.23	July	\$ 36.53	October	\$ 46.26
February	31.21	May	36.07	August	40.10	November	44.06
March	32.86	June	34.53	September	40.63	December	38.74

As indicated in the above table, oil prices fluctuated dramatically in 2004. Because oil prices are substantially below the 2004 estimated Phase- out Price, there will be no phase- out for 2004. To trigger the start of a phase- out in 2005, management estimates that the Market Wellhead Price would need to average over \$52 for the entire calendar year and over \$65 to fully phase- out for 2005. As of January 10, 2005, the commonly reported price of crude oil (which has historically been about \$3.50 to \$4.00 above the Wellhead Price) was \$45.33. There can be no assurance that future oil prices will remain under future phase- out levels. Should Gallagher or its partners anticipate that oil prices may reach the range of Phase- out Prices in 2005, some or all of Gallagher's IRC Section 29 operations could be curtailed.

The following table illustrates the impact on net earnings and net earnings per share as if Gallagher had curtailed all IRC Section 29- related operations as of January 1, 2002 for the years ended December 31, 2004, 2003 and 2002. This illustration is prepared for comparative purposes only and does not purport to be indicative of past or future operating results.

Year Ended December 31,				
	2004	2003	2002	
Pretax earnings as reported	\$ 235.5	\$ 193.3	\$ 185.5	
Pro forma pretax adjustment for IRC Section 29 operations	(6.5)	(11.9)	(18.2)	
Pro forma pretax earnings	229.0	181.4	167.3	
Pro forma income tax provision assuming a 37.5% effective rate	85.9	68.0	62.7	
Pro forma net earnings	\$ 143.1	\$ 113.4	\$ 104.6	
Diluted net earnings per share - pro forma	\$ 1.51	\$ 1.22	\$ 1.14	

Financial Condition and Liquidity

Cash Provided by Operations - Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations. The insurance brokerage industry is not capital intensive. Historically, Gallagher's capital requirements have primarily included dividend payments on its common stock, repurchases of its common stock, funding of its investments, acquisitions of brokerage and risk management operations and capital expenditures. The capital used to fund Gallagher's investment portfolio was primarily generated from the excess cash provided by its operations and tax savings generated from tax advantaged investments. During 2003, Gallagher decided to withdraw virtually all continued support for its venture capital investments and to liquidate its trading securities portfolio. As a result, the capital requirements for funding Gallagher's investments have decreased dramatically and the net cash flow related to investment activities in 2004 has been cash flow positive and it should continue to be cash flow positive in the future.

Gallagher's ability to meet its future cash requirements related to the payments of dividends on its common stock and the repurchases of its common stock substantially depends upon its ability to generate positive cash flows from its operating activities. Cash provided by operating activities was \$277.2 million, \$229.0 million and \$149.7 million for 2004, 2003 and 2002, respectively. The increase in cash provided by operating activities in 2004 compared to 2003 and 2003 compared to 2002 is primarily due to the increase in net earnings. In addition, the liquidation of the majority of the trading securities portfolio during 2003 contributed to the increase in cash provided by operating activities in 2003. Gallagher's cash flows from operating activities are primarily derived from its net earnings, as adjusted for realized gains and losses and its noncash expenses, which include depreciation, amortization, deferred compensation, restricted stock and stock- based compensation expenses. When assessing the overall liquidity of Gallagher, the focus should be on net earnings, adjusted for noncash items, in the statement of earnings and cash provided by operating activities in the statement of cash flows as indicators of trends in liquidity. From a balance sheet perspective, the focus should not be on premium and fees receivables, premium payables or restricted cash for trends in liquidity. Because of the variability related to the timing of premiums and fees receivable and premiums payable, net cash flows provided by operations will vary substantially from quarter- to- quarter and year- to- year related to these items. In addition, funds restricted as to Gallagher's use, primarily premiums held as fiduciary funds, are presented in Gallagher's consolidated balance sheet as "Restricted cash" and have not been included in determining Gallagher's overall liquidity. In order to consider these items in assessing trends in liquidity for Gallagher, they should be looked at in a combined manner, because changes in these balances are interrelated and are based on the timing of premium movement. In assessing the overall liquidity of Gallagher from a balance sheet perspective, it should be noted that at December 31, 2004, Gallagher had no Corporate related borrowings outstanding, a cash and cash equivalent balance of \$224.6 million and tangible net worth of \$386.8 million. Gallagher has a \$250.0 million unsecured revolving credit agreement (Credit Agreement) it borrows under from time- to- time to supplement operating cash flows. Due to outstanding letters of credit, only \$211.9 million remained available for potential borrowings at January 19, 2005. The Credit Agreement contains various covenants that require Gallagher to maintain specified levels of net worth and financial leverage ratios. Gallagher was in compliance with these covenants at December 31, 2004.

Gallagher's net earnings have increased every year since 1991. Gallagher expects this favorable trend to continue in the foreseeable future because it intends to expand its business through organic growth from existing operations and growth through acquisitions. Acquisitions allow Gallagher to expand into desirable businesses and geographic locations, further extend its presence in the retail and wholesale insurance brokerage services industry and increase the volume of general services currently provided. However, management has no plans to substantially change the nature of the services performed by Gallagher. Gallagher believes that it has the ability to adequately fund future acquisitions through the use of cash and/or its common stock.

Another source of liquidity to Gallagher is the issuance of its common stock related to its stock option and employee stock purchase plans. Gallagher has four stock option plans for directors, 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 and generally become exercisable at the rate of 10% per year beginning the calendar year after the date of grant. In addition, Gallagher has an employee stock purchase plan under which it allows Gallagher's employees to purchase its common stock at 85% of its fair market value. Proceeds from the issuance of its common stock related to these plans have contributed favorably to net cash provided by financing activities and Gallagher believes this favorable trend will continue in the foreseeable future.

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 would 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, Gallagher has historically been profitable and cash flows from operations and short- term borrowings under its Credit Agreement 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.

Dividends - In 2004 Gallagher declared \$91.8 million in cash dividends on its common stock, or \$1.00 per common share. 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. On January 14, 2005, Gallagher paid a fourth quarter dividend of \$.25 per common share to shareholders of record at December 31, 2004, a 39% increase over the fourth quarter dividend per share in 2003. On January 19, 2005, Gallagher announced an increase in its quarterly dividend for the first quarter of 2005 from \$.25 to \$.28 per common share, a 12% increase over 2004. If each quarterly dividend in 2005 is \$.28 per common share, this increase in the dividend will result in an annualized increase in the net cash used by financing activities in 2005 of approximately \$12.0 million.

Capital Expenditures - Net capital expenditures were \$29.0 million, \$25.3 million and \$45.4 million for 2004, 2003 and 2002, respectively. These amounts include net capital expenditures of the two previously discussed real estate partnerships of \$4.7 million in 2004, \$5.8 million in 2003 and \$11.5 million in 2002, the majority of which are related to the Florida Community Development. Capital expenditures by Gallagher are related primarily to office relocations and expansions and updating computer systems and equipment. In 2005, exclusive of the net capital expenditures related to those two real estate partnerships, Gallagher expects total expenditures for capital improvements to be approximately \$28.0 million.

Common Stock Repurchases - Gallagher has a common stock repurchase plan that has been approved by the Board of Directors. Under the plan, Gallagher repurchased 1.8 million shares at a cost of \$56.2 million, 2.9 million shares at a cost of \$80.8 million and 0.5 million shares at a cost of \$11.7 million in 2004, 2003 and 2002, respectively. The reduction in shares repurchased in 2004 as compared to 2003 is due to increased cash used for acquisitions in 2004. Repurchased shares are held for reissuance in connection with its equity compensation and stock option plans. Under the provisions of the repurchase plan, as of December 31, 2004, Gallagher was authorized to repurchase approximately 3.8 million additional shares. 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.

Acquisitions Cash paid for acquisitions, net of cash acquired was \$112.8 million, \$28.7 million and \$5.4 million in 2004, 2003 and 2002, respectively. Prior to July 2001, substantially all acquisitions completed by Gallagher were paid for with stock consideration and were accounted for using pooling of interests accounting. Beginning in July 2001, Gallagher began accounting for acquisitions using purchase accounting, which provides the flexibility to use cash consideration in acquisitions. While stock is Gallagher's preferred "currency" for acquisitions, there were several acquisitions in 2004 where cash in lieu of stock was used in order to complete the transactions. The increased use of cash for acquisitions correlates with the reduction in common stock repurchases in 2004.

Contractual Obligations and Commitments

In connection with its investing and operating activities, Gallagher has entered into certain contractual obligations as well as funding commitments and financial guarantees. See Notes 3, 7 and 16 to the consolidated financial statements for additional discussion of these obligations and commitments. Gallagher's future minimum cash payments, excluding interest, associated with its contractual obligations pursuant to its Credit Agreement, investment related borrowings, operating leases and purchase commitments at December 31, 2004 are as follows (in millions):

Contractual Obligations	Payments Due by Period						
	2005	2006	2007	2008	2009	Thereafter	Total
Credit Agreement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment related borrowings:							
Florida Community Development debt	34.8	0.1	0.1	-	-	12.4	47.4
Home office mortgage loan	0.9	0.9	1.1	74.1	-	-	77.0
Airplane leasing company debt	2.6	29.9	-	-	-	-	32.5
Biogas project loan	0.2	0.2	0.2	0.2	0.2	13.0	14.0
Syn/Coal facility purchase note	2.8	3.3	3.5	0.9	-	-	10.5
Total debt obligations	41.3	34.4	4.9	75.2	0.2	25.4	181.4
Operating lease obligations	51.9	46.9	40.9	34.0	27.6	38.7	240.0
Net Syn/Coal purchase commitments	7.9	3.7	3.0	-	-	-	14.6
Outstanding purchase obligations	0.2	-	-	-	-	-	0.2
Total contractual obligations	\$ 101.3	\$ 85.0	\$ 48.8	\$ 109.2	\$ 27.8	\$ 64.1	\$ 436.2

The amounts presented in the table above may not necessarily reflect the actual future cash funding requirements of Gallagher, because the actual timing of the future payments made may vary from the stated contractual obligation.

Credit Agreement - Gallagher uses its \$250.0 million Credit Agreement to post letters of credit (LOCs) and from time- to- time borrow to supplement operating cash flows. At January 19, 2005, \$38.1 million of LOCs (of which Gallagher has \$19.9 million of liabilities recorded as of December 31, 2004) were outstanding under the Credit Agreement, which primarily related to Gallagher's investments as discussed in Notes 3 and 16 to the consolidated financial statements. There were no borrowings outstanding under the Credit Agreement at December 31, 2004. Accordingly, as of January 19, 2005, \$211.9 million remained available for potential borrowings, of which \$36.9 million may be in the form of additional LOCs. Gallagher is under no obligation to utilize the Credit Agreement in performing its normal business operations. See Note 7 to the consolidated financial statements for a discussion of the terms of the Credit Agreement.

Investment Related Borrowings - As more fully described in Note 3 to the consolidated financial statements, at December 31, 2004, the accompanying balance sheet includes \$181.4 million of borrowings related to Gallagher's investment related enterprises of which \$32.4 million is recourse to Gallagher. These borrowings are partially secured by the underlying assets of the investment enterprises and support their operations.

Operating Lease Obligations - 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.

Net Syn/Coal Purchase Commitments - Gallagher has interests in two Syn/Coal facilities that it consolidates. See Note 3 to the consolidated financial statements for additional disclosures regarding these partnerships. The facilities have entered into raw coal purchase and Syn/Coal sales agreements. These agreements terminate immediately in the event the Syn/Coal produced ceases to qualify for credits under IRC Section 29 or upon termination of either the purchase or sales agreements. The net annual Syn/Coal purchase commitments represent the minimum raw coal purchases at estimated costs less sales of Syn/Coal at estimated prices.

Outstanding Purchase Obligations - Gallagher is a service company and thus typically does not have a material amount of outstanding purchase obligations at any point in time. The amount disclosed in the table above represents the aggregate amount of unrecorded purchase obligations that Gallagher has outstanding as of December 31, 2004. These obligations represent agreements to purchase goods or services that were executed in the normal course of business.

Off- Balance Sheet Arrangements

Off- Balance Sheet Commitments - Gallagher's total unrecorded commitments associated with outstanding LOCs, financial guarantees and funding commitments as of December 31, 2004 are as follows (in millions):

Off- Balance Sheet Commitments	Amount of Commitment Expiration by Period						Total Amounts Committed
	2005	2006	2007	2008	2009	Thereafter	
Investment related:							
Letters of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11.3	\$ 11.3
Financial guarantees	-	-	-	-	-	2.5	2.5
Funding commitments	0.8	-	2.0	-	-	-	2.8
	0.8	-	2.0	-	-	13.8	16.6
Operations related:							
Letters of credit	1.6	-	-	-	-	5.3	6.9
Total commitments	\$ 2.4	\$ -	\$ 2.0	\$ -	\$ -	\$ 19.1	\$ 23.5

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect the actual future cash funding requirements of Gallagher. See Notes 3 and 16 to the consolidated financial statements for a discussion of Gallagher's outstanding LOCs, financial guarantees and funding commitments. All but one of the LOCs represent multiple year commitments but all have annual, automatic renewing provisions and are classified by the latest commitment date.

During the period from January 1, 2002 to December 31, 2004, Gallagher acquired 43 companies, which were accounted for as business combinations. Substantially all of the purchase agreements related to these acquisitions contain earnout obligations. The earnout obligations related to the 2004 acquisitions are disclosed in Note 3 to the consolidated financial statements. These earnout obligations represent the maximum amount of additional consideration that could be paid pursuant to the purchase agreements related to these acquisitions. These potential earnout 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 acquisition dates. Future payments made under these arrangements will generally be recorded as upward adjustments to goodwill when the earnouts are settled. The aggregate amount of unrecorded earnout obligations outstanding as of December 31, 2004 related to Gallagher's 2002, 2003 and 2004 acquisitions was \$81.9 million.

Off- Balance Sheet Debt - Gallagher's unconsolidated investment portfolio includes investments in enterprises where Gallagher's ownership interest is between 1% and 50%, whereby management has determined that Gallagher's level of economic interest is not sufficient to require consolidation. 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 sheet at December 31, 2004 and 2003. The December 31, 2004 and 2003 balance sheets of several of these unconsolidated investments contain outstanding debt, which is also not required to be included in Gallagher's consolidated balance sheet.

In certain cases, Gallagher guarantees a portion of the enterprises' debt. 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, LOCs and financial guarantees. In the event that certain of these enterprises 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 operating results and/or financial position. See Notes 3 and 16 to the consolidated financial statements.

Quantitative and Qualitative Disclosure about Market Risk

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. Historically, Gallagher has not entered into derivatives or other similar financial instruments for trading or speculative purposes. However, with respect to managing foreign currency exchange rate risk, Gallagher engaged a consultant in the latter part of 2004 to explore foreign currency hedging strategies. Based on the recommendations of the consultant, Gallagher did implement a foreign currency hedging strategy in 2005. The following analyses present the hypothetical loss in fair value of the financial instruments held by Gallagher at December 31, 2004 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 sheet 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's invested assets are primarily held as cash and cash equivalents, which are subject to various market risk exposures such as interest rate risk. The fair value of Gallagher's cash and cash equivalents investment portfolio at December 31, 2004 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, 2004.

Gallagher has other investments that have valuations that are indirectly influenced by equity market and general economic conditions that can change rapidly. In addition, some investments require direct and active financial and operational support from Gallagher. A future material adverse effect may result from changes in market conditions or if Gallagher elects to withdraw financial or operational support.

At December 31, 2004, Gallagher had no borrowings outstanding under its Credit Agreement. However, in the event that Gallagher does have borrowings outstanding, the fair value of these borrowings would likely approximate their carrying value due to their short- term duration and variable interest rates. The market risk would be 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, 2004 and the resulting fair values would not be materially different from its carrying value.

Gallagher is subject to foreign currency exchange rate risk primarily from its United Kingdom based subsidiaries that incur expenses denominated primarily 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. 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 2004 (a weakening of the U.S. dollar), earnings before income taxes would decrease by approximately \$11.2 million. 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.

Arthur J. Gallagher & Co.

