

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10- K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2007

☐ **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:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	
None	

Indicate by check mark if the registrant is a well- known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 a large accelerated filer, an accelerated filer, or a non- accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b- 2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non- accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b- 2 of the Exchange 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, 2007 (the last day of the registrant's most recently completed second quarter) was \$2,624,444,000.

The number of outstanding shares of the registrant's Common Stock, \$1.00 par value, as of December 31, 2007 was 92,049,000.

Documents incorporated by reference:

Portions of Arthur J. Gallagher & Co.'s Annual Report to Stockholders for the year ended December 31, 2007 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 2008 Proxy Statement are incorporated by reference into this Form 10- K in response to Parts II and III to the extent described herein.

Table of Contents

Arthur J. Gallagher & Co. Annual Report on Form 10- K For the Fiscal Year Ended December 31, 2007 Index

	<u>Page No.</u>
<u>Part I.</u>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	10
Item 2. <u>Properties</u>	14
Item 3. <u>Legal Proceedings</u>	15
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	15
Item 4A. <u>Executive Officers of the Registrant</u>	15
<u>Part II.</u>	
Item 5. <u>Market for the Registrant's Common Equity. Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	16
Item 6. <u>Selected Financial Data</u>	17
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 7A. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	18
Item 8. <u>Financial Statements and Supplementary Data</u>	18
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	18
Item 9A. <u>Controls and Procedures</u>	18
Item 9B. <u>Other Information</u>	19
<u>Part III.</u>	
Item 10. <u>Directors, Executive Officers of the Registrant and Corporate Governance</u>	19
Item 11. <u>Executive Compensation</u>	20
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	20
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	20
Item 14. <u>Principal Accountant Fees and Services</u>	20
<u>Part IV.</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	20
<u>Signatures</u>	25

[Table of Contents](#)**Part I****Item 1. Business.****Overview**

Arthur J. Gallagher & Co. and its subsidiaries (collectively referred to as "Gallagher" unless the context otherwise requires) are engaged in providing insurance brokerage and third- party claims settlement and administration services to entities in the U.S. and abroad. Gallagher believes that its major strength is its ability to deliver comprehensively structured insurance and risk management services to its clients. Gallagher's brokers, agents and administrators act as intermediaries between insurers and their customers and Gallagher does not assume underwriting risks.

Since its founding in 1927, Gallagher has grown from a one- man agency to the world's fourth largest insurance broker based on revenues (according to *Business Insurance* magazine's July 17, 2007 edition) and the world's largest third- party property/casualty (P/C) claims administrator (according to *Business Insurance* magazine's February 12, 2007 edition). Gallagher generates approximately 88% of its revenues domestically, with the remaining 12% derived primarily in Canada, the United Kingdom (U.K.), Australia and Bermuda.

Shares of Gallagher's common stock are traded on the New York Stock Exchange under the symbol AJG, and Gallagher had a market capitalization at December 31, 2007 of \$2.2 billion. Gallagher 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.

Gallagher operates three business segments: Brokerage, Risk Management and Financial Services, which contributed 69%, 27% and 4%, respectively, to 2007 revenues.

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, as amended, 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 and the Exchange Act.

Forward- looking statements may include, but are not limited to, discussions concerning revenues, expenses, earnings, cash flow, capital structure and 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.

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; alternative insurance markets continue 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 rates, equity pricing, foreign exchange rates and the competitive environment; Gallagher's revenues and net earnings will continue to be subject to reduction due to the elimination of certain contingent commission arrangements on January 1, 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 past, current or future tax laws or changes in crude oil prices or developments resulting in the loss or unavailability of historically claimed IRC Section 29 (as defined below) tax 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. For a further discussion of certain of the matters described above see Item 1A, "Risk Factors."

[Table of Contents](#)

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 two major sources of operating revenues for Gallagher are commissions and fees from Brokerage operations and fees from Risk Management operations. Information with respect to all sources of revenue, by operating segment, for each of the three years in the period ended December 31, 2007, is as follows (in millions):

	2007		2006		2005	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Brokerage						
Commissions	\$ 863.2	54%	\$ 790.4	54%	\$ 733.4	51%
Retail contingent commissions	4.1	- %	2.5	- %	28.8	2%
Fees	216.8	13%	186.4	13%	166.9	12%
Investment income and other	30.1	2%	27.5	2%	16.7	1%
	<u>1,114.2</u>	<u>69%</u>	<u>1,006.8</u>	<u>69%</u>	<u>945.8</u>	<u>66%</u>
Risk Management						
Fees	439.4	27%	397.3	27%	367.7	26%
Investment income and other	4.1	- %	4.0	- %	2.9	- %
	<u>443.5</u>	<u>27%</u>	<u>401.3</u>	<u>27%</u>	<u>370.6</u>	<u>26%</u>
Financial Services						
Investment income and other	65.6	4%	62.0	4%	112.5	8%
Total revenues	<u>\$ 1,623.3</u>	<u>100%</u>	<u>\$ 1,470.1</u>	<u>100%</u>	<u>\$ 1,428.9</u>	<u>100%</u>

See Note 20 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements, which are incorporated herein by reference, for additional financial information, including earnings from continuing operations before income taxes and identifiable assets by operating segment for 2007, 2006 and 2005.

Gallagher's business, particularly its brokerage business, is subject to seasonal fluctuations. Commission and fee revenues and the related brokerage and marketing expenses can vary from quarter- to- quarter as a result of the timing of policy inception dates. 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 and recognition of investment gains and losses also impact the trends in Gallagher's quarterly operating results. See Note 19 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements, which are incorporated herein by reference, for unaudited quarterly operating results for 2007 and 2006.

Brokerage Segment

The Brokerage Segment accounted for 69% of Gallagher's revenue in 2007. Gallagher's Brokerage Segment is primarily comprised of retail and wholesale brokerage operations. Gallagher's retail brokerage operations negotiate and place P/C, employer- provided health and welfare insurance and retirement solutions principally for middle- market commercial, industrial, public entity, religious and not- for- profit entities. Many of Gallagher's retail brokerage customers choose to place their insurance with insurance underwriters, while others choose to use alternative vehicles such as self- insurance pools, risk retention groups or captive insurance companies. In addition, Gallagher's wholesale brokerage operations assist Gallagher brokers and other unaffiliated brokers and agents in the placement of specialized, unique and hard to place insurance programs.

Table of Contents

The primary source for Gallagher's compensation for its retail brokerage services is commissions paid by insurance companies, which are usually based upon both percentage of the premium paid by insureds and brokerage and advisory fees paid directly by its clients. For wholesale brokerage services, Gallagher generally receives a share of the commission paid to the retail broker by the insurer. Commission rates are dependent on a number of factors, including the type of insurance, the particular insurance company underwriting the policy and whether Gallagher acts as a retail or wholesale broker. Advisory fees are dependent on the extent and value of services provided. Under certain circumstances, Gallagher may also receive contingent commissions, which are based on the estimated profit the underwriting insurance company earns and/or the overall volume of business placed by Gallagher in a given period of time. The level of contingent commission revenue Gallagher receives has significantly decreased in the last two years due to regulatory developments in the brokerage industry. See further discussion of contingent commissions below.

Gallagher operates its Brokerage operations through a network of more than 200 sales and service offices located throughout the U.S. and in twelve countries abroad. Most of these offices are fully staffed with sales and service personnel. In addition, Gallagher does business through a network of correspondent insurance brokers and consultants in more than 100 countries around the world.

Retail Insurance Brokerage Operations

Gallagher's retail insurance brokerage operations accounted for 80% of Gallagher's Brokerage Segment revenues in 2007. Gallagher's Brokerage operations place nearly all lines of commercial P/C and health and welfare insurance coverage. Significant lines of insurance coverage brokered are as follows:

Aviation	Earthquake	Marine	Property
Commercial Auto	Error & Omissions	Medical	Retirement Solutions
Dental	Fire	Products Liability	Wind
Directors & Officers Liability	General Liability	Professional Liability	Workers Compensation
Disability	Life		

Gallagher's retail brokerage operations are organized in 150 geographical profit centers located in the U.S. and Canada and operate within certain key Niche/Practice Groups, which account for approximately 65% of its domestic retail brokerage revenues. These specialized teams target areas of business and/or industries in which Gallagher has developed a depth of expertise and a large client base. Significant Niche/Practice Groups that Gallagher serves are as follows:

Agribusiness	Global Risks	Marine	Real Estate
Aviation & Aerospace	Habitational	Not- for- Profit	Religious Institutions
Construction	Healthcare	Personal	Restaurant
Energy	Higher Education	Professional Groups	Shopping Centers
Fine Arts	Hospitality	Public Entity	Transportation

Gallagher's specialized focus on these Niche/Practice Groups allows for highly- focused marketing efforts and facilitates the development of value-added products and services specific to those industries or business segments. Gallagher believes that the detailed understanding and broad client contacts developed within these Niche/Practice Groups provide Gallagher with a competitive advantage.

Gallagher anticipates that its greatest revenue growth over the next several years for its retail brokerage operations will continue to come from: (i) its Niche/Practice Groups and middle- market accounts, (ii) cross- selling other brokerage products to existing customers, (iii) developing and managing alternative market mechanisms such as captives, rent- a- captives, deductible plans and self- insurance and (iv) mergers and acquisitions.

Wholesale Insurance Brokerage Operations

Gallagher's wholesale insurance brokerage operations accounted for 20% of Gallagher's Brokerage Segment revenues in 2007. Gallagher's wholesale brokers assist Gallagher's retail brokers and other non- Gallagher brokers in the placement of specialized and hard to place insurance coverages through 60 geographical profit centers across the U.S. and through its approved Lloyd's of London brokerage in London. In certain cases, Gallagher acts as a brokerage wholesaler and, in other cases, Gallagher acts as a managing general agent (MGA) or managing general underwriter (MGU) distributing specialized insurance coverages for insurance carriers. MGAs and MGUs are agents authorized by an insurance company to manage all or a part of the insurer's business in a specific geographic territory. Activities performed on behalf of the insurer may include marketing, underwriting, issuing policies, collecting premiums, appointing and supervising other agents, paying claims and negotiating reinsurance.

Table of Contents

Over 75% of Gallagher's wholesale brokerage revenues come from non- Gallagher brokerage customers. Based on revenues, Gallagher's domestic wholesale brokerage operation currently ranks as the fifth largest domestic wholesaler (according to *Business Insurance* magazine's February 12, 2007 edition).

Gallagher anticipates growing its wholesale brokerage operations by increasing the number of broker- clients, developing new managing general agency and underwriter programs and through mergers and acquisitions.

Reinsurance Brokerage Operations

In fourth quarter 2007, Gallagher undertook a strategic review of its operations and made a determination to exit its global reinsurance and Irish wholesale brokerage operations. In January 2008, Gallagher announced plans to sell its reinsurance brokerage operations and is pursuing alternatives for its Irish wholesale brokerage operations. Accordingly, in the 2007 Consolidated Financial Statements, the revenues and expenses of these operations have been reclassified from continuing operations to discontinued operations for all periods presented. See Note 5 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements, which are incorporated herein by reference, for additional financial information for 2007, 2006 and 2005, related to these discontinued operations.

Risk Management Segment

The Risk Management Segment accounted for 27% of Gallagher's revenues in 2007. The Risk Management Segment provides contract claim settlement and administration services for enterprises that choose to self- insure some or all of their P/C coverages and for insurance companies that choose to outsource some or all of their P/C claims departments. Approximately 70% of the Risk Management Segment's revenues are from workers compensation related claims, 26% are from general and commercial auto liability related claims and 4% are from property related claims. In addition, Gallagher generates revenues from integrated disability management programs, information services, risk control consulting (loss control) services and appraisal services, either individually or in combination with arising claims. This segment's revenues for risk management services are substantially in the form of fees. These fees are generally negotiated in advance on a per- claim or per- service basis depending upon the type and estimated volume of the services to be performed.

Risk management services are primarily marketed directly to Fortune 1000 companies, larger middle- market companies, not- for- profit organizations and public entities on an unbundled basis independent of Gallagher's Brokerage operations. Gallagher manages its third- party claims adjusting operations through a network of 120 offices located throughout the U.S., the U.K., Australia and Canada. Most of these offices are fully staffed with Gallagher claims adjusters and other service personnel. Revenues are generally generated on a negotiated per- claim or per- service basis. Gallagher's adjusters and service personnel act solely on behalf and under the instruction of their clients and customers.

While this segment complements Gallagher's insurance brokerage offerings, over 80% of the Risk Management Segment's revenues come from non- Gallagher brokerage customers, such as insurance companies and clients of other insurance brokers. Based on revenues, Gallagher's Risk Management operation currently ranks as the world's largest third party P/C claims administrator (according to *Business Insurance* magazine's February 12, 2007 edition).

The Risk Management Segment expects its most significant growth prospects through the next several years will come from Fortune 1000 companies, larger middle- market companies, captives, program business and the outsourcing of insurance company claims departments.

Financial Services Segment

The Financial Services Segment manages Gallagher's interests in tax- advantaged and clean- energy investments as well as its equity ownership position in an alternative investment fund manager that has ownership interests in private investment management firms. Operations are in Itasca, Illinois and Gallagher has been winding down its financial services activities since 2003. Management expects to continue to divest most of the remaining investments in this segment in 2008. At December 31, 2007, significant remaining investments in this segment include:

[Table of Contents](#)

Asset Management

Gallagher owns approximately 20% of Asset Alliance Corporation (AAC), which generally owns up to two-thirds interest in nine private investment management firms, which had approximately \$3.7 billion under management at December 31, 2007. On January 8, 2008, AAC entered into a reverse merger agreement with Tailwind Financial, Inc (AMEX: TNF) (Tailwind). In this proposed transaction, Tailwind will issue its common stock in exchange for 100% of the common stock of AAC. At closing, Tailwind will issue 10.6 million shares to AAC shareholders. An additional 2.5 million shares will be issued to AAC shareholders if certain earnout based performance milestones are met after a three year period. The proposed share amounts issued equate to a purchase price for AAC of \$85.0 million plus an earnout of \$20.0 million assuming an \$8.00 price per Tailwind share. Current Tailwind shareholders will retain approximately 65% ownership in the surviving entity. The shares owned by AJG will be subject to trading restrictions. The contemplated transaction is subject to approval by AAC and Tailwind shareholders and the SEC.

Clean Energy

Gallagher has a 14% ownership interest in a biogas pipeline that removes and sells biogas from landfills; a 26% interest in a privately-held start-up enterprise that has commercialized a multi-pollutant reduction technology that removes mercury, sulfur dioxide and other toxic emissions created by coal-fired power plants; and a 5% interest in a privately-held start-up enterprise that has performed successful laboratory testing of a technology that reduces carbon dioxide emissions created by burning fossil fuels. Utilization of some or part of these technologies may qualify for tax credits under Internal Revenue Code ("IRC") Section 45, which substantially expires on December 31, 2018.

Tax Advantaged Investments

Prior to January 1, 2008, Gallagher owned certain partnerships that were formed to develop energy that qualified for tax credits under what was formerly called IRC Section 29. These consisted of waste-to-energy partnerships and synthetic coal facilities. These investments helped to substantially reduce Gallagher's effective income tax rate over the past six years. The law that permitted Gallagher to claim IRC Section 29 tax credits expired on December 31, 2007.

International Operations

Gallagher's total revenues by geographic area for each of the three years in the period ended December 31, 2007 were as follows (in millions):

	2007		2006		2005	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United States	\$ 1,425.9	88%	\$ 1,314.6	89%	\$ 1,300.0	91%
Foreign, principally Australia, Bermuda, Canada and U.K.	197.4	12%	155.5	11%	128.9	9%
Total revenues	\$ 1,623.3	100%	1,470.1	100%	\$ 1,428.9	100%

See Notes 7, 18 and 20 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements, which are incorporated herein by reference, for additional financial information related to Gallagher's foreign operations, including goodwill allocation, earnings from continuing operations before income taxes and identifiable assets, by operating segment, for 2007, 2006 and 2005.

Brokerage Operations in Canada, the U.K. and Bermuda

The majority of Gallagher's international presence in its Brokerage operations is in Australia, Canada, the U.K. and Bermuda.

Gallagher operates in Canada primarily as a retail commercial property and casualty brokerage. In the U.K., Gallagher has a significant wholesale brokerage operation for U.S. and international clients looking to access the Lloyd's of London and other international insurance markets, a program operation offering customized risk management products and services to U.K. public entities and a small retail commercial property casualty brokerage. In Bermuda, Gallagher acts principally as a wholesaler for clients looking to access the Bermuda insurance markets and also provides services relating to the formation and management of offshore captive insurance companies.

Table of Contents

Gallagher also has ownership interests in two Bermuda- based insurance companies that operate segregated account "rent- a- captive" facilities that 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.

Gallagher also has strategic brokerage alliances with a variety of international brokers in countries where it does not have a physical presence. Through a network of correspondent insurance 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.

Risk Management Operations in Canada, the U.K. and Australia

Gallagher's international Risk Management operations are principally in Canada, the U.K. and Australia. Services are similar to those provided in the U.S. and are provided primarily on behalf of commercial and public entity clients.

Markets and Marketing

Gallagher operates its Brokerage operations through a network of more than 150 sales and service offices located throughout the U.S. and in twelve countries abroad. Gallagher manages its third- party claims adjusting operations through a network of 100 offices located throughout the U.S., the U.K., Australia and Canada. Gallagher's customer base is highly diversified and includes commercial, industrial, public entity, religious and not- for- profit entities. 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 material adverse effect on Gallagher. In 2007, Gallagher's largest single customer accounted for approximately 1% of total revenues and the ten largest customers represented 6% of total revenues in the aggregate. Gallagher's revenues are geographically diversified, with both domestic and international operations.

Each of Gallagher's retail and wholesale brokerage operations have small market- share positions and, therefore, have substantial organic growth potential. In addition, each of Gallagher's retail and wholesale brokerage operations have the ability to grow through the acquisition of small to medium sized independent brokerages. See Business Combinations below.

Gallagher has historically grown its Risk Management operation organically and expects to continue to do so.

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

Brokerage Segment

Gallagher is the fourth largest insurance broker worldwide based on total revenues (according to *Business Insurance* magazine's July 16, 2007 edition). The insurance brokerage and service business is highly competitive and there are many insurance brokerage and service organizations and individuals throughout the world who actively compete with Gallagher in every area of its business.

Gallagher's retail and wholesale brokerage operations compete with Marsh & McLennan Companies, Inc. (Marsh), Aon Corporation (Aon) and Willis Group Holdings, Ltd. (Willis), each of which has larger revenues than Gallagher. In addition, there are various other competing firms such as Brown & Brown Inc., Hub International Ltd., Hilb Rogal & Hobbs Co., Lockton Companies, Inc., Wells Fargo & Co. and USI Holdings Corporation that operate nationally or that are strong in a particular region or locality and may have, in that region or locality, an office that is as large or larger, in terms of revenues, than the corresponding 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. In addition, for health and welfare products, Gallagher competes with larger firms such as Watson Wyatt, Hewitt Associates, Towers Perrin and the benefits consulting divisions of the national public accounting firms and also competes with a vast number of local and regional brokerages and agencies.

Gallagher's wholesale brokerage operations compete with larger wholesalers such as Crump Group, CRC Insurance Services, AmWINS Group, Swett & Crawford, as well as a vast number of local and regional wholesalers.

Table of Contents

Gallagher also competes 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 indirectly compete with Gallagher.

Risk Management Segment

Gallagher's Risk Management operation currently ranks as the largest P/C third party administrator based on revenues (according to *Business Insurance* magazine's February 12, 2007 edition). While many global and regional claims administrators operate within this space, Gallagher competes directly with Sedgwick CMS, Broadspire Services/Crawford, Cambridge Solutions Ltd., ESIS and Specialty Risk Services. There are also several large insurance companies, such as AIG Insurance and Zurich Insurance, that maintain their own claims administration units, which can be strong competitors, particularly during the softening insurance cycle. In addition, Gallagher competes with various smaller third party administrators on a regional level. Gallagher believes that its competitive position is due to its strong reputation for outstanding service quality and ability to resolve customers' losses in the most cost efficient manner possible.

Regulation

In nearly every state and foreign jurisdiction in which Gallagher does business, Gallagher is required to be licensed or receive regulatory approval in order to conduct business. In addition, most jurisdictions require that individuals who engage in brokerage, claim adjusting and certain other insurance service activities be personally licensed. These licensing laws and regulations vary from jurisdiction to jurisdiction. In most jurisdictions, the applicable licensing laws and regulations generally grant broad discretion to supervisory authorities in adopting and amending regulations and in supervising regulated activities. In addition, for the past several years, the insurance industry has been under scrutiny by State Attorneys General and departments of insurance and has been subject to legal actions by private litigants with respect to contingent compensation arrangements and various historical business practices.

Gallagher's Brokerage operations entered into an Assurance of Voluntary Compliance (the "AVC") on May 18, 2005 with both the Attorney General and Director of Insurance in the State of Illinois, to resolve all issues related to certain investigations conducted by these Illinois State Agencies involving contingent commission arrangements. There was no lawsuit or any finding of unlawful or deceitful conduct. As stipulated in the AVC, on January 12, 2006, Gallagher paid \$26.9 million into a fund (the Fund) to be distributed to certain eligible policyholder clients. At December 31, 2007, \$8.6 million remained in the Fund, which is available to satisfy existing and future AVC related claims and other potential settlement obligations as allowed by the AVC. In addition, under the AVC, Gallagher agreed to implement, to the extent not previously undertaken, certain business changes, including agreeing not to accept U.S.- domiciled retail contingent compensation as defined in the AVC. However, as allowed under the AVC, Gallagher has continued to accept contingent compensation from non- retail business, including business generated by wholesalers, managing general agents and managing general underwriters. The AVC also allows Gallagher to collect retail contingent compensation related to contracts in place at entities it acquires for up to three years from the acquisition date.

Gallagher, along with other major insurance brokerage firms, was named as a defendant in various lawsuits brought by private litigants, which relate to contingent commission arrangements. Certain of these lawsuits have been included in a Multi- District Litigation (MDL) proceeding before the U.S. District Court for the District of New Jersey. On December 29, 2006 Gallagher reached an agreement to resolve all claims in the MDL (the MDL Settlement). On September 4, 2007, the court granted final approval of the MDL Settlement. The MDL Settlement provides for Gallagher to distribute \$28.0 million to current and former clients and others that purchased retail insurance through Gallagher or other brokers named as defendants in the MDL during the period beginning on August 26, 1994 and ending on December 31, 2005. A notice of appeal has been filed challenging the final approval of the MDL Settlement. Gallagher intends to use all of the remaining AVC funds to satisfy part of its MDL Settlement obligation.

Gallagher's Risk Management operations generally have not been subject to the investigations affecting the brokerage business. However, Gallagher has received subpoenas regarding its Risk Management operations from the Offices of the Attorney General of the States of New York, Connecticut and Illinois. The subpoenas request information in connection with separate investigations being conducted by each state and none of the subpoenas relate to Gallagher's Brokerage operations. Gallagher continues to fully cooperate with these investigations.

Table of Contents

Business Combinations

Gallagher has completed and integrated 183 acquisitions in the period from 1985 through December 31, 2007, almost exclusively within its Brokerage Segment. The majority of the acquisitions over this twenty- three year period have been smaller regional or local P/C retail or wholesale operations possessing a strong middle- market client focus or significant expertise in one of Gallagher's focus market areas. Over the last decade, Gallagher has also increased its acquisition activity in the retail employee benefits brokerage and wholesale brokerage areas. Acquisition prices typically fall within the \$2 million to \$30 million range.

Through acquisitions, Gallagher seeks to expand its talent pool, enhance its geographic presence and service capabilities, and/or broaden and further diversify its business mix. Gallagher also focuses on identifying:

A corporate culture that matches its sales- oriented culture;

A profitable, growing business whose ability to compete would be enhanced by gaining access to Gallagher's greater resources; and

Clearly defined financial criteria.

In 2007, Gallagher acquired substantially all the net assets or common stock of twenty- one insurance brokerage firms in exchange for its common stock and/or cash. Gallagher has accounted for these acquisitions as business combinations. In addition, in December 2007, Gallagher acquired a 38.5% equity interest in CGM Group Limited, which is headquartered in St. Lucia. Gallagher will account for its holding in CGM Group Limited's common stock using equity method accounting. See Note 4 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements, which are incorporated herein by reference, for a summary of the 2007 acquisitions, the amount and nature of the consideration paid and the dates of acquisition.

Since December 31, 2007, Gallagher has completed three acquisitions, which are as follows:

On January 30, 2008, Gallagher acquired substantially all of the net assets of Crist Elliott Machette Insurance Services, Inc., a corporation engaged in the insurance retail brokerage business, in exchange for 82,000 shares of Gallagher's common stock, cash of \$7.3 million and a contingent earnout obligation of \$2.0 million that, if any is earned, will be paid in cash or stock, at Gallagher's election.

On January 31, 2008, Gallagher acquired substantially all of the net assets of Yanni Partners, Inc., a corporation engaged in the investment consulting business, in exchange for cash of \$8.1 million and a contingent earnout obligation of \$11.5 million that, if any is earned, will be paid in cash or stock, at Gallagher's election.

On January 31, 2008, Gallagher acquired substantially all of the net assets of Petty Burton & Associates, Inc., a corporation engaged in the investment consulting business, in exchange for cash of \$2.0 million and a contingent earnout obligation of \$0.5 million that, if any is earned, will be paid in cash or stock, at Gallagher's election.

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, 2007, Gallagher employed approximately 9,300 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.

Table of Contents

Gallagher's Governance Guidelines, Audit Committee Charter, Compensation Committee Charter and Nominating/Governance Committee Charter are also available on its 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 1A. Risk Factors.

Volatility or declines in premiums or other adverse trends in the insurance industry may seriously undermine Gallagher's profitability.

Gallagher derives much of its revenue from commissions and fees for its brokerage services. Gallagher does not determine the insurance premiums on which its commissions are generally based. Moreover, insurance premiums are cyclical in nature and may vary widely based on market conditions. For example, for an extended period of years through late 2000, heavy competition for market share among insurance carriers, increased underwriting capacity and improved economies of scale following consolidations resulted in flat or reduced premium rates (a "soft" market), which in turn put downward pressure on Gallagher's commission revenue in many lines and in many geographic areas.

Beginning in late 2000, the insurance industry transitioned to a "hard" market, in which premium rates were stable or increasing. Because of the events of September 11th, many insurance lines became less available and premium rates increased, in some cases dramatically. Beginning in late 2003, the market softened again in many lines and geographic areas. While the high level of hurricane activity and other natural disasters in 2004 and 2005 caused a hard market in certain coastal areas, the low level of hurricane activity in 2006 and 2007 caused carriers to again become rate/price sensitive and the industry has remained in a soft market across most geographical areas and business lines. Because of these market cycles for insurance product pricing, which Gallagher cannot predict or control, its brokerage revenues and profitability can be volatile or remain depressed for significant periods of time.

In addition, there have been and may continue to be various trends in the insurance industry toward alternative insurance markets including, among other things, greater levels of self- insurance, captives, rent- a- captives, risk retention groups and non- insurance capital markets- based solutions to traditional insurance. While Gallagher historically has been able to participate in certain of these activities on behalf of its customers and obtain fee revenue for such services, there can be no assurance that Gallagher will realize revenues and profitability as favorable as those realized from its traditional brokerage activities.

Government sponsored insurance programs may seriously undermine Gallagher's profitability.

It is possible that Federal and state governments will create P/C or health related insurance programs that compete with, or completely replace, insurance products offered by insurance carriers. Development of these government sponsored insurance programs could in turn adversely affect Gallagher's results of operations and financial condition.

Gallagher's results may be adversely affected relative to its competitors that can accept contingent commissions.

Pursuant to various agreements with insurance regulators, Gallagher, Marsh, Willis and Aon are prohibited from accepting volume- based or profit- based contingent commissions as a retail broker. There are no other brokers that are known to be similarly prohibited from accepting these types of contingent commissions. When Gallagher acquires a broker, that broker may continue to accept contingent commissions for a three year period after the acquisition date. Gallagher's restrictions on accepting contingent commissions may significantly undermine Gallagher's operating results, profitability, liquidity and its ability to reinvest in its business relative to its competitors that can accept contingent commissions.

Table of Contents

Gallagher is subject to a number of investigations and legal proceedings concerning contingent broker compensation practices. Further proceedings could adversely affect Gallagher's financial strength and results of operations.

Since late 2004, the insurance industry in general, and Gallagher individually, have been subject to significant scrutiny by various State Attorneys General, state insurance departments and private litigants with respect to broker compensation practices (generally known as contingent commission arrangements or placement service agreements) between insurance brokers and insurance carriers.

On May 18, 2005, Gallagher resolved with the Attorney General of the State of Illinois and the Director of Insurance of the State of Illinois an investigation into broker compensation practices. Gallagher believes that this settlement was intended to be on behalf of all State Attorneys General and all state insurance departments. However, there can be no assurance that other states will honor this agreement.

On December 29, 2006, Gallagher reached an agreement to resolve all claims in the MDL. On September 4, 2007, the court granted final approval of the MDL Settlement. The MDL Settlement provides for Gallagher to distribute \$28.0 million to current and former clients and others that purchased retail insurance through Gallagher or other brokers named as defendants in the MDL during the period beginning on August 26, 1994 and ending on December 31, 2005. A notice of appeal has been filed challenging the final approval of the MDL Settlement. Gallagher also agreed to pay up to \$8.9 million in attorney fees, of which Gallagher paid \$8.6 million in November 2007. In the event that the final approval by the court is not upheld, Gallagher may incur significant additional legal costs and face potential liability in connection with the litigation.