Consolidated Statement of Earnings
(In millions, except per share data)

Year Ended December 31,

	2004	2003	2002
Commissions	\$ 801.9	\$ 746.2	\$ 662.9
Fees	523.3	456.2	389.4
Investment income - fiduciary funds	15.1	8.5	10.2
Investment income - all other	173.2	118.1	60.9
Investment gains (losses)	8.1	(24.5)	(22.0)
Gross revenues	1,521.6	1,304.5	1,101.4
Less brokerage	(41.3)	(40.7)	(41.1)
Total revenues	1,480.3	1,263.8	1,060.3
Compensation	735.4	660.8	583.9
Operating	277.5	262.8	230.4
Investment expenses	169.1	97.8	18.6
Interest	9.5	8.0	9.5
Depreciation	34.8	31.2	25.8
Amortization	18.5	9.9	6.6
Total expenses	1,244.8	1,070.5	874.8
Earnings before income taxes	235.5	193.3	185.5
Provision for income taxes	47.0	47.1	55.6
Net earnings	\$ 188.5	\$ 146.2	\$ 129.9
Basic net earnings per share	\$ 2.06	\$ 1.63	\$ 1.49
Diluted net earnings per share	1.99	1.57	1.41
Dividends declared per common share	1.00	.72	.60

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.

Consolidated Balance Sheet
(In millions)

December 31,

	2004	2003
Cash and cash equivalents	\$ 224.6	\$ 193.6
Restricted cash	488.9	437.6
Trading securities	-	5.0
Investments - current	26.0	26.9
Premiums and fees receivable	1,355.5	1,286.4
Other current assets	132.8	158.4
Total current assets	2,227.8	2,107.9
Investments - noncurrent	132.4	121.0
Fixed assets related to consolidated investments - net	195.6	205.2
Other fixed assets - net	63.4	61.0
Deferred income taxes	184.8	137.8
Other noncurrent assets	59.7	45.8
Goodwill - net	219.0	138.3
Amortizable intangible assets - net	155.2	84.6
Total assets	\$ 3,237.9	\$ 2,901.6
Premiums payable to insurance and reinsurance companies	\$ 1,838.9	\$ 1,743.5
Accrued compensation and other accrued liabilities	253.4	219.3
Unearned fees	35.0	27.3
Income taxes payable	24.8	24.3
Other current liabilities	18.6	16.0
Corporate related borrowings	-	-
Investment related borrowings - current	41.4	30.9
Total current liabilities	2,212.1	2,061.3
Investment related borrowings - noncurrent	140.0	122.1
Other noncurrent liabilities	124.8	99.1
Total liabilities	2,476.9	2,282.5
Stockholders' equity:		
Common stock - issued and outstanding 92.1 shares in 2004 and 90.0 shares in 2003	92.1	90.0
Capital in excess of par value	146.4	105.5
Retained earnings	539.0	442.3
Unearned deferred compensation	(12.2)	(9.6)
Unearned restricted stock	(4.3)	(9.1)
Total stockholders' equity	761.0	619.1
Total liabilities and stockholders' equity	\$ 3,237.9	\$ 2,901.6

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.

Consolidated Statement of Cash Flows
(In millions)

Year Ended December 31,

	2004	2003	2002
Cash flows from operating activities:			
Net earnings	\$ 188.5	\$ 146.2	\$ 129.9
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net loss (gain) on investments and other	(8.1)	25.0	22.7
Gain on sales of operations	-	(2.5)	(2.5)
Depreciation and amortization	53.3	41.1	32.4
Amortization of deferred compensation and restricted stock	10.0	7.6	3.4
Stock- based compensation expense	5.6	1.8	-
Increase in restricted cash	(51.3)	(181.3)	(46.8)
Increase in premiums receivable	(32.8)	(68.3)	(57.7)
Increase in premiums payable	61.8	212.7	103.0
Decrease (increase) in trading securities - net	5.9	55.5	(1.8)
Increase (decrease) in other current assets	22.6	(37.4)	(21.8)
Increase (decrease) in accrued compensation and other accrued liabilities	43.1	30.6	(7.7)
Increase (decrease) in income taxes payable	0.5	12.2	(22.8)
Tax benefit from issuance of common stock	17.6	14.1	18.7
Net change in deferred income taxes	(45.9)	(32.1)	(6.5)
Other	6.4	3.8	7.2
Net cash provided by operating activities	277.2	229.0	149.7
Cash flows from investing activities:			
Purchases of available- for- sale (AFS) marketable securities	-	-	(16.0)
Proceeds from sales and maturities of AFS marketable securities	-	-	13.7
Net additions to fixed assets	(29.0)	(25.3)	(45.4)
Cash paid for acquisitions, net of cash acquired	(112.8)	(28.7)	(5.4)
Proceeds from sales of operations	-	4.2	2.5
Other	2.8	4.0	1.9
Net cash used by investing activities	(139.0)	(45.8)	(48.7)
Cash flows from financing activities:			
Proceeds from issuance of common stock	30.6	23.7	15.5
Repurchases of common stock	(56.2)	(80.8)	(11.7)
Dividends paid	(84.9)	(61.9)	(50.4)
Borrowings on line of credit facilities	12.9	36.3	271.5

Repayments on line of credit facilities	-	(56.5)	(268.0)
Borrowings of long- term debt	-	-	0.5
Repayments of long- term debt	(9.6)	(3.0)	(4.4)
	<hr/>	<hr/>	<hr/>
Net cash used by financing activities	(107.2)	(142.2)	(47.0)
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	31.0	41.0	54.0
Cash and cash equivalents at beginning of year	193.6	152.6	98.6
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 224.6	\$ 193.6	\$ 152.6
	<hr/>	<hr/>	<hr/>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 11.5	\$ 9.2	\$ 10.7
Income taxes paid	71.3	50.0	63.1

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Consolidated Statement of Stockholders' Equity

(In millions)	Common Stock		Capital in Excess of Par Value	Retained Earnings	Unearned Deferred Comp	Unearned Restricted Stock	Accum Other Comp Earnings (Loss)	Total
	Shares	Amount						
Balance at December 31, 2001	85.1	\$ 85.1	\$ 8.8	\$ 283.8	\$ (3.4)	\$ -	\$ (2.7)	\$ 371.6
Net earnings	-	-	-	129.9	-	-	-	129.9
Net change in unrealized gain (loss) on available for sale securities	-	-	-	-	-	-	2.7	2.7
Comprehensive earnings								132.6
Cash dividends declared on common stock	-	-	-	(52.7)	-	-	-	(52.7)
Common stock issued under stock option plans	1.9	1.9	13.6	-	-	-	-	15.5
Tax benefit from issuance of common stock	-	-	18.7	-	-	-	-	18.7
Common stock repurchases	(0.5)	(0.5)	(11.2)	-	-	-	-	(11.7)
Common stock issued in seven purchase acquisitions	1.6	1.6	49.2	-	-	-	-	50.8
Common stock issued under deferred compensation	0.1	0.1	3.9	-	(3.1)	-	-	0.9
Common stock issued under restricted stock	0.3	0.3	9.7	-	-	(7.5)	-	2.5
Balance at December 31, 2002	88.5	88.5	92.7	361.0	(6.5)	(7.5)	-	528.2
Comprehensive and net earnings	-	-	-	146.2	-	-	-	146.2
Cash dividends declared on common stock	-	-	-	(64.9)	-	-	-	(64.9)
Common stock issued under stock option plans	2.1	2.1	18.0	-	-	-	-	20.1
Tax benefit from issuance of common stock	-	-	14.1	-	-	-	-	14.1
Compensation expense related to stock option plan grants	-	-	1.8	-	-	-	-	1.8
Common stock issued under	0.2	0.2	3.5	-	-	-	-	3.7

employee stock purchase plan								
Common stock repurchases	(2.9)	(2.9)	(77.9)	-	-	-	-	(80.8)
Common stock issued in twelve purchase acquisitions	1.6	1.6	41.5	-	-	-	-	43.1
Common stock issued under deferred compensation	0.2	0.2	4.3	-	(3.1)	-	-	1.4
Common stock issued under restricted stock	0.3	0.3	7.5	-	-	(1.6)	-	6.2
Balance at December 31, 2003	90.0	90.0	105.5	442.3	(9.6)	(9.1)	-	619.1
Comprehensive and net earnings	-	-	-	188.5	-	-	-	188.5
Cash dividends declared on common stock	-	-	-	(91.8)	-	-	-	(91.8)
Common stock issued under stock option plans	2.2	2.2	20.2	-	-	-	-	22.4
Tax benefit from issuance of common stock	-	-	17.6	-	-	-	-	17.6
Compensation expense related to stock option plan grants	-	-	5.6	-	-	-	-	5.6
Common stock issued under employee stock purchase plan	0.3	0.3	7.9	-	-	-	-	8.2
Common stock repurchases	(1.8)	(1.8)	(54.4)	-	-	-	-	(56.2)
Common stock issued in twelve purchase acquisitions	1.2	1.2	36.4	-	-	-	-	37.6
Common stock issued under deferred compensation	0.1	0.1	4.2	-	(2.6)	-	-	1.7
Common stock issued under restricted stock	0.1	0.1	3.4	-	-	4.8	-	8.3
Balance at December 31, 2004	92.1	\$ 92.1	\$ 146.4	\$ 539.0	\$ (12.2)	\$ (4.3)	\$ -	\$ 761.0

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.

Notes to Consolidated Financial Statements

December 31, 2004

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 (P/C) market or human resource/employee benefit market. Investment income and other revenue is generated from Gallagher's investment portfolio, which includes fiduciary funds, tax advantaged investments, real estate partnerships and other investments. Gallagher is headquartered in Itasca, Illinois, has operations in eight countries and does business in more than 100 countries globally 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). Substantially all of Gallagher's 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. See Note 3 for a discussion on a partially owned entity in which Gallagher's ownership percentage was 5% that had been consolidated in 2003 and unconsolidated in 2004 under FIN 46 rules. 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 U.S. generally accepted accounting principles (GAAP) 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 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 carriers are recognized as revenue when the data necessary to reasonably determine such amounts has been obtained by Gallagher. A contingent commission is a commission paid by an insurance carrier that is based on the overall profit and/or volume of the business placed with that insurance carrier. Commissions on premiums billed directly by insurance carriers relate to a large number of small premium transactions, whereby the billing and policy issuance process is controlled entirely by the insurance carrier. 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 carriers. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

Fee revenues generated from the Brokerage 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 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. These fee revenues are recognized ratably as the services are rendered. The income effects of subsequent fee adjustments are recorded when the adjustments become known.

Brokerage expense is deducted from gross revenues in the determination of Gallagher's total revenues. Brokerage expense represents commissions paid to sub-brokers related to the placement of certain business by Gallagher's Brokerage Services- Retail Division. This expense is recognized in the same manner as commission revenues.

Premiums and fees receivable in the accompanying consolidated balance sheet are net of allowances for estimated policy cancellations and doubtful accounts. The allowance for estimated policy cancellations was \$4.5 million and \$3.0 million at December 31, 2004 and 2003, 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 \$3.0 million and \$2.7 million at December 31, 2004 and 2003, respectively. 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 necessary. The use of different estimates or assumptions could produce different results.

Investment income primarily includes interest income, dividend income, net realized and unrealized gains (losses), income (loss) from equity investments, installment gains, income from consolidated investments and gains on sales of operations. Interest income is recorded as earned. For revenue recognition policies pertaining to net realized and unrealized gains (losses), see the accounting policy on investments with respect to trading securities 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 reporting 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 reporting 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 and are restricted as to use by laws in certain states and foreign jurisdictions in which Gallagher's subsidiaries operate. Various state and foreign agencies regulate insurance brokers and 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 statement of earnings. These unremitted amounts are reported as restricted cash in the accompanying consolidated balance sheet, with the related liability reported as premiums payable to insurance carriers. Additionally, several of Gallagher's foreign subsidiaries are required by various foreign agencies to meet certain liquidity and solvency requirements. Gallagher was in compliance with these requirements at December 31, 2004.

Related to its third party administration business, Gallagher is responsible for client claim funds that it holds in a fiduciary capacity. Gallagher does not earn any interest income on these funds held. These client funds have been included in restricted cash, along with a corresponding liability, in the accompanying consolidated balance sheet.

Investments

Trading Securities - Trading securities consisted primarily of common and preferred stocks, corporate bonds and investments structured through limited partnerships, which were liquidated during the latter part of 2003 and first quarter 2004. Trading securities were carried at fair value in the accompanying consolidated balance sheet, with unrealized gains and losses included in the consolidated statement of earnings. The fair value for these securities was primarily based on quoted market prices. To the extent that quoted market prices were not available, fair value was determined based on other relevant factors including dealer price quotations, price quotations for similar instruments in different markets and pricing models.

Other Investments - For those investments that do not have quoted market prices, Gallagher utilizes various valuation techniques to estimate fair value and proactively looks for indicators of impairment. Factors, among others, that may indicate that an impairment could exist, include defaults on interest and/or principal payments, reductions or changes to dividend payments, sustained operating losses or a trend of poor operating performance, recent refinancings or recapitalizations, unfavorable press reports, untimely filing of financial information, significant customer or revenue loss, litigation, tax audits, losses by other companies in a similar industry, overall economic conditions, management and expert advisor changes, and significant changes in strategy. In addition, in cases where the ultimate value of an investment is directly dependent on Gallagher for future financial support, Gallagher assesses its willingness and intent to provide future funding.

If an indicator of impairment exists, Gallagher compares the investment's carrying value to an estimate of its fair value. To estimate the fair value of loans, Gallagher discounts the expected future cash flows from principal and interest payments. This requires Gallagher to exercise significant judgment when estimating both the amount and the timing of the expected cash flows. To estimate the fair value of common and preferred stock investments, Gallagher compares values established in recent recapitalizations or appraisals conducted by third parties. In some cases, no such recapitalizations or appraisals exist and Gallagher must perform its own valuations. This also requires Gallagher to exercise significant judgment. Even if impairment indicators exist, no write- down may be required if the estimated fair value is not less than the current carrying value or the decline in value is determined to be temporary and Gallagher has the ability and intent to hold the investment for a period of time sufficient for the value to recover. When Gallagher determines an impairment is other- than- temporary, and therefore that a write- down is required, it is recorded as a realized loss against current period earnings.

Both the process to review for indicators of impairment and, if such indicators exist, the method to compute the amount of impairment incorporate quantitative data and qualitative criteria including the receipt of new information that can dramatically change the decision about the valuation of an investment in a short period of time. The determination of whether a decline in fair value is other- than- temporary is necessarily a matter of subjective judgment. The timing and amount of realized losses reported in earnings could vary if management's conclusions were different.

Due to the inherent risk of investments, Gallagher cannot give assurance that there will not be impairments in the future should economic and other conditions change.

Fixed Assets - Fixed assets are carried at cost, less accumulated depreciation, in the accompanying consolidated balance sheet. 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:

	Useful Life
Furniture and equipment	3 to 10 years
Buildings and improvements	3 to 40 years
Airplanes of a consolidated leasing company	15 years
Syn/Coal equipment	Monthly pro rata basis through December 2007
Leasehold improvements	Lesser of remaining life of the asset or life of lease

Intangible Assets - Intangible assets represent the excess of cost over the value of net tangible assets of acquired businesses. Gallagher classifies its intangible assets as either goodwill, expiration lists or 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), while goodwill is not subject to amortization. Allocation of intangible assets between goodwill, expiration lists and non-compete agreements and the determination of estimated useful lives are based on valuations Gallagher receives 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. Intangible assets are carried at cost, less accumulated amortization in the accompanying consolidated balance sheet.

While goodwill is not amortized, it is subject to periodic reviews for impairment (at least annually or more frequently if impairment indicators arise). Gallagher reviews goodwill for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Such impairment reviews are performed at the division level with respect to goodwill. Under those circumstances, if the fair value were less than the carrying amount of the asset, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings. In 2004, Gallagher determined that an indicator of impairment existed related to the amortizable assets of one of its 2001 acquisitions. Based on the results of this impairment review, Gallagher wrote-off \$1.8 million of amortizable assets in 2004. No such indicators were noted in 2003 and 2002. 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.