The ultimate outcome of these matters cannot be ascertained. Future litigation and liabilities in indeterminate amounts may be imposed on Gallagher. Gallagher's future results of operations or cash flows for any particular quarterly or annual period could be materially affected by an unfavorable resolution of these matters. In addition, even if Gallagher does not experience significant monetary costs, there has been and may continue to be adverse publicity associated with these matters that could result in reputational harm to Gallagher or to the insurance brokerage industry in general that may adversely affect Gallagher's business.

For a more detailed discussion of these matters refer to Note 17 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements.

Gallagher faces significant competitive pressures in each of its businesses.

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 one or more areas of its business. Gallagher competes with three firms that are as large or significantly larger than Gallagher in global risk management and brokerage markets. In addition, there are various other competing firms that operate nationally or that are strong in a particular region or locality and may have, in that region or locality, an office that is 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. Losing business to competitors offering similar products at lower prices or having other competitive advantages would adversely affect Gallagher's business.

In addition, the increase in competition due to new legislative or industry developments could adversely affect Gallagher. These developments include:

An increase in capital- raising by insurance underwriting companies, which could result in new capital in the industry which in turn may lead to a soft market and lower insurance premiums and commissions;

The selling of insurance by insurance companies directly to insureds without the involvement of a broker or other intermediary;

Changes in Gallagher's business compensation model as a result of regulatory developments;

The establishment of programs in which state- sponsored entities provide health insurance or, in certain cases, property insurance in catastrophe- prone areas or other alternative markets types of coverage;

An increase in competition from newly- formed or existing insurance brokers who have not agreed to limit their use of contingent commission arrangements, thereby giving them a competitive advantage over those brokers, such as Gallagher, who have agreed to limit the use of such arrangements; and

Table of Contents

The creation of in- house servicing capabilities by insurance companies or by certain insurance consumers which compete with the third party administration and other administration, servicing and risk management products offered by Gallagher's Risk Management Segment.

New competition as a result of these or other competitive or industry developments could cause the demand for Gallagher's products and services to change, which could in turn adversely affect Gallagher's results of operations and financial condition.

Gallagher faces a variety of risks in its Risk Management operations that are distinct from those it faces in its Brokerage operations.

Gallagher's risk management business has somewhat less exposure to the hard and soft market cycles described above to which Gallagher's brokerage business is exposed; however, it faces a variety of other risks which are unique to its operations, including:

The risk that the favorable trend among insureds toward outsourcing of various types of claims administration and risk management services will reverse or slow, causing Gallagher to experience reduced revenues or a reduced rate of revenue growth;

The risk that contracting terms will become less favorable or that the margins on its services will be decreased due to increased competition, regulatory constraints or other developments;

The risk that Gallagher cannot satisfy regulatory requirements on third party administrators or that regulatory developments will impose additional burdens, costs or business restrictions that make its business less attractive; and

The risk that Gallagher cannot control its labor and technology costs in such a manner as to remain competitive in the marketplace for claims administration and risk management services and conclude its existing contracts (other than those that provide cost- plus or other margin protection) in a cost- efficient and profitable manner.

The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our ability to operate our business.

The agreements governing Gallagher's debt contain covenants that, among other things, restrict Gallagher's ability to dispose of assets, incur additional debt, prepay other debt or amend other debt instruments, pay dividends, engage in certain asset sales, mergers, acquisitions or similar transactions, create liens on assets, engage in certain transactions with affiliates, change Gallagher's business or make investments.

The restrictions in the agreements governing Gallagher's debt may prevent it from taking actions that it believes would be in the best interest of Gallagher's business and its stockholders and may make it difficult for Gallagher to execute its business strategy successfully or effectively compete with companies that are not similarly restricted. Gallagher may also incur future debt obligations that might subject it to additional or more restrictive covenants that could affect Gallagher's financial and operational flexibility. Gallagher cannot make any assurances that it will be able to refinance its debt on terms acceptable to Gallagher, or at all.

Gallagher's ability to comply with the covenants and restrictions contained in the agreements governing Gallagher's debt may be affected by economic, financial and industry conditions beyond Gallagher's control. The breach of any of these covenants or restrictions could result in a default under an agreement that would permit the applicable lenders to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest.

Gallagher's business, results of operations, financial condition or liquidity may be materially adversely affected by errors and omissions and the outcome of certain actual and potential claims, lawsuits and proceedings.

Gallagher may be subject to various actual and potential claims, lawsuits and other proceedings relating principally to alleged errors and omissions in connection with the placement of insurance or settling claims in the ordinary course of business. Because Gallagher often assists clients with matters involving substantial amounts of money, including the placement of insurance coverage and the handling of related claims, errors and omissions claims against Gallagher may arise which allege potential liability for all or part of the amounts in question. Claimants may seek large damage awards and these claims may involve potentially significant legal costs.

[Table of Contents](#)

Gallagher purchases insurance to provide protection from errors and omissions claims that may arise in the ordinary course of business, subject to self-insured deductibles and limits. As of December 31, 2007, Gallagher's deductible was \$5.0 million per claim and the overall coverage limit was \$165.0 million. Gallagher's business, results of operations, financial condition and liquidity may be adversely affected if, in the future, its insurance coverage proves to be inadequate or unavailable or there is a general increase in the number or amounts of claims to which Gallagher is exposed. Gallagher's future ability to obtain professional indemnity insurance in the amounts and with the deductibles and limits it desires may be adversely impacted by general developments in the market for such insurance or Gallagher's own claims experience. In addition, claims, lawsuits and other proceedings may harm Gallagher's reputation or divert management resources away from operating its business.

Gallagher has historically engaged in a large number of acquisitions of insurance brokers and agencies. Gallagher may not be able to continue to implement such an acquisition strategy in the future and there are risks associated with such acquisitions.

In the past several years, Gallagher has completed numerous acquisitions of insurance brokers and agencies and may continue to make such acquisitions in the future. Gallagher's acquisition program has been an important part of its historical growth and Gallagher believes that similar acquisition activity will be critical to maintaining comparable growth in the future. Failure to successfully identify and complete acquisitions likely will result in Gallagher achieving slower growth. Various factors may affect Gallagher's ability to attract acquisition targets, including Gallagher's inability to continue certain contingent commission compensation structures, particularly in light of the fact that most other companies in the insurance brokerage industry are not limited in this manner. Moreover, even if Gallagher is able to identify appropriate acquisition targets, it may not be able to execute acquisition transactions on favorable terms or integrate such targets following acquisition in a manner that allows Gallagher to realize the anticipated benefits of such acquisitions, thereby negatively affecting Gallagher's results of operations or leading to unanticipated contingent liabilities and losses.

Gallagher is subject to insurance industry regulation worldwide. If Gallagher fails to comply with regulatory requirements or if regulations change in a way that adversely affects Gallagher's operations, Gallagher may not be able to conduct its business or may be less profitable.

Many of Gallagher's activities are subject to regulatory supervision. Failure to comply with some of these regulations could lead to disciplinary actions that may include requiring clients to be compensated for loss, the imposition of penalties and the revocation of Gallagher's authorization to operate. In addition, changes in legislation or regulations and actions by regulators, including changes in administration and enforcement policies, could from time-to-time require operational changes that could result in lost revenues or higher costs or hinder Gallagher's ability to operate its business.

Gallagher's future success depends, in part, on its ability to attract and retain experienced and qualified personnel.

Gallagher believes that its future success depends, in part, on its ability to attract and retain experienced personnel, including its senior management, brokers and other key personnel. The insurance brokerage industry has experienced intense competition for the services of leading brokers, and Gallagher has lost key brokers to competitors in the past. The loss of any of its senior managers, brokers or other key personnel, or its inability to identify, recruit and retain such personnel, could materially and adversely affect Gallagher's business, operating results and financial condition.

Gallagher has significant non-U.S. operations which expose it to certain additional risks, including the risk of exchange rate fluctuations and geopolitical risk.

A significant portion of Gallagher's operations is conducted outside the U.S. Accordingly, Gallagher is subject to legal, economic and market risks associated with operating in foreign countries. Operating in these countries may present risks that are different from, or greater than, the risks to Gallagher of doing comparable business in the U.S.

Some of Gallagher's foreign subsidiaries receive revenues or incur obligations in currencies that differ from their functional currencies. Gallagher must also translate the financial results of its foreign subsidiaries into U.S. dollars. Although Gallagher has used foreign currency hedging strategies in the past, such risks cannot be eliminated entirely, and significant changes in exchange rates may adversely affect Gallagher's results of operations.

Table of Contents

Gallagher also operates in certain countries where the risk of political and economic uncertainty is relatively greater than that present in the U.S. and more stable countries. Gallagher's operations in these countries may be temporarily or permanently disrupted by adverse geopolitical or economic conditions in these locations. For example, Gallagher uses third- party service providers located in India for certain back office services. To date, the dispute between India and Pakistan involving the Kashmir region, incidents of terrorism in India and general geopolitical uncertainties have not adversely affected Gallagher's operations in India. However, such factors could potentially affect Gallagher's operations or ability to utilize third-party providers in the future. Should Gallagher's access to these services be disrupted, Gallagher's business, operating results and financial condition could be adversely affected.

Gallagher is exposed to various risks relating to losses on investments held by its Financial Services business.

Gallagher's Financial Services business holds a variety of investments. These investments are subject to risk of loss due to a variety of causes, including general overall economic conditions, the effects of changes in interest rates, various regulatory issues, credit risk, potential litigation, tax audits and disputes, failure to monetize in an effective and/or cost- efficient manner and poor operating results. Any of these consequences may diminish the value of Gallagher's invested assets and adversely affect its net worth and profitability.

Gallagher has historically benefited from Section 29 tax credits and that law expired on December 31, 2007. The disallowance of IRC Section 29 tax credits would likely cause a material loss.

The law permitting Gallagher to claim IRC Section 29 tax credits related to Gallagher's synthetic coal operations expired on December 31, 2007. In 2007 and 2006, Gallagher's annual effective tax rate on a consolidated basis was 22.7% and 16.9%, respectively. Gallagher's overall effective income tax rate for 2007 and 2006 reflects the tax credits generated by investments in limited partnerships that operate alternative energy projects (IRC Section 29). Accordingly, Gallagher's overall effective income tax rate in 2008 and future years will likely adjust upward to be in the range of approximately 39.0% to 41.0%.

Gallagher believes its claim for IRC Section 29- related related tax credits is in accordance with IRC Section 29 and four private letter rulings (PLRs) previously obtained by IRC Section 29- related 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.

However, the IRS is continuing to audit taxpayers claiming IRC Section 29- related tax credits with respect to a variety of issues. The partnerships in which Gallagher has an interest may be audited in the future. Furthermore, IRC Section 29- related tax credits have been controversial both politically and administratively, and no assurance can be given that the IRS will not issue administrative guidance adverse to Gallagher's interests, or support the enactment of legislation to curtail or repeal IRC Section 29. Any of these potential events could adversely affect Gallagher's ability to claim IRC Section 29- related tax credits or cause it to be subject to liability under indemnification obligations related to prior sales of partnership interests in partnerships claiming IRC Section 29- related tax credits.

While Gallagher's synthetic coal operations are not currently under audit, the IRS could place those operations under audit and an adverse outcome may cause a material loss. For additional information about the potential negative effects of adverse tax audits and related indemnification contingencies, see the discussion on IRC Section 29 tax credits included in Management's Discussion and Analysis of Financial Condition and Results of Operations, which is included in Gallagher's 2007 Financial Statements under the caption entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

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 306,000 square feet of space, or approximately 60% of the building. The lease commitment on this property expires on February 28, 2018.

[Table of Contents](#)

Elsewhere, Gallagher generally operates in leased premises as well. Certain of Gallagher's 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 17 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements, which is incorporated herein by reference, for information with respect to Gallagher's lease commitments at December 31, 2007.

Item 3. Legal Proceedings.

Information regarding legal proceedings of Gallagher is included in Note 17 (Litigation) to the Consolidated Financial Statements of Gallagher's 2007 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, 2007.

Item 4A. Executive Officers of the Registrant.

The executive officers of Gallagher are as follows:

Name	Age	Position and Year First Elected
J. Patrick Gallagher, Jr.	56	Chairman since 2006, President since 1990, Chief Executive Officer since 1995
Walter D. Bay	45	Corporate Vice President, General Counsel, Secretary since June 2007
Richard C. Cary	45	Controller since 1997, Chief Accounting Officer since 2001
James W. Durkin, Jr.	58	Corporate Vice President, President of Employee Benefit Brokerage Operation since 1985
James S. Gault	56	Corporate Vice President since 1992, President of Domestic Retail P/C Brokerage Operation since 2002
Douglas K. Howell	46	Corporate Vice President, Chief Financial Officer since 2003
Susan E. McGrath	41	Corporate Vice President, Chief Human Resource Officer since January 2007
David E. McGurn, Jr.	55	Corporate Vice President since 1993, President of Wholesale and Reinsurance Brokerage Operations since 2001
Richard J. McKenna	61	Corporate Vice President since 1994, President of Risk Management Operation since 2000

With the exception of Mr. Bay, Mr. Howell and Ms. McGrath, 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 June 4, 2007, Mr. Bay was employed as General Counsel and Secretary for GE Commercial Distribution Finance from January 2003 to May 2007 and prior thereto as M&A Counsel for General Electric Capital Corporation since 2000.

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 from April 2001 to February 2003.

Prior to joining Gallagher on January 15, 2007, Ms. McGrath was employed as Vice President of Human Resources for GE Commercial Distribution Finance from January 2004 to January 2007 and prior thereto as the Vice President of Human Resources for GE Financial Guaranty Insurance Corporation since July 2002.

[Table of Contents](#)

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 from January 1, 2006 through December 31, 2007 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					
2007					
First	\$	30.15	\$	26.02	\$.31
Second		29.50		27.20	.31
Third		31.83		26.66	.31
Fourth		29.46		24.01	.31
2006					
First	\$	31.77	\$	27.65	\$.30
Second		28.32		24.75	.30
Third		28.14		24.42	.30
Fourth		30.42		26.44	.30

As of December 31, 2007, there were approximately 900 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, 2007	432.6	\$ 26.30	432.6	4,918.6
November 1 to November 30, 2007	2,128.2	26.33	2,128.2	2,790.4
December 1 to December 31, 2007	1.3	25.53	1.3	2,789.1
Total	2,562.1	\$ 26.32	2,562.1	

- (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 and has been periodically amended (most recently was on July 19, 2007) since that date to authorize additional shares for repurchase. Under the provisions of the repurchase plan, as of December 31, 2007, Gallagher continued to have the capacity to repurchase approximately 2.8 million shares. On January 24, 2008, Gallagher announced the continuation of the repurchase plan bringing the cumulative total repurchase authorization to 10.0 million shares. There is no expiration date for the repurchase plan and Gallagher is under no commitment or obligation to repurchase any particular amount of common stock under the repurchase plan. At its discretion, Gallagher may suspend the repurchase plan at any time.

Information relating to the compensation plans under which equity securities of Gallagher are authorized for issuance is included in the disclosure set forth under the caption "Equity Compensation Plan Information" in Gallagher's 2008 Proxy Statement and is incorporated herein by reference. See Notes 11, 12 and 13 to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements, which are incorporated herein by reference, for additional information relating to the compensation plans under which equity securities of Gallagher are authorized for issuance.

[Table of Contents](#)

Item 6. Selected Financial Data.

The following selected consolidated financial data for each of the five years in the period ended December 31, 2007 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,				
	2007	2006	2005	2004	2003
(In millions, except per share and employee data)					
Consolidated Statement of Earnings Data:					
Commissions	\$ 867.3	\$ 792.9	\$ 762.2	\$ 708.3	\$ 651.5
Fees	656.2	583.7	534.6	486.6	416.3
Investment income and other	99.8	93.5	132.1	185.4	95.3
Total revenues	1,623.3	1,470.1	1,428.9	1,380.3	1,163.1
Total expenses before litigation and contingent commission matters and claims handling obligations	1,423.2	1,306.6	1,206.2	1,146.1	980.0
Litigation and contingent commission matters and claims handling obligations	-	9.0	209.8	-	-
Earnings before income taxes	200.1	154.5	12.9	234.2	183.1
Provision (benefit) for income taxes	45.5	26.1	(26.2)	46.3	43.4
Earnings from continuing operations	154.6	128.4	39.1	187.9	139.7
Earnings (loss) on discontinued operations, net of income taxes	(15.8)	0.1	(8.3)	0.6	6.5
Net earnings	\$ 138.8	\$ 128.5	\$ 30.8	\$ 188.5	\$ 146.2
Per Share Data:					
Diluted earnings from continuing operations per share (1)	\$ 1.59	\$ 1.31	\$.41	\$ 1.99	\$ 1.50
Diluted net earnings per share (1)	1.43	1.31	.32	1.99	1.57
Dividends declared per common share (2)	1.24	1.20	1.12	1.00	.72
Share Data:					
Shares outstanding at year end	92.0	98.4	95.7	92.1	90.0
Weighted average number of common shares outstanding	95.9	97.1	94.1	91.5	90.0
Weighted average number of common and common equivalent shares outstanding	97.1	98.4	96.1	94.5	93.3
Consolidated Balance Sheet Data:					
Total assets	\$ 3,556.8	\$ 3,420.1	\$ 3,389.5	\$ 3,233.3	\$ 2,900.4
Long- term debt less current portion	400.0	25.9	107.6	140.0	122.1
Total stockholders' equity	715.5	864.1	769.1	761.0	619.1
Return on beginning stockholders' equity (3)	16%	17%	4%	30%	28%
Employee Data:					
Number of employeescontinuing	9,102	8,533	7,953	7,657	6,613

- (1) Based on the weighted average number of common and common equivalent shares outstanding during the year.
- (2) Based on the total dividends declared on a share of common stock outstanding during the entire year.
- (3) Represents net earnings divided by total stockholders' equity, as of the beginning of the year.
- (4) Based on the number of employees at year end related to continuing operations.
- (5) Represents earnings from continuing operations before the after tax impact of litigation and contingent commission matters and claims handling obligations related charges.

[Table of Contents](#)

Certain Non- GAAP Financial Measures. The line item in the preceding selected financial data table entitled "Earnings from continuing operations before litigation and contingent commission matters and claims handling obligations per employee" may be considered a "non- GAAP financial measure" within the meaning of SEC regulations 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 U.S. generally accepted accounting principles (GAAP). Consistent with SEC regulations, a description of such information is provided in the table above and a reconciliation of certain of such items to GAAP is provided herein. Charges in 2006 related to retail contingent commission related matters totaled \$9.0 million (or \$5.4 million after tax). Charges in 2005 related to litigation related matters, retail contingent commission related matters and claims handling obligations totaled \$131.0 million (or \$84.2 million after tax), \$73.6 million (or \$44.2 million after tax) and \$5.2 million (or \$3.6 million after tax), respectively. There were no such items in 2003, 2004 or 2007. These amounts, which Gallagher believes are non- recurring, were added back to earnings from continuing operations in 2006 and 2005 in order to calculate earnings from continuing operations before litigation and contingent commission related matters and claims handling obligations per employee.

Gallagher believes the items included above provide meaningful additional information, which may be helpful to investors in assessing certain aspects of Gallagher's operating performance and financial condition that may not be otherwise apparent from GAAP. Industry peers provide similar supplemental information, although they may not use the same or comparable terminology and may not make identical adjustments. This non- GAAP information should be used in addition to, but not as a substitute for, the GAAP information.

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 2007 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 2007 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 the Report of Independent Registered Public Accounting Firm on Financial Statements are included in Gallagher's 2007 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, 2007, 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 were effective as of December 31, 2007.

[Table of Contents](#)

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, 2007. Gallagher's independent registered public accounting firm also attested to, and reported on, 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 2007 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, 2007, 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, Executive Officers of the Registrant and Corporate Governance.

Information regarding directors and nominees for directors of Gallagher is included under the captions entitled "Corporate Governance - Board of Directors" and "Election of Directors" in the 2008 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 2008 Proxy Statement and is incorporated herein by reference.

The Board of Directors has determined that William L. Bax and Gary P. Coughlan qualify as Audit Committee financial experts, as such term is defined in rules of the SEC implementing requirements of the Sarbanes- Oxley Act of 2002. Gallagher's Audit Committee is a separately designated committee of the Board of Directors and is comprised of the following independent directors: William L. Bax, T. Kimball Brooker, Gary P. Coughlan, Norman L. Rosenthal and James R. Wimmer.

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 2007 Proxy Statement.

[Table of Contents](#)

Item 11. Executive Compensation.

Information regarding executive compensation of Gallagher's directors and executive officers is included in the 2008 Proxy Statement under the caption entitled "Compensation of Executive Officers and Directors," and is 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 "Ownership of Arthur J. Gallagher & Co. Stock by Directors, Officers and Certain Beneficial Owners" in the 2008 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 in Note 11 (Stock Option Plans) and Note 13 (Restricted Stock Awards) to the Consolidated Financial Statements of Gallagher's 2007 Financial Statements and are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information relating to relationships and related transactions is included under the headings "Certain Relationships and Related Transactions" and "Corporate Governance - Board of Directors" in the 2008 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant services is included in the 2008 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 2007 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, 2007.
 - (b) Consolidated Balance Sheet as of December 31, 2007 and 2006.
 - (c) Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 2007.
 - (d) Consolidated Statement of Stockholders' Equity for each of the three years in the period ended December 31, 2007.
 - (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.

Table of Contents

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.

- 4.2 Amended and Restated Note Purchase Agreement, dated as of December 19, 2007, among Gallagher and the Purchasers.
- 10.8 Amended and Restated Multicurrency Credit Agreement dated as of December 19, 2007 among Arthur J. Gallagher & Co., the Other Borrowers Party thereto, the Lenders party thereto, Harris N.A., as Administrative Agent, Citibank, N.A., as Syndication Agent, and Barclays Bank PLC, as Documentation Agent.
- *10.12 Arthur J. Gallagher & Co. Deferral Plan for Nonemployee Directors.
- 13.0 Gallagher's 2007 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 Amended and Restated By- Laws of Gallagher 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 8- K Current Report dated January 24, 2008, 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).
- 10.1 Assurance of Voluntary Compliance between the Attorney General of the State of Illinois and the Director of Insurance of the State of Illinois and Arthur J. Gallagher & Co., dated May 18, 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 8- K Current Report dated May 18, 2005, File No. 1- 9761).

Table of Contents

10.5	Lease Agreement between Arthur J. Gallagher & Co. and Itasca Center III Limited Partnership, a Texas limited partnership, dated July 26, 1989 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 1989, File No. 1- 9761).
10.5.1	Amendments No. 1 to No. 15 to the Lease Agreement between Arthur J. Gallagher & Co. and HGC/Two Pierce Limited Partnership, an Illinois limited partnership, as successor to Itasca Center III Limited Partnership, a Texas limited partnership, dated May 20, 1991 to October 15, 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2005, File No. 1- 9761).
10.5.2	Amendment No. 16 to the Lease Agreement between Arthur J. Gallagher & Co. and Wells REIT- Two Pierce Place, LLC, a Delaware limited liability company, dated December 7, 2006 (incorporated by reference to the same exhibit number to Gallagher's Form 8- K Current Report dated December 7, 2006, 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).
*10.15.1	First Amendment to the 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 2005, File No. 1- 9761).
*10.15.2	Second Amendment to the 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 2005, File No. 1- 9761).
*10.16.1	Arthur J. Gallagher & Co. Deferred Equity Participation Plan (as amended and restated, effective January 1, 2005) - adopted February 23, 2007 (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended March 31, 2007, 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).
*10.26.1	Amendment No. 1 to the Arthur J. Gallagher & Co. Restated 1988 Incentive Stock Option Plan, Amended as of January 19, 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2004, File No. 1- 9761).
*10.27	Arthur J. Gallagher & Co. 1988 Nonqualified Stock Option Plan, Amended and restated as of January 22, 1998 (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 1998, File No. 1- 9761).
*10.27.1	Amendment No. 1 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 20, 2000 (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2000, File No. 1- 9761).
*10.27.2	Amendment No. 2 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 18, 2001 (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2001, File No. 1- 9761).

Table of Contents

*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 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2003, File No. 1- 9761).
*10.27.5	Amendment No. 5 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 22, 2004 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2004, File No. 1- 9761).
*10.27.6	Amendment No. 6 to the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan, Amended as of January 19, 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2004, File No. 1- 9761).
*10.28	Arthur J. Gallagher & Co. 1989 Non- Employee Directors' Stock Option Plan, Amended and restated as of January 22, 1998 (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 1998, File No. 1- 9761).
*10.28.1	Amendment No. 2 to the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan, Amended as of January 20, 2000 (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2000, File No. 1- 9761).
*10.28.2	Amendment No. 3 to the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan, Amended as of January 18, 2001 (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2001, File No. 1- 9761).
*10.28.3	Amendment No. 4 to the Arthur J. Gallagher & Co. Restated 1989 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 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2003, File No. 1- 9761).
*10.28.5	Amendment No. 6 to the Arthur J. Gallagher & Co. Restated 1989 Non- Employee Directors' Stock Option Plan, Amended as of May 17, 2005 . (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2005, File No. 1- 9761).
*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).
*10.30.1	Amendment No. 1 to the Arthur J. Gallagher & Co. Employee Stock Purchase Plan, Amended as of January 19, 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2004, File No. 1- 9761).
*10.31	Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1988 Incentive Stock Option Plan (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2004, File No. 1- 9761).
*10.32	Form of Agreement for Stock Option Grants under the Arthur J. Gallagher & Co. Restated 1988 Nonqualified Stock Option Plan (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2007, File No. 1- 9761).
*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) Plan (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2004, File No. 1- 9761).

Table of Contents

- *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) Plan (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2004, File No. 1- 9761).
- *10.35 Form of Agreement for Restricted Stock Awards under the Arthur J. Gallagher & Co. Restricted Stock Plan (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2007, File No. 1- 9761).
- 10.36 Purchase and Sale Agreement Dated as of March 22, 2005, entered into by and among AJG Financial Services, Inc., a wholly- owned subsidiary of Arthur J. Gallagher & Co., Three E Corporation and SOF- HARMONY, L.L.C. (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended March 31, 2005, File No. 1- 9761).
- 10.37 Settlement Agreement and Mutual Release Dated as of May 1, 2005 by and between Headwaters Incorporated (formerly known as Covol Technologies, Inc.), Square D Company, Arthur J. Gallagher & Co. and AJG Financial Services, Inc. (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended March 31, 2005, File No. 1- 9761).
- 10.38 Operating Agreement of Chem- Mod LLC dated as of June 23, 2004, by and among NOx II, Ltd., an Ohio limited liability company, AJG Coal, Inc., a Delaware corporation, and IQ Clean Coal LLC, a Delaware limited liability company (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2005, File No. 1- 9761).
- 10.39 Option Agreement among Carolyn Kelly, NOx II, Ltd., an Ohio limited liability company, and AJG Financial Services, Inc., a wholly- owned subsidiary of Arthur J. Gallagher & Co. dated October 17, 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2005, File No. 1- 9761).
- 10.40 Operating Agreement of Chem- Mod International LLC dated as of July 8, 2005, between NOx II International, Ltd., an Ohio limited liability company and AJG Coal, Inc., a Delaware corporation, together with Amendment No. 1 dated August 2, 2005 (incorporated by reference to the same exhibit number to Gallagher's Form 10- K Annual Report for 2005, File No. 1- 9761).
- 10.41 Purchase and Sale Agreement by and between HGC/Two Pierce Limited Partnership, an Illinois limited partnership, and Wells Operating Partnership, L.P., a Delaware limited partnership, dated November 30, 2006 (incorporated by reference to the same exhibit number to Gallagher's Form 8- K Current Report dated December 7, 2006, File No. 1- 9761).
- 10.42 Share Purchase Agreement by and between AJG Capital, Inc., an Illinois corporation, and Aviacargo 27125/27347, LLC, a Delaware limited liability company, and Erste Finance Malta Limited Partnership, a Maltese limited liability company, relating to shares in respect of Aviacargo Leasing Limited, dated January 25, 2007 (incorporated by reference to the same exhibit number to Gallagher's Form 8- K Current Report dated January 25, 2007, File No. 1- 9761).
- *10.43 Arthur J. Gallagher & Co. Performance Unit Program (incorporated by reference to the same exhibit number to Gallagher's Form 10- Q Quarterly Report for the quarterly period ended June 30, 2007).

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.

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 1st day of February, 2008.

ARTHUR J. GALLAGHER & Co.

By /s/ J. PATRICK GALLAGHER, JR.
J. Patrick Gallagher, Jr.
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 1st day of February, 2008 by the following persons on behalf of the Registrant in the capacities indicated.

Name	Title
/s/ J. PATRICK GALLAGHER, JR. J. Patrick Gallagher, Jr.	Chairman, President and Director (Principal Executive Officer)
/s/ DOUGLAS K. HOWELL Douglas K. Howell	Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ RICHARD C. CARY Richard C. Cary	Controller (Principal Accounting Officer)
*WILLIAM L. BAX William L. Bax	Director
*T. KIMBALL BROOKER T. Kimball Brooker	Director
*GARY P. COUGHLAN Gary P. Coughlan	Director
*ILENE S. GORDON Ilene S. Gordon	Director
*ELBERT O. HAND Elbert O. Hand	Director
*DAVID S. JOHNSON David S. Johnson	Director
*KAY W. MC CURDY Kay W. Mc Curdy	Director
*NORMAN L. ROSENTHAL Norman L. Rosenthal	Director
*JAMES R. WIMMER James R. Wimmer	Director

*By: /s/ WALTER D. BAY
Walter D. Bay, Attorney-in-Fact

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, 2007				
Allowance for doubtful accounts	\$ 7.5	\$ 0.4	\$ (0.4)(1)	\$ 6.7
Allowance for estimated policy cancellations	4.9	0.6	-	5.5
Accumulated amortization of goodwill	6.8	-	(6.8)(2)	-
Accumulated amortization of expiration lists and noncompete agreements	73.5	41.8	(13.0)(3)	102.3
Year ended December 31, 2006				
Allowance for doubtful accounts	\$ 6.7	\$ 2.6	\$ (1.8)(1)	\$ 7.5
Allowance for estimated policy cancellations	4.9	-	-	4.9
Accumulated amortization of goodwill	6.8	-	- (2)	6.8
Accumulated amortization of expiration lists and noncompete agreements	51.3	24.6	(2.4)(3)	73.5
Year ended December 31, 2005				
Allowance for doubtful accounts	\$ 3.0	\$ 4.2	\$ (0.5)(1)	\$ 6.7
Allowance for estimated policy cancellations	4.5	0.4	-	4.9
Accumulated amortization of goodwill	7.1	-	(0.3)(2)	6.8
Accumulated amortization of expiration lists and noncompete agreements	33.4	20.7	(2.8)(3)	51.3

- (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, 2007
Exhibit Index

4.2	Amended and Restated Note Purchase Agreement, dated as of December 19, 2007, among Gallagher and the Purchasers.
10.8	Amended and Restated Multicurrency Credit Agreement dated as of December 19, 2007 among Arthur J. Gallagher & Co., the Other Borrowers Party thereto, the Lenders party thereto, Harris N.A., as Administrative Agent, Citibank, N.A., as Syndication Agent, and Barclays Bank PLC, as Documentation Agent.
10.12	Arthur J. Gallagher & Co. Deferral Plan for Nonemployee Directors.
13.0	Gallagher's 2007 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.

ARTHUR J. GALLAGHER & Co.
 ARTHUR J. GALLAGHER & Co. (ILLINOIS)
 ARTHUR J. GALLAGHER BROKERAGE & RISK MANAGEMENT SERVICES, LLC
 RISK PLACEMENT SERVICES, INC.
 GALLAGHER RE, INC.
 GALLAGHER BASSETT SERVICES, INC.
 GALLAGHER BENEFIT SERVICES, INC.
 ARTHUR J. GALLAGHER RISK MANAGEMENT SERVICES, INC.
 ARTHUR J. GALLAGHER SERVICE COMPANY
 \$100,000,000 6.26% Amended and Restated Senior Notes, Series A, due August 3, 2014
 \$300,000,000 6.44% Amended and Restated Senior Notes, Series B, due August 3, 2017

AMENDED AND RESTATED NOTE PURCHASE AGREEMENT

Dated as of December 19, 2007

TABLE OF CONTENTS
 (Not a part of the Agreement)

SECTION	HEADING	PAGE
SECTION 1.	BACKGROUND; AMENDMENT AND RESTATEMENT OF EXISTING NOTE PURCHASE AGREEMENT AND EXISTING NOTES; AND EFFECTIVE DATE	1
Section 1.1.	Background	1
Section 1.2.	Amendment and Restatement of Existing Note Purchase Agreement	2
Section 1.3.	Amendment and Restatement of Existing Notes	2
Section 1.4.	Agreement and Consent of the Noteholders	2
Section 1.5.	Defined Terms, Etc.	2
Section 1.6.	Several Obligations	2
Section 1.7.	Effect of Amendment and Restatement	2
Section 1.8.	Effective Date	3
SECTION 2.	RELEASE OF SUBSIDIARY GUARANTORS AND CERTAIN OBLIGORS	3
Section 2.1.	Subsidiary Guarantors and Obligors	3
SECTION 3.	[INTENTIONALLY OMITTED]	4
SECTION 4.	CONDITIONS TO EFFECTIVE DATE	4
Section 4.1.	Representations and Warranties	4
Section 4.2.	Performance; No Default	4
Section 4.3.	Compliance Certificates	5
Section 4.4.	Opinions of Counsel	5
Section 4.5.	Purchase Permitted by Applicable Law, Etc.	5
Section 4.6.	Related Transactions	5
Section 4.7.	Payment of Special Counsel Fees.	6
Section 4.8.	Private Placement Number	6
Section 4.9.	Changes in Corporate Structure	6
Section 4.10.	Bank Credit Agreement	6
Section 4.11.	Proceedings and Documents	6
SECTION 5.	REPRESENTATIONS AND WARRANTIES OF THE OBLIGORS	6
Section 5.1.	Organization; Power and Authority	6

Section 5.2.	Authorization, Etc.	6
Section 5.3.	Disclosure	7
Section 5.4.	Compliance with Laws, Other Instruments, Etc.	7
Section 5.5.	Governmental Authorizations, Etc.	7

Notes Rank Pari Passu
No Default

REPRESENTATIONS OF THE NOTEHOLDERS

Purchase for Investment
Source of Funds

INFORMATION AS TO THE COMPANY

Financial and Business Information
Officer's Certificate
Visitation

PREPAYMENT OF THE NOTES

Maturity
Optional Prepayments with Make- Whole Amount
Allocation of Partial Prepayments
Maturity; Surrender, Etc.
Purchase of Notes
Make- Whole Amount
Mandatory Offer to Prepay Upon Change in Control

AFFIRMATIVE COVENANTS

Compliance with Law
Insurance
Maintenance of Properties
Payment of Taxes and Claims
Legal Existence, Etc.
Notes to Rank Pari Passu
Additional Obligors; Guaranty by Subsidiaries
Books and Records

NEGATIVE COVENANTS

Cash Flow Leverage Ratio
Fixed Charge Coverage Ratio
Limitations on Consolidated Priority Indebtedness
Limitation on Liens
Mergers, Consolidations, Etc.
Sale of Assets
Transactions with Affiliates
Line of Business
Terrorism Sanctions Regulations

EVENTS OF DEFAULT

REMEDIES ON DEFAULT, ETC.

Acceleration

Other Remedies

Rescission

No Waivers or Election of Remedies, Expenses, Etc.

REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES

Registration of Notes

Transfer and Exchange of Notes

Replacement of Notes

PAYMENTS ON NOTES

Place of Payment

Home Office Payment

EXPENSES, ETC.

Transaction Expenses

Survival

SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT

AMENDMENT AND WAIVER

Requirements

Solicitation of Holders of Notes

Binding Effect, Etc.

Notes Held by the Obligors, Etc.

NOTICES

REPRODUCTION OF DOCUMENTS

CONFIDENTIAL INFORMATION

[Reserved]

MISCELLANEOUS

Successors and Assigns

Payments Due on Non- Business Days

Accounting Terms

Severability

Construction, Etc.
Counterparts
Governing Law
Jurisdiction and Process; Waiver of Jury Trial
Nature of Obligations
Obligor Agent
Indemnification

SCHEDULE A	-	Information Relating to Noteholders
SCHEDULE B	-	Defined Terms
SCHEDULE 5.15(a)	-	Indebtedness
SCHEDULE 5.15(b)	-	Liens
EXHIBIT 1- A	-	Form of 6.26% Amended and Restated Senior Notes, Series A, due August 3, 2014
EXHIBIT 1- B	-	Form of 6.44% Amended and Restated Senior Notes, Series B, due August 3, 2017
EXHIBIT 4.4(a)	-	Form of Opinion of Special Counsel for the Obligors
EXHIBIT 4.4(b)	-	Form of Opinion of Counsel for the Obligors
EXHIBIT 4.4(c)	-	Form of Opinion of Special Counsel for the Noteholders
EXHIBIT 9.7(a)	-	Form of Joinder Agreement
EXHIBIT 9.7(b)	-	Form of Subsidiary Guaranty

ARTHUR J. GALLAGHER & Co.
The Gallagher Centre, Two Pierce Place
Itasca, Illinois 60143- 3141

\$100,000,000 6.26% Amended and Restated Senior Notes, Series A, due August 3, 2014

\$300,000,000 6.44% Amended and Restated Senior Notes, Series B, due August 3, 2017

Dated as of December 19, 2007

TO EACH OF THE NOTEHOLDERS LISTED IN

SCHEDULE A HERETO:

Ladies and Gentlemen:

Arthur J. Gallagher & Co., a Delaware corporation (the "*Company*"), Arthur J. Gallagher & Co. (Illinois), an Illinois corporation ("*AJG Illinois*"), Arthur J. Gallagher Brokerage & Risk Management Services, LLC, a Delaware limited liability company ("*AJG Brokerage*"), Risk Placement Services, Inc., an Illinois corporation ("*RPS*"), Gallagher Re, Inc., a Delaware corporation ("*Gallagher Re*"), Gallagher Bassett Services, Inc., a Delaware corporation ("*Gallagher Bassett*"), Gallagher Benefit Services, Inc., a Delaware corporation ("*Gallagher Benefit*"), Arthur J. Gallagher Risk Management Services, Inc., an Illinois corporation ("*Gallagher Risk*") and Arthur J. Gallagher Service Company, a Delaware corporation ("*Gallagher Service*"; the Company, AJG Illinois, AJG Brokerage, RPS, Gallagher Re, Gallagher Bassett, Gallagher Benefit, Gallagher Risk and Gallagher Service are each, together with any Subsidiary which is required to become an Obligor in compliance with the requirements of **Section 9.7**, hereinafter individually referred to as an "*Obligor*" and collectively as the "*Obligors*"), jointly and severally agree with each of the noteholders whose names appear at the end hereof (each, a "*Noteholder*" and, collectively, the "*Noteholders*") as follows:

SECTION 1. BACKGROUND; AMENDMENT AND RESTATEMENT OF EXISTING NOTE PURCHASE AGREEMENT AND EXISTING NOTES; AND EFFECTIVE DATE.

Section 1.1. Background. Reference is made to that certain Note Purchase Agreement, dated as of August 3, 2007 (the "*Existing Note Purchase Agreement*"), among the Company and each Noteholder under and pursuant to which the Company issued (a) \$100,000,000 aggregate principal amount of its 6.26% Senior Notes, Series A, due August 3, 2014 (the "*Series A Notes*") and (b) \$300,000,000 aggregate principal amount of its 6.44% Senior Notes, Series B, due August 3, 2017 (the "*Series B Notes*"; said Series B Notes together with the Series A Notes being hereinafter collectively referred to as the "*Existing Notes*"). Each of the Noteholders, the Company and the other Obligors now desire to amend and restate the Existing Note Purchase Agreement and the Existing Notes in their entirety, to cause each of the Obligors to become jointly and severally liable for payment in full of the Notes and to terminate the existing guaranty with respect to the Existing Note Purchase Agreement and the Existing Notes (the "*Terminated Guaranty*"). In order to effectuate and reflect the foregoing in the most expeditious manner, to facilitate dealings with respect to the Existing Notes and the Existing Note Purchase Agreement, the parties hereto have agreed to amend and restate each of the Existing Notes and the Existing Note Purchase Agreement.

EXHIBIT 9.7(b)

(to Amended and Restated Note Purchase Agreement)

Section 1.2. Amendment and Restatement of Existing Note Purchase Agreement. Effective on the Effective Date, the Obligors, each by its execution of this Agreement, hereby agrees and consents to the amendment and restatement, subject to **Section 16**, in its entirety of the Existing Note Purchase Agreement by and into this Agreement.

Section 1.3. Amendment and Restatement of Existing Notes. The Obligors, each by its execution of this Agreement, hereby agrees and consents to the amendment and restatement of each series of the Existing Notes in their entirety to be substantially in the form of **Exhibits 1- A** and **1- B** hereto, as applicable. The Existing Notes, as so amended and restated, shall be hereinafter referred to, individually, as a "Note" and, collectively, as the "Notes," and shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. Each Obligor has duly authorized the execution and delivery to each Noteholder of its respective Notes, each of which Notes shall (a) be exchanged for the Existing Notes, (b) be dated the Effective Date and bear interest from August 3, 2007, (c) have the terms herein and therein provided, and (d) be substantially in the form set out in **Exhibits 1- A** or **1- B**, as the case may be, with such changes therefrom, if any, as may be approved by the Noteholders and the Obligors.

Section 1.4. Agreement and Consent of the Noteholders. The Noteholders are, collectively, the holders of one hundred percent (100%) of the aggregate principal amount of the Existing Notes. Subject to the satisfaction of the conditions precedent set forth in **Section 4**, the Noteholders, by their execution of this Agreement, hereby agree and consent to: (a) the amendment and restatement, subject to **Section 16**, in its entirety of the Existing Note Purchase Agreement by and into this Agreement, (b) the amendment and restatement of each series of the Existing Notes in their entirety by the exchange for a Note substantially in the form of **Exhibits 1- A** or **1- B** hereto, as applicable, and in an equal outstanding principal amount therefor and (c) the termination of the Terminated Guaranty.

Section 1.5. Defined Terms, Etc. Certain capitalized and other terms used in this Agreement are defined in **Schedule B** hereto; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement; and references to a "Section" are, unless otherwise specified, to a Section of this Agreement.

Section 1.6. Several Obligations. The obligations of each Noteholder hereunder are several and not joint obligations, and no Noteholder shall have any obligation or liability to any Person for the performance or nonperformance by any other Noteholder hereunder.

Section 1.7. Effect of Amendment and Restatement. Each of the Noteholders and the Obligors agree that (a) the amendment and restatement of the Existing Notes and the exchange of the Existing Notes for the Notes hereunder shall not constitute a prepayment of the Existing Notes, and (b) no Make- Whole Amount or other premium or amount is payable as a result of the amendment and restatement of the Existing Note Purchase Agreement or the Existing Notes or termination of the Terminated Guaranty as contemplated hereby.

Section 1.8. Effective Date. On December 19, 2007, or such other Business Day thereafter as may be mutually agreed upon in writing by the Obligors and the Noteholders (the "*Effective Date*"), the Obligors shall execute and deliver to the Noteholders at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 A.M. Chicago time, or at such other place agreed to by the parties, one or more Notes (as set forth beside each Noteholder's name on **Schedule A**), registered in the name specified on **Schedule A**, in the denomination or denominations specified on **Schedule A** and of the series specified in **Schedule A**, in exchange for the Existing Notes held by each Noteholder (or such Noteholder's nominee), in the respective principal amounts and of the series, as more particularly set forth below its name on **Schedule A**. Contemporaneously with the receipt by each Noteholder of such Notes, the Existing Notes held by such Noteholder shall be deemed to be cancelled and amended and restated by the Notes (regardless of whether or not such Noteholder shall have delivered to the Company for cancellation the Existing Notes held by it) and, subject to **Section 16**, no Person shall have any obligation or liability whatsoever to any Noteholder thereafter pursuant to or in connection with the Existing Note Purchase Agreement, the Existing Notes or the Terminated Guaranty, each of which will be automatically terminated and extinguished and of no further force or effect. Each Noteholder agrees to use commercially reasonable efforts to deliver the Existing Notes held by it to the Company in connection with the foregoing exchange and cancellation. All amounts owing under, and evidenced by, the Existing Notes as of the Effective Date shall continue to be outstanding under, and shall from and after the Effective Date be evidenced solely by, the Notes, and shall be governed by the Notes and the terms of this Agreement. It is the intention of the parties hereto that the amendment and restatement of the Existing Notes by the Obligors and the execution, delivery and full effectiveness of this Agreement by the Obligors be simultaneous. Existing Notes delivered to the Company pursuant to the terms of this Agreement shall be marked "Cancelled/Amended and Restated by New Notes" by the Company. If on the Effective Date the Obligors shall fail to tender the Notes to any Noteholder as provided in this **Section 1.8**, or any of the conditions specified in **Section 4** shall not have been fulfilled to any Noteholder's reasonable satisfaction, all, but not less than all, of the Noteholders shall be relieved of all further obligations under this Agreement, without thereby waiving any rights such Noteholder may have under the Existing Note Purchase Agreement, the Existing Notes or otherwise by reason of such failure or such nonfulfillment and this Agreement shall be deemed to be automatically terminated.

SECTION 2. RELEASE OF SUBSIDIARY GUARANTORS AND CERTAIN OBLIGORS.

Section 2.1. Subsidiary Guarantors and Obligors. (a) The holders of the Notes acknowledge and agree that any Subsidiary Guarantor or Obligor (other than the Company) shall be automatically discharged and released from the Subsidiary Guaranty to which it is a party or this Agreement, the Notes and any Joinder Agreement, as the case may be, pursuant to the written request of the Company, *provided* that (i) such Subsidiary Guarantor or such Obligor, as the case may be, has been released and discharged as a guarantor or an obligor under and in respect of all Indebtedness of the Company at any time due and owing pursuant to the Bank Credit Agreement and the Company so certifies to the holders of the Notes in a certificate which accompanies such request for release and discharge, (ii) any such release and discharge shall be expressly conditioned upon receipt by the holders of the Notes of a written

agreement executed by the Subsidiary Guarantor or such Obligor, as the case may be, to be released pursuant to which such Subsidiary Guarantor or Obligor, shall agree that if, for any reason whatsoever, it thereafter becomes a guarantor or an obligor under and in respect of any Indebtedness of the Company at any time due and owing pursuant to the Bank Credit Agreement, then such Subsidiary Guarantor or such Obligor, as the case may be, shall contemporaneously provide written notice thereof to the holders of the Notes accompanied by an executed (A) Subsidiary Guaranty or (B) Joinder Agreement, as the case may be, of such Subsidiary, and (iii) at the time of such release and discharge, the Company shall deliver a certificate of a Responsible Officer to the holders of the Notes to the effect that no Default or Event of Default exists; *provided* that, notwithstanding the foregoing, the Company, or any successor that becomes an Obligor in place of the Company in the manner prescribed in **Section 10.5**, shall in any and all events and at all times remain an Obligor.

(b) The Company agrees that it will not, nor will it permit any Subsidiary or Affiliate to, directly or indirectly, pay or cause to be paid any consideration or remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any creditor of the Company or of any Subsidiary Guarantor or Obligor, as the case may be, as consideration for or as an inducement to the entering into by any such creditor of any release or discharge of any Subsidiary Guarantor or Obligor, as the case may be, with respect to any liability of such Subsidiary Guarantor or Obligor, as the case may be, as an obligor or guarantor under or in respect of Indebtedness of the Company, unless such consideration or remuneration is concurrently paid, on the same terms, ratably to the holders of all of the Notes then outstanding.

(c) Each holder of the Notes further acknowledges and agrees that following the release of an Obligor pursuant to this **Section 2.1**, if requested in writing by the Obligor Agent, that such holder of the Notes shall, at the cost and expense of the Obligors, within 20 Business Days following the date of such request, surrender each Note which it then holds in exchange for the receipt of a new Note of the same series and in an equal outstanding principal amount executed by the remaining Obligors.

SECTION 3. [INTENTIONALLY OMITTED].

SECTION 4. CONDITIONS TO EFFECTIVE DATE.

The effectiveness of this Agreement shall be subject to the fulfillment to each Noteholder's satisfaction, prior to or on the Effective Date, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of each Obligor in this Agreement shall be correct when made and on the Effective Date.

Section 4.2. Performance; No Default. Each Obligor shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or on the Effective Date, and after giving effect to the amendment and restatement of the Existing Note Purchase Agreement and the Existing Notes and the exchange of the Existing Notes for the Notes, no Default or Event of Default shall have occurred and be continuing.

(a) *Officer's Certificate*. Each Obligor shall have delivered to such Noteholder an Officer's Certificate of such Obligor, dated the Effective Date, certifying that the conditions specified in **Sections 4.1, 4.2 and 4.9** have been fulfilled.

(b) *Secretary's Certificate*. Each Obligor shall have delivered to such Noteholder a certificate of its Secretary or Assistant Secretary, dated the Effective Date, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Noteholder shall have received opinions in form and substance reasonably satisfactory to such Noteholder, dated the Effective Date (a) from Sidley Austin LLP, counsel for the Obligors, covering the matters set forth in **Exhibit 4.4(a)** and covering such other matters incident to the transactions contemplated hereby as such Noteholder or its counsel may reasonably request (and the Obligors hereby instruct their counsel to deliver such opinion to the Noteholders) (b) from Walter D. Bay, Esq., General Counsel and Secretary of the Company, covering the matters set forth in **Exhibit 4.4(b)** and covering such other matters incident to the transactions contemplated hereby as such Noteholder or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Noteholders) and (c) from Chapman and Cutler LLP, the Noteholders' special counsel in connection with such transactions, substantially in the form set forth in **Exhibit 4.4(c)** and covering such other matters incident to such transactions as such Noteholder may reasonably request.

Section 4.5. Purchase Permitted by Applicable Law, Etc. On the Effective Date the issuance and delivery of the Notes in exchange for the Existing Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which such Noteholder is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Noteholder to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by such Noteholder, such Noteholder shall have received an Officer's Certificate of the Company certifying as to such matters of fact as such Noteholder may reasonably specify to enable such Noteholder to determine whether such purchase is so permitted.

Section 4.6. Related Transactions. Contemporaneously on the Effective Date, the Noteholders shall have delivered to the Company all of the Existing Notes and the Obligors shall have completed the exchange of all of the Notes for all of the Existing Notes pursuant to this Agreement.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of **Section 15.1**, the Obligors shall have paid on or before the Effective Date the reasonable fees, charges and disbursements of the Noteholders' special counsel referred to in **Section 4.4** to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Effective Date.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for each series of the Notes.

Section 4.9. Changes in Corporate Structure. No Obligor shall have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time after June 30, 2007 and prior to the Effective Date.

Section 4.10. Bank Credit Agreement. The Bank Credit Agreement shall be amended to add the Obligors (other than the Company) as primary obligors thereunder in form and substance satisfactory to the Noteholders and shall be in full force and effect.

Section 4.11. Proceedings and Documents. All legal and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Noteholder and its special counsel, and such Noteholder and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Noteholder or such special counsel may reasonably request.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE OBLIGORS.

Each Obligor represents and warrants to each Noteholder that:

Section 5.1. Organization; Power and Authority. Such Obligor is a corporation or limited liability company, as the case may be, duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation, and is duly qualified as a foreign corporation or limited liability company, as the case may be, and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Such Obligor has the corporate or limited liability company power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate or limited liability company action on the part of such Obligor, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of such Obligor enforceable against such Obligor in accordance with its

terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. Since December 31, 2006, there has been no change in the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries, taken as a whole except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Obligors that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein, in the Disclosure Documents (as defined in the Existing Note Purchase Agreement) or the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 2007.

Section 5.4. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Obligors of this Agreement and the Notes will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of any Obligor or any Subsidiary under, any Material indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which such Obligor or any Subsidiary is bound or by which any Obligor or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to any Obligor or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to any Obligor or any Subsidiary.

Section 5.5. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Obligors of this Agreement or the Notes.

Section 5.6. Notes Rank Pari Passu. The obligations of the Obligors under this Agreement and the Notes rank at least *pari passu* in right of payment with all other unsecured senior Indebtedness (actual or contingent) of the Obligors, including, without limitation, all senior unsecured Indebtedness of the Obligors described in **Schedule 5.15(a)** hereto.

Section 5.7. No Default. As of the Effective Date no Default or Event of Default has occurred and is continuing.

SECTION 6. REPRESENTATIONS OF THE NOTEHOLDERS.

Section 6.1. Purchase for Investment. Each Noteholder severally represents that (a) it is acquiring the Notes in exchange of the Existing Notes for its own account or for one or more separate accounts maintained by such Noteholder or for the account of one or more pension or trust funds and not with a view to the distribution thereof; *provided* that the disposition of such Noteholder's or their

property shall at all times be within such Noteholder's or such pension or trust fund's control and (b) is an "Accredited Investor" as defined in Regulation D of the Securities Act and an experienced and sophisticated investor with such knowledge and experience in financial and business matters as is necessary to evaluate the merits and risks of an investment in the Notes. Each Noteholder understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that neither the Company nor any other Obligor is required to register the Notes.

Section 6.2. Source of Funds. Each Noteholder severally represents that it will pay the purchase price of the Notes with the Existing Notes. At the time of the purchase of the Existing Notes, each Noteholder severally represented that at least one of the following statements was an accurate representation as to each source of funds (a "*Source*") used by such Noteholder to pay the purchase price of the Existing Notes:

- (a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("*PTE*") 95- 60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "*NAIC Annual Statement*") for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95- 60) or by the same employee organization in the general account do not exceed ten percent (10%) of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Noteholder's state of domicile; or
- (b) the Source is a separate account that is maintained solely in connection with such Noteholder's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or
- (c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90- 1, or (ii) a bank collective investment fund, within the meaning of the PTE 91- 38 and, except as have been disclosed by such Noteholder to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or
- (d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee

benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, as of the last day of its most recent calendar quarter, the QPAM does not own a 10% or more interest in the Company and no Person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 20% or more interest in the Company (or less than 20% but greater than 10%, if such person exercises control over the management or policies of the Company by reason of its ownership interest) and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96- 23 (the "*INHAM Exemption*")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a Person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(d) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this **Section 6.2**, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

SECTION 7. INFORMATION AS TO THE COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) *Quarterly Statements* - within 60 days (or such shorter period as is 15 days greater than the period applicable to the filing of the Company's Quarterly Report on Form 10- Q (the "*Form 10- Q*") with the SEC regardless of whether the Company is

subject to the filing requirements thereof) after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter (compared to the previous fiscal year end), and
(ii) consolidated statements of earnings and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter (compared to the corresponding periods in the previous fiscal year), all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year- end adjustments; *provided* that delivery within the time period specified above of copies of the Company's Form 10- Q prepared in compliance with the requirements therefor and filed with the SEC shall be deemed to satisfy the requirements of this **Section 7.1(a)**; *provided, further*, that the Company shall be deemed to have made such delivery of such Form 10- Q if it shall have timely made such Form 10- Q available on "EDGAR" and on its home page on the worldwide web (at the date of this Agreement located at: <http://www.ajg.com>) and shall have given each holder of a Note prior notice of such availability on EDGAR and on its home page in connection with each delivery (such availability and notice thereof being referred to as "*Electronic Delivery*");

(b) *Annual Statements* - within 120 days (or such shorter period as is 15 days greater than the period applicable to the filing of the Company's Annual Report on Form 10- K (the "*Form 10- K*") with the SEC regardless of whether the Company is subject to the filing requirements thereof) after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of earnings, changes in stockholders' equity and cash flows of the Company and its Subsidiaries, for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the

circumstances, *provided* that the delivery within the time period specified above of the Company's Form 10- K for such fiscal year (together with the Company's annual report to stockholders, if any, prepared pursuant to Rule 14a- 3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the SEC, shall be deemed to satisfy the requirements of this **Section 7.1(b)**; *provided, further*, that the Company shall be deemed to have made such delivery of such Form 10- K if it shall have timely made Electronic Delivery thereof;

(c) *SEC and Other Reports* - promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to its principal lending banks as a whole (excluding information sent to such banks in the ordinary course of administration of a bank facility, such as information relating to pricing and borrowing availability or to its public securities holders generally) and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder and excluding registration statements on Form S- 8), and each prospectus and all amendments thereto (excluding those related to plans or plan interests registered on a Form S- 8 registration statement) filed by the Company or any Subsidiary with the SEC and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material; *provided* that with respect to any such report, registration statement or prospectus filed by the Company or any Subsidiary with the SEC, the Company shall be deemed to have made such delivery of such report, registration statement or prospectus if it shall have timely made Electronic Delivery thereof;

(d) *Notice of Default or Event of Default* - promptly, and in any event within five Business Days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in **Section 11(f)**, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *ERISA Matters* - promptly, and in any event within five Business Days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in Section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt

by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* - promptly, and in any event within 30 days of receipt thereof, copies of any notice to any Obligor or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(g) *Requested Information* - with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Obligors or any of their Subsidiaries or relating to the ability of the Obligors to perform their respective obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to **Section 7.1(a)** or **Section 7.1(b)** shall be accompanied by a certificate of a Senior Financial Officer setting forth (which, in the case of Electronic Delivery of such financial statements, shall be by separate concurrent delivery of such certificate to each holder of Notes):

(a) *Covenant Compliance* - the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of **Sections 10.1** through **Section 10.3**, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence) and, to the extent that the Agreement Accounting Principles applied in connection with determining compliance with the requirements of **Section 10.1** through **Section 10.4** and **Section 10.6** are not the same as the generally accepted accounting principles used in preparation of the financial statements delivered pursuant to **Section 7.1(a)** or **Section 7.1(b)**, a reconciliation of the consolidated financial statements for the Company and its Subsidiaries delivered pursuant to **Section 7.1(a)** or **Section 7.1(b)** and the financial information used to determine compliance with the requirements of **Section 10.1** through **Section 10.4** and **Section 10.6**; and

(b) *Event of Default* - a statement that such Senior Financial Officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed, to the best of such Senior Financial Officer's knowledge and belief, the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) *No Default* - if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's Senior Financial Officers, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit during normal business hours the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) *Default* - if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective Senior Financial Officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested, *provided* that prior to disclosure of any material non public information pursuant to this **Section 7.3**, the holders of the Notes shall, if requested by the Company, provide the Company with reasonable assurance that such disclosure will be held in confidence in accordance with the requirements of Regulation FD promulgated by the SEC, subject to the last sentence of **Section 20**.

SECTION 8. PREPAYMENT OF THE NOTES.

Section 8.1. Maturity. As provided therein, the entire unpaid principal balance of each series of the Notes shall be due and payable on the respective stated maturity dates thereof.

Section 8.2. Optional Prepayments with Make- Whole Amount. The Obligors may, at their option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes of any series, in an amount not less than 10% of the aggregate principal amount of such series of Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so

prepaid, together with interest accrued thereon to the date of such prepayment, and the Make- Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes of any series the Obligor intend to prepay written notice of each optional prepayment under this **Section 8.2** not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of each series of Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with **Section 8.3**), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make- Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes of any series being prepaid a certificate of a Senior Financial Officer specifying the calculation of such Make- Whole Amount as of the specified prepayment date.