Income Taxes - Deferred income tax has been provided for the effect of temporary differences between financial reporting and tax bases of assets and liabilities and has been measured using the enacted marginal tax rates and laws that are currently in effect. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Stock-Based Compensation - During fourth quarter 2003, Gallagher adopted the fair value method of accounting for employee stock options pursuant to Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, An Amendment of SFAS No. 123." Prior to January 1, 2003, Gallagher applied the intrinsic value method as permitted under SFAS 123 and defined in Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," which excluded employee options granted at fair market value from compensation expense. Substantially all of the stock options currently outstanding have an exercise price equal to the fair market price at the date of grant and, therefore, under APB 25, virtually no compensation expense was recorded in 2002 and prior years. The change to the fair value method of accounting is being applied prospectively to all stock option awards granted, modified, or settled after January 1, 2003 and to all employee stock purchases made during 2003 and 2004 through participation in Gallagher's employee stock purchase plan. SFAS 123 requires that the fair value method for stock-based compensation be applied as of the beginning of the fiscal year in which it is adopted for all stock-based awards granted subsequent to such date. The consolidated financial statements for each of the first three quarters of 2003 were not restated for this change since its impact was not material to the amounts previously reported. The expense related to the first three quarters was charged against earnings in fourth quarter 2003. During 2004 and 2003, Gallagher recognized \$5.6 million and \$1.8 million, respectively, of compensation expense related to its stock option plans and its employee stock purchase plan.

At December 31, 2004, Gallagher had four stock option 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. For all options granted prior to January 1, 2003, Gallagher continues to account for

stock option grants under the recognition and measurement principles of APB 25 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 consistently applied the fair value recognition provisions of SFAS 123 to stock- based employee compensation (in millions):

	Year Ended December 31,		
	2004	2003	2002
Net earnings - as reported	\$ 188.5	\$ 146.2	\$ 129.9
Add: Stock- based employee compensation expense included in reported net earnings, net of related tax effects	4.5	1.4	-
Deduct: Total stock- based employee compensation expense determined under fair value based method for all awards (see Note 10), net of related tax effects	(8.0)	(5.5)	(4.0)
Pro forma net earnings	\$ 185.0	\$ 142.1	\$ 125.9
Basic net earnings per share - as reported	\$ 2.06	\$ 1.63	\$ 1.49
Basic net earnings per share - pro forma	2.02	1.58	1.44
Diluted net earnings per share - as reported	1.99	1.57	1.41
Diluted net earnings per share - pro forma	1.96	1.54	1.38

As presented in the table above, had Gallagher applied the fair value recognition provisions of SFAS 123 to the 2002 and prior stock options grants, diluted net earnings per share as reported would have been reduced by \$.03 in 2004, 2003 and 2002. The pro forma disclosures above only include the effect of options granted subsequent to January 1, 1995, the date in which fair value was to be measured under SFAS 123. Accordingly, the effects of applying the SFAS 123 pro forma disclosures to future periods may not be indicative of future results.

Fair Value of Financial Instruments - The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheet for cash and cash equivalents, restricted cash, premiums and fees receivable, premiums payable to insurance carriers, accrued salaries and bonuses, accounts payable and other accrued liabilities, unearned fees and income taxes payable, at December 31, 2004 and 2003, 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 sheet. Fair values for other investments and notes receivable are disclosed in Note 3. The carrying amounts of borrowings outstanding under Gallagher's \$250.0 million unsecured revolving credit agreement and other debt agreements listed in Note 7 approximate their fair values at December 31, 2004 because the borrowings are at floating interest rates or the rates are not significantly different from the prevailing market rates.

2. Effect of New Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.123 (revised 2004) (SFAS 123(R)), "Share- Based Payment," which is a revision of SFAS 123. SFAS 123(R) supersedes APB 25 and amends SFAS 95, "Statement of Cash Flows." Generally, the approach to accounting for share- based payments in SFAS 123(R) is similar to the approach described in SFAS 123, which, as discussed above, Gallagher adopted on a prospective basis in fourth quarter 2003. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options (for all grant years), to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition for years prior to January 1, 2003. SFAS 123(R) is effective for public companies at the beginning of the first interim or annual period beginning after June 15, 2005. Thus, Gallagher must adopt SFAS 123(R) no later than July 1, 2005.

SFAS 123(R) permits public companies to account for share- based payments using one of two methods: modified- prospective method or modified- retrospective method. The modified- prospective method is similar to the modified- prospective method described in SFAS 148. Under this method, compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share- based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.

Under the modified- retrospective method, which includes the requirements of the modified prospective method described above, companies are permitted to restate, based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

Gallagher plans to adopt SFAS 123(R) no later than July 1, 2005, but has not yet determined what method it will use. Gallagher adopted the fair-value- based method of accounting for share- based payments effective January 1, 2003 using the prospective method described in SFAS 148.

Currently, Gallagher uses the Black- Scholes formula to estimate the value of

stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of SFAS 123(R). Because SFAS 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and because Gallagher adopted SFAS 123 using the prospective- transition method, which applied only to awards granted, modified or settled after the adoption date, compensation cost for some previously granted awards that were not recognized under SFAS 123 will be recognized under SFAS 123(R). Thus, Gallagher will have to apply the provisions of SFAS 123(R) to all unvested awards granted prior to the adoption of SFAS 123 (prior to January 1, 2003) for recognition of share- based payments to employees. However, had Gallagher adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net earnings and earnings per share in Note 1 to the consolidated financial statements. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current rules. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While Gallagher cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$17.6 million, \$14.1 million, and \$18.7 million in 2004, 2003 and 2002, respectively.

3. Investments

The following is a summary of Gallagher's other investments and the related outstanding letters of credit (LOCs), financial guarantees and funding commitments (in millions):

				December 31, 2004	
December 31, 2004		December 31, 2003		LOCs & Financial Guarantees	Funding Commitments
Current	Noncurrent	Current	Noncurrent		
Unconsolidated Investments:					
Direct and indirect investments in Asset					
Alliance Corporation (AAC)	\$ 0.8	\$ 46.7	\$ 1.3	\$ 49.8	\$ -
Low income housing (LIH) developments:					
Bridge loans	5.2	-	9.5	-	-
Partnership interests	-	1.5	-	3.1	-
LIH Developer	-	9.2	-	7.6	-
Alternative energy investments:					
Owned partnership interests	0.9	19.1	1.5	28.3	4.4
Biogas project	-	14.7	-	-	-
Partnership interest installment sales	18.6	12.9	14.6	8.0	-
Bermuda insurance investments	-	20.4	-	20.4	6.7
Real estate, venture capital and other investments					
	0.5	7.9	-	3.8	-
Total unconsolidated investments					
	26.0	132.4	26.9	121.0	11.1
Non- recourse borrowings - Biogas project					
	(0.2)	(13.8)	-	-	-
Net unconsolidated investments					
	\$ 25.8	\$ 118.6	\$ 26.9	\$ 121.0	\$ 11.1
					2.2

Asset Alliance Corporation - Through various debt, preferred stock and common stock investments Gallagher effectively owns 25% of AAC, a holding company that owns up to 50% of 14 private investment management firms (the Firms). The Firms manage domestic and international investment portfolios for corporations, pension funds and individuals, which totaled approximately \$4.4 billion at December 31, 2004. AAC has a proportional interest in the Firms' revenues that result principally from fees and participation in investment returns from the managed investment portfolios. Gallagher accounts for its holdings in AAC's common stock using equity method accounting.

During fourth quarter 2002, one of the Firms, Beacon Hill Asset Management LLC (Beacon Hill), withdrew from managing its portfolio due to various legal, contractual and business issues. As a result, AAC wrote down its investment and, correspondingly, Gallagher recorded a \$3.0 million pretax charge to reflect its proportional loss. In first quarter 2003, investors in a Beacon Hill investment partnership filed a lawsuit to recover investment losses naming AAC as a co- defendant. In first quarter 2004, this lawsuit was dismissed by the judge without prejudice. The investors had until June 30, 2004 to refile the lawsuit and have done so. Gallagher is unable to estimate the impact, if any, this lawsuit may have on AAC and the resulting impact on Gallagher's investment value.

Low Income Housing (LIH) Developments - Gallagher's investments in LIH consist of three components:

Bridge Loans represent early- stage loans on properties that are mainly being developed to qualify for LIH tax credits. The loans are collateralized by the land and buildings under development and carry interest rates ranging from 4.00% to 4.75% at December 31, 2004. The loans are generally outstanding for 12 to 36 months and accrue interest until the projects are refinanced by a purchaser or syndicator. No loan has ever defaulted since Gallagher began making these types of loans in 1996.

Partnership Interests represent Gallagher's ownership in completed and certified LIH developments. At December 31, 2004, Gallagher owned a limited partnership interest in 26 LIH developments. These are generating tax benefits to Gallagher on an ongoing basis in the form of both tax deductions for operating losses and tax credits. These investments are generally accounted for using the effective yield method and are carried at amortized cost. Under the effective yield method, Gallagher recognizes the tax credits as they are allocated by the partnerships, which are included, net of amortization of the investment, as a component of the provision for income taxes. Gallagher has never incurred a loss on a LIH project.

Twelve of the LIH developments have been determined to be variable interest entities (VIE), as defined by FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," but are not required to be consolidated. Gallagher invested in these developments between 1990 and 2000 as a limited partner. At December 31, 2004, total assets and total debt of these developments was approximately \$76 million and \$60 million, respectively. Gallagher's maximum exposure to a potential loss from these VIEs was \$1.5 million at December 31, 2004, which equaled the net aggregate carrying value of its investments.

LIH Developer represents Gallagher's 30% ownership interest in the company that is the developer and/or syndicator of most of Gallagher's LIH development investments. It has been determined to be a VIE but is not required to be consolidated. Gallagher's original investment was in 1996. The LIH Developer generates revenues from syndication and development fees and 84% of its equity is in cash, cash producing real estate project receivables and bridge loans. Gallagher accounts for this investment using equity method accounting. At December 31, 2004, the LIH Developer had total assets of approximately \$28 million and no debt. Gallagher's maximum exposure to a potential loss from this VIE was \$9.2 million at December 31, 2004, which equaled the net carrying value of its investment.

Alternative Energy Investments - Gallagher has made investments in partnerships formed to develop energy that qualifies for tax credits under Internal Revenue Code (IRC) Section 29. There are two types of such investments:

Owned Partnership Interests consist of (i) waste- to- energy (Biomass) partnerships which own the rights to gas emissions (Biogas) from landfills and the wells and infrastructure necessary to capture the Biogas and (ii) synthetic coal (Syn/Coal) partnerships which own and lease equipment that processes qualified fuel under IRC Section 29. Gallagher has an interest in eight Biomass limited partnerships and five Syn/Coal limited partnerships or limited liability companies which generate tax benefits to Gallagher on an ongoing basis in the form of both tax deductions for operating losses and tax credits. At December 31, 2004, two of the Syn/Coal limited partnerships are consolidated into Gallagher's financial statements due to ownership percentage. The remainder of these investments are primarily carried at amortized cost. Gallagher recognizes the tax credits as they are allocated by the partnerships, which are included as a component of the provision for income taxes.

Biogas Projects During first quarter 2003, Gallagher exited from the majority of its investment positions in various venture capital, developmental stage enterprises and turn- arounds and recorded write- offs related to these investments. Since then, Gallagher has pursued recoveries where appropriate. As part of these recovery efforts, during first and second quarters 2004, one of Gallagher's partially owned Biogas projects (Biogas Project), which was being managed by a turn- around enterprise, was a party in a series of transactions to establish a publicly traded Canadian income trust, which partially funded the Biogas Project. In connection therewith, Gallagher (i) recognized a \$2.0 million non- cash gain in first quarter 2004 due to the reversal of a non- cash loss contingency reserve established in first quarter 2003, (ii) received \$5.0 million in cash in second quarter 2004 in full repayment of a note receivable from the turn- around enterprise, (iii) recognized a \$1.0 million gain in second quarter 2004 when it received cash as payment for accrued interest income related to the note discussed in (ii) above that was written- off in first quarter 2003, and (iv) recognized \$0.4 million of interest income in second quarter 2004 when it received cash for the remaining interest due on the note discussed in (ii) above. To finalize the above transactions, during second quarter 2004, Gallagher made an equity investment of \$14.0 million in the Biogas Project to fund its operations and make capital improvements to increase Biogas production, which was funded by a \$14.0 million non- recourse loan to Gallagher from the turn- around enterprise. Principal and interest payments are only required if, and when, cash distributions are made from the Biogas Project. There is a tri- party right to offset the distributions from the Biogas Project against the obligations under the loan between the Biogas Project, Gallagher and the turn- around enterprise, which makes the loan non- recourse to Gallagher. GAAP thereby requires the investment and related loan be presented gross in Gallagher's consolidated balance sheet. The \$14.0 million investment is accounted for using equity method accounting.

During third quarter 2004, Gallagher recognized a \$3.0 million gain when it received cash from the turn- around enterprise as full settlement of unsecured notes receivable that were written- off in first quarter 2003.

At December 31, 2004, Gallagher had an LOC and a funding commitment outstanding totaling \$4.6 million related to the reclamation of a Syn/Coal property and a sulphur reduction binder venture.

Seven of the Biomass limited partnerships have been determined to be VIEs but are not required to be consolidated. Gallagher is a limited partner in each investment. The investments were entered into by Gallagher between 1991 and 1998. At December 31, 2004, total assets and total debt of these investments was approximately \$89 million and \$52 million, respectively. Gallagher's maximum exposure to a potential loss from these VIEs was \$2.4 million at December 31, 2004, which equaled the net aggregate carrying value of its investments.

Effective July 1, 2003, Gallagher adopted FIN 46, which required Gallagher to consolidate one 5% owned Syn/Coal entity due to Gallagher's economic interest in the entity. The other 95% had been previously sold on the installment sale basis and had substantial residual value to Gallagher. Under the FIN 46 criteria, this investment had been determined to be a VIE and required Gallagher to consolidate this facility into its consolidated financial statements. FIN 46 requires Gallagher to reevaluate each investment at any "triggering event." On August 6, 2004, Gallagher sold an additional 4% of its remaining 5% ownership to the party that previously owned 95% of the entity, resulting in Gallagher owning a 1% interest in this entity. After considering this sale transaction, it was determined that Gallagher is no longer the primary beneficiary and therefore does not have to consolidate this partially owned entity. The net impact of this investment on Gallagher's net earnings and stockholders' equity is the same whether it is accounted for on the consolidated basis or using equity method accounting. The following is a summary of the amounts included in the consolidated statement of earnings for the consolidation of this partially owned entity (in millions):

Year Ended December 31,			
		2004	2003
Investment income - all other	\$	69.9	\$ 46.4
Investment expenses		67.2	44.1
Depreciation		2.7	2.3
Total expenses		69.9	46.4
Earnings before income taxes	\$	-	\$ -

Partnership Interest Installment Sales represent the remaining book value and receivables from the Biomass and Syn/Coal operations that have been either partially or completely sold to third parties. Gallagher accounts for these investments on the installment sale basis, which requires that the net gains, including the amortization of the bases of the assets sold, be recognized over time as a component of investment income.

Biomass - As part of selling its interests in Biomass partnerships, Gallagher provided indemnifications to the buyers for taxes that may arise as a result of incorrect representations. Gallagher obtained legal, tax, and other expert services and advice when making these representations. At December 31, 2004, the maximum potential amount of future payments that Gallagher could be required to make under these indemnifications totaled approximately \$12.9 million, net of the applicable income tax benefit. Gallagher did not record any liability in its December 31, 2004 consolidated balance sheet for these potential indemnifications.

Syn/Coal - As part of selling its interests in Syn/Coal partnerships, Gallagher provided indemnifications to the buyers for taxes that may arise as a result of incorrect representations. Gallagher obtained legal, tax, and other expert services and advice when making these representations, and in certain circumstances, subsequently obtained private letter rulings (PLRs) from the Internal Revenue Service (IRS). Gallagher has not recorded any liability in its December 31, 2004 consolidated balance sheet for these potential indemnifications.

On October 29, 2003, the IRS issued Announcement 2003- 70 stating that it had completed a review of chemical change issues associated with tax credits claimed under IRC Section 29 relating to the production and sale of synthetic coal (Syn/Coal Credits). It further stated that it would resume the issuance of PLRs concerning Syn/Coal Credits consistent with the guidelines regarding chemical change previously set forth in Revenue Procedures 2001- 30 and 2001- 34 and certain additional requirements related to sampling, testing and recordkeeping procedures, even though the IRS does not believe the level of chemical change required under that guidance is sufficient for IRC Section 29 purposes. The IRS also stated in the announcement that it would continue to issue PLRs because it recognized that many taxpayers and their investors have relied on the IRS's long standing PLR practice to make investments. In Announcement 2003- 46 issued on June 27, 2003, the IRS had questioned the validity of certain test procedures and results that had been presented to it by taxpayers with interests in synthetic fuel operations as evidence that the required significant chemical change had occurred, and had initiated a review of these test procedures and results which was completed as noted in Announcement 2003- 70.