Section 8.3. Allocation of Partial Prepayments. In the case of each partial prepayment of any series of Notes pursuant to **Section 8.2**, the principal amount of the Notes of such series to be prepaid shall be allocated pro rata among all holders of such series of Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.4. Maturity; Surrender, Etc. In the case of each prepayment of Notes of any series pursuant to this **Section 8**, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make- Whole Amount, if any. From and after such date, unless the Obligor shall fail to pay such principal amount when so due and payable, together with the interest and Make- Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Obligor Agent and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.5. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes or any part or portion thereof except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate pro rata to the holders of all Notes of a series at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Notes of any series then outstanding accept such offer, the Obligor Agent shall promptly notify the remaining holders of Notes of such series of such fact and the expiration date for the acceptance by holders of such Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least 5 Business Days from its receipt of such notice to accept such offer. The Obligor Agent will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.6. Make- Whole Amount. The term "*Make- Whole Amount*" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal; *provided* that the Make- Whole Amount may in no event be less than zero. For the purposes of determining the Make- Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to **Section 8.2** or has become or is declared to be immediately due and payable pursuant to **Section 12.1**, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on such Note is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% (50 basis points) over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond- equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one- twelfth year) obtained by dividing (a) such Called Principal into (b) the sum of the products obtained by multiplying (i) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (ii) the number of years (calculated to the nearest one- twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date; *provided* that if such Settlement Date is not a date on which interest payments are due to be made under the terms of such Note, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to **Section 8.2** or **12.1**.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to **Section 8.2** or has become or is declared to be immediately due and payable pursuant to **Section 12.1**, as the context requires.

Section 8.7. Mandatory Offer to Prepay Upon Change in Control. (a) *Notice of Change in Control and Change in Control Event.* The Company will, within five Business Days after any Responsible Officer has knowledge of the occurrence of any Change in Control, give written notice of such Change in Control to each holder of Notes. If within 90 days after such Change in Control, the Company does not, for any reason, have an Investment Grade Rating, a *"Change in Control Event"* shall be deemed to have occurred. If a Change in Control Event has occurred, the Company shall promptly give written notice thereof to the holders of Notes, and such notice shall contain and constitute an offer to prepay Notes as described in subparagraph (b) of this **Section 8.7** and shall be accompanied by the certificate described in subparagraph (e) of this **Section 8.7**.

(b) *Offer to Prepay Notes.* The offer to prepay the Notes contemplated by subparagraph (a) of this **Section 8.7** shall be an offer to prepay, in accordance with and subject to this **Section 8.7**, all, but not less than all, the Notes held by each holder (in this case only, *"holder"* in respect of any Note registered in the name of a nominee for a disclosed beneficial owner shall mean such beneficial owner) on a date specified in such offer (the *"Proposed Prepayment Date"*). Such date shall be a Business Day not less than 30 days and not more than 60 days after the date of such offer.

(c) *Acceptance/Rejection.* A holder of Notes may accept the offer to prepay made pursuant to this **Section 8.7** by causing a written notice of such acceptance to be delivered to the Company not later than 15 days prior to the Proposed Prepayment Date. A failure by a holder of Notes to respond to the offer to prepay made pursuant to this **Section 8.7** within the specified time period shall be deemed to constitute a rejection of such offer by such holder.

(d) *Prepayment.* Prepayment of the Notes to be prepaid pursuant to this **Section 8.7** shall be at 100% of the principal amount of such Notes, together with interest accrued and unpaid on such Notes to the date of prepayment, but in no event with a Make- Whole Amount or other premium. The prepayment shall be made on the Proposed Prepayment Date.

(e) *Officer's Certificate.* Each offer to prepay the Notes pursuant to this **Section 8.7** shall be accompanied by a certificate, executed by a Senior Financial Officer and dated the date of such offer, specifying: (i) the Proposed Prepayment Date; (ii) that such offer is made pursuant to this **Section 8.7**; (iii) the principal amount of each Note offered to be prepaid; (iv) the interest that would be due on each Note offered to be prepaid, accrued to the Proposed Prepayment Date; (v) that the conditions of this **Section 8.7** have been fulfilled; (vi) in reasonable detail, the nature of the Change in Control Event; and (vii) any written response from the relevant rating agency.

(f) *Certain Definitions.* "Change in Control" shall be deemed to have occurred if any person (as such term is used in Section 13(d) and Section 14(d)(2) of the Exchange Act) or related persons constituting a group (as such term is used in Rule 13d- 5 under the Exchange Act):

(i) become the "beneficial owners" (as such term is used in Rule 13d- 3 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of all classes then outstanding of the Voting Stock of the Company; or

(ii) acquire after August 3, 2007 (x) the power to elect, appoint or cause the election or appointment of at least a majority of the members of the board of directors of the Company, through beneficial ownership of the capital stock of the Company or otherwise, or (y) all or substantially all of the assets of the Company.

"Investment Grade Rating" in respect of any Person means, at the time of determination, at least two of the following ratings of its senior, unsecured, non- credit enhanced, long- term indebtedness for borrowed money: (i) by Standard & Poor's Rating Services, a division of The McGraw- Hill Companies, or any successor thereof, "BBB- " or better, (ii) by Moody's Investors Service, Inc., or any successor thereof, "Baa3" or better, or (iii) by any other nationally recognized statistical rating agency, an equivalent or better rating.

(g) All calculations contemplated in this **Section 8.7** involving the capital stock of any Person shall be made with the assumption that all convertible Securities of such Person then outstanding and all convertible Securities issuable upon the exercise of any warrants, options and other rights outstanding at such time were converted at such time and that all options, warrants and similar rights to acquire shares of capital stock of such Person were exercised at such time.

SECTION 9. AFFIRMATIVE COVENANTS.

The Obligors, jointly and severally, covenant that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. Without limiting **Section 10.9**, each Obligor will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, the USA Patriot Act and Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. Each Obligor will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. Each Obligor will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times; *provided* that this **Section 9.3** shall not prevent any Obligor or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes and Claims. Each Obligor will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent the same have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of any Obligor or any Subsidiary; *provided* that no Obligor nor any Subsidiary need pay any such tax, assessment, charge, levy or claim if (a) the amount, applicability or validity thereof is contested by such Obligor or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or such Obligor or Subsidiary, as the case may be, has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Obligor or such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges, levies and claims in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Legal Existence, Etc. Subject to **Section 10.5**, the Company will at all times preserve and keep in full force and effect its legal existence. Subject to **Section 10.5** and **Section 10.6**, each Obligor will at all times preserve and keep in full force and effect its legal existence and that of each of its Subsidiaries (unless merged into the Company or a Wholly- owned Subsidiary) and all rights and franchises of such Obligor and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such legal existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Notes to Rank Pari Passu. The Notes and all other respective obligations of the Obligors under this Agreement are and at all times shall rank at least *pari passu* in right of payment with all other present and future unsecured senior Indebtedness (actual or contingent) of each Obligor which is not expressed to be subordinate or junior in rank to any other unsecured Indebtedness of each such Obligor.

Section 9.7. Additional Obligors; Guaranty by Subsidiaries. The Company:

(a) will cause each Subsidiary which becomes a guarantor or an obligor of Indebtedness outstanding pursuant to the Bank Credit Agreement after the Effective Date to concurrently enter into, in the case of an additional guarantor, a Subsidiary Guaranty or, in the case of an additional obligor, a Joinder Agreement; and

(b) may cause any other Subsidiary which is not an obligor or guarantor of Indebtedness outstanding pursuant to the Bank Credit Agreement to enter into a Joinder Agreement;

and in any such case within three Business Days thereafter will deliver to each of the holders of the Notes the following items:

(i) an executed counterpart of, in the case of an additional guarantor, a Subsidiary Guaranty or, in the case of an additional obligor, a Joinder Agreement in respect of this Agreement and the Notes;

(ii) a certificate signed by the President, a Vice President or another authorized officer of such Subsidiary making representations and warranties to the effect of those contained in **Sections 5.1, 5.2, 5.3** and **5.4**, but with respect to such Subsidiary, and either (1) the Subsidiary Guaranty or (2) the Joinder Agreement, this Agreement and the Notes, as the case may be;

(iii) such documents and evidence with respect to such Subsidiary as the Required Holders may reasonably request in order to establish the existence and good standing of such Subsidiary and the authorization of the transactions contemplated by either (1) the Subsidiary Guaranty or (2) the Joinder Agreement, this Agreement and the Notes, as the case may be; and

(iv) an opinion of counsel satisfactory to the Required Holders to the effect that either (1) the Subsidiary Guaranty or (2) the Joinder Agreement, this Agreement and the Notes, as the case may be, have been duly authorized, executed and delivered and such agreement or agreements, as the case may be, constitute(s) the legal, valid and binding contract(s) and agreement(s) of such Subsidiary enforceable in accordance with its or their respective terms, except as an enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles and will rank at all times at least *pari passu* in right of payment with all other unsecured and unsubordinated Indebtedness of such Subsidiary.

(c) Promptly after each time an additional Obligor is added in respect of this Agreement and the Notes pursuant to **Section 9.7** the Obligor Agent shall, at its cost and expense, request in writing that each holder of a Note surrender each Note which it then holds and within twenty Business Days following the date of such request, each holder of a Note shall surrender each Note which it then holds in exchange for the receipt of a new Note of the same series and in an equal outstanding principal amount executed by the Obligors (including such additional Obligor) reflecting the addition of any Obligor pursuant to this **Section 9.7**.

Section 9.8. Books and Records. The Obligors will, and will cause each of their Subsidiaries to, maintain proper books of record and account and, in the case of the Company, in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company, or such Subsidiary, as the case may be.

SECTION 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Cash Flow Leverage Ratio. The Company will not, as at the end of any fiscal quarter, permit the ratio of Consolidated Indebtedness as of the last day of the most recent four consecutive fiscal quarters of the Company then ended *minus* Excess Cash, as of the last day of the same such period, to EBITDA for such most recent four consecutive fiscal quarters of the Company then ended to be greater than 3.25 to 1.00, calculated in accordance with Agreement Accounting Principles.

Section 10.2. Fixed Charge Coverage Ratio. The Company will not, as at the end of any fiscal quarter, permit the ratio of EBITDAR to Fixed Charges for the most recent four consecutive fiscal quarters of the Company then ended to be less than 1.75 to 1.00, calculated in accordance with Agreement Accounting Principles.

Section 10.3. Limitations on Consolidated Priority Indebtedness. The Company will not, as at the end of any fiscal quarter, permit Consolidated Priority Indebtedness to exceed 15% of Consolidated Total Capitalization, calculated in accordance with Agreement Accounting Principles.

Section 10.4. Limitation on Liens. The Company will not, nor will it permit any Subsidiary to, create, incur or permit to exist any Lien of any kind on any property owned by the Company or such Subsidiary; *provided* that the foregoing shall not apply to nor operate to prevent (each of the following, a "Permitted Lien"):

- (a) Liens for taxes, assessments, governmental charges or levies; *provided* that payment thereof is not at the time required by **Section 9.4**;
- (b) Liens arising under statutes or by operation of law, Liens in connection with worker's compensation, unemployment insurance, social security and other similar laws (including, without limitation, pledges or deposits securing liability to insurance carriers under insurance or self- insurance arrangements), Liens to secure the performance of bids, tenders, trade, government or other similar contracts, obligations for utilities, leases, licenses, statutory obligations, completion guarantees, surety, judgment, appeal or performance bonds, or other similar bonds, or other Liens of like general nature, in any such case incurred in the ordinary course of business and not in connection with the creation or incurrence of Indebtedness; *provided* that (i) any such Lien secures only amounts not due and payable or the payment of which is being contested in good faith by appropriate actions or proceedings and (ii) any such Lien does not materially impair the business of the Company and its Subsidiaries taken as a whole or the value of the related property for the purposes of such business;
- (c) mechanics', workmen's, materialmen's, attorney's, landlords', carriers' or other similar Liens arising in the ordinary course of business and not in connection with the creation or incurrence of Indebtedness and in each such case with respect to obligations which are not due or that are bonded or that are being contested in good faith by appropriate proceedings;
- (d) Liens of or resulting from any court proceeding, judgment or award, (i) the time for the appeal or petition for rehearing of which shall not have expired, or (ii) in respect of which the Company or a Subsidiary shall be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall have been secured; *provided* that the Company or such Subsidiary (1) is contesting such proceeding, judgment or award on a timely basis, in good faith and by appropriate proceedings, and (2) has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary;
- (e) Liens securing Indebtedness of a Subsidiary to the Company or to another Wholly- owned Subsidiary;
- (f) Liens existing as of August 3, 2007 and described on **Schedule 5.15(b)** hereto;

(g) Liens on property of the Company or any of its Subsidiaries created solely for the purpose of securing purchase money indebtedness (including in connection with the acquisition, construction or improvement of property) or Capitalized Lease Obligations and, representing or incurred to finance, refinance or refund the purchase price of property; *provided* that no such Lien shall extend to or cover other property of the Company or such Subsidiary other than the respective property so acquired, constructed or improved, and the principal amount of indebtedness secured by any such Lien shall at no time exceed the total purchase price (or cost of construction or improvement) of such property;

(h) Liens existing on property of a Person at the time such Person is consolidated with or merged into the Company or a Subsidiary or becomes a Subsidiary, or any Lien existing on any property acquired by the Company or any Subsidiary at the time such property is so acquired (whether or not the Indebtedness secured thereby shall have been assumed); *provided* that (i) no such Lien shall have been created or assumed in contemplation of such consolidation or merger or such Person's becoming a Subsidiary or such acquisition of property, (ii) each such Lien shall extend solely to the item or items of property so acquired and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property;

(i) customary rights of set off, revocation, refund or chargeback under deposit agreements or under the Uniform Commercial Code in favor of banks or other financial institutions where the Company or any Subsidiary maintains deposits in the ordinary course of business;

(j) Liens constituting (i) survey restrictions, encumbrances in the nature of zoning restrictions, condemnations, easements, encroachments, covenants, rights of way, defects, irregularities and rights or restrictions of record on the title or use of real property, and (ii) leases, subleases, licenses or sublicenses granted to others in the ordinary course of business and Liens covering property subject to any lease which was not entered into in violation of this Agreement securing the interest of the lessor or other Person under such lease, which in any such case does not materially detract from the value of the subject property or materially impair the use thereof in the business of the Company and its Subsidiaries taken as a whole;

(k) any encumbrance or restriction (including, but not limited to, put and call agreements, rights of first refusal, and voting or equity holder agreements) with respect to equity or ownership interests in any joint venture or similar arrangement pursuant to any joint venture or similar agreement in any such case not entered into in connection with the creation or incurrence of Indebtedness;

(l) Liens other than those permitted by any of the foregoing subsections (a) through (k); *provided* that all Indebtedness secured by any such Liens, in the aggregate with all other Consolidated Priority Indebtedness at such time, does not exceed 15% of Consolidated Total Capitalization, calculated in accordance with Agreement Accounting Principles; and

(m) any extension, renewal or replacement of any Lien permitted by the preceding clauses (e), (f), (g) and (h) of this **Section 10.4**; *provided* that (i) no additional property (other than improvements thereon) shall be encumbered by such Liens, (ii) the unpaid principal amount of Indebtedness secured thereby shall not be increased on or after the date of such extension, renewal or replacement and (iii) at the time of such extension, renewal or replacement and after giving effect thereto, no Default or Event of Default would exist, including, without limitation, under **Sections 10.1, 10.2 and 10.3**, with any calculation of compliance therewith to be made as of the end of the immediately preceding fiscal quarter after giving pro forma effect to the extension, renewal or replacement of such Lien.

Section 10.5. Mergers, Consolidations, Etc. The Company will not consolidate with or merge with any other Person or convey, transfer, sell or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer, sale or lease all or substantially all of the assets of the Company as an entirety, as the case may be, is a solvent corporation or limited liability company organized and existing under the laws of the United States or any state thereof (including the District of Columbia), and, if the Company is not such successor or survivor, such successor or survivor (i) shall have executed and delivered to each holder of any Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement and the Notes and (ii) shall have caused to be delivered to each holder of any Notes an opinion of nationally recognized independent counsel or other independent counsel reasonably satisfactory to the Required Holders, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof;

(b) each Subsidiary Guarantor and each of the other Obligors shall have affirmed in writing its obligations under the Subsidiary Guaranty to which it is a party or this Agreement and the Notes, as the case may be (unless and to the extent any such Subsidiary Guaranty or the obligations of such other Obligor or Obligors, as the case may be, have been discharged or released as expressly permitted by **Section 2.1** or otherwise in accordance with the terms of this Agreement); and

(c) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing, including, without limitation, under **Sections 10.1, 10.2 and 10.3**, with any calculation of compliance therewith to be made as of the end of the immediately preceding fiscal quarter after giving pro forma effect to the consummation of such transaction.

Section 10.6. Sale of Assets. Except as permitted by **Section 10.5**, the Company will not, and will not permit any Subsidiary to, sell, lease, transfer or otherwise dispose of, including by way of merger (collectively a "*Disposition*"), any assets, including capital stock of Subsidiaries, in one or a series of transactions, to any Person, other than:

(b) Dispositions by a Subsidiary to the Company or a Wholly- owned Subsidiary or by the Company to a Wholly- owned Subsidiary;

(c) Dispositions of the Company's interest in Chem- Mod LLC, Chem- Mod International LLC, C- Quest Technologies LLC or C- Quest Technologies International LLC; or

(d) Dispositions not otherwise permitted by **Sections 10.6(a)** through **10.6(c)**, inclusive, *provided* that:

(i) in the good faith opinion of the Company, the Disposition is in exchange for consideration having a fair market value at least equal to that of the property exchanged and is in the best interest of the Company or such Subsidiary;

(ii) immediately after giving effect to the Disposition, no Default or Event of Default shall exist, including, without limitation, under **Sections 10.1, 10.2** and **10.3**, with any calculation of compliance therewith to be made as of the end of the immediately preceding fiscal quarter after giving pro forma effect to the consummation of such Disposition; and

(iii) immediately after giving effect to the Disposition, the aggregate net book value of all assets that were the subject of any Disposition occurring in the then current fiscal year would not exceed 15% of Consolidated Total Assets as of the last day of the most recently ended fiscal year of the Company, calculated in accordance with Agreement Accounting Principles.

Notwithstanding the foregoing, the Company may, or may permit a Subsidiary to, make a Disposition and the assets subject to such Disposition shall not be subject to or included in the foregoing limitation and computation contained in clause (iii) of the preceding sentence if, within 365 days of such Disposition:

(1) the net proceeds from such Disposition are reinvested in productive assets to be used in the existing business of the Company or a Subsidiary; or

(2) the net proceeds from such Disposition are applied to the payment or prepayment of the Notes or any other outstanding Indebtedness of the Company or any Subsidiary ranking *pari passu* with or senior to the Notes (other than Indebtedness of the Company owing to a Subsidiary or an Affiliate or Indebtedness of any Subsidiary owing to the Company or an Affiliate).

For purposes of foregoing clause (2), the Obligors shall offer to prepay (on a Business Day not less than 30 or more than 60 days following such offer) the Notes on a pro rata basis with any such other Indebtedness that the Company elects to include in such offer at a price of 100% of the principal amount of the Notes to be prepaid, together with interest accrued and unpaid on such Notes to the date of prepayment (but in no event with a Make Whole Amount or other premium); *provided* that if any holder of the Notes declines or rejects such offer, the net proceeds that would have been paid to such holder may be used by the Company for general corporate purposes. A failure by a holder of Notes to respond in writing not later than fifteen Business Days prior to the proposed prepayment date to an offer to prepay made pursuant to this **Section 10.6** shall be deemed to constitute a rejection of such offer by such holder. To the extent that any holder of the Notes rejects or is deemed to have rejected such offer of prepayment, the Company may use the aggregate amount of such prepayments so rejected for general corporate purposes.

Section 10.7. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except upon terms and conditions which are no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's- length transaction with a Person not an Affiliate and except for benefit and compensation plans and arrangements approved by the Board of Directors (or similar governing body) of the Company or any such Subsidiary that is not a Domestic Subsidiary.

Section 10.8. Line of Business. The Company will not and will not permit any Subsidiary to engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as a whole, are engaged on the date of this Agreement as described in the Memorandum.

Section 10.9. Terrorism Sanctions Regulations. The Company will not and will not permit any Subsidiary to (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) knowingly engage in any dealings or transactions with any such Person.

SECTION 11. EVENTS OF DEFAULT.

An "*Event of Default*" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Obligors default in the payment of any principal or Make- Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Obligors default in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in **Section 7.1(d)** or **Sections 10.1, 10.2 or 10.3**; or

(d) the Obligors default in the performance of or compliance with any term contained herein (other than those referred to in **Sections 11(a), (b) and (c)**) and such default is not remedied within 45 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this **Section 11(d)**); or

(e) (i) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished by the Company pursuant to this Agreement, proves to have been false or incorrect in any material respect on the date as of which made, (ii) any representation or warranty made in writing by or on behalf of an Obligor (other than the Company) or by any officer of an Obligor (other than the Company) in this Agreement or a Joinder Agreement or in any writing furnished by an Obligor (other than the Company) pursuant to this Agreement or a Joinder Agreement, proves in any such case to have been false or incorrect in any material respect on the date as of which made and such falsity or incorrectness could reasonably be expected to have a Material Adverse Effect, (iii) any representation or warranty made in writing by or on behalf of a Subsidiary Guarantor or by any officer of a Subsidiary Guarantor in the Subsidiary Guaranty or in any writing furnished by a Subsidiary Guarantor pursuant to the Subsidiary Guaranty, proves in any such case to have been false or incorrect in any material respect on the date as of which made and such falsity or incorrectness could reasonably be expected to have a Material Adverse Effect or (iv) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in the Existing Note Purchase Agreement or in any writing furnished by the Company pursuant to the Existing Note Purchase Agreement, proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount in excess of the greater of \$25,000,000 or 1% of Consolidated Total Assets beyond any period of grace provided with respect thereto, or (ii) the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount in excess of the greater of \$25,000,000 or 1% of Consolidated Total Assets or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared, due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness

into equity interests), the Company or any Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount in excess of the greater of \$25,000,000 or 1% of Consolidated Total Assets; or

(g) any Obligor or any Material Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment of any substantial part of its property for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is finally adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by any Obligor or any of its Material Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of any Obligor or any of its Material Subsidiaries, or any such petition shall be filed against any Obligor or any of its Material Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of the greater of \$25,000,000 or 1% of Consolidated Total Assets (excluding for purposes of such determination such amount of any insurance proceeds paid by or on behalf of the Company or any of its Subsidiaries in respect of such judgment or judgments or unconditionally acknowledged in writing to be payable by the insurance carrier that issued the related insurance policy) are rendered against one or more of the Company and its Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected within the immediately following two- month period, to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of

Section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed the greater of \$25,000,000 or 1% of Consolidated Total Assets, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect; or

(k) any Subsidiary Guaranty shall cease to be in full force and effect for any reason whatsoever, including, without limitation, a determination by any Governmental Authority that such Subsidiary Guaranty is invalid, void or unenforceable or any Subsidiary Guarantor which is a party to such Subsidiary Guaranty shall contest or deny in writing the validity or enforceability of any of its obligations under such Subsidiary Guaranty, but excluding any Subsidiary Guaranty which ceases to be in full force and effect in accordance with and by reason of the express provisions of **Section 2.1** or is otherwise released in accordance with the terms of this Agreement; or

(l) the obligations of any Obligor shall cease to be in full force and effect for any reason whatsoever, including, without limitation, a determination by any Governmental Authority that such obligations are invalid, void or unenforceable or any Obligor shall contest or deny in writing the validity or enforceability of any of its obligations under this Agreement or the Notes, but excluding any Obligor which is released in accordance with and by reason of the express provisions of **Section 2.1** or is otherwise released in accordance with the terms of this Agreement.

As used in **Section 11(j)**, the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration. (a) If an Event of Default with respect to an Obligor described in **Section 11(g)** or **(h)** (other than an Event of Default described in clause (i) of **Section 11(g)** or described in clause (vi) of **Section 11(g)** by virtue of the fact that such clause encompasses clause (i) of **Section 11(g)**) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, the Required Holders may at any time at their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in **Section 11(a)** or **(b)** has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Note becoming due and payable under this **Section 12.1**, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (i) all accrued and unpaid interest thereon (including, but not limited to, interest accrued thereon at the Default Rate) and (ii) the Make- Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. Each Obligor acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by any Obligor or Obligors (except as herein specifically provided for), and that the provision for payment of a Make- Whole Amount by the Obligors in the event that any Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under **Section 12.1**, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to **Section 12.1(b)** or **(c)**, the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Obligors have paid all overdue interest on such Notes, all principal of and Make- Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make- Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of such Notes, at the Default Rate, (b) the Obligors shall not have paid any amounts which have become due solely by reason of such declaration, (c) all Events of Default and Defaults, other than non- payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to **Section 17**, and (d) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to such Notes. No rescission and annulment under this **Section 12.3** will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Obligors under **Section 15**, the Obligors will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this **Section 12**, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Obligor Agent shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Obligor Agent shall not be affected by any notice or knowledge to the contrary. The Obligor Agent shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note to the Obligor Agent at the address of the Company and to the attention of the designated officer (all as specified in **Section 18(iii)**) for registration of transfer or exchange (and in the case of a surrender for registration of transfer accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and accompanied by the relevant name, address and other information for notices of each transferee of such Note or part thereof), within ten Business Days thereafter, the Obligor Agent shall, and shall cause each of the other Obligors to, execute and deliver, at the Obligors' expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor of the same series and in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of **Exhibit 1- A** or **Exhibit 1- B**, as applicable. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Obligor Agent may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000; *provided* that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representations set forth in **Section 6.1** and the effect of the second sentence of **Section 6.2** with respect to the Notes and, in addition, shall be deemed to represent that either (a) the transferee is not, and is not acting on behalf of, an employee benefit plan or plan subject to ERISA or Section 4975 of the Code, or (b) the transfer of the Note to, and the holding of the Note by, the transferee is exempt from the prohibited transaction provisions of ERISA and Section 4975 of the Code as a result of an applicable class or statutory prohibited transaction exemption. The Obligors shall not, however, be required to register any transfer of a Note if, acting in its reasonable discretion, the Obligor Agent believes such transfer is in violation of applicable law or the representations of the transferee set forth in **Sections 6.1** and **6.2** are not true and correct.

Section 13.3. Replacement of Notes. Upon receipt by the Obligor Agent at the address and to the attention of the designated officer (all as specified in **Section 18(iii)**) of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (*provided* that if the holder of such Note is, or is a nominee for, an original Noteholder or another holder of a Note with a minimum net worth of at least \$50,000,000 or a Qualified Institutional Buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

within ten Business Days thereafter, the Obligor Agent shall, and shall cause each of the other Obligors to, at their own expense, execute and deliver, in lieu thereof, a new Note of the same series, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

SECTION 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to **Section 14.2**, payments of principal, Make- Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Chicago, Illinois at the principal office of Harris N.A. in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Noteholder or its nominee shall be the holder of any Note, and notwithstanding anything contained in **Section 14.1** or in such Note to the contrary, the Obligors will pay all sums becoming due on such Note for principal, Make- Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Noteholder's name in **Schedule A**, or by such other method or at such other address as such Noteholder shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Noteholder shall surrender such Note for cancellation, reasonably promptly after any such request, to the Obligor Agent at the Company's principal executive office or at the place of payment most recently designated by the Company pursuant to **Section 14.1**. Prior to any sale or other disposition of any Note held by a Noteholder or its nominee, such Noteholder will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Obligor Agent in exchange for a new Note or Notes of the same series pursuant to **Section 13.2**. The Obligors will afford the benefits of this **Section 14.2** to any Institutional Investor that is the direct or indirect transferee of any Note purchased by a Noteholder under this Agreement and that has made the same agreement relating to such Note as the Noteholders have made in this **Section 14.2**.

SECTION 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the amendment and restatement of the Existing Note Purchase Agreements contemplated hereby is consummated, the Obligors will pay all reasonable costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Noteholders and each other holder of a Note in connection with such transactions and in connection with any further amendments, waivers or consents under or in respect of this Agreement, any Notes or any Subsidiary Guaranty (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the reasonable costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Notes or any Subsidiary Guaranty or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Notes or any Subsidiary Guaranty, or by reason of being a holder of any Note, (b) the reasonable costs and expenses incurred in connection with the insolvency or bankruptcy of any Obligor or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes, and (c) the reasonable costs and expenses incurred in connection with the delivery of any Subsidiary Guaranty or Joinder Agreement as contemplated by **Section 9.7**. The Obligors will pay, and will save each Noteholder and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those, if any, retained by a Noteholder or other holder in connection with its purchase of any Notes).

Section 15.2. Survival. The obligations of the Obligors under this **Section 15** will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or any Notes, and the termination of this Agreement.

SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein or in the Existing Note Purchase Agreement shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Noteholder of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Obligor and by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of such Noteholder or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of any Obligor pursuant to this Agreement shall be deemed representations and warranties of the Obligors under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Noteholder and the Obligors and supersede all prior agreements and understandings relating to the subject matter hereof (including the Terminated Guaranty).

SECTION 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement, the Notes, any Joinder Agreement and any Subsidiary Guaranty may be amended, and the observance of any term hereof or of any Joinder Agreement, Subsidiary Guaranty or the Notes may be waived (either retroactively or prospectively and for a specified time period or permanently), with (and only with) the written consent of the Obligors and the Required Holders, except that (a) no amendment or waiver of any of the provisions of **Section 1, 2, 3, 4, 5, 6 or 21** hereof, or any defined term (as it is used therein), will be effective as to any Noteholder unless consented to by such Noteholder in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of **Section 12** relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make- Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of **Section 8, 11(a), 11(b), 12, 17 or 20**.

Section 17.2. Solicitation of Holders of Notes.

(a) *Solicitation.* The Company will provide each holder of the Notes (irrespective of the amount or series of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof, of the Notes or any Subsidiary Guaranty or any Joinder Agreement. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this **Section 17** to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) *Payment.* None of the Obligors will directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security or provide other credit support, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of any Note or any Subsidiary Guaranty or any Joinder Agreement unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of each series of Notes then outstanding even if such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer.* Any consent made pursuant to this **Section 17.2** by the holder of any Note that has transferred or has agreed to transfer such Note to any of the Obligors, any Subsidiary or any Affiliate of the Obligors and has provided or has agreed to provide such written consent as a condition to such transfer, shall be void and of no force except solely as to such holder, and any amendments effected or to be effected or granted that would not have been or would not be so effected or granted but for such consents or waivers granted (and the consents of all other holders of Notes that were acquired under the same or similar conditions) shall be void and of no force except solely as to such transferring holder.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this **Section 17** applies equally to all holders of each series of Notes and is binding upon them and upon each future holder of any Note and upon the Obligors without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Obligors and the holder of any Note nor any delay in exercising any rights hereunder, under any Note or under any Subsidiary Guaranty shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by the Obligors, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement, the Notes or any Subsidiary Guaranty or any Joinder Agreement, or have directed the taking of any action provided herein, in the Notes or in any Subsidiary Guaranty or any Joinder Agreement to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by any Obligor or any of its Affiliates shall be deemed not to be outstanding.

SECTION 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

- (i) if to any Noteholder or its nominee, to such Noteholder or nominee at the address specified for such communications in **Schedule A**, or at such other address as such Noteholder or nominee shall have specified to the Obligor Agent in writing,
- (ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Obligor Agent in writing, or
- (iii) if to any of the Obligors, c/o the Company at its address set forth at the beginning hereof to the attention of Treasurer, with a copy to the General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this **Section 18** will be deemed given only when actually received.

SECTION 19. REPRODUCTION OF DOCUMENTS.

This Agreement or any Subsidiary Guaranty and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Noteholder on the Effective Date (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Noteholder, may be reproduced by such Noteholder by any photographic, photostatic, electronic, digital or other similar process and such Noteholder may destroy any original document so reproduced. Each Obligor agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Noteholder in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This **Section 19** shall not prohibit the Obligors or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

SECTION 20. CONFIDENTIAL INFORMATION.

For the purposes of this **Section 20**, "*Confidential Information*" means information delivered to any Noteholder by or on behalf of any Obligor or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement and not previously disclosed in any filings by any Obligor with the SEC; *provided* that such term does not include information that (a) was publicly known or otherwise known to such Noteholder prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Noteholder or any Person acting on such Noteholder's behalf, (c) otherwise becomes known to such Noteholder other than through disclosure by an Obligor or any Subsidiary, or is known by such Noteholder to be under an obligation not to transmit such information to such Noteholder or (d) constitutes financial statements delivered to such Noteholder under **Section 7.1** that are otherwise publicly available. Each Noteholder will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Noteholder in good faith to protect confidential information of third parties delivered to such Noteholder; *provided* that such Noteholder may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and Affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this **Section 20**, (iii) any other holder of any Note, (iv) any Institutional Investor to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 20**), (v) any Person from which it offers to purchase any security of an Obligor (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 20**), (vi) any federal or state regulatory authority having jurisdiction over such Noteholder, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Noteholder's investment portfolio or (viii) any other Person to which

such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Noteholder, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Noteholder is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Noteholder may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Noteholder's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this **Section 20** as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will, as a condition precedent to receiving such information, enter into an agreement with the Company embodying the provisions of this **Section 20** and providing the Company assurances that such holder will enter into further agreements with language no more burdensome on the holder than the language contained in this **Section 20** as reasonably requested by the Company in order to comply with Regulation FD promulgated by the SEC. The Obligors shall reimburse such holder's reasonable expenses incurred in connection with entering into any such agreement.

SECTION 21. [RESERVED].

SECTION 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.2. Payments Due on Non- Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding (but without limiting the requirement in **Section 8.4** that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or Make- Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; *provided* that if the maturity date of any Note is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

Section 22.3. Accounting Terms. All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, all financial statements shall be prepared in accordance with GAAP. Notwithstanding anything to the contrary in this Agreement, any calculation required by, or for purposes of determining compliance with, **Sections 10.1, 10.2, 10.3, 10.4** and **10.6** shall be calculated using Agreement Accounting Principles and each financial or accounting term used in each such Section shall have the meaning given to

them in accordance with generally accepted accounting principles as used in the United States in effect as of August 3, 2007 applied on a consistent basis with that used in preparation of the audited consolidated financial statements of the Company for the year ended December 31, 2006 (whether, in the case of capitalized terms defined in this Agreement, the definition expressly refers to Agreement Accounting Principles or not).

Section 22.4. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.5. Construction, Etc. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 22.6. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.7. Governing Law. **This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois, excluding choice- of- law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.**

Section 22.8. Jurisdiction and Process; Waiver of Jury Trial. (a) Each Obligor irrevocably submits to the non- exclusive jurisdiction of any Illinois State or federal court sitting in Cook County, Illinois over any suit, action or proceeding arising out of or relating to this Agreement or the Notes. To the fullest extent permitted by applicable law, each Obligor irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) Each Obligor consents to process being served by or on behalf of any holder of Notes in any suit, action or proceeding of the nature referred to in **Section 22.8(a)** by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in **Section 18** or at such other address of which such

holder shall then have been notified pursuant to said Section. Each Obligor agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this **Section 22.8** shall affect the right of any holder of a Note to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against an Obligor in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT, THE NOTES OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HERewith OR THEREWITH.

Section 22.9. Nature of Obligations. (a) The obligations of the Obligors under this Agreement and the Notes are joint and several primary obligations of each Obligor regardless of which Obligor actually receives the proceeds of any Notes or the manner in which the Obligors, any Noteholder or any holder thereof accounts for such Notes on its books and records.

(1) notice of the creation, renewal or accrual of any liability of an Obligor, present or future, or of the reliance of such holder of Notes upon this Agreement (it being understood that every Indebtedness, liability and obligation described in this Agreement or the Notes shall conclusively be presumed to have been created, contracted or incurred in reliance upon the execution of this Agreement and the Notes);

(2) demand of payment by any holder of Notes from an Obligor or any other Person indebted in any manner on or for any of the Indebtedness, liabilities or obligations hereby guaranteed; and

(3) presentment for the payment by any holder of Notes or any other Person of the Notes or any other instrument, protest thereof and notice of its dishonor to any party thereto and to such Obligor.

The obligations of each Obligor under this Agreement and the Notes and the rights of any holder of Notes to enforce such obligations by any proceedings, whether by action at law, suit in equity or otherwise, shall not be subject to any reduction, limitation, impairment or termination (other than by indefeasible payment in full in cash of the Notes and the obligations of the Obligors under this Agreement), whether by reason of any claim of any character whatsoever or otherwise and shall not be subject to any defense, set-off, counterclaim (other than any compulsory counterclaim), recoupment or termination whatsoever.

(c) Except as otherwise expressly provided in this Agreement, the obligations of the Obligors hereunder and under the Notes shall be binding upon the Obligors and their successors and assigns, and shall remain in full force and effect until the entire principal, interest and premium, if any, on the Notes and all other sums due under this Agreement shall have been paid and such obligations shall not be affected, modified or impaired upon the happening from time to time of any event, including without limitation any of the following, whether or not with notice to or the consent of the Obligors:

(1) the genuineness, validity, regularity or enforceability of the Notes, this Agreement or any other agreement or any of the terms of any thereof, the continuance of any obligation on the part of any Obligor or any other Person on or in respect of the Notes or under this Agreement or any other agreement or the power or authority or the lack of power or authority of any Obligor to issue the Notes or any Obligor to execute and deliver this Agreement or any other agreement or to perform any of its obligations hereunder or the existence or continuance of any Obligor or any other Person as a legal entity; or

(2) any default, failure or delay, willful or otherwise, in the performance by an Obligor or any other Person of any obligations of any kind or character whatsoever under the Notes, this Agreement or any other agreement; or

(3) any creditors' rights, bankruptcy, receivership or other insolvency proceeding of any Obligor or any other Person or in respect of the property of an Obligor or any other Person or any merger, consolidation, reorganization, dissolution, liquidation, the sale of all or substantially all of the assets of or winding up of an Obligor or any other Person; or

(4) impossibility or illegality of performance on the part of any Obligor or any other Person of its obligations under the Notes, this Agreement or any other agreements; or

(5) in respect of an Obligor or any other Person, any change of circumstances, whether or not foreseen or foreseeable, whether or not imputable to an Obligor or any other Person, or other impossibility of performance through fire, explosion, accident, labor disturbance, floods, droughts, embargoes, wars (whether or not declared), civil commotion, acts of God or the public enemy, delays or failure of suppliers or carriers, inability to obtain materials, action of any Federal or state regulatory body or agency, change of law or any other causes affecting performance, or any other *force majeure*, whether or not beyond the control of an Obligor or any other Person and whether or not of the kind hereinbefore specified; or

(6) any attachment, claim, demand, charge, Lien, order, process, encumbrance or any other happening or event or reason, similar or dissimilar to the foregoing, or any withholding or diminution at the source, by reason of any taxes, assessments, expenses, Indebtedness, obligations or liabilities of any character, foreseen or unforeseen, and whether or not valid, incurred by or against an Obligor or any other Person or any claims, demands, charges or Liens of any nature, foreseen or unforeseen,

incurred by an Obligor or any other Person, or against any sums payable in respect of the Notes or under this Agreement, so that such sums would be rendered inadequate or would be unavailable to make the payments herein provided; or

(7) any order, judgment, decree, ruling or regulation (whether or not valid) of any court of any nation or of any political subdivision thereof or any body, agency, department, official or administrative or regulatory agency of any thereof or any other action, happening, event or reason whatsoever which shall delay, interfere with, hinder or prevent, or in any way adversely affect, the performance by an Obligor or any other Person of its respective obligations under or in respect of the Notes, this Agreement or any other agreement; or

(8) the failure of any Obligor to receive any benefit from or as a result of its execution, delivery and performance of this Agreement; or

(9) any failure or lack of diligence in collection or protection, failure in presentment or demand for payment, protest, notice of protest, notice of default and of nonpayment, any failure to give notice to any Obligor of failure of an Obligor or any other Person to keep and perform any obligation, covenant or agreement under the terms of the Notes, this Agreement or any other agreement or failure to resort for payment to an Obligor or to any other Person or to any other Agreement or to any property, security, Liens or other rights or remedies; or

(10) the acceptance of any additional security or other agreement, the advance of additional money to an Obligor or any other Person, the renewal or extension of the Notes or amendments, modifications, consents or waivers with respect to the Notes, this Agreement or any other agreement, or the sale, release, substitution or exchange of any security for the Notes; or

(11) any merger or consolidation of an Obligor or any other Person into or with any other Person or any sale, lease, transfer or other disposition of any of the assets of an Obligor or any other Person to any other Person, or any change in the ownership of any shares of an Obligor or any other Person or any release of any Obligor; or

(12) any defense whatsoever that: (i) an Obligor or any other Person might have to the payment of the Notes (principal, premium, if any, or interest), other than indefeasible payment thereof in Federal or other immediately available funds, or (ii) an Obligor or any other Person might have to the performance or observance of any of the provisions of the Notes, this Agreement or any other agreement, whether through the satisfaction or purported satisfaction by an Obligor or any other Person of its debts due to any cause such as bankruptcy, insolvency, receivership, merger, consolidation, reorganization, dissolution, liquidation, winding- up or otherwise, other than the defense of indefeasible payment in full in cash of the Notes; or

(13) any act or failure to act with regard to the Notes, this Agreement or any other agreement or anything which might vary the risk of any Obligor or any other Person; or

(14) any other circumstance which might otherwise constitute a defense available to, or a discharge of, any Obligor or any other Person in respect of the obligations of any Obligor or other Person under this Agreement or any other agreement, other than the defense of indefeasible payment in full in cash of the Notes;

provided that the specific enumeration of the above- mentioned acts, failures or omissions shall not be deemed to exclude any other acts, failures or omissions, though not specifically mentioned above, it being the purpose and intent of this Agreement and the Notes and the parties hereto that the obligations of each Obligor shall be absolute and unconditional and shall not be discharged, impaired or varied except by the indefeasible payment in full in cash of the principal of, premium, if any, and interest on the Notes in accordance with their respective terms whenever the same shall become due and payable as in the Notes provided and all other sums due and payable under this Agreement, at the place specified in and all in the manner and with the effect provided in the Notes and this Agreement, as each may be amended or modified from time to time. Without limiting the foregoing, it is understood that repeated and successive demands may be made and recoveries may be had hereunder as and when, from time to time, an Obligor shall default under or in respect of the terms of the Notes or this Agreement and that notwithstanding recovery hereunder for or in respect of any given default or defaults by an Obligor under the Notes or this Agreement shall remain in full force and effect and shall apply to each and every subsequent default.

(d) To the extent of any payments made under this Agreement, each Obligor making such payment shall have a right of contribution from the other Obligors, but such Obligor covenants and agrees that such right of contribution shall be subordinate in right of payment to the rights of the holder of Notes for which full payment has not been made or provided for and, to that end, such Obligor agrees not to claim or enforce any such right of contribution unless and until all of the Notes and all other sums due and payable under this Agreement have been fully and irrevocably paid and discharged.

(e) Each Obligor agrees that to the extent an Obligor or any other Person makes any payment on any Note, which payment or any part thereof is subsequently invalidated, voided, declared to be fraudulent or preferential, set aside, recovered, rescinded or is required to be retained by or repaid to a trustee, receiver, or any other Person under any bankruptcy code, common law, or equitable cause, then and to the extent of such payment, the obligation or the part thereof intended to be satisfied shall be revived and continued in full force and effect with respect to the Obligors' obligations hereunder, as if said payment had not been made. The liability of the Obligors hereunder shall not be reduced or discharged, in whole or in part, by any payment to any holder of a Note from any source that is thereafter paid, returned or refunded in whole or in part by reason of the assertion of a claim of any kind relating thereto, including, but not limited to, any claim for breach of contract, breach of warranty, preference, illegality, invalidity, or fraud asserted by any account debtor or by any other Person.

(f) No holder of a Note shall be under any obligation: (1) to marshal any assets in favor of the Obligor or in payment of any or all of the liabilities of any Obligor under or in respect of the Notes or the obligations of the Obligor hereunder or (2) to pursue any other remedy that the Obligor may or may not be able to pursue themselves and that may lighten the Obligor's burden, any right to which each Obligor hereby expressly waives.

(g) Notwithstanding anything to the contrary in this Agreement, including this **Section 22.9**, all obligations and liabilities of an Obligor under this Agreement, the Notes and any Joinder Agreement shall automatically, without any action on the part of any party hereto, terminate and be void and of no further force and effect with respect to such Obligor (or any successor thereto or assign thereof) if and when such Obligor (or any successor thereto or assign thereof) is released from this Agreement, the Notes and any Joinder Agreement by reason of the express provisions of **Section 2.1** of this Agreement or is otherwise released from this Agreement, the Notes and any Joinder Agreement in accordance with the terms of this Agreement.

Section 22.10. Obligor Agent. (a) Each Obligor (other than the Company) by its execution of this Agreement or a Joinder Agreement irrevocably appoints the Company to act on its behalf as its agent (the "*Obligor Agent*") in relation to this Agreement and the Notes and irrevocably authorizes:

(i) the Company on its behalf to supply all information concerning itself contemplated by this Agreement to the holders of a Note and to give all notices and instructions, to execute on its behalf any Joinder Agreement, to make such agreements and to effect the relevant amendments, supplements and variations capable of being given, made or effected by any Obligor notwithstanding that they may affect the Obligor, without further reference to or the consent of that Obligor; and

(ii) each holder of a Note to give any notice, demand or other communication to that Obligor pursuant to the this Agreement and the Notes to the Company,

and in each case the Obligor shall be bound as though that Obligor itself had given the notices and instructions or executed or made the agreements or effected the amendments, supplements or variations, or received the relevant notice, demand or other communication.

(b) Every act, omission, agreement, undertaking, settlement, waiver, amendment, supplement, variation, notice or other communication given or made by the Obligor Agent or given to the Obligor Agent under this Agreement and the Notes on behalf of another Obligor or in connection with this Agreement and the Notes (whether or not known to any other Obligor and whether occurring before or after such other Obligor became an Obligor under this Agreement and the Notes) shall be binding for all purposes on that Obligor as if that Obligor had expressly made, given or concurred with it. In the event of any conflict between any notices or other communications of the Obligor Agent and any other Obligor, those of the Obligor Agent shall prevail.

Section 22.11. Indemnification. The Obligors shall pay, indemnify and save harmless each Noteholder from and against any and all liabilities, costs and expenses, claims, demands or judgments arising from or out of the surrender by the Noteholders of the Existing Notes in exchange for the issuance and delivery of the Notes pursuant to the terms and conditions hereof (excluding, for the avoidance of doubt, any liabilities, costs and expenses, claims, demands and judgments that would have been incurred on the Existing Notes if the Existing Notes had not been exchanged for the Notes), including, without limitation, any income tax owed by the Noteholders solely as a result of the issuance of the Notes by the Obligors in exchange for the Existing Notes constituting a taxable event for income tax purposes. The indemnification contained in this **Section 22.11** shall survive the payment or transfer of any Note and the termination of the Note Purchase Agreement.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Obligors.

Very truly yours,

ARTHUR J. GALLAGHER & Co., a Delaware
corporation

By: /s/ Jack H.
Lazzaro
Name: Jack H. Lazzaro
Title: Treasurer

ARTHUR J. GALLAGHER & Co. (ILLINOIS), an
Illinois corporation

By: /s/ Jack H.
Lazzaro
Name: Jack H. Lazzaro
Title: Treasurer

ARTHUR J. GALLAGHER BROKERAGE & RISK
MANAGEMENT SERVICES, LLC, a
Delaware
limited liability company

By: /s/ Jack H.
Lazzaro
Name: Jack H. Lazzaro
Title: Treasurer

RISK PLACEMENT SERVICES, INC., an Illinois
corporation

By: /s/ Jack H.
Lazzaro
Name: Jack H. Lazzaro
Title: Treasurer

GALLAGHER RE, INC., a Delaware corporation

By: /s/ Jack H.
Lazzaro
Name: Jack H. Lazzaro
Title: Treasurer

GALLAGHER BASSETT SERVICES, INC., a
Delaware corporation

By: /s/ Jack H.
Lazzaro

Name: Jack H.
Lazzaro

Title: Treasurer

GALLAGHER BENEFIT SERVICES, INC., a
Delaware corporation

By: /s/ Jack H.
Lazzaro

Name: Jack H.
Lazzaro

Title: Treasurer

ARTHUR J. GALLAGHER RISK MANAGEMENT
SERVICES, INC., an Illinois
corporation

By: /s/ Jack H.
Lazzaro

Name: Jack H.
Lazzaro

Title: Treasurer

ARTHUR J. GALLAGHER SERVICE COMPANY, a
Delaware corporation

By: /s/ Jack H.
Lazzaro

Name: Jack H.
Lazzaro

Title: Treasurer

This Agreement is hereby accepted and
agreed to as of the date thereof.

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Robert B. Bodett
Name: Robert B. Bodett

By: /s/ Breege A. Farrell
Name: Breege A. Farrell
Authorized Signatories

This Agreement is hereby accepted and agreed
to as of the date thereof.

AMERICAN INTERNATIONAL GROUP, INC.
THE VARIABLE ANNUITY LIFE INSURANCE
COMPANY

By: AIG Global Investment Corp.,
 investment
 adviser

By: /s/ Gerald F.

Name: Herman
 Gerald F.

Title: Herman
 Vice President

This Agreement is hereby accepted and agreed
to as of the date thereof.

BERKSHIRE LIFE INSURANCE COMPANY OF
AMERICA

By: /s/ Brian Keating
Name: Brian Keating
Title: Managing Director

THE GUARDIAN LIFE INSURANCE COMPANY OF
AMERICA

By: /s/ Brian Keating
Name: Brian Keating
Title: Managing Director

This Agreement is hereby accepted and agreed
to as of the date thereof.

HARTFORD LIFE INSURANCE COMPANY

By: Hartford Investment Management
Company

Its: Agent and Attorney- in- Fact

By: /s/ Eva Konopka
Name: Eva Konopka
Title: Senior Vice
President

This Agreement is hereby accepted and agreed
to as of the date thereof.

JACKSON NATIONAL LIFE INSURANCE COMPANY

By: PPM America, Inc., as attorney in fact,
on behalf of Jackson National Life
Insurance Company

By: /s/ Craig Radis
Name: Craig Radis
Title: Vice President

This Agreement is hereby accepted and agreed
to as of the date thereof.

METROPOLITAN LIFE INSURANCE COMPANY

By: /s/ C. Scott Inglis
Name: C. Scott Inglis
Title: Managing Director

This Agreement is hereby accepted and agreed
to as of the date thereof.

THE NORTHWESTERN MUTUAL LIFE INSURANCE
COMPANY

By: /s/ Howard Stern
Name: Howard Stern
Its Authorized
Representative

THE NORTHWESTERN MUTUAL LIFE INSURANCE
COMPANY FOR ITS GROUP ANNUITY
SEPARATE ACCOUNT

By: /s/ Howard Stern
Name: Howard Stern
Its Authorized
Representative

This Agreement is hereby accepted and agreed
to as of the date thereof.

MIDLAND NATIONAL LIFE INSURANCE COMPANY

By: Guggenheim Partners Advisory Company,
its agent.

By: /s/ Michael
Damaso
Name: Michael
Damaso
Title: Senior
Managing
Director

NEW YORK LIFE INSURANCE AND ANNUITY
CORPORATION

By: /s/ Roy Corr
Name: Roy Corr
Title: Senior Manging
Director

NORTH AMERICAN COMPANY FOR LIFE AND
HEALTH INSURANCE

By: Guggenheim Partners Advisory Company,
its agent

By: /s/ Michael
Damaso
Name: Michael
Damaso
Title: Senior
Managing
Director

This Agreement is hereby accepted and agreed
to as of the date thereof.

PACIFIC LIFE & ANNUITY COMPANY

By: /s/ Diane W. Dales
Name: Diane W. Dales
Title: Assistant Vice
President

By: /s/ Cathy Schwartz
Name: Cathy Schwartz
Title: Assistant Secretary

PACIFIC LIFE INSURANCE COMPANY

By: /s/ Diane W. Dales
Name: Diane W. Dales
Title: Assistant Vice
President

By: /s/ Cathy Schwartz
Name: Cathy Schwartz
Title: Assistant Secretary

This Agreement is hereby accepted and agreed
to as of the date thereof.

PRINCIPAL LIFE INSURANCE COMPANY

By: Principal Global Investors, LLC, a
Delaware limited liability company, its
authorized signatory

By: /s/ Colin Pennycooke
Name: Colin Pennycooke
Title: Counsel

By: /s/ Alan P. Kress
Name: Alan P. Kress
Title: Counsel

This Agreement is hereby accepted and agreed
to as of the date thereof.

THE PRUDENTIAL INSURANCE COMPANY OF
AMERICA

By: /s/ G. Anthony
Coletta
Name: G. Anthony
Coletta
Title: Vice President

GIBRALTAR LIFE INSURANCE CO., LTD.

By: Prudential Investment Management
(Japan),
Inc. as Investment Manager

By: Prudential Investment Management, Inc.,
as Sub- Adviser

By: /s/ G. Anthony
Coletta
Name: G. Anthony
Coletta
Title: Vice President

PRUDENTIAL RETIREMENT INSURANCE AND
ANNUITY COMPANY

By: Prudential Investment Management, Inc.,
as
investment manager

By: /s/ G. Anthony
Coletta
Name: G. Anthony
Coletta
Title: Vice President

This Agreement is hereby accepted and agreed
to as of the date thereof.

STATE OF WISCONSIN INVESTMENT BOARD

By: /s/ Christopher P.
Prestigiacomio
Name: Christopher P.
Prestigiacomio
Title: Portofolio Manager

AMENDED AND RESTATED
 MULTICURRENCY CREDIT AGREEMENT
 DATED AS OF
 DECEMBER 19, 2007
 AMONG
 ARTHUR J. GALLAGHER & CO., AS A BORROWER,
 AND
 THE OTHER BORROWERS PARTY HERETO,
 THE LENDERS PARTY HERETO,
 HARRIS N.A.,
 AS ADMINISTRATIVE AGENT,

 CITIBANK, N.A.,
 AS SYNDICATION AGENT,
 BARCLAYS BANK PLC,
 AS DOCUMENTATION AGENT
 AND
 BMO CAPITAL MARKETS AND CITIGROUP GLOBAL MARKETS, INC., AS JOINT LEAD ARRANGERS
 AND
 Co- BOOK RUNNERS

TABLE OF CONTENTS
 (This Table of Contents is not part of the Agreement)

	PAGE
SECTION 1.	2
Section 1.1.	2
Section 1.2.	2
Section 1.3.	5
Section 1.4.	6
Section 1.5.	6
SECTION 2.	9
Section 2.1.	9
Section 2.2.	9
Section 2.3.	9
Section 2.4.	9
Section 2.5.	10
SECTION 3.	10
Section 3.1.	10
Section 3.2.	11
Section 3.3.	12
Section 3.4.	13
Section 3.5.	13
Section 3.6.	13
Section 3.7.	14
Section 3.8.	14
Section 3.9.	15
SECTION 4.	15
Section 4.1.	15
Section 4.2.	16

SECTION 5.	JOINT AND SEVERAL OBLIGORS AND FURTHER ASSURANCES	16
Section 5.1	Joint and Several Obligors	16
Section 5.2	Guaranties	16
Section 5.3.	Further Assurances	16
Section 5.3	Release of Borrower or Guarantor	17

SECTION 6.	DEFINITIONS; INTERPRETATION	17
Section 6.1.	Definitions	17
Section 6.2.	Interpretation	29
Section 6.3.	Change in Accounting Principles	29
SECTION 7.	REPRESENTATIONS AND WARRANTIES	30
Section 7.1.	Organization and Qualification	30
Section 7.2.	Subsidiaries	30
Section 7.3.	Corporate Authority and Validity of Obligations	31
Section 7.4.	Use of Proceeds; Margin Stock	31
Section 7.5.	Financial Reports	31
Section 7.6.	No Material Adverse Change	32
Section 7.7.	Full Disclosure	32
Section 7.8.	Good Title	32
Section 7.9.	Litigation and Other Controversies	32
Section 7.10.	Taxes	32
Section 7.11.	Approvals	32
Section 7.12.	Affiliate Transactions	33
Section 7.13.	Investment Company	33
Section 7.14.	ERISA	33
Section 7.15.	Compliance with Laws	33
Section 7.16.	Other Agreements	33
Section 7.17.	Labor Controversies	33
Section 7.18.	Insolvency	34
Section 7.19.	No Default	34
SECTION 8.	CONDITIONS PRECEDENT	34
Section 8.1.	Initial Credit Event	34
Section 8.2.	All Credit Events	35
SECTION 9.	COVENANTS	36
Section 9.1.	Maintenance of Business	36
Section 9.2.	Taxes and Assessments	36
Section 9.3.	Insurance	36
Section 9.4.	Financial Reports	37
Section 9.5.	Inspection	38
Section 9.6.	Net Worth	39
Section 9.7.	Cash Flow Leverage Ratio	39
Section 9.8.	Interest Coverage Ratio	39
Section 9.9.	Liens	39
Section 9.10.	Acquisitions	40
Section 9.11.	Mergers, Consolidations and Sales	40
Section 9.12.	ERISA	41
Section 9.13.	Compliance with Laws	41

Section 9.14.	Burdensome Contracts with Affiliates	41
Section 9.15.	No Changes in Fiscal Year	42
Section 9.16.	Change in the Nature of Business	42
Section 9.17.	Assets of Borrowers	42
SECTION 10.	EVENTS OF DEFAULT AND REMEDIES	42
Section 10.1.	Events of Default	42
Section 10.2.	Non- Bankruptcy Defaults	44
Section 10.3.	Bankruptcy Defaults	44
Section 10.4.	Collateral for Undrawn Letters of Credit	44
Section 10.5.	Notice of Default	45
Section 10.6.	Expenses	45
SECTION 11.	CHANGE IN CIRCUMSTANCES	45
Section 11.1.	Change of Law	45
Section 11.2.	Unavailability of Deposits or Inability to Ascertain, or Inadequacy of, Adjusted LIBOR	46
Section 11.3.	Increased Cost and Reduced Return	46
Section 11.4.	Lending Offices	48
Section 11.5.	Discretion of Lender as to Manner of Funding	48
Section 11.6.	Replacement of Lenders	48
SECTION 12.	THE ADMINISTRATIVE AGENT	49
Section 12.1.	Appointment and Authorization of Administrative Agent	49
Section 12.2.	Administrative Agent and its Affiliates	49
Section 12.3.	Action by Administrative Agent	49
Section 12.4.	Consultation with Experts	50
Section 12.5.	Liability of Administrative Agent; Credit Decision	50
Section 12.6.	Indemnity	50
Section 12.7.	Resignation of Administrative Agent and Successor Administrative Agent	51
Section 12.8.	L/C Issuer and Swing Line Lender	51
Section 12.9.	Syndication Agent	51
SECTION 13.A.	JOINT AND SEVERAL OBLIGORS	52
Section 13.1.A.	Joint and Several Obligors	52
Section 13.2.A.	Unconditional	52
Section 13.3.A.	Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances	53
Section 13.4.A.	Subrogation	53
Section 13.5.A.	Waivers	53
Section 13.6.A.	Limit on Recovery	53
Section 13.7.A.	Stay of Acceleration	54
Section 13.8.A.	Benefit to each Borrower	54

Section 13.9.A.	Borrower Covenants	54
SECTION 13.B.	THE GUARANTIES	54
Section 13.1.B.	The Guaranties	54
Section 13.2.B	Guarantee Unconditional	54
Section 13.3.B	Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances	55
Section 13.4.B	Subrogation	55
Section 13.5.B	Waivers	56
Section 13.6.B	Limit on Recovery	56
Section 13.7.B	Stay of Acceleration	56
Section 13.8.B	Benefit to Guarantors	56
Section 13.9.B	Guarantor Covenants	56
SECTION 14.	MISCELLANEOUS	56
Section 14.1.	Withholding Taxes	56
Section 14.2.	No Waiver of Rights	58
Section 14.3.	Non- Business Day	58
Section 14.4.	Documentary Taxes	58
Section 14.5.	Survival of Representations	58
Section 14.6.	Survival of Indemnities	59
Section 14.7.	Sharing of Set- Off	59
Section 14.8.	Notices	59
Section 14.9.	Counterparts	60
Section 14.10.	Successors and Assigns	60
Section 14.11.	Participants	60
Section 14.12.	Assignments	61
Section 14.13.	Amendments	63
Section 14.14.	Headings	64
Section 14.15.	Legal Fees, Other Costs and Indemnification	64
Section 14.16.	Set Off	64
Section 14.17.	Entire Agreement	64
Section 14.18.	Governing Law	65
Section 14.19.	Currency	65
Section 14.20.	Submission to Jurisdiction; Waiver of Jury Trial	65
Section 14.21.	USA Patriot Act	65
Section 14.22.	Confidentiality	65
Section 14.23.	Amendment and Restatement; Release of Existing Guarantors	66
Signature		1

Exhibits

A	-	Form of Notice of Payment Request
B	-	Form of Revolving Credit Note
C	-	Form of Swing Line Note
D	-	Form of Commitment Amount Increase Request
E	-	Form of Compliance Certificate
F	-	Assignment Agreement
G	-	Form of Additional Obligor Supplement
H	-	Form of Additional Guarantor Supplement

SCHEDULE 1	Revolving Credit Commitments
SCHEDULE 1.2(a)	Existing L/Cs
SCHEDULE 7.2	Subsidiaries

**AMENDED AND RESTATED
MULTICURRENCY CREDIT AGREEMENT**

THIS AMENDED AND RESTATED MULTICURRENCY CREDIT AGREEMENT is entered into as of December 19, 2007, by and among Arthur J. Gallagher & Co., a Delaware corporation (the "*Company*"), the Subsidiaries from time to time party to this Agreement as joint and several obligors (such Subsidiaries together with the Company individually, a "*Borrower*" and collectively, the "*Borrowers*"), the several financial institutions from time to time party to this Agreement, as Lenders, and Harris N.A., as Administrative Agent as provided herein. All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in Section 6.1 hereof.