Separately, the Permanent Subcommittee on Investigations of the Government Affairs Committee of the United States Senate (Subcommittee) is conducting an ongoing investigation of potential abuses of tax credits by producers of synthetic fuel under IRC Section 29. The Subcommittee Chairman, in a memorandum updated in May 2004, has stated that the investigation is examining the utilization of Syn/Coal Credits, the nature of the technologies and the fuels created, the use of these fuels, and other aspects of IRC Section 29. The memorandum also states that the investigation will address the IRS's administration of Syn/Coal Credits.

The effect of these two developments on the synthetic coal industry is not clear. Gallagher is aware that a number of PLRs have been issued since October 29, 2003, and management has participated in an interview with Subcommittee staff. Gallagher continues to believe it is claiming Syn/Coal Credits in accordance with IRC Section 29 and four PLRs previously obtained by Syn/Coal partnerships in which it has an interest. Gallagher understands these PLRs are consistent with those issued to other taxpayers and has received no indication from the IRS that it will seek to revoke or modify them. In that regard, one of the Syn/Coal partnerships in which Gallagher has an interest was under examination by the IRS for the tax year 2000 and in March 2004, Gallagher was notified that the examination was closed without any changes being proposed.

Notwithstanding the foregoing, the IRS is continuing to audit taxpayers claiming Syn/Coal Credits with respect to a variety of issues. The partnerships in which Gallagher has an interest may be audited in the future, and any such audit could adversely affect Gallagher's ability to claim Syn/Coal Credits or cause it to be subject to liability under indemnification obligations related to the prior sale of interests in partnerships claiming Syn/Coal Credits. Furthermore, Syn/Coal Credits have been controversial both politically and administratively, and no assurance can be given that the IRS will not in the future discontinue issuing PLRs, issue administrative guidance adverse to Gallagher's interests, or support the enactment of legislation to curtail or repeal IRC Section 29. In April 2004, a bill to repeal IRC Section 29 was introduced in the U.S. House of Representatives. It is not expected that this bill will be acted on during the current session of Congress, but a similar bill could be reintroduced in a future session and any such action could potentially result in the curtailment or repeal of Syn/Coal Credits prior to the end of 2007, when the Syn/Coal Credits expire under current law. Similarly, future judicial decisions could adversely affect Gallagher's ability to claim Syn/Coal Credits or cause it to be subject to liability under indemnification obligations related to prior sales of partnership interests.

Gallagher has insurance policies in place, the scope of which Gallagher believes would provide substantial coverage in the event the Syn/Coal Credits are disallowed. While there can be no assurance that such coverage would ultimately be available, if the full amount of the policies were collected, Gallagher's maximum after- tax exposure at December 31, 2004 relating to the disallowance of the Syn/Coal Credits is as follows (in millions):

	Maximum	Net of Insurance
Tax credits recorded by Gallagher	\$ 160.4	\$ 89.5
Installment sale proceeds subject to indemnification	170.8	27.5
Net carrying value of assets held at December 31, 2004	13.3	13.3
Total exposure	\$ 344.5	\$ 130.3

Bermuda Insurance Investments - These investments consist primarily of a \$20 million equity investment (less than 2% ownership) in Allied World Assurance Holdings, Ltd., which is a Bermuda based insurance and reinsurance company founded in 2001 by American International Group, Inc., The Chubb Corporation and affiliates of Goldman, Sachs & Co. This investment is carried at cost. The remaining balance of \$0.4 million is Gallagher's rent- a- captive facility, formed in 1997 that Gallagher uses as a placement facility for its insurance brokerage operations. Gallagher has posted \$6.7 million of LOCs to allow the rent- a- captive to meet minimum statutory surplus requirements and for additional collateral related to premium and claim funds held in a fiduciary capacity. These LOCs have never been drawn upon.

Real Estate, Venture Capital and Other Investments - At December 31, 2004, Gallagher had investments in six real estate ventures with a net carrying value of \$4.0 million in the aggregate, none of which was individually in excess of \$1.7 million. Gallagher also had investments in five venture capital investments and funds that consisted of various debt and equity investments in development- stage companies and turn- arounds with an aggregate net carrying value of \$4.4 million, the largest of which was \$3.2 million. Five of the eleven investments discussed above have been determined to be VIEs but are not required to be consolidated. These were originally invested in between 1997 and 2001. At December 31, 2004, total assets and total debt of these five investments were approximately \$40 million and \$45 million, respectively. Gallagher's maximum exposure to a potential loss related to these investments was \$3.7 million at December 31, 2004, which equaled the net aggregate carrying value of these investments.

Consolidated Investments - Gallagher has an ownership interest in excess of 50% in five investment enterprises, which are consolidated into Gallagher's consolidated financial statements: two real estate partnerships, an airplane leasing limited liability company and two Syn/Coal facilities.

One real estate partnership represents a 60% investment in a limited partnership that owns the building that Gallagher leases for its home office and several of its subsidiary operations. The other real estate partnership represents an 80% investment in a limited partnership that is developing an 11,000- acre community near Orlando, Florida. Gallagher also owns 90% of an airplane leasing company that leases two cargo airplanes to the French Postal Service. On May 19, 2004, Gallagher purchased a 98% equity interest in a Syn/Coal production facility that had previously been operated by Gallagher through a facility rental agreement. The purchase price was made with an \$11.1 million seller financed note payable that is non- recourse to Gallagher. Principal and interest payments are only required when the facility is operating and generating Syn/Coal Credits. During fourth quarter 2003, Gallagher acquired a 99% equity interest in a Syn/Coal facility. Both of these investments are held by Gallagher to generate Syn/Coal Credits.

At December 31, 2003, Gallagher owned 5% of a Syn/Coal facility. Under the FIN 46 rules, this investment had been determined to be a VIE and required Gallagher to consolidate this facility into its consolidated financial statements. During third quarter 2004, Gallagher sold a 4% ownership interest in this investment, which eliminated the requirement to consolidate this investment under the FIN 46 rules. This investment is now accounted for using equity method accounting.

The following is a summary of these consolidated investments and the related outstanding LOCs, financial guarantees and funding commitments (in millions):

	December 31, 2004			
	December 31, 2004	December 31, 2003	LOCs & Financial Guarantees	Funding Commitments
Home office land and building:				
Fixed assets	\$ 101.3	\$ 100.9	\$ -	\$ -
Accumulated depreciation	(15.8)	(13.2)	-	-
Non- recourse borrowings - current	(0.9)	(0.8)	-	-
Recourse borrowings - current	-	-	-	-
Non- recourse borrowings - noncurrent	(73.1)	(74.0)	-	-
Recourse borrowings - noncurrent	(3.0)	(3.0)	-	-
Net other consolidated assets and liabilities	2.8	2.2	-	-
Net investment	11.3	12.1	-	-
Florida Community Development:				
Fixed assets	60.3	56.0	-	-
Accumulated depreciation	(0.7)	-	-	-
Non- recourse borrowings - current	(17.9)	(10.7)	-	-
Recourse borrowings - current	(17.0)	(17.0)	-	-
Non- recourse borrowings - noncurrent	(0.1)	(0.2)	-	-
Recourse borrowings - noncurrent	(12.4)	(12.4)	-	-
Net other consolidated assets and liabilities	(2.4)	(3.6)	2.7	0.6
Net investment	9.8	12.1	2.7	0.6
Airplane leasing company:				
Fixed assets	51.8	51.8	-	-
Accumulated depreciation	(14.1)	(10.5)	-	-
Non- recourse borrowings - current	(2.6)	(2.4)	-	-
Recourse borrowings - current	-	-	-	-
Non- recourse borrowings - noncurrent	(29.9)	(32.5)	-	-
Recourse borrowings - noncurrent	-	-	-	-

Net other consolidated assets and liabilities	-	0.9	-	-
Net investment	5.2	7.3	-	-
Syn/Coal partnerships:				
Fixed assets	15.6	35.2	-	-
Accumulated depreciation	(2.8)	(15.0)	-	-
Non- recourse borrowings - current	(2.8)	-	-	-
Recourse borrowings - current	-	-	-	-
Non- recourse borrowings - noncurrent	(7.7)	-	-	-
Recourse borrowings - noncurrent	-	-	-	-
Net other consolidated assets and liabilities	1.6	0.6	-	-
Net investment	3.9	20.8	-	-
Total consolidated investments:				
Fixed assets	229.0	243.9	-	-
Accumulated depreciation	(33.4)	(38.7)	-	-
Non- recourse borrowings - current	(24.2)	(13.9)	-	-
Recourse borrowings - current	(17.0)	(17.0)	-	-
Non- recourse borrowings - noncurrent	(110.8)	(106.7)	-	-
Recourse borrowings - noncurrent	(15.4)	(15.4)	-	-
Net other consolidated assets and liabilities	2.0	0.1	2.7	0.6
Net investment	\$ 30.2	\$ 52.3	\$ 2.7	\$ 0.6

As presented in the above table, four of the five consolidated investments have borrowings related to their assets. See Note 16 for a summary of future cash payments, excluding interest, related to the borrowings of Gallagher's consolidated investments.

At December 31, 2004, Gallagher's maximum exposure to a potential loss related to these investments is as follows (in millions):

Net carrying value	\$	30.2
Recourse portion of debt		32.4
LOCs, financial guarantees and funding commitments		3.3
<hr/>		
Maximum exposure	\$	65.9
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Impairment Reviews - Gallagher has a management investment committee that meets 10 to 12 times per year to review its investments. For investments that do not have quoted market prices, Gallagher utilizes various valuation techniques to estimate fair value and proactively looks for indicators of impairment. Factors, among others, that may indicate that an impairment could exist, include defaults on interest and/or principal payments, reductions or changes to dividend payments, sustained operating losses or a trend of poor operating performance, recent refinancings or recapitalizations, unfavorable press reports, untimely filing of financial information, significant customer or revenue loss, litigation, tax audits, losses by other companies in a similar industry, overall economic conditions, management and expert advisor changes, and significant changes in strategy. In addition, in cases where the ultimate value of an investment is directly dependent on Gallagher for future financial support, Gallagher assesses its willingness and intent to provide future funding.

If an indicator of impairment exists, Gallagher compares the investment's carrying value to an estimate of its fair value. To estimate the fair value of loans, Gallagher discounts the expected future cash flows from principal and interest payments. This requires Gallagher to exercise significant judgment when estimating both the amount and the timing of the expected cash flows. To estimate the fair value of its equity investments, Gallagher compares values established in recent recapitalizations or appraisals conducted by third parties. In some cases, no such recapitalizations or appraisals exist and Gallagher must perform its own valuations. This also requires Gallagher to exercise significant judgment. Even if impairment indicators exist, no write- down may be required if the estimated fair value is not less than the current carrying value or the decline in value is determined to be temporary and Gallagher has the ability and intent to hold the investment for a period of time sufficient for the value to recover. When Gallagher determines an impairment is other- than- temporary, and therefore that a write- down is required, it is recorded as a realized loss against current period earnings.

Both the process to review for indicators of impairment and, if such indicators exist, the method to compute the amount of impairment incorporate quantitative data and qualitative criteria including the receipt of new information that can dramatically change the decision about the valuation of an investment in a short period of time. The determination of whether a decline in fair value is other- than- temporary is necessarily a matter of subjective judgment. The timing and amount of realized losses reported in earnings could vary if management's conclusions were different.

Due to the inherent risk of investments, Gallagher cannot give assurance that there will not be investment impairments in the future should economic and other conditions change.

Significant components of investment income are as follows (in millions):

	Year Ended December 31,		
	2004	2003	2002
Interest - fiduciary	\$ 9.2	\$ 8.5	\$ 10.2
Trading securities:			
Interest	0.6	3.3	1.0
Dividends	0.1	1.7	1.8
Net change in unrealized gain (loss)	(0.5)	0.6	0.2
Net realized gain	0.3	1.4	1.6
Other- than- temporary impairments	(0.1)	-	(2.7)
Other realized gains	0.6	-	-
AAC related investments:			
Interest	0.9	1.1	1.1
Dividends	0.6	1.1	0.8
Income from equity ownership	2.2	2.9	2.4
Fee income	-	-	2.0
Loss from AAC's write- down of investment in fund manager	-	-	(3.0)
Gain on sale of portion of minority interest	0.3	-	11.8
LIH developments:			
Interest	0.3	0.9	1.4
Income from equity ownership	2.1	0.1	1.3
Other realized gains	0.1	2.1	-
Alternative energy investments:			
Interest	1.3	1.4	1.2
Installment gains	45.6	39.0	34.6
Other (loss) income	(0.1)	0.9	0.7
Real estate, venture capital and other investments:			
Loss from equity ownership	(0.6)	(0.5)	(0.2)
Realized losses on dispositions and write- downs	(1.3)	(29.1)	(32.4)
Other realized gains (losses)	8.5	-	(0.2)
Income from consolidated investments	52.4	15.6	9.8
Impact of FIN 46 from consolidated investments	69.9	46.4	-
Gains on sales of operations	-	2.5	2.5
Other income	4.0	2.2	3.2
Total investment income	\$ 196.4	\$ 102.1	\$ 49.1

Interest - fiduciary, which represents interest income earned on Gallagher's cash and cash equivalents, was relatively unchanged in 2004, 2003 and 2002.

Amounts included in investment income from trading securities represent interest and dividend income and normal recurring realized and unrealized gains and losses on trading securities. In 2002, Gallagher incurred \$3.0 million of losses for other- than- temporary impairments related to its directly managed securities portfolio that prior to September 2002 was classified as available for sale. The other- than- temporary impairments resulted from a sharp decline in the equity markets during 2002.

Investment income from AAC related investments primarily represents income associated with Gallagher's debt, preferred stock and common stock investments in AAC. Gallagher accounts for the common stock portion of its investment using equity method accounting and accounts for the interest and dividend income on its debt and preferred stock investments as it is earned. During 2002, Gallagher recognized a \$3.0 million loss through equity method accounting for AAC's write- down of its investment in Beacon Hill. In addition, Gallagher recognized an \$11.8 million gain related to the sale of a portion of its equity position in AAC to an international financial institution and \$2.0 million of investment related fees paid to Gallagher for providing letters of credit and financial guarantees to AAC.

Investment income from low income housing (LIH) developments primarily represents income associated with Gallagher's equity investment in a LIH Developer that is accounted for using equity method accounting and interest income from bridge loans made by Gallagher related to LIH developments.

Investment income from alternative energy investments primarily relates to installment gains from several sales of Gallagher's interests in limited partnerships that operate Syn/Coal facilities that occurred in the latter part of 2001, first quarter 2002 and second and third quarters 2004.

Gains (losses) from real estate, venture capital and other investments primarily include realized gains and losses that occurred in the respective years related to write- downs, dispositions and recoveries of venture capital investments, which included loans and equity holdings in start- up companies. During 2004, Gallagher recognized a net \$8.5 million investment gain related to assets written- off or losses incurred in first quarter 2003, the main components of which were as follows: a \$2.0 million reversal of a loss contingency reserve, a \$1.0 million recovery of previously accrued interest income, a \$3.0 million recovery of unsecured notes receivable, a \$0.5 million gain from a distribution on an investment previously written- off and a \$0.7 million gain related to distributions received from a venture capital fund. The reversal of the loss contingency reserve was made as a result of the successfully completed funding transaction related to a Gallagher partially owned Biogas Project. During 2003, Gallagher recognized \$29.1 million of losses related to write- downs and dispositions when it decided to withdraw virtually all continued support for its venture capital investments, except to the limited extent needed to realize value from the remaining assets. Without Gallagher's support at that time, it was doubtful that these operations would be able to execute their business plans. Therefore, Gallagher's investments were then determined to be other- than- temporarily impaired. During 2002, Gallagher recognized \$28.8 million of net aggregate write- downs of loans and equity holdings related to its venture capital investments due to a decline in the equity markets and generally poor economic conditions during 2002. Substantially all of these write- downs were recognized in third quarter 2002 when the equity markets were at their lows for the year. In addition, Gallagher incurred a \$3.6 million loss in 2002 on the sale of a venture capital investment.