PRELIMINARY STATEMENT

WHEREAS, the Company, the guarantors party thereto (the "*Existing Guarantors*"), the several parties thereto as lenders, and Harris N.A., as Administrative Agent, previously entered into a Multicurrency Credit Agreement, dated as of October 5, 2005 (as amended, the "*Existing Credit Agreement*") pursuant to which the Lenders have made Loans (as defined in the Existing Credit Agreement) to the Borrower (as defined in the Existing Credit Agreement) and issued letters of credit for the account of the Borrower, on the terms and conditions set forth therein;

WHEREAS, the Obligations of the Borrower under the Existing Credit Agreement are guaranteed by the Existing Guarantors;

WHEREAS, the Company has requested that the Lenders amend the Existing Credit Agreement to revise certain terms of the Existing Credit Agreement, to release the Existing Guarantors from the guaranty set forth in the Existing Credit Agreement and to include the Existing Guarantors, and add Arthur J. Gallagher Risk Management Services, Inc., an Illinois corporation, and Arthur J. Gallagher Service Company, a Delaware corporation, as Borrowers under this Agreement, and the Lenders have agreed to do so on the terms and conditions set forth herein;

WHEREAS, the parties hereto have agreed to amend and restate the Existing Credit Agreement in its entirety for the sake of clarity and convenience;

WHEREAS, this Amended and Restated Credit Agreement constitutes for all purposes an amendment to the Existing Credit Agreement and not a new or substitute agreement;

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. THE CREDITS.

Section 1.1. The Revolving Credit Commitments. Subject to the terms and conditions hereof, each Lender, by its acceptance hereof, severally agrees to make a loan or loans (individually a "*Revolving Loan*" and collectively "*Revolving Loans*") in U.S. Dollars and Alternative Currencies to the Borrowers from time to time on a revolving basis in an aggregate outstanding Original Dollar Amount up to the amount of such Lender's Revolving Credit Commitment, on or after the Effective Date and before the Termination Date. The sum of the (i) aggregate Original Dollar Amount of Revolving Loans, (ii) the aggregate Original Dollar Amount of Swing Loans, and (iii) the aggregate U.S. Dollar Equivalent of all L/C Obligations at any time outstanding shall not exceed the Revolving Credit Commitments in effect at such time. Each Borrowing of Revolving Loans shall be made ratably from the Lenders in proportion to their respective Percentages. As provided in Section 1.5(a) hereof, the Company on behalf of the Borrowers, may elect that each Borrowing of Revolving Loans denominated in U.S. Dollars be either Base Rate Loans or Eurocurrency Loans. All Loans denominated in an Alternative Currency shall be Eurocurrency Loans. Revolving Loans may be repaid and the principal amount thereof reborrowed before the Termination Date, subject to all the terms and conditions hereof.

Section 1.2. Letters of Credit. (a) *General Terms.* Subject to the terms and conditions hereof, as part of the Revolving Credit, the L/C Issuer shall issue standby or commercial letters of credit (each a "*Letter of Credit*") for the account of the Borrowers or for the account of the Borrowers and one or more of their Subsidiaries in U.S. Dollars or an Alternative Currency in the U.S. Dollar Equivalent of an aggregate undrawn face amount up to the L/C Sublimit. Notwithstanding anything herein to the contrary, the Existing L/Cs (all of which are listed and described on Schedule 1.2(a) hereto) shall each constitute a "*Letter of Credit*" herein for all purposes of the Agreement to the same extent, and with the same force and effect, as if such Existing L/Cs had been issued at the request of the Company on behalf of the Borrowers under the Revolving Credit. Each Letter of Credit shall be issued by the L/C Issuer in the manner described above, but each Lender shall be obligated to reimburse the L/C Issuer for its Percentage of the amount of each drawing thereunder and, accordingly, each Letter of Credit shall constitute usage of the Revolving Credit Commitment of each Lender *pro rata* in an amount equal to its Percentage of the L/C Obligations then outstanding.

(b) *Applications.* At any time on or after the Effective Date and before the Termination Date, the L/C Issuer shall, at the request of the Company on behalf of the Borrowers, issue one or more Letters of Credit in a form satisfactory to the L/C Issuer, with expiration dates no later than the earlier of (i) 12 months from the date of issuance or (ii) 365 days after the Termination Date, in an aggregate face amount as set forth above, upon the receipt of an application duly executed by the Company on behalf of the Borrowers and, if such Letter of Credit is for the account of one of its Subsidiaries, such Subsidiary for the relevant Letter of Credit in the form customarily prescribed by the L/C Issuer for the type of Letter of Credit, whether standby or commercial, requested (each an "*Application*"); *provided*, that with respect to any Letter of Credit with an expiration date that is later than the Termination Date, the Borrowers shall deliver to the Administrative Agent no later than 20 days prior to the Termination Date cash collateral in the U.S. Dollar Equivalent of the full amount then available for drawing under such Letter of Credit. Any such cash collateral required by

this Section 1.2(b) shall be held by the Administrative Agent pursuant to the terms of Section 10.4 hereof. Notwithstanding anything contained in any Application to the contrary (i) the Borrowers' obligation to pay fees in connection with each Letter of Credit shall be as exclusively set forth in Section 4.1(b) hereof, (ii) except as provided above, at any time when no Event of Default exists the L/C Issuer will not call for the funding by the Borrowers of any amount under a Letter of Credit before being presented with a drawing thereunder, and (iii) if the L/C Issuer is not timely reimbursed for the amount of any drawing under a Letter of Credit on the date such drawing is paid, the Borrowers' obligation to reimburse the L/C Issuer for the amount of such drawing shall bear interest (which the Borrowers hereby promise to pay) from and after the date such drawing is paid until payment in full thereof at a rate per annum (x) if such Letter of Credit is denominated in U.S. Dollars, equal to the sum of the Applicable Margin for Base Rate Loans plus the Base Rate from time to time in effect and (y) if such Letter of Credit is denominated in an Alternative Currency, equal to the sum of the Applicable Margin for Eurocurrency Loans *plus* the rate established pursuant to Section 3.2(c)(iii) hereof for Eurocurrency Loans denominated in an Alternative Currency. The L/C Issuer will promptly notify the Lenders of each issuance by it of a Letter of Credit. If the L/C Issuer issues any Letters of Credit with expiration dates that are automatically extended under the terms set forth in such Letter of Credit, then the L/C Issuer will give notice of non-renewal to the Company on behalf of the Borrowers before the time necessary to prevent such automatic extension if before such required notice date (i) the expiration date of such Letter of Credit if so extended would be later than 365 days after the Termination Date, (ii) the Revolving Credit Commitments have been terminated or (iii) an Event of Default exists and the Required Lenders have given the L/C Issuer instructions not to so permit the extension of the expiration date of such Letter of Credit. The L/C Issuer agrees to issue amendments to the Letters of Credit increasing the amount, or extending the expiration date, thereof at the request of the Company, on behalf of the Borrowers, subject to the conditions of Section 8.2 and the other terms of this Section 1.2. Without limiting the generality of the foregoing, the L/C Issuer's obligation to issue, amend or extend the expiration date of a Letter of Credit is subject to the conditions of Section 8.2 and the other terms of this Section 1.2 and the L/C Issuer will not issue, amend or extend the expiration date of any Letter of Credit if any Lender notifies the L/C Issuer of any failure to satisfy or otherwise comply with such conditions and terms and directs the L/C Issuer not to take such action.

(c) *The Reimbursement Obligations.* Subject to Section 1.2(b) hereof, the obligation of the Borrowers to reimburse the L/C Issuer for all drawings under a Letter of Credit (a "*Reimbursement Obligation*") shall be governed by the Application related to such Letter of Credit, except that, if and as long as no Default or Event of Default exists and the other conditions in Section 8.2 hereof are satisfied, any Reimbursement Obligation outstanding on account of a drawing under a Letter of Credit shall automatically convert into a Borrowing of Base Rate Loans in the U.S. Dollar Equivalent of such Reimbursement Obligation on the date such drawing occurs and the L/C Issuer shall notify the Administrative Agent and each Lender thereof, and each Lender shall thereupon fund its Base Rate Loan in such Borrowing in accordance with Sections 1.1 and 1.5 (except for any requirement that a Borrowing of Base Rate Loans be in a certain amount). If the conditions in Section 8.2 cannot be satisfied with respect to any drawing, then reimbursement of such drawing shall be made in the U.S. Dollar Equivalent in immediately available funds at the Administrative Agent's principal office in Chicago, Illinois or such other office as the Administrative Agent may designate in writing to the

Company (who shall thereafter cause to be distributed to the L/C Issuer such amount(s) in like funds) by no later than 1:00 p.m. (Chicago time) on the date when such drawing is paid or, if such drawing was paid after 11:30 a.m. (Chicago time), by the end of such day. If the Borrowers do not make any such reimbursement payment on the date due and the Participating Lenders fund their participations therein in the manner set forth in Section 1.2(d) below, then all payments thereafter received by the Administrative Agent in discharge of any of the relevant Reimbursement Obligations shall be distributed in accordance with Section 1.2(d) below.

(d) *The Participating Interests.* Each Lender (other than the Lender then acting as L/C Issuer in issuing Letters of Credit), by its acceptance hereof, severally agrees to purchase from the L/C Issuer, and the L/C Issuer hereby agrees to sell to each such Lender (a "*Participating Lender*"), an undivided percentage participating interest (a "*Participating Interest*"), to the extent of its Percentage, in each Letter of Credit issued by, and each Reimbursement Obligation owed to, the L/C Issuer. Upon any failure by the Borrowers to pay any Reimbursement Obligation at the time required on the date the related drawing is paid, as set forth in Section 1.2(c) above, or if the L/C Issuer is required at any time to return to a Borrower or to a trustee, receiver, liquidator, custodian or other Person any portion of any payment of any Reimbursement Obligation, each Participating Lender shall, not later than the Business Day it receives a certificate in the form of Exhibit A hereto from the L/C Issuer to such effect, if such certificate is received before 1:00 p.m. (Chicago time), or not later than the following Business Day, if such certificate is received after such time, pay to the Administrative Agent for the account of the L/C Issuer an amount equal to its Percentage of such unpaid or recaptured Reimbursement Obligation together with interest on such amount accrued from the date the related payment was made by the L/C Issuer to the date of such payment by such Participating Lender at a rate per annum equal to (i) from the date the related payment was made by the L/C Issuer to the date two Business Days after payment by such Participating Lender is due hereunder, (x) if such Letter of Credit is denominated in U.S. Dollars, the Federal Funds Rate for each such day and (y) if such Letter of Credit is denominated in an Alternative Currency, at the cost to the Administrative Agent of funding the amount it advanced to fund such Lender's payment, as determined by the Administrative Agent and (ii) from the date two Business Days after the date such payment is due from such Participating Lender to the date such payment is made by such Participating Lender, (x) if such Letter of Credit is denominated in U.S. Dollars, the Base Rate in effect for each such day and (y) if such Letter of Credit is denominated in an Alternative Currency, the rate established by Section 3.2(c) hereof for Eurocurrency Loans denominated in such currency. Each such Participating Lender shall thereafter be entitled to receive its Percentage of each payment received in respect of the relevant Reimbursement Obligation and of interest paid thereon, with the L/C Issuer retaining its Percentage thereof as a Lender hereunder.

The several obligations of the Participating Lenders to the L/C Issuer under this Section 1.2 shall be absolute, irrevocable and unconditional under any and all circumstances whatsoever (except, without limiting the Borrowers' obligations under each Application, to the extent the Borrowers are relieved from their obligation to reimburse the L/C Issuer for a drawing under a Letter of Credit because of the L/C Issuer's gross negligence or willful misconduct in determining that documents received under the Letter of Credit comply with the terms thereof) and shall not be subject to any set-off, counterclaim or defense to payment which any Participating Lender may have or have had against any Borrower, the L/C Issuer, any other Lender or any other Person whatsoever.

(e) *Indemnification.* The Participating Lenders shall, to the extent of their respective Percentages, indemnify the L/C Issuer (to the extent not reimbursed by the Borrowers) against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from the L/C Issuer's gross negligence or willful misconduct) that the L/C Issuer may suffer or incur in connection with any Letter of Credit. The obligations of the Participating Lenders under this Section 1.2(e) and all other parts of this Section 1.2 shall survive termination of this Agreement and of all other L/C Documents.

(f) *Replacement of the L/C Issuer.* The L/C Issuer may be replaced at any time by written agreement among the Company, the Administrative Agent, the replaced L/C Issuer and the successor L/C Issuer. The Administrative Agent shall notify the Lenders of any such replacement of the L/C Issuer. At the time any such replacement shall become effective, the Borrowers shall pay all unpaid fees accrued for the account of the replaced L/C Issuer. From and after the effective date of any such replacement (i) the successor L/C Issuer shall have all the rights and obligations of the L/C Issuer under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "L/C Issuer " shall be deemed to refer to such successor or to any previous L/C Issuer, or to such successor and all previous L/C Issuers, as the context shall require. After the replacement of an L/C Issuer hereunder, the replaced L/C Issuer shall remain a party hereto and shall continue to have all the rights and obligations of an L/C Issuer under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

Section 1.3. Applicable Interest Rates. (a) *Base Rate Loans.* Each Base Rate Loan made or maintained by a Lender shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced, continued or created by conversion from a Eurocurrency Loan until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin for Base Rate Loans plus the Base Rate from time to time in effect, payable on the last day of its Interest Period and at maturity (whether by acceleration or otherwise).

(b) *Eurocurrency Loans.* Each Eurocurrency Loan made or maintained by a Lender shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 360 days and actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced, continued, or created by conversion from a Base Rate until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin for Eurocurrency Loans plus the Adjusted LIBOR applicable for such Interest Period, payable on the last day of the Interest Period and at maturity (whether by acceleration or otherwise), and, if the applicable Interest Period is longer than three months, on each day occurring every three months after the commencement of such Interest Period. There shall not be more than ten Borrowings of Eurocurrency Loans outstanding at any one time.

(c) *Rate Determinations.* The Administrative Agent shall determine each interest rate applicable to the Loans and the other Obligations, and a reasonable determination thereof by the Administrative Agent shall be conclusive and binding except in the case of manifest error or willful misconduct. The Original Dollar Amount of each Eurocurrency Loan denominated in an Alternative Currency shall be determined or redetermined, as applicable, effective as of the first day of each Interest Period applicable to such Loan.

Section 1.4. Minimum Borrowing Amounts for Revolving Loans. Each Borrowing of Base Rate Loans shall be in an amount not less than \$1,000,000 and in integral multiples of \$100,000, *provided* that a Borrowing of Base Rate Loans applied to pay a Reimbursement Obligation pursuant to Section 1.2(c) hereof shall be in an amount equal to such Reimbursement Obligation. Each Borrowing of Eurocurrency Loans shall be in an amount not less than an Original Dollar Amount of \$3,000,000 and, if greater, in units of the relevant currency as would have an Original Dollar Amount most closely approximating \$500,000 or an integral multiple thereof.

Section 1.5. Manner of Borrowing, and Designating Interest Rates Applicable to, Revolving Loans. (a) *Notice to the Administrative Agent.* The Company, on behalf of the Borrowers, shall give notice to the Administrative Agent by no later than 11:00 a.m. (Chicago time) (i) at least four Business Days before the date on which the Borrowers request the Lenders to advance a Borrowing of Eurocurrency Loans denominated in an Alternative Currency, (ii) at least three Business Days before the date on which the Borrowers request the Lenders to advance a Borrowing of Eurocurrency Loans denominated in U.S. Dollars and (iii) at least one Business Day before the date on which the Borrowers request the Lenders to advance a Borrowing of Base Rate Loans. The Loans included in each Borrowing shall bear interest initially at the type of rate specified in such notice of a new Borrowing. Thereafter, the Company, on behalf of the Borrowers, may from time to time elect to change or continue the type of interest rate borne by each Borrowing or, subject to Section 1.4's minimum amount requirement for each outstanding Borrowing, a portion thereof, as follows: (i) if such Borrowing is of Eurocurrency Loans, on the last day of the Interest Period applicable thereto, the Company may continue all or part of such Borrowing as Eurocurrency Loans for an Interest Period or Interest Periods specified by the Company or, if such Eurocurrency Loan is denominated in U.S. Dollars, convert all or part of such Borrowing into Base Rate Loans and (ii) if such Borrowing is of Base Rate Loans, on any Business Day, the Company may (subject to the notice requirements set forth herein) convert all or part of such Borrowing into Eurocurrency Loans denominated in U.S. Dollars or denominated in an Alternative Currency, in each case, for an Interest Period or Interest Periods specified by the Company. The Company shall give all such notices requesting the advance, continuation, or conversion of a Borrowing to the Administrative Agent by telephone or telecopy (which notice shall be irrevocable once given and, if by telephone, shall be promptly confirmed in writing). Notices of the continuation of a Borrowing of Eurocurrency Loans for an additional Interest Period or of the conversion of part or all of a Borrowing of Eurocurrency Loans denominated in U.S. Dollars into Base Rate Loans or of Base Rate Loans into Eurocurrency Loans denominated in U.S. Dollars must be given by no later than 11:00 a.m. (Chicago time) at least three Business Days before the date of the requested continuation or conversion. Notices of the continuation of a Borrowing of Eurocurrency Loans denominated in an Alternative Currency must be given no later than 12:00 noon (Chicago time) at least four Business Days before the requested continuation. All

such notices concerning the advance, continuation, or conversion of a Borrowing shall specify the date of the requested advance, continuation or conversion of a Borrowing (which shall be a Business Day), the amount of the requested Borrowing to be advanced, continued, or converted, the type of Loans to comprise such new, continued or converted Borrowing and, if such Borrowing is to be comprised of Eurocurrency Loans, the currency and the Interest Period applicable thereto. The Borrowers agree that the Administrative Agent may rely on any such telephonic or telecopy notice given by any person it in good faith believes is an Authorized Representative of the Company without the necessity of independent investigation, and in the event any such notice by telephone conflicts with any written confirmation, such telephonic notice shall govern if the Administrative Agent has acted in reliance thereon.

(b) *Notice to the Lenders.* Not later than 12:00 Noon (Chicago time) on the date the Administrative Agent receives any notice from the Company pursuant to Section 1.5(a) above, the Administrative Agent shall give telephonic or telecopy notice to each Lender. The Administrative Agent shall give notice to the Company and each Lender by like means of the interest rate applicable to each Borrowing of Eurocurrency Loans and, if such Borrowing is denominated in an Alternative Currency, shall give notice by such means to the Company and each Lender of the Original Dollar Amount thereof.

(c) *Company's Failure to Notify.* Any outstanding Borrowing of Base Rate Loans shall, subject to Section 8.2 hereof, automatically be continued for an additional Interest Period on the last day of its then current Interest Period unless the Company has notified the Administrative Agent within the period required by Section 1.5(a) that it intends to convert such Borrowing into a Borrowing of Eurocurrency Loans or notifies the Administrative Agent within the period required by Section 3.5 that it intends to prepay such Borrowing. If the Company fails to give notice pursuant to Section 1.5(a) above of the continuation or conversion of any outstanding principal amount of a Borrowing of Eurocurrency Loans denominated in U.S. Dollars before the last day of its then current Interest Period within the period required by Section 1.5(a) and has not notified the Administrative Agent within the period required by Section 3.5 that it intends to prepay such Borrowing, such Borrowing shall automatically be converted into a Borrowing of Base Rate Loans, subject to Section 8.2 hereof. If the Company fails to give notice pursuant to Section 1.5(a) above of the continuation of any outstanding principal amount of a Borrowing of Eurocurrency Loans denominated in an Alternative Currency before the last day of its then current Interest Period within the period required by Section 1.5(a) and has not notified the Administrative Agent within the period required by Section 3.5 that it intends to prepay such Borrowing, such Borrowing shall automatically be continued as a Borrowing of Eurocurrency Loans in the same Alternative Currency with an Interest Period of one month, subject to Section 8.2 hereof, including the application of Section 1.5 and the restrictions contained in the definition of Interest Period.

(d) *Disbursement of Revolving Loans.* Not later than 11:00 a.m. (Chicago time) on the date of any requested advance of a new Borrowing of Eurocurrency Loans, and not later than 1:00 p.m. (Chicago time) on the date of any requested advance of a new Borrowing of Base Rate Loans, subject to Section 8 hereof, each Lender shall make available its Loan comprising part of such Borrowing in funds immediately available at the principal office of the Administrative Agent in Chicago, Illinois, except that if such

Borrowing is denominated in an Alternative Currency each Lender shall, subject to Section 8 hereof, make available its Loan comprising part of such Borrowing at such office as the Administrative Agent has previously specified in a notice to each Lender, in such funds as are then customary for the settlement of international transactions in such currency and no later than such local time as is necessary for such funds to be received and transferred to the Company for same day value on the date of the Borrowing. The Administrative Agent shall make the proceeds of each new Borrowing denominated in U.S. Dollars available to the Company at the Administrative Agent's principal office in Chicago, Illinois, by depositing such proceeds to the credit of the Company's operating account maintained with the Administrative Agent or as the Company and the Administrative Agent may otherwise agree, and the Administrative Agent shall make the proceeds of each new Borrowing denominated in an Alternative Currency available at such office as the Administrative Agent has previously agreed to with the Company, in each case in the type of funds received by the Administrative Agent from the Lenders.

(e) *Administrative Agent Reliance on Lender Funding.* Unless the Administrative Agent shall have been notified by a Lender before the date on which such Lender is scheduled to make payment to the Administrative Agent of the proceeds of a Revolving Loan (which notice shall be effective upon receipt) that such Lender does not intend to make such payment, the Administrative Agent may assume that such Lender has made such payment when due and the Administrative Agent may in reliance upon such assumption (but shall not be required to) make available to the Company the proceeds of the Loan to be made by such Lender and, if any Lender has not in fact made such payment to the Administrative Agent, such Lender shall, on demand, pay to the Administrative Agent the amount made available to the Company attributable to such Lender together with interest thereon in respect of each day during the period commencing on the date such amount was made available to the Company and ending on (but excluding) the date such Lender pays such amount to the Administrative Agent at a rate per annum equal to (i) from the date the related advance was made by the Administrative Agent to the date two Business Days after payment by such Lender is due hereunder, at a rate per annum equal to the Federal Funds Rate or, in the case of a Loan denominated in an Alternative Currency, the cost to the Administrative Agent of funding the amount it advanced to fund such Lender's Loan, as reasonably determined by the Administrative Agent and (ii) from the date two Business Days after the date such payment is due from such Lender to the date such payment is made by such Lender, the Base Rate in effect for each such day or, in the case of a Loan denominated in an Alternative Currency, the rate established by Section 3.2(c) for Eurocurrency Loans denominated in such currency. If such amount is not received from such Lender by the Administrative Agent immediately upon demand, the Borrowers will, on demand, repay to the Administrative Agent the proceeds of the Loan attributable to such Lender with interest thereon at a rate per annum equal to the interest rate applicable to the relevant Loan, but without such payment being considered a payment or prepayment of a Loan under Section 3.6 hereof, so that the Borrowers will have no liability under such Section with respect to such payment; *provided*, that such repayment by the Borrowers shall not be deemed to release or otherwise limit any claims or rights that the Borrowers may have against any Lender for the failure to fund any Loans hereunder.

SECTION 2. THE SWING LINE.

Section 2.1. Swing Loans. Subject to all of the terms and conditions hereof, as part of the Revolving Credit, the Swing Line Lender agrees to make loans in U.S. Dollars to the Borrowers under the Swing Line ("*Swing Loans*") which shall not in the aggregate at any time outstanding exceed the Swing Line Sublimit. The Swing Line Loans may be availed of by the Borrowers from time to time and borrowings thereunder may be repaid and used again during the period beginning on the Effective Date and ending on the Termination Date; *provided* that each Swing Loan must be repaid on the last day of the Interest Period applicable thereto. Each Swing Loan shall be in an amount not less than \$500,000 and in integral multiples of \$100,000.

Section 2.2. Interest on Swing Loans. Each Swing Loan shall bear interest at a rate per annum equal to (i) the sum of the Base Rate *plus* the Applicable Margin for Base Rate Loans from time to time in effect (computed on the basis of a year 365 or 366 days, as the case may be, for the actual number of days elapsed) or (ii) the Quoted Rate (computed on the basis of a year of 360 days for the actual number of days elapsed). Interest on each Swing Loan shall be due and payable on the last day of each Interest Period applicable thereto, and interest after maturity (whether by lapse of time, acceleration or otherwise) shall be due and payable upon demand.

Section 2.3. Requests for Swing Loans. The Company, on behalf of the Borrowers, shall give the Swing Line Lender prior notice (which may be written or oral) no later than 3:00 p.m. (Chicago time) on the date upon which the Company requests that any Swing Loan be made, of the amount and date of such Swing Loan and the Interest Period selected therefor. Within 30 minutes after receiving such notice, the Swing Line Lender shall in its discretion quote an interest rate to the Company at which the Swing Line Lender would be willing to make such Swing Loan available to the Borrowers for a given Interest Period (the rate so quoted for a given Interest Period being herein referred to as the "*Quoted Rate*"). The Borrowers acknowledge and agree that the interest rate quote is given for immediate and irrevocable acceptance, and if the Company does not so immediately accept the Quoted Rate for the full amount requested by the Borrowers for such Swing Loan, the Quoted Rate shall be deemed immediately withdrawn and such Swing Loan shall bear interest at the rate per annum determined by adding the Applicable Margin for Base Rate Loans to the Base Rate for the Interest Period selected by the Company. Subject to all of the terms and conditions hereof, the proceeds of such Swing Loan shall be made available to the Company on the date so requested at the offices of the Swing Line Lender in Chicago, Illinois. Anything contained in the foregoing to the contrary notwithstanding (i) the obligation of the Swing Line Lender to make Swing Loans shall be subject to all of the terms and conditions of this Agreement and (ii) the Swing Line Lender shall not be obligated to make more than one Swing Loan during any one day.

Section 2.4. Refunding Loans. In its sole and absolute discretion, the Swing Line Lender may at any time, on behalf of the Borrowers (and the Borrowers hereby irrevocably authorize the Swing Line Lender to act on their behalf for such purpose) and with notice to the Company, request each Lender to make a Revolving Loan in the form of a Base Rate Loan in an amount equal to such Lender's Percentage of the amount of the Swing Loans outstanding on the date such notice is given. Unless any of the conditions of Section 8.2 are not fulfilled on such date, each Lender shall make the proceeds of its requested Revolving Loan available to the

Swing Line Lender, in immediately available funds, at the Swing Line Lender's principal office in Chicago, Illinois, before 12:00 Noon (Chicago time) on the Business Day following the day such notice is given. The proceeds of such Revolving Loans shall be immediately applied to repay such outstanding Swing Loans.