Investment income from consolidated investments includes income related to the Florida Community Development, Gallagher's home office building, the airplane leasing company and two Syn/Coal facilities. Investment income related to the Florida Community Development in 2004, 2003 and 2002 was \$10.1 million, \$5.0 million and \$2.2 million, respectively, and primarily relates to sales of lots. Total expenses, including interest and depreciation expenses, relating to this income were \$12.6 million, \$6.1 million and \$2.6 million in 2004, 2003 and 2002, respectively. Rental income of the home office building was \$6.6 million, \$6.8 million and \$7.2 million in 2004, 2003 and 2002, respectively. Total expenses associated with the home office building rental income, including interest and depreciation expenses, were \$6.6 million, \$6.6 million and \$7.5 million in 2004, 2003 and 2002, respectively. In 2004, 2003 and 2002, rental income of the airplane leasing company was \$3.4 million, \$3.2 million and \$1.9 million, respectively, and total expenses associated with this income, including interest and depreciation expenses, was \$4.9 million, \$5.0 million and \$3.4 million, respectively. In 2004 and 2003, income from the Syn/Coal facilities were \$31.9 million and \$1.0 million, respectively. Total expenses, including interest and depreciation expenses, relating to this income were \$61.2 million and \$15.9 million in 2004 and 2003, respectively. There was no income or expense from the Syn/Coal operations in 2002. Gallagher acquired its interest in these two facilities in fourth quarter 2003 and second quarter 2004, which resulted in the 2004 increases in Syn/Coal related income and expenses.

Investment income from consolidated investments for 2004 was also impacted by the adoption of FIN 46. Effective July 1, 2003, Gallagher early adopted FIN 46, which required Gallagher to consolidate a Syn/Coal partnership in which it had a 5% ownership interest at the time of consolidation. Prior to July 1, 2003, this partnership was not consolidated because it was not controlled by Gallagher through a majority voting interest. Gallagher recognized both investment income and expenses of \$69.9 million and \$46.4 million in 2004 and 2003, respectively, related to the consolidation of the Syn/Coal partnership. During 2004, Gallagher sold a 4% ownership interest in this investment, which eliminated the requirement to consolidate the investment under the FIN 46 rules. This investment is now accounted for using equity method accounting.

Gains on sales of operations primarily represent gains from the dispositions of branch operations. Gallagher disposed of one operation in each of 2003 and 2002. The net assets sold and the operating results included in the consolidated statement of earnings related to these operations were not material to the consolidated financial statements.

4. Business Combinations

During 2004, Gallagher acquired substantially all the net assets of the following insurance brokerage firms (eighteen asset purchases and one stock purchase) in exchange for its common stock and/or cash. These acquisitions have been accounted for as business combinations (in millions except share data):

Name and Effective Date of Acquisitions	Common Shares Issued	Common Share Value	Cash Paid	Accrued Payable	Escrow Deposited	Recorded Purchase Price	Earnout Payable
(000s)							
Risk Management Partners Ltd.							
January 1, 2004	-	\$ -	\$ 2.5	\$ 2.5	\$ -	\$ 5.0	\$ -
Roberts & Eastland, LLC							
February 1, 2004	5	0.2	1.3	-	0.2	1.7	0.8
Persac Insurance Agency							
February 1, 2004	7	0.2	1.8	-	0.2	2.2	1.0
R. P. O'Brien & Co., Inc.							
February 1, 2004	28	0.8	1.8	-	0.1	2.7	0.6
The Romine Group, Inc.							
February 1, 2004	252	7.3	-	-	0.8	8.1	2.5
Don Laster Agency, Inc.							
March 1, 2004	46	1.4	0.8	-	0.2	2.4	1.5
Brokerage LLC (B&P)							
March 1, 2004	-	-	7.6	-	0.4	8.0	5.8
Edwin M. Rollins, Inc.							
April 1, 2004	-	-	5.6	0.7	-	6.3	2.8
& Babineaux, Inc. (BMP)							
May 1, 2004	111	2.5	7.2	-	1.1	10.8	3.3
Specialty Advisory Services, Inc.							
May 1, 2004	43	1.1	1.2	-	0.2	2.5	1.5
Johnsey Insurance Agency, Inc. (JIA)							
July 1, 2004	359	9.8	-	-	1.1	10.9	4.3
Health Care Insurers, Inc.							
August 1, 2004	45	1.2	0.8	-	0.2	2.2	1.8
Strategix, Inc.							
September 1, 2004	116	3.2	1.3	-	0.5	5.0	1.2
Sheridan Insurance Group (SIG)							
September 1, 2004	170	4.9	3.5	-	0.5	8.9	5.7
BenefitPort Northwest (BPN)							
October 1, 2004	-	-	15.4	-	-	15.4	7.0
I. Arthur Yanoff & Co. Ltd. (IAY)							
October 1, 2004	-	-	26.4	-	2.3	28.7	-
The Kooper Group, Inc. (TKG)							
November 1, 2004	-	-	28.8	-	2.5	31.3	-
IGroup, Inc.							
December 1, 2004	16	0.4	0.1	-	0.1	0.6	1.0

FPE Insurance									
Brokers Pty Ltd.									
December 1, 2004	-	-	1.1	-	-	1.1	0.4		
	1,198	\$ 33.0	\$ 107.2	\$ 3.2	\$ 10.4	\$ 153.8	\$ 41.2		

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 that are returned to Gallagher as a result of adjustments to net assets acquired are recorded as downward adjustments to goodwill when the escrows are settled. The earnout payables that are disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid pursuant to the purchase agreements related to these acquisitions. These potential earnout 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 acquisition dates because they are not fixed and determinable. Future payments made under these arrangements, if any, will generally be recorded as upward adjustments to goodwill when the earnouts are settled. The aggregate amount of unrecorded earnout payables outstanding as of December 31, 2004 related to Gallagher's 2002, 2003 and 2004 acquisitions was \$81.9 million.

During 2004, Gallagher paid \$2.3 million in cash related to earnout obligations of three acquisitions made prior to 2004 and recorded additional goodwill and expiration lists of \$1.8 million and \$0.5 million, respectively.

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, and for seven of the 2004 acquisitions, as adjusted for the allocations based on valuations Gallagher received from qualified independent appraisers (in millions):

	B&P	BMP	JIA	SIG	BPN	IAY	TKG	Twelve Other Acquisitions	Total
Current assets	\$ 4.9	\$ 2.6	\$ 1.8	\$ 0.3	\$ 2.2	\$ 19.2	\$ 0.1	\$ 12.8	\$ 43.9
Fixed assets	0.1	-	0.5	0.1	0.7	0.1	0.3	0.1	1.9
Goodwill	1.8	5.6	3.5	5.3	5.6	11.8	22.6	16.5	72.7
Expiration lists	5.6	4.7	6.0	3.1	8.3	8.5	15.5	18.8	70.5
Non- compete agreements	0.3	0.2	1.0	0.1	0.5	2.3	1.7	3.6	9.7
Total assets acquired	12.7	13.1	12.8	8.9	17.3	41.9	40.2	51.8	198.7
Current liabilities	4.7	2.3	1.9	-	1.4	13.2	1.8	12.0	37.3
Noncurrent liabilities	-	-	-	-	0.5	-	7.1	-	7.6
Total liabilities assumed	4.7	2.3	1.9	-	1.9	13.2	8.9	12.0	44.9
Total net assets acquired	\$ 8.0	\$ 10.8	\$ 10.9	\$ 8.9	\$ 15.4	\$ 28.7	\$ 31.3	\$ 39.8	\$ 153.8

These acquisitions allow Gallagher to expand into desirable geographic locations, further extend its presence in the retail and wholesale insurance brokerage services industry 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 was allocated within the Brokerage segment to goodwill, expiration lists and non-compete agreements in the amounts of \$72.7 million, \$70.5 million and \$9.7 million, respectively. Purchase price allocations are preliminarily established at the time of the acquisition and are subsequently reviewed within the first year of operations to determine the necessity for allocation adjustments.

Expiration lists and non- compete agreements related to these acquisitions are currently being amortized on a straight- line basis over a weighted average useful life of 10 to 15 years and 5 to 6 years, respectively. Goodwill is not amortized, but is subject to periodic reviews for impairment. Gallagher reviews intangible assets for impairment periodically (at least annually) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. In reviewing intangible assets, if the fair value were less than the carrying amount of the respective (or underlying) asset, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings. In 2004, Gallagher determined that an indicator of impairment existed related to the amortizable assets of one of its 2001 Brokerage segment acquisitions. Based on the results of this impairment review, Gallagher wrote- off \$1.8 million of amortizable assets in 2004. No such indicators were noted in 2003. Of the \$70.5 million of expiration lists and \$9.7 million of non-compete agreements related to the 2004 acquisitions, \$10.9 million and \$1.2 million, respectively, are not expected to be deductible for income tax purposes. Accordingly, Gallagher recorded a deferred tax liability of \$4.8 million, and a corresponding amount of goodwill, in 2004 related to the nondeductible amortizable assets. This amount has not been included in the above table.

Gallagher's consolidated financial statements for the year ended December 31, 2004 include the operations of these companies from the date of their respective acquisition. The following is a summary of the unaudited pro forma historical results, as if these purchased entities had been acquired at January 1, 2003 (in millions, except per share data):

Year Ended December 31,			
	2004		2003
Total revenues	\$	1,528.5	\$ 1,341.8
Net earnings		195.1	153.9
Basic net earnings per share		2.12	1.69
Diluted net earnings per share		2.05	1.63

The unaudited pro forma 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 at January 1, 2003, nor is it necessarily indicative of future operating results.

5. Fixed Assets

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

December 31,			
	2004		2003
Furniture and equipment	\$	161.1	\$ 137.9
Buildings and improvements		103.0	97.2
Land and improvements		54.6	59.3
Airplanes of consolidated leasing company		51.8	51.8
Leasehold improvements		30.5	26.9
Syn/Coal equipment		15.6	35.2
		416.6	408.3
Accumulated depreciation		(157.6)	(142.1)
Net fixed assets	\$	259.0	\$ 266.2

6. Intangible Assets

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

	December 31,	
	2004	2003
Expiration lists	\$ 162.5	\$ 84.1
Accumulated amortization - expiration lists	(25.1)	(12.1)
	137.4	72.0
Non- compete agreements	26.1	16.9
Accumulated amortization - non- compete agreements	(8.3)	(4.3)
	17.8	12.6
Net amortizable assets	\$ 155.2	\$ 84.6

Estimated aggregate amortization expense for each of the next five years is as follows:

2005	\$ 20.8
2006	20.0
2007	19.3
2008	17.4
2009	15.3
Total	\$ 92.8

The changes in the carrying amount of goodwill for 2004 are as follows (in millions):

	Brokerage	Risk Management	Financial Services	Total
Balance as of January 1, 2004	\$ 129.7	\$ 8.6	\$ -	\$ 138.3
Goodwill acquired during the year	78.3	0.6	-	78.9
Adjustments related to independent appraisals and other purchase accounting adjustments	1.8	0.3	-	2.1
Goodwill written- off related to sales of business units and impairment reviews during the year	(0.3)	-	-	(0.3)
Balance as of December 31, 2004	\$ 209.5	\$ 9.5	\$ -	\$ 219.0

7. Credit and Other Debt Agreements

On July 21, 2003, Gallagher entered into a \$250.0 million unsecured revolving credit agreement (Credit Agreement), which expires on July 20, 2006, with a group of ten financial institutions. The Credit Agreement provides for a revolving credit commitment of up to \$250.0 million. In addition, the Credit Agreement provides for the issuance of standby LOCs, which are limited to \$75.0 million in the aggregate. The issuance of such LOCs reduces the amount of net funds available for future borrowing under the Credit Agreement. At January 19, 2005, \$38.1 million of LOCs (of which Gallagher has \$19.9 million of liabilities recorded as of December 31, 2004) were outstanding under the Credit Agreement, which primarily related to Gallagher's investments as discussed in Notes 3 and 16 to the consolidated financial statements. There were no borrowings outstanding under the revolving credit commitment at December 31, 2004. Accordingly, as of January 19, 2005, \$211.9 million remained available for potential borrowings, of which \$36.9 million may be in the form of additional LOCs. Interest rates on borrowings under the Credit Agreement are based on the prime commercial rate or LIBOR plus .575%, .800% or 1.000%, the determination of which is dependent on a financial leverage ratio maintained by Gallagher. The annual facility fee related to the Credit Agreement is either .125%, .150% or .200% of the used and unused portions, the determination of which is also dependent on a financial leverage ratio maintained by Gallagher. The Credit Agreement contains various covenants that require Gallagher to maintain specified levels of net worth and financial leverage ratios. Gallagher was in compliance with these covenants at December 31, 2004. The following is a summary of Gallagher's Credit Agreement and investment related debt (in millions):

	December 31,	
	2004	2003
Corporate related borrowings:		
Gallagher's Credit Agreement:		
Periodic payments of interest and principal, prime or LIBOR plus up to 1.00%, expires July 2006	\$ -	\$ -
Investment related borrowings:		
Mortgage loan on Gallagher's home office:		
Monthly installments of principal and interest, fixed rate of 8.35%, 30 year amortization, balloon payment 2008, subject to prepayment provisions	77.0	77.8
Line of credit facility on Florida Community Development:		
Permits borrowings up to \$17.0 million, quarterly interest- only payments, variable rate of LIBOR plus 2.00%, expires 2005	17.0	17.0
Line of credit facility on Florida Community Development:		
Permits borrowings up to \$20.0 million, monthly interest- only payments, rate of prime plus 0.50%, expires 2005	17.7	4.8
Bonds payable on Florida Community Development:		
Monthly interest- only payments through 2010, variable rate based on commercial paper rate, balloon payment 2010	12.4	12.4
Mortgage loan on Florida Community Development:		
Monthly installments, fixed rate of 8.00%, paid in full in 2004	-	5.6
Equipment loans on Florida Community Development:		
Fixed monthly payments, fixed rates of 6.25% and 7.00%, expire 2005 and 2008	0.3	0.5
Loan on airplanes leased to French Postal Service:		
Monthly principal and interest payments, variable rate of LIBOR plus 1.62%, balloon payment 2006	32.5	34.9
Loan on investment in Biogas project:		
Monthly principal and interest payments, fixed rate of 15.00%, subject to prepayment provisions	14.0	-
Syn/Coal facility purchase note:		
Quarterly variable principal and interest payments, fixed rate of 7.00%	10.5	-
	\$ 181.4	\$ 153.0

See Note 16 for additional discussion on commitments and contingencies.

8. Capital Stock and Stockholders' Rights Plan

Capital Stock - The table below summarizes certain information about Gallagher's capital stock at December 31, 2004 and 2003 (in millions, except par value data):

Class	Par Value	Authorized Shares
Preferred stock	No par	1
Common stock	\$1.00	400

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, and was amended again on March 19, 2004 to increase the exercise price from \$25 to \$55. Under certain conditions, each Right may be exercised to purchase one share of common stock at the exercise price. The Rights become exercisable and transferable upon the earlier of (a) the tenth business day after a person or group (as defined) has acquired 20% or more of the common stock or (b) the tenth business day (or such later date as may be determined by the Board) after a person or group has commenced or publicly announced an intention to commence a tender offer or exchange offer which would result in such person or group acquiring 20% 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 \$110 of market value of common stock of the surviving company for the \$55 exercise price. The Rights may be redeemed by Gallagher at \$.0125 per Right at any time prior to the earlier of (a) or (b) above.

9. Earnings per Share

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

	Year Ended December 31,		
	2004	2003	2002
Net earnings	\$ 188.5	\$ 146.2	\$ 129.9
Weighted average number of common shares outstanding	91.5	90.0	87.3
Dilutive effect of stock options using the treasury stock method	3.0	3.3	4.6
Weighted average number of common and common equivalent shares outstanding	94.5	93.3	91.9
Basic net earnings per share	\$ 2.06	\$ 1.63	\$ 1.49
Diluted net earnings per share	1.99	1.57	1.41

Options to purchase 1.9 million, 2.0 million and 0.3 million shares of common stock were outstanding at December 31, 2004, 2003 and 2002, but were not included in the computation of the dilutive effect of stock options for the year then ended. 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 period and, therefore, would be antidilutive to earnings per share under the treasury stock method.

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 1,925,000 shares for grant, with Discretionary Options granted at the direction of the Compensation Committee of the Board of Directors (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 Compensation 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 as defined in the plan documents.

For purposes of the pro forma disclosures in Note 1 and for the expense recognition in 2004 and 2003, 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:

Year Ended December 31,			
	2004	2003	2002
Expected dividend yield	3.0%	2.8%	3.0%
Expected risk-free interest rate	4.2%	4.1%	3.8%
Volatility	26.7%	26.9%	26.1%
Expected life (in years)	6.8	6.9	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 weighted average fair value per option for all options granted during 2004, 2003 and 2002, as determined on the grant date using the Black-Scholes option valuation model, was \$6.90, \$6.38 and \$5.06, respectively.

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

	Year Ended December 31,					
	2004		2003		2002	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Beginning balance	15.0	\$ 18.59	14.4	\$ 16.05	14.1	\$ 13.63
Granted	3.2	29.89	2.9	24.99	2.3	24.30
Exercised	(2.2)	10.36	(2.1)	9.44	(1.9)	8.16
Canceled	(0.3)	21.22	(0.2)	21.00	(0.1)	17.15
Ending balance	15.7	\$ 22.00	15.0	\$ 18.59	14.4	\$ 16.05
Exercisable at end of year	5.1		5.2		5.1	

Options with respect to 7.8 million shares were available for grant at December 31, 2004.

Other information regarding stock options outstanding and exercisable at December 31, 2004 is summarized as follows (in millions, except exercise price data):

Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 1.11 - \$ 18.50	5.0	3.38	\$ 11.82	2.9	\$ 11.15	
18.97 - 24.90	4.5	7.88	23.87	1.0	23.52	

24.99 -	29.42	5.0	8.18	27.91	0.9	26.50
29.56 -	36.94	1.2	8.35	32.50	0.3	33.01
<hr/>						
\$ 1.11 -	\$ 36.94	15.7	6.59	\$ 22.00	5.1	\$ 17.47
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11. Deferred Compensation

Gallagher has a Deferred Equity Participation Plan, which is a non-qualified 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 the Compensation Committee, to a rabbi trust on behalf of the executives participating in the plan. Distributions under the plan may not normally 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, except for accumulated non-invested dividends, are made in the form of Gallagher's common stock.

On March 18, 2004, March 20, 2003 and March 21, 2002, Gallagher contributed \$4.6 million, \$4.4 million and \$4.0 million, respectively, to the plan through the issuance of 142,000, 169,000 and 122,000 shares, respectively, of Gallagher's common stock. The Gallagher common stock that is issued under the plan to the rabbi trust is valued at historical cost (fair market value at the date of grant) and the unearned deferred compensation obligation is classified as a contra equity amount. The unearned deferred compensation balance is shown as a reduction of stockholders' equity in the accompanying consolidated balance sheet and is being amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair value of the Gallagher common stock that is owed to the participants does not have any impact on Gallagher's consolidated financial statements. During 2004, 2003 and 2002, \$1.7 million, \$1.4 million and \$0.9 million, respectively, were charged to compensation expense related to this plan.

12. Restricted Stock Awards

On June 1, 2003, Gallagher adopted a restricted stock plan for its directors, officers and other employees. Under the provisions of the plan, Gallagher is authorized to issue 4.0 million shares of Gallagher common stock. The Compensation Committee is responsible for the administration of the plan. Each award granted under the plan represents a right of the holder of the award to receive shares of Gallagher common stock, cash or a combination of shares and cash, subject to the holder's continued employment with Gallagher for a period of time after the date the award is granted. The Compensation Committee shall determine each recipient of an award under the plan, the number of shares of common stock subject to such award and the period of continued employment required for the vesting of such award. These terms will be included in an award agreement between Gallagher and the recipient of the award. As discussed in the paragraph below, 65,000 shares of restricted stock awards were granted under this plan in 2004. No restricted stock awards were granted under this plan in 2003. Accordingly, as of December 31, 2004, 3.9 million shares are available for grant under this plan.

On March 18, 2004, March 20, 2003 and March 21, 2002, Gallagher granted 29,000, 275,000 and 274,000 shares, respectively, of its common stock to employees related to incentive compensation plans, with an aggregate fair value of \$0.9 million, \$7.2 million and \$9.0 million, respectively, as of those dates. Also, on March 18, 2004, Gallagher granted restricted stock awards of 36,000 shares in the aggregate of its common stock to its Chief Executive Officer and four other Corporate Officers, with an aggregate fair value of \$1.2 million as of that date. On March 20, 2003, Gallagher granted restricted stock awards of 27,000 shares in the aggregate of its common stock to its Chief Executive Officer and one other Corporate Officer, with an aggregate fair value of \$0.7 million as of that date. Also, 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 fair value of \$1.0 million as of that date. Substantially all of the 2003 and 2004 restricted stock awards vest over a two-year period (19,000 shares of the 2004 grant vest over a one-year period), primarily at the rate of 50% per year beginning on March 31, 2004 and 2005, respectively. 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 compensation expense over the vesting period of the participants. Future changes in the fair value of the Gallagher common stock that is owed to the participants does not have any impact on Gallagher's consolidated financial statements. During 2004, 2003 and 2002, \$8.3 million, \$6.2 million and \$2.5 million, respectively, were charged to compensation expense related to restricted stock awards granted in 2002 to 2004.

13. Employee Stock Purchase Plan

Effective July 1, 2003, Gallagher adopted an employee stock purchase plan (ESPP) under which the sale of 4.0 million shares of Gallagher's common stock has been authorized. Eligible employees may contribute up to 15% of their compensation towards the quarterly purchase of Gallagher's common stock. The employees' purchase price is 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the quarterly offering period. Employees may annually purchase shares having a fair market value of up to \$25,000 (measured as of the first day of the quarterly offering period of each calendar year). Gallagher issued 0.3 million shares of common stock in the aggregate under the ESPP during 2004. These shares were issued as of the end of first, second, third and fourth quarters 2004, to employees who participated in the ESPP during those quarters at an aggregate purchase price of \$2.7 million, or \$27.16 per share, \$2.1 million, or \$25.88 per share, \$1.8 million, or \$25.85 per share and \$1.6 million, or \$27.63 per share, respectively. Effective as of the end of third and fourth quarters 2003, Gallagher issued 0.1 million shares of common stock each quarter to employees who participated in the ESPP during those quarters at an aggregate purchase price of \$1.8 million, or \$22.89 per share, and \$1.9 million, or \$24.71 per share, respectively. Currently, there are 3.5 million shares reserved for future issuance. During 2004 and 2003, \$1.4 million and \$0.7 million was charged to compensation expense related to the common stock issued under the ESPP.

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

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 millions):

	Year Ended December 31,	
	2004	2003
Change in pension benefit obligation:		
Benefit obligation at beginning of year	\$ 153.7	\$ 123.3
Service cost	17.2	14.5
Interest cost	10.0	8.5
Plan amendments	-	-
Net actuarial loss	17.5	9.6
Benefits paid	(2.7)	(2.2)
Benefit obligation at end of year	\$ 195.7	\$ 153.7
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 115.8	\$ 82.7
Actual return on plan assets	11.4	17.6
Contributions by Gallagher	12.5	17.7
Benefits paid	(2.7)	(2.2)
Fair value of plan assets at end of year	\$ 137.0	\$ 115.8
Funded status of the plan (underfunded)	\$ (58.7)	\$ (37.9)
Unrecognized net actuarial loss	29.5	13.2
Unrecognized prior service cost	2.7	3.0
Unrecognized transition obligation	0.1	0.2
Net amount recognized	\$ (26.4)	\$ (21.5)

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

	Year Ended December 31,		
	2004	2003	2002
Service cost - benefits earned during the year	\$ 17.2	\$ 14.5	\$ 11.4
Interest cost on benefit obligation	10.0	8.5	7.6
Expected return on plan assets	(10.2)	(7.5)	(6.5)
Amortization of prior service cost	0.3	0.3	0.3
Amortization of net actuarial loss obligation	-	0.4	-
	0.1	0.1	0.1
Net periodic benefit cost	\$ 17.4	\$ 16.3	\$ 12.9

The following is information for pension plans with an accumulated benefit obligation in excess of plan assets (in millions):

	December 31,	
	2004	2003
Projected benefit obligation	\$ 195.7	\$ 153.7
Accumulated benefit obligation	151.4	118.5
Fair value of plan assets	137.0	115.8

The following weighted average assumptions were used at December 31 in determining the plan's pension benefit obligation:

	December 31,	
	2004	2003
Discount rate	6.00%	6.50%
Weighted average rate of increase in future compensation levels	6.10%	6.10%

The following weighted average assumptions were used at January 1 in determining the plan's net periodic pension benefit cost:

	Year Ended December 31,	
	2004	2003
Discount rate	6.50%	6.75%
Weighted average rate of increase in future compensation levels	6.10%	6.20%
Expected long- term rate of return on assets	8.50%	8.50%

The following is a summary of the plan's weighted average asset allocations at December 31 by asset category:

Asset Category	December 31,	
	2004	2003
Equity securities	56.0%	59.0%
Debt securities	37.0%	32.0%
Real estate	7.0%	9.0%
Total	100.0%	100.0%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan (in millions):

2005	\$	2.9
2006		3.3
2007		3.9
2008		4.9
2009		5.8
Years 2010 to 2014		49.1

Plan assets are invested in various pooled separate accounts under a group annuity contract managed by a life insurance carrier. The plan's investment policy provides that investments shall be allocated in a manner designed to provide a long-term investment return greater than the actuarial assumptions, maximize investment return commensurate with risk, and to comply with the Employee Retirement Security Act of 1974 (ERISA) by investing the funds in a manner consistent with ERISA's fiduciary standards. Gallagher expects to contribute between \$10.0 million and \$20.0 million to the plan in 2005, subject to the maximum tax deductible contribution that is allowed under the IRC.

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 2.5% of eligible compensation in 2004; in 2003 and 2002 the maximum was 2.0% 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 \$8.7 million, \$6.5 million, and \$5.3 million in 2004, 2003 and 2002, respectively. Gallagher also has 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 \$0.9 million, \$0.6 million and \$0.4 million to the plan in 2004, 2003 and 2002, respectively. The fair value of the plan's assets at December 31, 2004 and 2003, respectively, including employee contributions and investment earnings thereon, was \$39.7 million and \$27.5 million, 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 sheet.

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 \$5.3 million in 2004, \$4.1 million in 2003 and \$4.3 million in 2002.

15. Postretirement Benefits Other than Pensions

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

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

Year Ended December 31,				
		2004		2003
Change in postretirement benefit obligation:				
Benefit obligation at beginning of year	\$	7.3	\$	6.2
Service cost		-		-
Interest cost		0.5		0.4
Net actuarial loss		-		1.0
Benefits paid		(0.2)		(0.3)
Benefit obligation at end of year	\$	7.6	\$	7.3
Change in plan assets:				
Fair value of plan assets at beginning and end of year	\$	-	\$	-
Funded status of the plan (underfunded)	\$	(7.6)	\$	(7.3)
Unrecognized net actuarial gain		(4.0)		(4.3)
Unrecognized prior service cost		-		-
Unrecognized transition obligation		4.1		4.6
Net amount recognized	\$	(7.5)	\$	(7.0)

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

Year Ended December 31,				
	2004		2003	2002
Service cost - benefits earned during the year	\$ -	\$	-	\$ -
Interest cost on benefit obligation	0.5		0.4	0.4
Amortization of transition obligation	0.5		0.5	0.5
Amortization of net actuarial gain	(0.3)		(0.4)	(0.4)
Net periodic benefit cost	\$ 0.7	\$	0.5	\$ 0.5

The discount rate used to measure the postretirement benefit obligation was 6.00% at December 31, 2004 and 6.50% at December 31, 2003. The discount rate used to measure the net periodic postretirement benefit cost at January 1 was 6.50% for 2004 and 6.75% for 2003. The transition obligation is being amortized over a 20- year period.

The following assumed healthcare cost trend rates were used at December 31 in determining the plan's postretirement benefit obligation:

December 31,		
	2004	2003
Healthcare cost trend rate assumed for next year	8.00%	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year the rate reaches the ultimate trend rate	2009	2009

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 millions):

One Percentage Point			
	Increase		Decrease
Effect on the net periodic postretirement benefit cost in 2004	\$ 0.1	\$	(0.1)
Effect on the postretirement benefit obligation at December 31, 2004	0.8		(0.7)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan (in millions):

2005	\$ 0.5
2006	0.5
2007	0.5
2008	0.6
2009	0.6
Years 2010 to 2014	2.9

In December 2003, the President of the United States signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position (FSP) 106- 2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003". FSP 106- 2 provides guidance on accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide drug benefits. This FSP also requires employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. This FSP is effective for the first interim or annual period beginning after July 1, 2004 and supersedes FSP 106- 1, which permitted a sponsor of a postretirement health care plan that provides drug benefits to make a one- time election to defer accounting for the effects of the Act. In accordance with FSP 106- 1, Gallagher elected to defer accounting for the effects of the Act and as such, any measures of the postretirement benefit obligation or net periodic postretirement benefit cost in the consolidated financial statements do not reflect the effects of the Act.

The transition method outlined in FSP 106- 2 requires public companies to conclude whether the enactment of the Act was a "significant event" pursuant to SFAS 106, "Employers Accounting for Postretirement Benefits Other than Pensions." If the enactment of the Act was not a significant event, its effects should be incorporated at the next measurement date pursuant to SFAS 106 following the first interim or annual period beginning after July 1, 2004. Gallagher has not yet determined whether the prescription drug benefit provided to plan participants is the actuarial equivalent to Medicare Part D, but does not believe that the effect of the Act will be material to its consolidated financial statements. Gallagher will adopt the provisions of FSP 106- 2 at the Plan's next measurement date, which will occur in 2005.

16. Commitments, Contingencies, Financial Guarantees and Off- Balance Sheet Arrangements

In connection with its investing and operating activities, Gallagher has entered into certain contractual obligations as well as commitments. See Notes 3 and 7 for additional discussion of these obligations and commitments. Gallagher's future minimum cash payments, excluding interest, associated with its contractual obligations pursuant to the Credit Agreement, investment related borrowings, operating leases and purchase commitments at December 31, 2004 are as follows (in millions):

Contractual Obligations	Payments Due by Period						
	2005	2006	2007	2008	2009	Thereafter	Total
Credit Agreement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment related borrowings:							
Florida Community Development debt	34.8	0.1	0.1	-	-	12.4	47.4
Home office mortgage loan	0.9	0.9	1.1	74.1	-	-	77.0
Airplane leasing company debt	2.6	29.9	-	-	-	-	32.5
Biogas project loan	0.2	0.2	0.2	0.2	0.2	13.0	14.0
Syn/Coal facility purchase note	2.8	3.3	3.5	0.9	-	-	10.5
Total debt obligations	41.3	34.4	4.9	75.2	0.2	25.4	181.4
Operating lease obligations	51.9	46.9	40.9	34.0	27.6	38.7	240.0
Net Syn/Coal purchase commitments	7.9	3.7	3.0	-	-	-	14.6
Outstanding purchase obligations	0.2	-	-	-	-	-	0.2
Total contractual obligations	\$ 101.3	\$ 85.0	\$ 48.8	\$ 109.2	\$ 27.8	\$ 64.1	\$ 436.2

The amounts presented in the table above may not necessarily reflect the actual future cash funding requirements of Gallagher, because the actual timing of the future payments made may vary from the stated contractual obligation.

Credit Agreement - Gallagher has a \$250.0 million Credit Agreement it uses to post LOCs and from time- to- time borrow to supplement operating cash flows. At January 19, 2005, \$38.1 million of LOCs (of which Gallagher has \$19.9 million of liabilities recorded as of December 31, 2004) were outstanding under the Credit Agreement, which primarily related to Gallagher's investments as discussed in Notes 3 and 16. There were no borrowings outstanding under the Credit Agreement at December 31, 2004. Accordingly, as of January 19, 2005, \$211.9 million remained available for potential borrowings, of which \$36.9 million may be in the form of additional LOCs. Gallagher is under no obligation to utilize the Credit Agreement in performing its normal business operations. See Note 7 to the consolidated financial statements for a discussion of the terms of the Credit Agreement.