Section 2.5. Participations. If any Lender refuses or otherwise fails to make a Revolving Loan when requested by the Swing Line Lender pursuant to Section 2.4 above (because the conditions in Section 8.2 are not satisfied or otherwise), such Lender shall, by the time and in the manner such Revolving Loan was to have been funded to the Swing Line Lender, purchase from the Swing Line Lender an undivided participating interest in the relevant outstanding Swing Loans in an amount equal to its Percentage of the aggregate principal amount of Swing Loans that were to have been repaid with such Revolving Loans, *provided* no purchase of a participation in a Swing Loan bearing interest at the Quoted Rate need be made until after expiration of the Interest Period applicable thereto. Each Lender that so purchases a participation in a Swing Loan shall thereafter be entitled to receive its Percentage of each payment of principal received on the relevant Swing Loan and of interest received thereon accruing from the date such Lender funded to the Swing Line Lender its participation in such Loan. The several obligations of the Lenders under this Section 2.5 shall be absolute, irrevocable and unconditional under any and all circumstances whatsoever and shall not be subject to any set-off, counterclaim or defense to payment which any Lender may have or have had against any Borrower, any other Lender or any other Person whatever. Without limiting the generality of the foregoing, such obligations shall not be affected by any Default or Event of Default or by any reduction or termination of the Revolving Credit Commitment of any Lender, and each payment made by an Lender under this Section 2.5 shall be made without any offset, abatement, withholding or reduction whatsoever.

SECTION 3. GENERAL PROVISIONS APPLICABLE TO ALL LOANS; REVOLVING CREDIT COMMITMENT TERMINATIONS AND INCREASES

Section 3.1. Interest Periods. As provided in Section 1.5(a) hereof in the case of Revolving Loans and in Section 2.3 in the case of Swing Loans, at the time of each request to advance, continue, or create by conversion a Borrowing of Loans (other than Base Rate Loans), the Company shall select an Interest Period applicable to such Loans from among the available options. The term "*Interest Period*" means the period commencing on the date a Borrowing of Loans is advanced, continued, or created by conversion and ending: (a) in the case of Base Rate Loans, on the last day of the calendar quarter in which such Borrowing is advanced, continued, or created by conversion (or on the last day of the following quarter if such Loan is advanced, continued or created by conversion on the last day of a calendar quarter), (b) in the case of Eurocurrency Loans, one, two, three, or six months thereafter and (c) in the case of Swing Loans, on the date one to five days thereafter as mutually agreed by the Swing Line Lender and the Company; *provided, however*, that:

(a) any Interest Period for a Borrowing of Revolving Loans consisting of Base Rate Loans that otherwise would end after the Termination Date shall end on the Termination Date;

(b) for any Borrowing of Revolving Loans consisting of Eurocurrency Loans or for any Swing Loan, the Company may not select an Interest Period that extends beyond the Termination Date;

(c) whenever the last day of any Interest Period would otherwise be a day that is not a Business Day, the last day of such Interest Period shall be extended to the next succeeding Business Day; *provided* that, if such extension would cause the last day of an Interest Period for a Borrowing of Eurocurrency Loans to occur in the following calendar month, the last day of such Interest Period shall be the immediately preceding Business Day; and

(d) for purposes of determining an Interest Period for a Borrowing of Eurocurrency Loans, a month means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month; *provided, however*, that if there is no numerically corresponding day in the month in which such an Interest Period is to end or if such an Interest Period begins on the last Business Day of a calendar month, then such Interest Period shall end on the last Business Day of the calendar month in which such Interest Period is to end.

Section 3.2. Default Rate. Notwithstanding anything to the contrary contained herein, while any Event of Default exists or after acceleration, (x) the Borrowers shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all Loans and Reimbursement Obligations at a rate per annum equal to, and (y) with respect to any outstanding Letter of Credit, the Borrowers shall pay Letter of Credit fees at a rate per annum equal to:

(a) for any Base Rate Loan or any Swing Loan bearing interest based on the Base Rate, the sum of two percent (2.0%) *plus* the Applicable Margin for Base Rate Loans *plus* the Base Rate from time to time in effect;

(b) for any Swing Loan bearing interest at the Quoted Rate or any Eurocurrency Loan denominated in U.S. Dollars, the sum of two percent (2.0%) *plus* the rate of interest in effect thereon at the time of such default until the end of the Interest Period applicable thereto and, thereafter, at a rate per annum equal to the sum of two percent (2%) *plus* the Applicable Margin for Base Rate Loans *plus* the Base Rate from time to time in effect;

(c) for any Eurocurrency Loan denominated in an Alternative Currency, the sum of two percent (2.0%) *plus* the rate of interest in effect thereon at the time of such default until the end of the Interest Period applicable thereto and, thereafter, at a rate per annum equal to the sum of (i) the Applicable Margin for Eurocurrency Loans *plus* (ii) two percent (2.0%) *plus* (iii) the rate of interest per annum as determined in good faith by the Administrative Agent (rounded upwards, if necessary, to the next higher 1/100,000 of 1%) at which overnight or weekend deposits (or, if such amount due remains unpaid more than three Business Days, then for such other period of time not longer than one month as the Administrative Agent may elect in good

faith) of the relevant Alternative Currency for delivery in immediately available and freely transferable funds would be offered by the Administrative Agent to major banks in the interbank market upon request of such major banks for the applicable period as determined above and in an amount comparable to the unpaid principal amount of any such Eurocurrency Loan (or, if the Administrative Agent is not placing deposits in such currency in the interbank market, then the Administrative Agent's cost of funds in such currency for such period); and

(d) for any Reimbursement Obligation, the sum of two percent (2.0%) *plus* the amounts due under Section 1.2 with respect to such Reimbursement Obligation; and

(e) for any Letter of Credit, the sum of two percent (2.0%) *plus* the letter of credit fee due under Section 4.1 with respect to such Letter of Credit; *provided, however*, that in the absence of acceleration, any adjustments pursuant to this Section shall be made at the election of the Administrative Agent, acting at the request or with the consent of the Required Lenders, with written notice to the Company (which notice may be revoked at the direction of the Required Lenders notwithstanding any provision of Section 14.13 requiring the unanimous consent of the Lenders to reduce interest rates). While any Event of Default exists or after acceleration, interest shall be paid on demand of the Administrative Agent at the request or with the consent of the Required Lenders.

Section 3.3. Evidence of Indebtedness. (a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrowers to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrowers to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrowers and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be *prima facie* evidence of the existence and amounts of the Obligations therein recorded; *provided, however*, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrowers to repay the Obligations in accordance with their terms. The Administrative Agent and each Lender agree to promptly provide to the Company copies of such accounts upon the reasonable request of the Company.

(d) Any Lender may request that its Loans be evidenced by a promissory note or notes in the forms of Exhibit B (in the case of its Revolving Loans and referred to herein as a "*Revolving Credit Note*"), or C (in the case of its Swing Loans and referred to herein as a "*Swing Line Note*"), as applicable (the Revolving Credit Notes, and Swing Line Note being hereinafter referred to collectively as the "*Notes*" and individually as a "*Note*"). In such event, the Borrowers shall prepare, execute and deliver to such Lender a Note

payable to such Lender or its registered assigns. Thereafter, the Loans evidenced by such Note or Notes and interest thereon shall at all times (including after any assignment pursuant to Section 14.12) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 14.12, except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 3.4. Maturity of Loans. Each Revolving Loan shall mature and become due and payable by the Borrowers on the Termination Date. Each Swing Loan shall mature and become due and payable by the Borrowers on the last day of the Interest Period applicable thereto.

Section 3.5. Prepayments. The Borrowers may prepay without premium or penalty and in whole or in part (but, if in part, then: (i) if such Borrowing is of Base Rate Loans, in an amount not less than \$1,000,000 and in integral multiples of \$100,000 (except in the case of repayments of Base Rate Loans made under Section 1.2(c) which may be repaid in the full amount of such Base Rate Loans), (ii) if such Borrowing is of Eurocurrency Loans denominated in U.S. Dollars, in an amount not less than \$1,000,000 and in integral multiples of \$100,000, (iii) if such Borrowing is denominated in an Alternative Currency, an amount for which the U.S. Dollar Equivalent is not less than \$1,000,000 and in integral multiples most closely approximating \$100,000 and (iv) in an amount such that the minimum amount required for a Borrowing pursuant to Section 1.4 hereof remains outstanding) any Borrowing of (x) Eurocurrency Loans denominated in U.S. Dollars upon three Business Days' prior notice to the Administrative Agent, (y) Eurocurrency Loans denominated in an Alternative Currency at any time upon four Business Days prior notice by the Company to the Administrative Agent, or (z) Base Rate Loans, at any time with notice delivered to the Administrative Agent no later than 11:00 a.m. (Chicago time) on the date of prepayment, such prepayment to be made by the payment of the principal amount to be prepaid and accrued interest thereon to the date fixed for prepayment and, in the case of Eurocurrency Loans, any compensation required by Section 3.6 hereof. Swing Loans bearing interest at the Quoted Rate may only be paid on the last day of the Interest Period then applicable to such Loans. The Administrative Agent will promptly advise each Lender of any such prepayment notice it receives from the Company. Any amount of Loans paid or prepaid before the Termination Date may, subject to the terms and conditions of this Agreement, be borrowed, repaid and borrowed again.

Section 3.6. Funding Indemnity for Fixed Rate Loans. If any Lender shall incur any loss, cost or expense (including, without limitation, any loss (including loss of profit), cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by such Lender to fund or maintain any Fixed Rate Loan or the relending or reinvesting of such deposits or amounts paid or prepaid to such Lender as a result of: (a) any payment, prepayment or conversion of a Fixed Rate Loan on a date prior to the last day of its Interest Period, (b) any failure (because of a failure to meet the conditions of Section 8 or otherwise) by the Borrowers to borrow or continue a Fixed Rate Loan, or to convert a Base Rate Loan into a Fixed Rate Loan, on the date specified in a notice given pursuant to Section 1.5(a) or 2.3 or established pursuant to Section 1.5(c) hereof, or

(c) any acceleration of the maturity of a Fixed Rate Loan as a result of the occurrence of any Event of Default hereunder, then, upon the demand of such Lender, the Borrowers shall pay to such Lender such amount as will reimburse such Lender for such loss, cost or expense. If any Lender makes such a claim for compensation, it shall provide to the Company, with a copy to the Administrative Agent, a certificate executed by an officer of such Lender setting forth the amount of such loss, cost or expense in reasonable detail and such certificate shall be conclusive if reasonably determined.

Section 3.7. Commitment Terminations. The Borrowers shall have the right at any time and from time to time, upon five Business Days' prior written notice from the Company to the Administrative Agent, to terminate the Revolving Credit Commitments without premium or penalty, in whole or in part, any partial termination to be (i) in an amount not less than \$5,000,000, and (ii) allocated ratably among the Lenders in proportion to their respective Percentages, *provided* that the Revolving Credit Commitments may not be reduced to an amount less than the sum of the Original Dollar Amount of all Revolving Loans and Swing Loans and the U.S. Dollar Equivalent of all L/C Obligations then outstanding. Any termination of the Revolving Credit Commitments below the L/C Sublimit or Swing Line Sublimit then in effect shall reduce the L/C Sublimit and Swing Line Sublimit, as applicable, to an amount equal to the reduced aggregate amount of the Revolving Credit Commitments. The Administrative Agent shall give prompt notice to each Lender of any such termination of the Revolving Credit Commitments. Any termination of the Revolving Credit Commitments pursuant to this Section 3.7 may not be reinstated.

Section 3.8. Increase in Commitments. The Borrowers may from time to time, on any Business Day after the Effective Date and prior to the Termination Date so long as no Event of Default exists, increase the aggregate amount of the Revolving Credit Commitments by the Company delivering a Commitment Amount Increase Request at least five Business Days prior to the desired effective date of such increase (the "*Commitment Amount Increase*") identifying an additional Lender (or additional Revolving Credit Commitments for existing Lender(s)) and the amount of its Revolving Credit Commitment (or additional amount of its Revolving Credit Commitment(s)); *provided, however*, that (i) the aggregate amount of the Revolving Credit Commitments shall not at any time exceed \$550,000,000, and (ii) any increase of the aggregate amount of the Revolving Credit Commitments shall be in an amount not less than \$25,000,000. The effective date of any Commitment Amount Increase shall be agreed upon by the Company, on behalf of the Borrowers, and the Administrative Agent. Upon the effectiveness thereof, the new Lender(s) (or, if applicable, existing Lender(s)) shall advance Revolving Loans, or the existing Lenders shall make such assignments (which assignments shall not be subject to the requirements set forth in Section 14.12) of the outstanding Loans and L/C Obligations to the Lenders providing the Commitment Amount Increase so that, after giving effect to such assignments, each Lender (including the Lenders providing the Commitment Amount Increase) will hold Loans and L/C Obligations equal to its Percentage of all outstanding Loans and L/C Obligations. It shall be a condition to such effectiveness that (i) either no Eurocurrency Loans be outstanding on the date of such effectiveness or the

Borrowers pay any applicable breakage cost under Section 3.6 incurred by any Lender resulting from the repayment of its Loans and (ii) the Borrowers shall not have terminated any portion of the Revolving Credit Commitments pursuant to Section 3.6 hereof. The Borrowers agree to pay any reasonable expenses of the Administrative Agent relating to any Commitment Amount Increase. Notwithstanding anything herein to the contrary, no Lender shall have any obligation to increase its Revolving Credit Commitment and no Lender's Revolving Credit Commitment shall be increased without its consent thereto, and each Lender may at its option, unconditionally and without cause, decline to increase its Revolving Credit Commitment.

Section 3.9. Appointment of Company as Agent for Borrowers. Each Borrower irrevocably appoints the Company as its agent hereunder to make requests on such Borrower's behalf for Borrowings, to select the interest rate to be applicable to such Borrowings, and to take any other action contemplated by the Loan Documents with respect to credit extended hereunder to the Borrowers. The Administrative Agent and the Lenders shall be entitled to conclusively presume that any action by the Company under the Loan Documents is taken on behalf of any one or more of the Borrowers whether or not the Company so indicates.

SECTION 4. FEES; PLACE AND APPLICATION OF PAYMENTS.

Section 4.1. Fees. (a) *Facility Fee.* For the period from the Effective Date to but not including the Termination Date, the Borrowers shall pay to the Administrative Agent, for the ratable benefit of the Lenders in accordance with their Percentages, a facility fee accruing at the rate per annum equal to the Applicable Margin for Facility Fee on the average daily amount of the Revolving Credit Commitments whether or not in use. Such facility fee shall be payable quarterly in arrears on the last day of each calendar quarter in each year (commencing December 31, 2007) and on the Termination Date, unless the Revolving Credit Commitments are terminated in whole on an earlier date, in which event the fee for the period to but not including the date of such termination shall be paid in whole on the date of such termination.

(b) *Letter of Credit Fees.* On the date of issuance or extension, or increase in the amount, of any Letter of Credit pursuant to Section 1.2 hereof, the Borrowers shall pay to the L/C Issuer for its own account a fronting fee equal to 1/8 of 1% (0.125%) of the face amount of (or of the increase in the face amount of) such Letter of Credit. Quarterly in arrears, on the last day of each calendar quarter (commencing December 31, 2007) the Borrowers shall pay to the Administrative Agent, for the ratable benefit of the Lenders in accordance with their Percentages, a letter of credit fee at a rate per annum equal to the Applicable Margin for Eurocurrency Loans in effect during each day of such quarter applied to the daily average face amount of Letters of Credit outstanding during such quarter. In addition, the Borrowers shall pay to the L/C Issuer for its own account the L/C Issuer's standard issuance, drawing, negotiation, amendment, and other administrative fees for each Letter of Credit (whether a Commercial Letter of Credit or Standby Letter of Credit) as established by the L/C Issuer from time to time. All the standard fees set forth in the preceding sentence shall be retained by the L/C Issuer for its own account (such standard fees referred to in the clauses (i) and (ii) of the preceding sentence may be established by the L/C Issuer from time to time).

(c) *Closing Fees.* On the Effective Date, the Borrowers shall pay to the Administrative Agent, for the benefit of the Lenders, the up front fees due to the Lenders as heretofore agreed.

(d) *Administrative Agent Fees.* The Borrowers shall pay to the Administrative Agent the fees agreed to between the Administrative Agent and the Company pursuant to a separate written letter agreement dated as of July 29, 2005.

(e) *Fee Calculations.* All fees payable under this Section 4.1 shall be computed on the basis of a year of 360 days for the actual number of days elapsed.

Section 4.2. Place and Application of Payments. All payments of principal of and interest on the Loans and the Reimbursement Obligations, and of all other Obligations payable by the Borrowers under this Agreement, shall be made to the Administrative Agent by no later than 1:00 p.m. (Chicago time) on the due date thereof at the principal office of the Administrative Agent in Chicago, Illinois (or such other location in the State of Illinois as the Administrative Agent may designate to the Company) or, if such payment is on a Reimbursement Obligation, no later than provided by Section 1.2(c) hereof or, if such payment is to be made in an Alternative Currency, no later than 12:00 noon local time at the place of payment to such office as the Administrative Agent has previously specified in a notice to the Company for the benefit of the Lender or Lenders entitled thereto. Any payments received after such time shall be deemed to have been received by the Administrative Agent on the next Business Day. All such payments shall be made (i) in U.S. Dollars, in immediately available funds at the place of payment, or (ii) in the case of amounts payable hereunder in an Alternative Currency, in such Alternative Currency in such funds then customary for the settlement of international transactions in such currency, in each case without set-off or counterclaim. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest on Loans or commitment fees ratably to the Lenders, in each case to be applied in accordance with the terms of this Agreement.

SECTION 5. JOINT AND SEVERAL OBLIGORS AND FURTHER ASSURANCES.

Section 5.1 Joint and Several Obligors. The payment and performance of the Obligations shall at all times be a joint and several obligation of the Company and each other Borrower pursuant to Section 13.A hereof or pursuant to one or more Additional Obligor Supplements delivered to the Administrative Agent, as the same may be amended, modified or supplemented from time to time.

Section 5.2 Guaranties. The payment and performance of the Obligations shall at all times be guaranteed by each Subsidiary of the Borrower which is not itself a Borrower and is a guarantor under the Note Purchase Agreement (each, a "*Guarantor*") pursuant to Section 13.B hereof or pursuant to one or more Additional Guarantor Supplements delivered to the Administrative Agent, as the same may be amended, modified or supplemented from time to time (individually, a "*Guaranty*" and, collectively, the "*Guaranties*").

Section 5.3. Further Assurances. The Company agrees that it shall, and shall cause each Domestic Subsidiary to, from time to time at the request of the Administrative Agent or the Required Lenders, execute and deliver such documents and do such acts and

things as the Administrative Agent or the Required Lenders may reasonably request in order to provide for the joint and several obligation or guaranties, as applicable, contemplated by this Section 5. In the event the Company or any Subsidiary forms or acquires any direct Material Wholly-Owned Domestic Subsidiary after the date hereof or any Subsidiary becomes a direct Material Wholly-Owned Domestic Subsidiary after the date hereof or any Subsidiary becomes an obligor or guarantor under the Note Purchase Agreement, the Company shall cause such direct Material Wholly-Owned Domestic Subsidiary or other Subsidiary to execute an Additional Obligor Supplement or Additional Guarantor Supplement, as applicable, within 50 days after the end of the fiscal quarter of the Company in which such Subsidiary became a Material Wholly-Owned Domestic Subsidiary or within 3 days after the Subsidiary became an obligor or guarantor under the Note Purchase Agreement, as applicable, and the Company shall also deliver to the Administrative Agent, or cause such direct Material Wholly-Owned Domestic Subsidiary or other Subsidiary, as applicable, to deliver to the Administrative Agent, at the Company's cost and expense, such other instruments, documents, notes, certificates, and opinions reasonably required by the Administrative Agent in connection therewith.

Section 5.3 Release of Borrower or Guarantor. If any Borrower (other than the Company) ceases to be a direct Material Wholly-Owned Domestic Subsidiary as a result of a disposition, dissolution or other transaction not prohibited by the terms hereof, then such Borrower shall automatically cease to be a Borrower hereunder and shall be released from any of its obligations as a Borrower hereunder. If any Guarantor (a) ceases to be a Subsidiary as a result of a disposition, dissolution or other transaction not prohibited by the terms hereof, or (b) otherwise ceases to be a Guarantor under the Note Purchase Agreement, then such Guarantor shall automatically cease to be a Guarantor hereunder and shall be released from any of its obligations as a Guarantor hereunder. The Administrative Agent shall execute and deliver to such departing Borrower or Guarantor or its designee, at the Company's sole cost and expense, any document or instrument that such departing Borrower or Guarantor or the Company shall reasonably request to evidence such release, and the Lenders hereby authorize the Administrative Agent to execute and deliver any such document or instrument.

SECTION 6. DEFINITIONS; INTERPRETATION.

Section 6.1. Definitions. The following terms when used herein have the following meanings:

"Account" is defined in Section 10.4(b) hereof.

"Additional Guarantor Supplement" means an agreement in the form attached hereto as Exhibit H or such other form acceptable to the Administrative Agent.

"Additional Obligor Supplement" means an agreement in the form attached hereto as Exhibit G or such other form acceptable to the Administrative Agent.

"Adjusted LIBOR" means a rate per annum determined in accordance with the following formula:

LIBOR

1 - Eurocurrency Reserve Percentage

"Eurocurrency Reserve Percentage" means, for any Borrowing of Eurocurrency Loans, the daily average for the applicable Interest Period of the maximum rate, expressed as a decimal, at which reserves (including, without limitation, any supplemental, marginal and emergency reserves) are imposed during such Interest Period by the Board of Governors of the Federal Reserve System (or any successor) on *"eurocurrency liabilities"*, as defined in such Board's Regulation D (or in respect of any other category of liabilities that includes deposits by reference to which the interest rate on Eurocurrency Loans is determined or any category of extensions of credit or other assets that include loans by non- United States offices of any Lender to United States residents), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto. For purposes of this definition, the Eurocurrency Loans shall be deemed to be *"eurocurrency liabilities"* as defined in Regulation D without benefit or credit for any prorations, exemptions or offsets under Regulation D. *"LIBOR"* means, for an Interest Period for a Borrowing of Eurocurrency Loans, (a) the LIBOR Index Rate for such Interest Period, if such rate is available, and (b) if the LIBOR Index Rate cannot be determined, the average rate of interest per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which deposits in U.S. Dollars or the relevant Alternative Currency, as appropriate, in immediately available funds are offered to the Administrative Agent at 11:00 a.m. (London, England time) two Business Days before the beginning of such Interest Period by major banks in the interbank eurocurrency market for delivery on the first day of and for a period equal to such Interest Period in an amount equal or comparable to the principal amount of the Eurocurrency Loan scheduled to be made by the Administrative Agent as part of such Borrowing. *"LIBOR Index Rate"* means, for any Interest Period, the rate per annum (rounded upwards, if necessary, to the next higher one hundred- thousandth of a percentage point) for deposits in U.S. Dollars or the relevant Alternative Currency, as appropriate, for a period equal to such Interest Period, which appears on the appropriate Reuters Page as of 11:00 a.m. (London, England time) on the day two Business Days before the commencement of such Interest Period. *"Reuters Page"* means the display designated on the Reuters Service (or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association Interest Settlement Rates for deposits of U.S. Dollar (currently displayed on LIBOR01 Page) or of the relevant Alternative Currency.

"Administrative Agent" means Harris N.A. in its capacity as administrative agent hereunder for the Lenders and any successor pursuant to Section 12.7 hereof.

"Affiliate" means any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, another Person. A Person shall be deemed to control another Person for purposes of this definition if such Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the other Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise; *provided* that, in any event for purposes of this definition, any Person that owns, directly or indirectly, 10% or more of the securities having the ordinary voting power for the election of directors or governing body of a corporation or 10% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"Agreement" means this Amended and Restated Multicurrency Credit Agreement, as the same may be amended, modified, restated or supplemented from time to time pursuant to the terms hereof.

"Alternative Currency" means any of euros, pounds sterling, and Japanese yen, and any other currency approved by the Administrative Agent, in each case for so long as such currency is readily available to all the Lenders and is freely transferable and freely convertible to U.S. Dollars and the Reuters Monitor Money Rates Service (or any successor) reports a LIBOR for such currency for interest periods of one, two, three and six calendar months; *provided* that if any Lender provides written notice to the Company (with a copy to the Administrative Agent) that any currency control or other exchange regulations are imposed in the country in which any such Alternative Currency is issued and that in the reasonable opinion of such Lender funding a Loan in such currency is impractical, then such currency shall cease to be an Alternative Currency hereunder until such time as all the Lenders reinstate such country's currency as an Alternative Currency.

"Applicable Margin" means, with respect to Loans, Reimbursement Obligations, and the facility fees and letter of credit fees payable under Section 4.1 hereof until the first Pricing Date, the rates per annum shown opposite Level I below, and thereafter from one Pricing Date to the next, the Applicable Margin means the rates per annum determined in accordance with the following schedule:

LEVEL	CASH FLOW LEVERAGE RATIO FOR SUCH PRICING DATE	APPLICABLE MARGIN FOR BASE RATE LOANS SHALL BE:	APPLICABLE MARGIN FOR EUROCURRENCY LOANS SHALL BE:	APPLICABLE MARGIN FOR LETTER OF CREDIT FEE SHALL BE:	APPLICABLE MARGIN FOR FACILITY FEE SHALL BE:
IV	Greater than or equal to 2.0 to 1.0	0.00%	0.80%	0.80%	0.20%
III	Less than 2.0 to 1.0 but greater than or equal to 1.5 to 1.0	0.00%	0.60%	0.60%	0.15%
II	Less than 1.5 to 1.0, but greater than or equal to 1.0 to 1.0	0.00%	0.50%	0.50%	0.125%
I	Less than 1.0 to 1.0	0.00%	0.40%	0.40%	0.100%

For purposes hereof, the term "*Pricing Date*" means, for any fiscal quarter of the Company ending on or after December 31, 2007, the date on which the Administrative Agent is in receipt of the Company's most recent financial statements (and, in the case of the year- end financial statements, audit report) for the fiscal quarter then ended, pursuant to Section 9.4 hereof. The Applicable Margin shall be established based on the Cash Flow Leverage Ratio for the most recently completed fiscal quarter and the Applicable Margin established on a Pricing Date shall become retroactively effective as of the first day of such fiscal quarter and shall remain in effect

until the next Pricing Date, subject to retroactive adjustment for the period from the last day of such fiscal quarter to such Pricing Date pursuant to this section. If the Company has not delivered its financial statements by the date such financial statements (and, in the case of the year- end financial statements, audit report) are required to be delivered under Section 9.4 hereof, until such financial statements and audit report are delivered, the Applicable Margin shall be the highest Applicable Margin (*i.e.*, the Cash Flow Leverage Ratio shall be deemed to be greater than 2.0 to 1.0). If the Company subsequently delivers such financial statements before the next Pricing Date, the Applicable Margin established by such late delivered financial statements shall take effect from the date of delivery until the next Pricing Date, subject to retroactive adjustment as provided above. In all other circumstances, the Applicable Margin established by such financial statements shall be in effect from the first day of the fiscal quarter in which such Pricing Date occurs and which is immediately after the end of the fiscal quarter covered by such financial statements until the next redetermination as set forth above. Each determination of the Applicable Margin made by the Administrative Agent in accordance with the foregoing shall be conclusive and binding on the Borrowers and the Lenders if reasonably determined.

"Application" is defined in Section 1.2(b) hereof.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 14.12 hereof), and accepted by the Administrative Agent, in substantially the form of Exhibit F or any other form approved by the Administrative Agent.

"Authorized Representative" means those persons shown on the list of officers provided by the Company pursuant to Section 8.1(f) hereof, or on any update of such list provided by the Company to the Administrative Agent, or any further or different officer of the Company so named by any Authorized Representative of the Company in a written notice to the Administrative Agent.

"Base Rate" means for any day the greater of:

- (i) the rate of interest announced by the Administrative Agent from time to time as its prime commercial rate, or equivalent, for U.S. Dollar loans to borrowers located in the United States as in effect on such day, with any change in the Base Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate; or
- (ii) the sum of (x) the rate determined by the Administrative Agent to be the average (rounded upwards, if necessary, to the next higher 1/100 of 1%) of the rates per annum quoted to the Administrative Agent at approximately 10:00 a.m. (Chicago time) (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding

Business Day) by two or more Federal funds brokers selected by the Administrative Agent for the sale to the Administrative Agent at face value of Federal funds in an amount comparable to the principal amount owed to the Administrative Agent for which such rate is being determined, plus (y) 1/2 of 1%.

"Base Rate Loan" means a Revolving Loan bearing interest prior to maturity at a rate specified in Section 1.3(a) hereof.

"Borrower" and *"Borrowers"* are defined in the first paragraph of this Agreement.

"Borrowing" means the total of Loans of a single type advanced, continued for an additional Interest Period, or converted from a different type into such type by the Lenders on a single date and for a single Interest Period. Borrowings of Revolving Loans are made and maintained ratably from each of the Lenders according to their Percentages. A Borrowing is: *"advanced"* on the day Lenders advance funds comprising such Borrowing to the Borrowers; *"continued"* on the date a new Interest Period for the same type of Loans commences for such Borrowing; and *"converted"* when such Borrowing is changed from one type of Loan to another, all as requested by the Company pursuant to Section 1.5(a) hereof.