Investment Related Borrowings - As more fully described in Note 3 to the consolidated financial statements, at December 31, 2004, the accompanying balance sheet includes \$181.4 million of borrowings related to Gallagher's investment related enterprises of which \$32.4 million is recourse to Gallagher. These borrowings are partially secured by the underlying assets of the investment enterprises and support their operations.

Operating Lease Obligations - 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 \$57.9 million in 2004, \$53.7 million in 2003 and \$49.9 million in 2002.

With respect to the home office building, the property is leased to Gallagher and non- Gallagher tenants under operating leases that expire at various dates over the next three years. In the normal course of business, Gallagher expects that the leases will be renewed or replaced. The following is a summary of the minimum future rentals to be received from non- Gallagher tenants on noncancelable operating leases as of December 31, 2004 (in millions):

Year	Amount
------	--------

2005	\$	4.7
2006		4.2
Total	\$	8.9

Charges for real estate taxes and common area maintenance are adjusted annually based on actual expenses, and the related revenues are recognized in the year in which the expenses are incurred. These amounts are not included in the minimum future rentals to be received in the table above.

Net Syn/Coal Purchase Commitments - Gallagher has interests in two Syn/Coal facilities that it consolidates. See Note 3 to the consolidated financial statements for additional disclosures regarding these partnerships. The facilities have entered into raw coal purchase and Syn/Coal sales agreements. These agreements terminate immediately in the event the Syn/Coal produced ceases to qualify for credits under IRC Section 29 or upon termination of either the purchase or sales agreements. The net annual Syn/Coal purchase commitments represent the minimum raw coal purchases at estimated costs less sales of Syn/Coal at estimated prices.

Outstanding Purchase Obligations - Gallagher is a service company and thus typically does not have a material amount of outstanding purchase obligations at any point in time. The amount disclosed in the table above represents the aggregate amount of unrecorded purchase obligations that Gallagher has outstanding as of December 31, 2004. These obligations represent agreements to purchase goods or services that were executed in the normal course of business.

Off- Balance Sheet Commitments - Gallagher's total unrecorded commitments associated with outstanding letters of credit, financial guarantees and funding commitments as of December 31, 2004 are as follows (in millions):

Off- Balance Sheet Commitments	Amount of Commitment Expiration by Period						Total Amounts Committed
	2005	2006	2007	2008	2009	Thereafter	
Investment related:							
Letters of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11.3	\$ 11.3
Financial guarantees	-	-	-	-	-	2.5	2.5
Funding commitments	0.8	-	2.0	-	-	-	2.8
	0.8	-	2.0	-	-	13.8	16.6
Operations related:							
Letters of credit	1.6	-	-	-	-	5.3	6.9
Total commitments	\$ 2.4	\$ -	\$ 2.0	\$ -	\$ -	\$ 19.1	\$ 23.5

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect the actual future cash funding requirements of Gallagher. See Note 3 for a discussion of Gallagher's outstanding LOCs, financial guarantees and funding commitments. All but one of the LOCs represent multiple year commitments but all have annual, automatic renewing provisions and are classified by the latest commitment date.

During the period from January 1, 2002 to December 31, 2004, Gallagher acquired 43 companies, which were accounted for as business combinations. Substantially all of the purchase agreements related to these acquisitions contain earnout obligations. The earnout obligations related to the 2004 acquisitions are disclosed in Note 3 to the consolidated financial statements. These earnout payables represent the maximum amount of additional consideration that could be paid pursuant to the purchase agreements related to these acquisitions. These potential earnout 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 acquisition dates. Future payments made under these arrangements will generally be recorded as upward adjustments to goodwill when the earnouts are settled. The aggregate amount of unrecorded earnout payables outstanding as of December 31, 2004 related to Gallagher's 2002, 2003 and 2004 acquisitions was \$81.9 million.

Off- Balance Sheet Debt - Gallagher's unconsolidated investment portfolio includes investments in enterprises where Gallagher's ownership interest is between 1% and 50%, whereby management has determined that Gallagher's level of economic interest is not sufficient to require consolidation. 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 sheet at December 31, 2004 and 2003. The December 31, 2004 and 2003 balance sheets of several of these unconsolidated investments contain outstanding debt, which is also not required to be included in Gallagher's consolidated balance sheet.

In certain cases, Gallagher guarantees a portion of the enterprises' debt. 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, LOCs and financial guarantees. In the event that certain of these enterprises 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 operating results and/or financial position. See Notes 3 and 16 to the consolidated financial statements.

Gallagher's commitments associated with outstanding letters of credit (LOCs), financial guarantees and funding commitments at December 31, 2004 are as follows (all dollar amounts in table and related footnotes are in millions):

Description, Purpose and Trigger	Collateral	Compensation to Gallagher	Maximum Exposure	Liability Recorded
Tax advantaged investments				
"Reclamation" collateral (LOC) for land owned by Gallagher - expires after 2009	(1)	None	\$ 4.4	\$ -
Trigger - Activities cease and Gallagher does not proceed with the reclamation process				
Funding commitment to a sulphur reduction binder venture - expires 2005	None	None	0.2	-
Trigger - Agreed conditions met				
Real estate, venture capital and other				
Credit support (LOC) for investee's mortgage on hotel - expires after 2009	None	None	0.5	0.5
Trigger - Investee defaults on mortgage				
Funding commitments to two funds - expires 2006	None	None	2.0	-
Trigger - Agreed conditions met				
Investments accounted for on a consolidated basis				
Credit support (LOC) for Gallagher's corporate headquarters building mortgage - expires 2005	None	None	3.0	3.0
Trigger - Manager (partial owner) defaults on mortgage payment				
Credit support (1 LOC and 2 guarantees) for Florida Community Development bonds, water reclamation facility obligation and line of credit used for project development - expires 2005 through 2032	(2)	(3)	32.1(4)	29.4
Trigger - Florida Community Development defaults on payments				
Funding commitment to Florida Community Development - expires 2005	None	None	0.6	-
Trigger - Agreed conditions met				
Other	None	None	5.5	4.0

Credit support (LOC) for deductibles due by Gallagher on its own insurance coverages - expires after 2009				
Trigger - Gallagher does not reimburse the insurance company for deductibles the insurance company advances on behalf of Gallagher				
Credit support (LOC) for deductibles due by a client of Gallagher on the client's insurance plan - expires after 2009	(5)	Outstanding guarantee multiplied by the current prime interest rate	3.8	-
Trigger - Client does not fund its deductibles				
Credit enhancement (LOC) for Gallagher's Bermuda captive insurance operation to meet minimum statutory capital requirements - expires after 2009	(6)	Reimbursement of LOC fees	3.7	-
Trigger - Dissolution or catastrophic financial results of the operation				

Description, Purpose and Trigger	Collateral	Compensation to Gallagher	Maximum Exposure	Liability Recorded
Other (continued)				
Credit support (2 LOCs) for clients' claim funds held by Gallagher's Bermuda captive insurance operation in a fiduciary capacity - expires after 2009	None	Reimbursement of LOC fees	3.0	-
Trigger - Investments fall below prescribed levels				
Credit support (LOC) for Gallagher's subsidiary's line of credit - expires 2005	None	None	1.6	-
Trigger - Subsidiary defaults on its payments				
			\$ 60.4(7)	\$ 36.9

- (1) The land.
- (2) The property.
- (3) Retroactive, annual, cumulative fee of 10% of the guarantees. The LOC has a fee of \$0.8 plus an interest rate differential.
- (4) Plus interest and collection expenses on \$17.0 of the total.
- (5) Lien on real property with an appraised value of approximately \$11.4 .
- (6) The majority owners of the operation pledge their percentage ownership portion of any draw.
- (7) See page F - 16 of the Management's Discussion and Analysis of Financial Condition and Results of Operations for an analysis of the Off- Balance Sheet Commitments.

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

As more fully described in Notes 3 and 7, at December 31, 2004, Gallagher had LOCs, financial guarantees and funding commitments related to its investments.

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. In October 2000, Headwaters Incorporated (Headwaters) filed a complaint against Gallagher's financial services subsidiary in the Fourth District Court for the State of Utah (Headwaters Incorporated v. AJG Financial Services, Inc., Case No. 000403381) alleging that Gallagher's subsidiary had failed to make payments and to perform other obligations under a technology license. Gallagher's subsidiary had entered into this agreement with Headwaters in connection with Gallagher's investment in the synthetic fuel industry. In its answer to the complaint, Gallagher's financial services subsidiary asserted counterclaims against Headwaters. The trial began on January 11, 2005. Headwaters is seeking damages in the amount of \$140 million as well as a declaratory judgment that payments would be owing on future synfuel production through the end of 2007. Gallagher's counterclaims seek damages of \$71 million. If determined adversely to the subsidiary on substantially all claims and for a substantial amount of the damages asserted, the lawsuit could have a material adverse effect on Gallagher. While Gallagher's management continues to believe the plaintiff's claims lack merit, the outcome of this trial cannot be predicted.

Private parties have also filed civil litigation against Gallagher under a variety of legal theories relating, among other things, to broker compensation practices. As previously reported, Gallagher is a defendant in a purported class action (Village of Orland Hills v. Arthur J. Gallagher & Co., Case No. 00 CH 13855, pending in the Circuit Court of Cook County, Illinois), which challenges the propriety of alleged "undisclosed contingent commissions" paid pursuant to certain compensation arrangements between Gallagher and various insurance carriers. This action was terminated when Gallagher's motion for summary judgment was granted in early 2002 but was reinstated in September 2003 when such ruling was overturned by an intermediate appeals court. In addition, on October 19, 2004, Gallagher was joined as a defendant in a purported class action, originally filed in August 2004, in the U.S. District Court for the Southern District of New York by OptiCare Health Systems Inc. against the ten largest U.S. insurance brokers and four of the largest commercial insurers (OptiCare Health Systems Inc. v. Marsh & McLennan Companies, Inc., et al., Case No. 04 CV 06954 (DC)). The amended complaint alleges that the defendants used the contingent commission structure of placement service agreements in a conspiracy to deprive policyholders of "independent and unbiased brokerage services, as well as free and open competition in the market for insurance." In fourth quarter 2004, three other purported class actions were filed in the United States District Court for the Northern District of Illinois and in the Circuit Court of Madison County, Illinois, alleging claims based on allegations that are similar to those alleged by the plaintiff in the OptiCare litigation. On December 15, 2004, a shareholder derivative action was filed against Gallagher's directors and certain officers in the United States District Court for the Northern District of Illinois (Fener v. Robert E. Gallagher, et al., Case No. 040 8093). This derivative action alleges that such directors and officers violated various state laws, including breaches of fiduciary duties, abuse of control, gross

practices and to violate federal securities laws by disseminating false and misleading statements concerning Gallagher's financial results and operations. Gallagher believes it has meritorious defenses in all of these cases and intends to defend itself vigorously in each. However, the outcome of these cases, and any losses or other payments that may occur as a result of these cases, cannot be predicted at this time.

Contingent Commissions and Other Industry Developments - The insurance industry has recently come under a significant level of scrutiny by various regulatory bodies, including state Attorneys General and the departments of insurance for various states, with respect to certain contingent commission arrangements (generally known as contingent commission or placement service agreements) between insurance brokers and insurance carriers. A discussion of these industry developments and the impact on Gallagher is included in Item 2 of this Report, "Management's Discussion and Analysis of Financial Condition and Results of Operations Contingent Commissions and Other Industry Developments."

Contingent Liabilities - Gallagher purchases insurance to provide protection from errors and omissions (E&O) claims that may arise during the ordinary course of business. However, insuring 100% of potential claims is not cost effective. Effective June 1, 2004, Gallagher retains the first \$2.5 million of each and every E&O claim. Prior to June 1, 2004, Gallagher retained the first \$1.0 million of each and every E&O claim and the first \$15.0 million of all E&O claims in excess of \$1.0 million of each and every E&O claim. Gallagher's E&O insurance provides aggregate coverage for E&O losses up to \$165.0 million in excess of Gallagher's retained amounts. Gallagher has historically maintained self- insurance reserves for the portion of its E&O exposure that is not insured. Gallagher periodically determines a range of possible reserve levels using actuarial techniques which rely heavily on projecting historical claim data into the future. Gallagher's E&O reserve in the December 31, 2004 consolidated balance sheet is above the lower end of the most recently determined actuarial range by \$5.0 million and below the upper end of the actuarial range by \$7.0 million. There can be no assurances that the historical claim data used to project the current reserve levels will be indicative of future claim activity. Thus, the actuarial ranges and E&O reserve level could change in the future as more information becomes known, which could materially impact the amounts reported and disclosed herein.

17. Income Taxes

Gallagher and its principal domestic subsidiaries are included in a consolidated federal income tax return. Gallagher's international subsidiaries file various income tax returns in their jurisdictions. Significant components of earnings before income taxes and the provision for income taxes are as follows (in millions):

	Year Ended December 31,		
	2004	2003	2002
Earnings before income taxes:			
Domestic	\$ 219.5	\$ 175.1	\$ 173.3
Foreign, principally United Kingdom, Australia and Bermuda	16.0	18.2	12.2
	<u>\$ 235.5</u>	<u>\$ 193.3</u>	<u>\$ 185.5</u>
Provision for income taxes:			
Federal:			
Current	\$ 64.8	\$ 57.0	\$ 45.0
Deferred	(41.3)	(30.1)	(5.7)
	<u>23.5</u>	<u>26.9</u>	<u>39.3</u>
State and local:			
Current	23.7	16.5	14.2
Deferred	(5.4)	(1.7)	(1.2)
	<u>18.3</u>	<u>14.8</u>	<u>13.0</u>
Foreign:			
Current	4.5	4.9	2.7
Deferred	0.7	0.5	0.6
	<u>5.2</u>	<u>5.4</u>	<u>3.3</u>
Total provision for income taxes	<u>\$ 47.0</u>	<u>\$ 47.1</u>	<u>\$ 55.6</u>

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

	Year Ended December 31,					
	2004		2003		2002	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Federal statutory rate	\$ 82.4	35.0	\$ 67.7	35.0	\$ 64.9	35.0
State income taxes - net of federal benefit	11.9	5.1	9.7	5.0	8.5	4.6
Foreign taxes	(0.4)	(0.2)	(2.6)	(1.3)	(1.5)	(0.8)
Low income housing and alternative energy tax credits	(54.8)	(23.3)	(31.8)	(16.5)	(20.4)	(11.0)
Amortization expense of low income housing and alternative energy investment, net of tax benefit	1.1	0.5	1.6	0.8	2.4	1.3
Foreign dividends and other permanent differences	6.8	2.9	2.5	1.3	1.7	0.9
Provision for income taxes	\$ 47.0	20.0	\$ 47.1	24.3	\$ 55.6	30.0

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 assets and liabilities are as follows (in millions):

	December 31,	
	2004	2003
Deferred tax assets:		
Alternative minimum tax (AMT) and other credit carryforwards	\$ 83.9	\$ 67.0
Accrued and unfunded compensation and employee benefits	68.2	51.8
Investment- related partnerships	72.7	28.1
Accrued liabilities	22.3	22.2
Other	5.1	26.0
Total deferred tax assets	252.2	195.1
Valuation allowance for deferred tax assets	-	-
Deferred tax assets	252.2	195.1
Deferred tax liabilities:		
Nondeductible amortizable intangible assets	23.1	21.1
Accrued and unfunded compensation and employee benefits	0.9	1.1
Accrued liabilities	7.9	6.9
Investment- related partnerships	22.1	9.5

Total deferred tax liabilities	54.0	38.6
Net deferred tax assets	\$ 198.2	\$ 156.5

At December 31, 2004 and 2003, \$67.4 million and \$57.3 million respectively, of deferred tax assets have been included in other current assets in the accompanying consolidated balance sheet. At December 31, 2004 and 2003, \$53.7 million and \$38.6 million respectively, of deferred tax liabilities have been included in other noncurrent liabilities in the accompanying consolidated balance sheet. AMT credits and other credits have an indefinite and 20 year life, respectively. Gallagher expects to fully utilize the amounts carried forward. Gallagher does not provide for United States federal income taxes on the undistributed earnings (\$71 million at December 31, 2004) of foreign subsidiaries which are considered permanently invested outside of the United States. The amount of unrecognized deferred tax liability on these undistributed earnings is \$8 million at December 31, 2004.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law. The Act creates a temporary incentive for United States multinationals to repatriate accumulated income earned outside the United States. Gallagher is currently reviewing the provisions of the Act and has not yet determined the impact. Whether Gallagher will ultimately take advantage of this provision depends on a number of factors, including reviewing future Congressional guidance before making a decision.

18. Quarterly Operating Results (unaudited)

Quarterly operating results for 2004 and 2003 were as follows (in millions, except per share data):

	1st		2nd		3rd		4th	
2004								
Total revenues	\$	341.5	\$	378.9	\$	373.0	\$	386.9
Total expenses		292.9		321.3		305.0		325.6
Earnings before income taxes		48.6		57.6		68.0		61.3
Net earnings		38.9		46.1		54.4		49.1
Basic earnings per share		.43		.51		.59		.53
Diluted net earnings per share		.41		.49		.57		.52
2003								
Total revenues	\$	254.3	\$	299.0	\$	345.0	\$	365.5
Total expenses		238.5		250.7		280.6		300.7
Earnings before income taxes		15.8		48.3		64.4		64.8
Net earnings		11.9		36.2		48.9		49.2
Basic earnings per share		.13		.40		.54		.55
Diluted net earnings per share		.13		.39		.52		.53

19. Segment Information

Gallagher has identified three operating segments: Brokerage, Risk Management and Financial Services. The Brokerage segment comprises three operating divisions: the Brokerage Services- Retail Division, Specialty Marketing and International and Gallagher Benefit Services. The Brokerage segment, for commission or fee compensation, places commercial property/casualty (P/C) and employee benefit- related insurance on behalf of its customers. The Risk Management segment provides P/C and health claim third- party administration, loss control and risk management consulting and insurance property appraisals. Third party administration is principally the management and processing of claims for self- insurance programs of Gallagher's clients or clients of other brokers. Approximately 90% of this segment's total revenues relate to the P/C operations. The Financial Services segment is responsible for managing Gallagher's investment portfolio. Allocations of investment income and certain expenses are based on reasonable assumptions and estimates. Reported operating results by segment would change if different methods were applied. Financial information relating to Gallagher's segments for 2004, 2003 and 2002 is as follows (in millions):

	Brokerage	Risk Management	Financial Services	Total
Year Ended December 31, 2004				
Revenues:				
Commissions	\$ 801.9	\$ -	\$ -	\$ 801.9
Fees	152.4	370.9	-	523.3
Investment income - fiduciary	13.4	1.7	-	15.1
Investment income all other	-	-	103.3	103.3
Impact of FIN 46 on investment income all other			69.9	69.9
Investment income gains	-	-	8.1	8.1
Gross revenues	967.7	372.6	181.3	1,521.6
Less brokerage	(41.3)	-	-	(41.3)
Total revenues	926.4	372.6	181.3	1,480.3
Compensation	532.8	202.6	-	735.4
Operating	177.5	100.0	-	277.5
Investment expenses	-	-	101.9	101.9
Impact of FIN 46 on investment expenses	-	-	67.2	67.2
Interest	-	-	9.5	9.5
Depreciation	12.9	9.4	9.8	32.1
Impact of FIN 46 on depreciation	-	-	2.7	2.7
Amortization	18.1	0.4	-	18.5
Total expenses	741.3	312.4	191.1	1,244.8
Earnings (loss) before income taxes	185.1	60.2	(9.8)	235.5
Provision for income taxes	36.9	12.1	(2.0)	47.0
Net earnings (loss)	\$ 148.2	\$ 48.1	\$ (7.8)	\$ 188.5
Net foreign exchange gain (loss)	\$ 2.3	\$ -	\$ -	\$ 2.3
Revenues:				
United States	\$ 821.1	\$ 334.0	\$ 177.9	\$ 1,333.0
Foreign, principally United Kingdom, Australia and Bermuda	105.3	38.6	3.4	147.3
Total revenues	\$ 926.4	\$ 372.6	\$ 181.3	\$ 1,480.3

At December 31, 2004

Identifiable assets:

United States	\$	1,752.6	\$	193.6	\$	609.8	\$	2,556.0
Foreign, principally United Kingdom, Australia and Bermuda		601.9		42.2		37.8		681.9
Total identifiable assets	\$	2,354.5	\$	235.8	\$	647.6	\$	3,237.9
Goodwill - net	\$	209.5	\$	9.5	\$	-	\$	219.0
Amortizable intangible assets - net		150.6		4.6		-		155.2

	Brokerage	Risk Management	Financial Services	Total
Year Ended December 31, 2003				
Revenues:				
Commissions	\$ 746.2	\$ -	\$ -	\$ 746.2
Fees	135.5	320.7	-	456.2
Investment income - fiduciary	7.5	1.0	-	8.5
Investment income all other	-	-	71.7	71.7
Impact of FIN 46 on investment income all other			46.4	46.4
Investment income gains (losses)	-	-	(24.5)	(24.5)
Gross revenues	889.2	321.7	93.6	1,304.5
Less brokerage	(40.7)	-	-	(40.7)
Total revenues	848.5	321.7	93.6	1,263.8
Compensation	482.1	178.7	-	660.8
Operating	172.2	90.6	-	262.8
Investment expenses	-	-	53.7	53.7
Impact of FIN 46 on investment expenses	-	-	44.1	44.1
Interest	-	-	8.0	8.0
Depreciation	12.1	9.4	7.4	28.9
Impact of FIN 46 on depreciation	-	-	2.3	2.3
Amortization	9.8	0.1	-	9.9
Total expenses	676.2	278.8	115.5	1,070.5
Earnings (loss) before income taxes	172.3	42.9	(21.9)	193.3
Provision for income taxes	42.1	10.4	(5.4)	47.1
Net earnings (loss)	\$ 130.2	\$ 32.5	\$ (16.5)	\$ 146.2
Net foreign exchange gain (loss)	\$ 0.5	\$ (0.3)	\$ -	\$ 0.2
Revenues:				
United States	\$ 753.2	\$ 290.3	\$ 90.3	\$ 1,133.8
Foreign, principally United Kingdom, Australia and Bermuda	95.3	31.4	3.3	130.0
Total revenues	\$ 848.5	\$ 321.7	\$ 93.6	\$ 1,263.8
At December 31, 2003				
Identifiable assets:				
United States	\$ 1,433.2	\$ 175.4	\$ 611.7	\$ 2,220.3
Foreign, principally United Kingdom, Australia and Bermuda	609.7	26.4	45.2	681.3
Total identifiable assets	\$ 2,042.9	\$ 201.8	\$ 656.9	\$ 2,901.6
Goodwill - net	\$ 129.8	\$ 8.5	\$ -	\$ 138.3
	79.4	5.2	-	84.6

	Brokerage	Risk Management	Financial Services	Total
Year Ended December 31, 2002				
Revenues:				
Commissions	\$ 662.9	\$ -	\$ -	\$ 662.9
Fees	109.0	280.4	-	389.4
Investment income - fiduciary	9.4	0.8	-	10.2
Investment income all other	-	-	60.9	60.9
Investment income gains (losses)	-	-	(22.0)	(22.0)
Gross revenues	781.3	281.2	38.9	1,101.4
Less brokerage	(41.1)	-	-	(41.1)
Total revenues	740.2	281.2	38.9	1,060.3
Compensation	424.0	159.9	-	583.9
Operating	150.0	80.4	-	230.4
Investment expenses	-	-	18.6	18.6
Interest	-	-	9.5	9.5
Depreciation	10.9	9.3	5.6	25.8
Amortization	6.6	-	-	6.6
Total expenses	591.5	249.6	33.7	874.8
Earnings (loss) before income taxes	148.7	31.6	5.2	185.5
Provision for income taxes	44.6	9.4	1.6	55.6
Net earnings (loss)	\$ 104.1	\$ 22.2	\$ 3.6	\$ 129.9
Net foreign exchange gain (loss)	\$ 0.3	\$ -	\$ -	\$ 0.3
Revenues:				
United States	\$ 661.0	\$ 256.7	\$ 37.0	\$ 954.7
Foreign, principally United Kingdom, Australia and Bermuda	79.2	24.5	1.9	105.6
Total revenues	\$ 740.2	\$ 281.2	\$ 38.9	\$ 1,060.3
At December 31, 2002				
Identifiable assets:				
United States	\$ 1,270.6	\$ 53.5	\$ 586.0	\$ 1,910.1
Foreign, principally United Kingdom, Australia and Bermuda	484.6	20.1	48.8	553.5
Total identifiable assets	\$ 1,755.2	\$ 73.6	\$ 634.8	\$ 2,463.6
Goodwill - net	\$ 81.7	\$ 2.5	\$ -	\$ 84.2
Amortizable intangible assets - net	50.2	0.7	-	50.9

Report of Independent Registered Public Accounting Firm on Financial Statements

Board of Directors and Stockholders
Arthur J. Gallagher & Co.

We have audited the accompanying consolidated balance sheet of Arthur J. Gallagher & Co. (Gallagher) as of December 31, 2004 and 2003, and the related consolidated statement of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arthur J. Gallagher & Co. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Gallagher's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 27, 2005, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Chicago, Illinois
January 27, 2005

Management's Report on Internal Control Over Financial Reporting

Gallagher's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a- 15(f). Under the supervision and with the participation of management, including Gallagher's principal executive officer and principal financial officer, Gallagher conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In conducting Gallagher's evaluation of the effectiveness of its internal control over financial reporting, Gallagher has excluded the following acquisitions completed by Gallagher in 2004: Health Care Insurers, Inc., Strategix, Inc., Sheridan Insurance Group, BenefitPort Northwest, I. Arthur Yanoff & Co. Ltd., The Kooper Group, Inc., IGroup, Inc. and FPE Insurance Brokers Pty Ltd. Collectively, these acquisitions constituted less than 2% of total assets as of December 31, 2004 and less than 1% of total revenues and net earnings for the year then ended. Refer to Note 4 to the consolidated financial statements for further discussion of these acquisitions and their impact on Gallagher's consolidated financial statements.

Based on Gallagher's evaluation under the framework in Internal Control Integrated Framework, management concluded that internal control over financial reporting was effective as of December 31, 2004. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Arthur J. Gallagher & Co.
Itasca, Illinois
January 27, 2005

/s/ J. Patrick Gallagher, Jr.

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

/s/ Douglas K. Howell

Douglas K. Howell
Chief Financial Officer

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Directors and Stockholders
Arthur J. Gallagher & Co.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Arthur J. Gallagher & Co. (Gallagher) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Gallagher's management is responsible for maintaining effective internal control over financial reporting and for its assessment about the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Gallagher's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Health Care Insurers, Inc., Strategix, Inc., Sheridan Insurance Group, BenefitPort Northwest, I. Arthur Yanoff & Co. Ltd., The Kooper Group, Inc., IGroup, Inc. and FPE Insurance Brokers Pty Ltd., which are included in the 2004 consolidated financial statements of Gallagher and constituted less than 2% of total assets as of December 31, 2004 and less than 1% of total revenues and net earnings for the year then ended. Management did not assess the effectiveness of internal control over financial reporting at these entities because Gallagher acquired these entities during 2004. Refer to Note 4 to the consolidated financial statements for further discussion of these acquisitions and their impact on Gallagher's consolidated financial statements. Our audit of internal control over financial reporting of Gallagher also did not include an evaluation of the internal control over financial reporting of the entities referred to above.

In our opinion, management's assessment that Gallagher maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Gallagher maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Arthur J. Gallagher & Co. as of December 31, 2004 and 2003 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004 and our report dated January 27, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Chicago, Illinois
January 27, 2005

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.

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
Risk Placement Services of New York, Inc.	New York
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 ⁽¹⁾	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.	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 ⁽²⁾	Singapore
Arthur J. Gallagher Asia Limited	Hong Kong
Arthur J. Gallagher (L) BHD	Malaysia

Name	State or Other Jurisdiction of Incorporation
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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	Australia
Wyatt Gallagher Bassett Workers Compensation Victoria Pty Ltd	Australia
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 & 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. ⁽³⁾	Illinois
Aviacargo Leasing Limited	Ireland
AJG Investments, Inc.	Delaware
AJG Premium Finance, Inc.	Illinois
AJG Coal, Inc.	Delaware
AJG Coal Indiana LLC	Indiana
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, Inc.	Alabama
GBS Insurance and Financial Services, Inc.	Delaware
GBS Administrators, Inc.	Washington
Gallagher Loss Control Services, Inc.	Tennessee
Arthur J. Gallagher Service Company	Delaware

Name	State or Other Jurisdiction of Incorporation
Arthur J. Gallagher Australasia Pty Ltd.	Australia
Arthur J. Gallagher Australia Pty Ltd	Australia
Arthur J. Gallagher Reinsurance Australasia Pty Ltd	Australia
AJG Two Pierce, Inc.	Delaware
Gallagher RE, Inc.	Delaware
Gallagher Healthcare Insurance Services, Inc.	Texas
Gallagher Healthcare Insurance Services of Kansas City, LLC ⁽⁴⁾	Missouri
Specialty Catastrophe Services, Inc.	New Jersey
Manning & Smith Insurance, Inc.	Kansas
Arthur J. Gallagher & Co. of Iowa, Inc.	Iowa
Connor Hale Kerslake Limited	England

⁽¹⁾ 76% of the Common Stock of this subsidiary is owned by two third parties.

⁽²⁾ 49% of the Common Stock of this subsidiary is owned by two third parties.

⁽³⁾ 10% of the Common Stock of this subsidiary is owned by an unrelated party.

⁽⁴⁾ 49% of the Common Stock of this subsidiary is owned by a third party.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report (Form 10- K) of Arthur J. Gallagher & Co. (Gallagher) of our reports dated January 27, 2005, on the consolidated financial statements and on internal control over financial reporting included in Gallagher's 2004 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, Form S- 8, No. 333- 87320 and Form S- 8, No. 333- 106535) 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 Statement (Form S- 8, No. 333- 106534) pertaining to the Arthur J. Gallagher & Co. Employee Stock Purchase Plan, in the Registration Statement (Form S- 8, No. 333- 106539) pertaining to the Arthur J. Gallagher & Co. Restricted Stock 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 reports dated January 27, 2005 with respect to internal control over financial reporting and 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 (Form 10- K) for the year ended December 31, 2004.

/s/ ERNST & YOUNG LLP
Ernst & Young LLP

Chicago, Illinois
January 27, 2005

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, 2004 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 19th day of January, 2005.

/s/ ROBERT E. GALLAGHER
Robert E. Gallagher

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, 2004 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 18th day of January, 2005.

/s/ T. KIMBALL BROOKER
T. Kimball Brooker

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, 2004 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 14th day of January, 2005.

/s/ GARY P. COUGHLAN

Gary P. Coughlan

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, 2004 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 14th day of January, 2005.

/s/ ILENE S. GORDON
Ilene S. Gordon

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, 2004 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 19th day of January, 2005.

/s/ ELBERT O. HAND
Elbert O. Hand

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, 2004 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 19th day of January, 2005.

/s/ **BERNARD L. HENGESBAUGH**

Bernard L. Hengesbaugh

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, 2004 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 19th day of January, 2005.

/s/ DAVID S. JOHNSON

David S. Johnson

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, 2004 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 15th day of January, 2005.

/s/ JAMES R. WIMMER

James R. Wimmer

Rule 13a- 14(a) Certification of Chief Executive Officer**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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d- 15(f)) for the registrant and have:
 - (a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b.) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 27, 2005

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

Rule 13a- 14(a) Certification of Chief Financial Officer**Certification**

I, Douglas K. Howell, certify that:

1. I have reviewed this annual report on Form 10- K of Arthur J. Gallagher & Co.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d- 15(f)) for the registrant and have:
 - (a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b.) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 27, 2005

/s/ Douglas K. Howell
Douglas K. Howell
Vice President
Chief Financial Officer
(principal financial officer)

Section 1350 Certification of Chief Executive Officer

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 twelve month period ended December 31, 2004 (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: January 27, 2005

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

Section 1350 Certification of Chief Financial Officer

I, Douglas K. Howell, the 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 twelve month period ended December 31, 2004 (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: January 27, 2005

/s/ Douglas K. Howell
Douglas K. Howell
Vice President
Chief Financial Officer
(principal financial officer)