"Business Day" means any day other than a Saturday or Sunday on which Lenders are not authorized or required to close in Chicago, Illinois and, if the applicable Business Day relates to the borrowing or payment of a Eurocurrency Loan, on which banks are dealing in deposits in U.S. Dollars in the interbank market in London, England and Nassau, Bahamas and, if the applicable Business Day relates to the borrowing or payment of a Eurocurrency Loan denominated in an Alternative Currency, on which banks and foreign exchange markets are open for business in the city where disbursements of or payments on such Loan are to be made and, if such Alternative Currency is the euro or any national currency of a nation that is a member of the European Economic and Monetary Union, which is a TARGET Settlement Day.

"Capital Lease" means any lease of Property which, in accordance with GAAP, would be required to be capitalized on the balance sheet of the lessee.

"Capitalized Lease Obligation" means the amount of the liability shown on the balance sheet of any Person in respect of a Capital Lease as determined in accordance with GAAP.

"Cash Flow Leverage Ratio" means, as of any time the same is to be determined, the ratio of (a) Funded Debt as of the last day of the most recent four fiscal quarters then ended minus Excess Cash as of the last day of the same such period to (b) EBITDA for the same most recent four fiscal quarters then ended.

"Change in Control" means and includes any of the following:

(a) any person or group (within the meaning of Sections 13(d)(2) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) is or becomes the beneficial owner, directly or indirectly, of 50% or more of the Voting Stock of the Company; or

(b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the Board of Directors of the Company, together with any new directors whose election by the Board of Directors of the Company 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 other than death or disability to constitute at least a majority of the directors then in office; 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.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute thereto.

"Commercial Letter of Credit" means a Letter of Credit that finances a commercial transaction by paying part or all of the purchase price for goods against delivery of a document of title covering such goods and any other required documentation.

"Commitment Amount Increase" is defined in Section 3.8 hereof.

"Commitment Amount Increase Request" means a Commitment Amount Increase Request in the form of Exhibit D hereto.

"Company" is defined in the first paragraph of this Agreement.

"Controlled Group" means, with respect to the Company, all members of a controlled group of corporations and all trades and businesses (whether or not incorporated) under common control which, together with the Company or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Credit Event" means the advancing of any Loan, the continuation of or conversion into a Eurocurrency Loan, or the issuance of, or extension of the expiration date or increase in the amount of, any Letter of Credit.

"Default" means any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"Domestic Subsidiary" means each Subsidiary which is organized under the laws of the United States of America or any State thereof.

"EBIT" means, for any Person and with reference to any period, Net Income for such period plus all amounts deducted in arriving at such Net Income amount in respect of (a) Interest Expense for such period and (b) federal, state, and local income taxes for such period.

"EBITDA" means, for any Person and with reference to any period, EBIT for such period plus all amounts properly charged for depreciation of fixed assets and amortization of intangible assets during such period on the books of such Person and its subsidiaries.

"Effective Date" means the date on which the Administrative Agent has received signed counterpart signature pages of this Agreement from each of the signatories (or, in the case of a Lender, confirmation that such Lender has executed such a counterpart and dispatched it for delivery to the Administrative Agent) and the documents required by Section 8.1 hereof.

"Eligible Assignee" means (a) a Lender, (b) an Affiliate of a Lender, (c) an Approved Fund, and (d) any other Person (other than a natural person) approved by (i) the Administrative Agent, (ii) the L/C Issuer and Swing Line Lender, and (iii) unless an Event of Default has occurred and is continuing, the Company (each such approval not to be unreasonably withheld or delayed); *provided* that notwithstanding the foregoing, "Eligible Assignee" shall not include any Borrower or any of the Company's Affiliates or Subsidiaries.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto.

"Eurocurrency Loan" means a Revolving Loan bearing interest prior to maturity at the rate specified in Section 1.3(b) hereof.

"Event of Default" means any of the events or circumstances specified in Section 10.1 hereof.

"Excess Cash" means, as of any date the same is to be determined, all cash on the books of the Company and its Domestic Subsidiaries which is maintained in accounts located in the United States of America and which is in excess of \$25,000,000 excluding restricted cash.

"Existing Credit Agreement" is defined in the recitals to this Agreement.

"Existing L/Cs" means the outstanding letters of credit issued by Harris pursuant to the Existing Credit Agreement prior to the date hereof, all of which are listed and described on Schedule 1.2(a) hereof.

"Federal Funds Rate" means the fluctuating interest rate per annum described in part (x) of clause (ii) of the definition of Base Rate.

"Fixed Rate Loans" means Swing Loans bearing interest at the Quoted Rate and Eurocurrency Loans, unless the context in which such term is used shall otherwise require.

"Funded Debt" means, at any time the same is to be determined, the aggregate of all Indebtedness for Borrowed Money of the Company and its Subsidiaries on a consolidated basis at such time *plus* all Indebtedness for Borrowed Money of any other Person which is directly or indirectly guaranteed by the Company or any of its Subsidiaries or which the Company or any of its Subsidiaries has agreed (contingently or otherwise) to purchase or otherwise acquire or in respect of which the Company or any of its Subsidiaries has otherwise assured a creditor against loss.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America applied by the Company and its Subsidiaries on a basis consistent with the preparation of the Borrower's most recent financial statements furnished to the Lenders pursuant to Section 7.5 hereof.

"Guarantor" is defined in Section 5.2 hereof.

"Guaranty" is defined in Section 5.2 hereof.

"Indebtedness for Borrowed Money" means for any Person (without duplication) (i) all indebtedness created, assumed or incurred in any manner by such Person representing money borrowed (including by the issuance of debt securities), (ii) all indebtedness for the deferred purchase price of property or services (other than (a) trade accounts payable arising in the ordinary course of business which are not more than 90 days past due and (b) obligations to make earn-out payments in cash, debt instruments or preferred stock, pursuant to acquisitions occurring prior to the date of this Agreement or permitted under this Agreement), (iii) all indebtedness secured by any Lien upon Property of such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (iv) all Capitalized Lease Obligations of such Person and (v) all obligations of such Person on or with respect to letters of credit, bankers' acceptances and other extensions of credit whether or not representing obligations for borrowed money, excluding, in each case, indebtedness which is non-recourse to such Person and its subsidiaries.

"Interest Coverage Ratio" means, as of any time the same is to be determined, the ratio of (a) EBIT for the four fiscal quarter period most recently ended to (b) Interest Expense during the same such four fiscal quarter period.

"Interest Expense" means, for any Person and with reference to any period, the sum of all interest charges (including imputed interest charges with respect to Capitalized Lease Obligations and all amortization of debt discount and expense) of such Person and its subsidiaries for such period determined on a consolidated basis in accordance with GAAP excluding incremental interest charges resulting from consolidation under FIN 46.

"Interest Period" is defined in Section 3.1 hereof.

"L/C Documents" means the Letters of Credit, any draft or other document presented in connection with a drawing thereunder, the Applications and this Agreement.

"L/C Issuer" means Harris N.A. and any Lender or Lenders selected by the Company and reasonably acceptable to the Administrative Agent.
"L/C Obligations" means the U.S. Dollars Equivalent of the aggregate undrawn face amounts of all outstanding Letters of Credit and all unpaid Reimbursement Obligations.

"L/C Sublimit" means \$125,000,000, as such amount may be reduced pursuant to the terms hereof.

"Lender" means and includes each financial institution party hereto and the other financial institutions from time to time party to this Agreement, including each assignee Lender pursuant to Section 14.12 hereof.

"Lending Office" is defined in Section 11.4 hereof.

"Letter of Credit" is defined in Section 1.2(a) hereof.

"Lien" means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale, Capital Lease or other title retention arrangement.

"Loan" means and includes each Revolving Loan and Swing Loan; and the term *"type"* of Loan refers to its status as a Revolving Loan or a Swing Loan, or, if a Revolving Loan, to its status as a Base Rate Loan or Eurocurrency Loan.

"Loan Documents" means this Agreement, the Notes, the Applications, the Letters of Credit, the Additional Guarantor Supplements, the Additional Obligor Supplements and each other instrument or document to be delivered hereunder or thereunder or otherwise in connection therewith.

"Material" means, with respect to any Subsidiary, a Subsidiary whose assets represent more than 5% of the assets of the Company and its Subsidiaries on a consolidated basis.

"Material Adverse Effect" means (a) a material adverse change in, or material adverse effect upon, the operations, business, Property, condition (financial or otherwise) or prospects of the Company or of the Company and its Subsidiaries taken as a whole, (b) a material impairment of the ability of the Company and its Subsidiaries, taken as a whole, to perform their obligations under this Agreement, the Notes, the Applications, or the Letters of Credit, as applicable, or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Company and its Subsidiaries, taken as a whole, of this Agreement, the Notes, the Applications, or the Letters of Credit, as applicable, or the rights and remedies of the Administrative Agent, the L/C Issuer or the Lenders thereunder.

"Net Income" means, for any Person and with reference to any period, the net income (or net loss) of such Person and its subsidiaries for such period as computed on a consolidated basis in accordance with GAAP, and, without limiting the foregoing, after deduction from gross income of all expenses and reserves, including reserves for all taxes on or measured by income.

"Net Worth" means, at any time the same is to be determined, the total shareholders' equity (including capital stock, additional paid-in capital and retained earnings after deducting treasury stock, but excluding minority interests in Subsidiaries) which would appear on the balance sheet of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP; *provided, however*, that in computing Net Worth, the Company may exclude the effect of stock repurchases aggregating not more than \$300,000,000 after October 5, 2005 so long as such stock repurchases are approved by the Company's board of directors.

"Non-Borrower Subsidiary" means any Subsidiary that is not a Borrower.

"Note Purchase Agreement" means that certain Amended and Restated Note Purchase Agreement dated December 19, 2007 among Arthur J. Gallagher & Co. and certain of its Subsidiaries party thereto, as obligors, and the Noteholders party thereto, as amended, restated, supplemented or modified from time to time.

"Obligations" means all obligations of the Borrowers to pay principal and interest on the Loans and the L/C Obligations, all fees and charges payable hereunder, and all other payment obligations of the Borrowers, and any of them, arising under or in relation to any Loan Document, in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired.

"Original Dollar Amount" means the amount of any Obligations denominated in U.S. Dollars and, in relation to any Loan denominated in an Alternative Currency, the U.S. Dollars Equivalent of such Loan on the day it is advanced or continued for an Interest Period.

"Overnight Eurocurrency Rate" means the rate of interest per annum as determined by the Administrative Agent (rounded upwards, if necessary, to the nearest whole multiple of one-sixteenth of one percent (1/16 of 1%)) at which overnight or weekend deposits of the appropriate currency for delivery in immediately available and freely transferable funds would be offered by the Administrative Agent to major banks in the interbank market upon request of such major banks for the applicable period and in an amount comparable to the unpaid principal amount of the drawing (or, if the Administrative Agent is not placing deposits in such currency in the interbank market, then the Administrative Agent's cost of funds in such currency for such period).

"PBGC" means the Pension Benefit Guaranty Corporation or any Person succeeding to any or all of its functions under ERISA.

"Percentage" means, for each Lender, the percentage of the Revolving Credit Commitments represented by such Lender's Revolving Credit Commitment or, if the Revolving Credit Commitments have been terminated, the percentage held by such Lender (including through participation interests in L/C Obligations outstanding under the Revolving Credit and Swing Loans) of the aggregate principal amount of all Revolving Loans, Swing Loans and L/C Obligations then outstanding.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization or any other entity or organization, including a government or any agency or political subdivision thereof.

"Plan" means any employee pension benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code that either (i) is maintained by a member of the Controlled Group for employees of a member of the Controlled Group or (ii) is maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Reimbursement Obligation" is defined in Section 1.2(c) hereof.

"Replaced Lender" is defined in Section 11.6 hereof.

"Replacement Lender" is defined in Section 11.6 hereof.

"Required Lenders" means, as of the date of determination thereof, Lenders holding at least 51% of the Percentages.

"Responsible Officer" means, with respect to any Borrower, each or any of its president, chief financial officer, treasurer, chief accounting officer or general counsel.

"Revaluation Date" means, with respect to any Letter of Credit denominated in an Alternative Currency, (a) the date of issuance thereof, (b) the date of each amendment thereto having the effect of increasing the amount thereof, (c) the last day of each calendar month, and (d) each additional date as the Administrative Agent or the Required Lenders shall specify.

"Revolving Credit" means the credit facility for making Revolving Loans and issuing Letter of Credit described in Sections 1.1 and 1.2 hereof.

"Revolving Credit Commitment" means, as to any Lender, the obligation of such Lender to make Revolving Loans and to participate in Swing Loans and Letters of Credit issued for the account of the Borrowers hereunder in an aggregate principal or face

amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule I attached hereto, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof. The Borrowers and the Lenders acknowledge and agree that the Revolving Credit Commitments of the Lenders aggregate \$450,000,000 on the date hereof.

"*Revolving Credit Note*" is defined in Section 3.3(d) hereof.

"*Revolving Loan*" is defined in Section 1.1 hereof.

"*SEC*" means the U.S. Securities and Exchange Commission or any successor thereto.

"*Set- Off*" is defined in Section 14.7 hereof.

"*Specified Claim*" means any claim (other than those disclosed in the Company's Form 10- K for the year ended December 31, 2004 or the Company's Form 10- Q for the quarter ended June 30, 2005) arising out of, or any action, suit or proceeding filed or threatened against the Company or any Subsidiary based on, allegations relating to contingent commissions or related practices provided the aggregate amount of the liability of the Company and its Subsidiaries with respect to such claims, actions, suits and proceedings does not exceed \$100,000,000.

"*Standby Letter of Credit*" means a Letter of Credit that is not a Commercial Letter of Credit.

"*Subsidiary*" means any corporation or other Person more than 50% of the Voting Stock of which is at the time directly or indirectly owned by the Company and/or one or more Persons which are themselves Subsidiaries of the Company.

"*Swing Line*" means the credit facility for making one or more Swing Loans described in Section 2.1 hereof.

"*Swing Line Lender*" means BMO Capital Markets Financing, Inc., acting in its capacity as the Lender of Swing Loans hereunder, or any successor Lender acting in such capacity appointed pursuant to Section 14.12 hereof.

"*Swing Line Sublimit*" means \$30,000,000, as such amount may be reduced pursuant to the terms hereof.

"*Swing Loans*" is defined in Section 2.1 hereof.

"*TARGET Settlement Day*" means any day on which the Trans- European Automated Real- Time Gross Settlement Express Transfer (TARGET) System is open.

"Unfunded Vested Liabilities" means, for any Plan at any time, the amount (if any) by which the present value of all vested nonforfeitable accrued benefits under such Plan exceeds the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

"U.S. Dollar Equivalent" means (a) the amount of any Obligation or Letter of Credit denominated in U.S. Dollars, (b) in relation to any Obligation or Letter of Credit denominated in an Alternative Currency, the amount of U.S. Dollars which would be realized by converting such Alternative Currency into U.S. Dollars at the exchange rate quoted to the Administrative Agent, at approximately 11:00 a.m. (London time) three Business Days prior (i) to the date on which a computation thereof is required to be made, and (ii) in the case of L/C Obligations, on any Revaluation Date, in each case, by major banks in the interbank foreign exchange market for the purchase of U.S. Dollars for such Alternative Currency.

"Voting Stock" means, with respect to any Person, the capital stock of any class or classes or other equity interests (however designated) having ordinary voting power for the election of directors or similar governing body of such Person, other than stock or other equity interests having such power only by reason of the happening of a contingency.

"Welfare Plan" means a *"welfare plan"*, as defined in Section 3(1) of ERISA.

"Wholly- Owned" means, with respect to any Subsidiary, a Subsidiary of which all of the issued and outstanding shares of capital stock (other than directors' qualifying shares as required by law) or other equity interests are owned by the Company and/or one or more Wholly- Owned Subsidiaries of the Company within the meaning of this definition.

Section 6.2. Interpretation. The foregoing definitions are equally applicable to both the singular and plural forms of the terms defined. The words *"hereof"*, *"herein"*, and *"hereunder"* and words of like import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All references to time of day herein are references to Chicago, Illinois time unless otherwise specifically provided.

Section 6.3. Change in Accounting Principles. If, after the date of this Agreement, there shall occur any change in GAAP from those used in the preparation of the financial statements referred to in Section 7.5 hereof and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement, either the Company or the Required Lenders may by notice to the Lenders and the Company, respectively, require that the Lenders and the Borrowers negotiate in good faith to amend such covenants, standards, and terms so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Company and its Subsidiaries shall be the same as if such change had not been made. No delay by the Company or the Required Lenders in requiring such negotiation shall limit their right to

so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section 6.3, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles. Without limiting the generality of the foregoing, the Company shall neither be deemed to be in compliance with any financial covenant hereunder nor out of compliance with any financial covenant hereunder if such state of compliance or noncompliance, as the case may be, would not exist but for the occurrence of a change in accounting principles after the date hereof.

SECTION 7. REPRESENTATIONS AND WARRANTIES.

The Borrowers hereby represent and warrant to the Administrative Agent and each Lender as follows:

Section 7.1. Organization and Qualification. The Company is duly organized, validly existing and in good standing as a corporation under the laws of the State of Delaware, has full corporate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to be so licensed or qualified could not reasonably be expected to have a Material Adverse Effect.

Section 7.2. Subsidiaries. Each Subsidiary is duly organized, validly existing and, to the extent applicable, in good standing under the laws of the jurisdiction in which it is incorporated or organized, as the case may be, has full corporate or limited liability company power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to be so licensed or qualified could not reasonably be expected to have a Material Adverse Effect. Schedule 7.2 hereto identifies as of the Effective Date (i) each Subsidiary, the jurisdiction of its incorporation or organization, as the case may be, the percentage of issued and outstanding shares of each class of its capital stock or other equity interests owned by the Company and its Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class of its authorized capital stock and other equity interests and the number of shares of each class issued and outstanding and (ii) each direct Material Wholly-Owned Domestic Subsidiary. All of the outstanding shares of capital stock and other equity interests of each Subsidiary are validly issued and outstanding and, in the case of capital stock, fully paid and nonassessable and all such shares and other equity interests indicated on Schedule 7.2 as owned by the Company or any of its Subsidiaries are owned, beneficially and of record, by the Company or such Subsidiary free and clear of all Liens. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary.

Section 7.3. Corporate Authority and Validity of Obligations. Each Borrower has full corporate or limited liability company power and authority to enter into this Agreement and the other Loan Documents to which it is a party, to make the borrowings herein provided for, to issue the Notes in evidence thereof, and to perform all of its obligations hereunder and under the other Loan Documents to which it is a party. Each Guarantor has full corporate or limited liability company power and authority to enter into this Agreement pursuant to an Additional Guarantor Supplement and perform all of its Obligations hereunder. Each Loan Document to which any Borrower or any Guarantor is a party has been duly authorized, executed and delivered by such Borrower or such Guarantor, as the case may be, and constitutes the valid and binding obligation of such Borrower or such Guarantor enforceable in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law). No Loan Document, nor the performance or observance by any Borrower or any Guarantor of any of the matters and things herein or therein provided for, contravenes or constitutes a default under any provision of law or any judgment, injunction, order or decree binding upon any Borrower or any Guarantor or any provision of the charter, articles of incorporation or by-laws (or equivalent organizational document) of any Borrower or any Guarantor or any covenant, indenture or agreement of or affecting any Borrower or any Guarantor or any of their respective Properties, in each case where such contravention or default, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, or result in the creation or imposition of any Lien on any Property of any Borrower or any Guarantor.

Section 7.4. Use of Proceeds; Margin Stock. The Borrowers shall use the proceeds of the Loans and other extensions of credit made available hereunder to fund their general corporate and working capital purposes, to refinance existing indebtedness and for such other purposes as are consistent with all applicable laws and the terms hereof. Neither the Company nor any Subsidiary is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan or any other extension of credit hereunder will be used to purchase or carry margin stock or used in a manner that violates any provision of Regulation U or X of the Board of Governors of the Federal Reserve System.

Section 7.5. Financial Reports. The consolidated balance sheet of the Company and its Subsidiaries as at December 31, 2006, and the related consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for the fiscal year then ended, and accompanying notes thereto, which financial statements are accompanied by the audit report of Ernst & Young LLP, independent public accountants, and the unaudited interim consolidated balance sheet of the Company and its Subsidiaries as at September 30, 2007, and the related consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for the nine months then ended, heretofore furnished to the Lenders, fairly present in all material respects the consolidated financial condition of the Company and its Subsidiaries as at said dates and the consolidated results of their operations and cash flows for the periods then ended in conformity with generally accepted accounting principles applied on a consistent basis (except, in the case of such unaudited statements, for normal year-end audit adjustments). Except as previously disclosed in writing to the Administrative Agent, neither the Company nor any Subsidiary has contingent liabilities which are material to it other than as indicated on such financial statements or, with respect to future periods, on the financial statements furnished pursuant to Section 9.4 hereof.

Section 7.6. No Material Adverse Change. Since December 31, 2006, except as previously disclosed in the Company's Form 10- K filed with the SEC for the year ended December 31, 2006, or the Company's Form 10- Q filed with the SEC for the quarter ended September 30, 2007 and except for any Specified Claims, there has been no change in the condition (financial or otherwise) or business prospects of the Company and its Subsidiaries taken as a whole which could reasonably be expected to have a Material Adverse Effect.

Section 7.7. Full Disclosure. The written statements and information furnished to the Lenders in connection with the negotiation of this Agreement and the other Loan Documents and the commitments by the Lenders to provide all or part of the financing contemplated hereby do not contain any untrue statements of a material fact or omit a material fact necessary to make the material statements contained herein or therein not misleading, the Lenders acknowledging that as to any projections furnished to the Lenders, the Borrowers only represent that the same were prepared on the basis of information and estimates the Borrowers believed to be reasonable.

Section 7.8. Good Title. The Company and its Subsidiaries each have good and defensible title to their assets as reflected on the most recent consolidated balance sheet of the Company and its Subsidiaries furnished to the Lenders, subject to no Liens other than such thereof as are permitted by Section 9.9 hereof.

Section 7.9. Litigation and Other Controversies. Except as otherwise disclosed in the Company's Form 10- K for the year ended December 31, 2006, or the Company's Form 10- Q for the quarter ended September 30, 2007 and except for any Specified Claims, there is no litigation or governmental proceeding or labor controversy pending, nor to the knowledge of any Borrower threatened, against the Company or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

Section 7.10. Taxes. All federal, state and other material tax returns required to be filed by the Company and its Subsidiaries in any jurisdiction have, in fact, been filed, and all taxes, assessments, fees and other governmental charges upon the Company and its Subsidiaries or upon any of their respective Properties, income or franchises, which are shown to be due and payable in such returns, have been paid, except for any taxes, assessments, fees or charges being contested in good faith by appropriate proceeding and for which adequate reserves have been provided. The Company does not know of any proposed additional tax assessment against it or its Subsidiaries for which adequate provision in accordance with GAAP has not been made on its accounts. Adequate provisions in accordance with GAAP for taxes on the books of the Company and its Subsidiaries have been made for all open years, and for its current fiscal period.

Section 7.11. Approvals. No authorization, consent, license, or exemption from, or filing or registration with, any court or governmental department, agency or instrumentality, nor any approval or consent of the stockholders of the Company or any other Person, is or will be necessary to the valid execution, delivery or performance by any Borrower of this Agreement or any other Loan Document.

Section 7.12. Affiliate Transactions. Neither the Company nor any Subsidiary is a party to any contracts or agreements with any of its Affiliates (other than transactions between the Company and a Wholly- Owned Subsidiary or between Wholly- Owned Subsidiaries) on terms and conditions which are less favorable to the Company or such Subsidiary than would be usual and customary in similar contracts or agreements between Persons not affiliated with each other.

Section 7.13. Investment Company. Neither the Company nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 7.14. ERISA. In respect of each Plan, the Company and each other member of its Controlled Group has fulfilled its obligations under the minimum funding standards of and is in compliance in all material respects with ERISA and the Code to the extent applicable to it and has not incurred any material liability to the PBGC or a Plan under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. Neither the Company nor any Subsidiary has any material contingent liabilities with respect to any post- retirement benefits under a Welfare Plan, other than liability for continuation coverage described in article 6 of Title I of ERISA.

Section 7.15. Compliance with Laws. The Company and its Subsidiaries are in compliance with the requirements of all federal, state and local laws, rules and regulations applicable to or pertaining to their Properties or business operations (including, without limitation, the Occupational Safety and Health Act of 1970, the Americans with Disabilities Act of 1990, and laws and regulations establishing quality criteria and standards for air, water, land and toxic or hazardous wastes and substances), non- compliance with which could reasonably be expected to have a Material Adverse Effect. Neither the Company nor any Subsidiary has received notice to the effect that its operations are not in compliance with any of the requirements of applicable federal, state or local environmental, health and safety statutes and regulations or are the subject of any governmental investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, which non- compliance or remedial action could reasonably be expected to have a Material Adverse Effect.

Section 7.16. Other Agreements. Neither the Company nor any Subsidiary is in default under the terms of any covenant, indenture or agreement of or affecting the Company, any Subsidiary or any of their Properties, which default if uncured could reasonably be expected to have a Material Adverse Effect.

Section 7.17. Labor Controversies. There are no labor controversies pending or threatened against the Company or any Subsidiary which could reasonably be expected to have a Material Adverse Effect.

Section 7.18. Insolvency. After giving effect to the execution and delivery of the Loan Documents and the extensions of credit under this Agreement: (a) neither any Borrower nor any Guarantor will (i) be "insolvent," within the meaning of such term as used in §101 of the "Bankruptcy Code", or Section 2 of either the "UFTA" or the "UFCA", or as defined or used in any "Other Applicable Law" (as those terms are defined below), or (ii) be unable to pay its debts generally as such debts become due within the meaning of Section 548 of the Bankruptcy Code, Section 4 of the UFTA or Section 6 of the UFCA, or (iii) have an unreasonably small capital to engage in any business or transaction, whether current or contemplated, within the meaning of Section 548 of the Bankruptcy Code, Section 4 of the UFTA or Section 5 of the UFCA; and (b) the obligations of the Borrowers and the Guarantors under the Loan Documents and with respect to the Loans and Letters of Credit will not be rendered avoidable under any Other Applicable Law. For purposes of this Section, "*Bankruptcy Code*" means Title 11 of the United States Code, "*UFTA*" means the Uniform Fraudulent Transfer Act, "*UFCA*" means the Uniform Fraudulent Conveyance Act, and "*Other Applicable Law*" means any other applicable law pertaining to fraudulent transfers or obligations voidable by creditors, in each case as such law may be amended from time to time.

Section 7.19. No Default. No Default or Event of Default has occurred and is continuing.

SECTION 8. CONDITIONS PRECEDENT.

The obligation of each Lender to advance, continue, or convert any Loan (other than the continuation of, or conversion into, a Base Rate Loan), or of the L/C Issuer to issue, extend the expiration date of or increase the amount of any Letter of Credit, shall be subject to the following conditions precedent:

Section 8.1. Initial Credit Event. The effectiveness of this Agreement shall be subject to the satisfaction prior to or on the date of this Agreement, of the following conditions:

- (a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement;
- (b) If requested by any Lender, the Administrative Agent shall have received (i) for each Lender, such Lender's duly executed Notes and (ii) the Swing Line Lender's duly executed Swing Line Note dated the date hereof;
- (c) The Administrative Agent shall have received for each Lender the favorable written opinion of counsel to the Borrowers in form and substance satisfactory to the Administrative Agent and its counsel;
- (d) The Administrative Agent shall have received (i) an original certificate of good standing for each Borrower (to the extent applicable), certified as of a date not earlier than 30 days prior to the date hereof by the Secretary of State of such party's

jurisdiction of organization and (ii) certificate or articles of incorporation or formation, together with all amendments thereto, and bylaws and any amendments thereto, for each Borrower, certified by such party's Secretary or an Assistant Secretary;

(e) The Administrative Agent shall have received copies of resolutions of each Borrower's Board of Directors authorizing the execution and delivery of the Loan Documents to which it is a party and the consummation of the transactions contemplated thereby, together with specimen signatures of the persons authorized to execute such documents on behalf of such Borrower, all certified in each instance by its Secretary or Assistant Secretary;

(f) The Administrative Agent shall have received a list of the Company's Authorized Representatives;

(g) The Administrative Agent shall have received the fees required by Section 4.1(c) and 4.1(d) hereof;

(h) The Administrative Agent shall have received an executed copy of the Note Purchase Agreement evidencing that each of the Borrowers is jointly and severally obligated on the "Notes" (as defined therein) and otherwise in a form satisfactory to the Administrative Agent and Lenders.

(i) Each of the representations and warranties set forth in Section 7 hereof shall be true and correct in all material respects; and

(j) All legal matters incident to the execution and delivery of the Loan Documents shall be reasonably satisfactory to the Lenders.

(a) In the case of a Borrowing of a Revolving Loan, the Administrative Agent shall have received the notice required by Section 1.5 hereof (including any deemed notice under Section 1.5(c)); in the case of a Swing Loan, the Swing Line Lender shall have received the notice required in Section 2.3 hereof; in the case of the issuance of any Letter of Credit, the L/C Issuer shall have received a duly completed Application for such Letter of Credit (along with the fees required by Section 4.1(b) hereof); in the case of an extension or increase in the amount of a Letter of Credit, the L/C Issuer shall have received a written request therefor (along with the fees required by Section 4.1(b) hereof) in a form acceptable to the L/C Issuer;

(b) Each of the representations and warranties set forth in Section 7 hereof (other than Section 7.6) shall be true and correct in all material respects as of said time, taking into account any amendments to such Section made after the date of this Agreement in accordance with its provisions, except that if any such representation or warranty relates solely to an earlier date it need only remain true as of such date;

(c) No Default or Event of Default shall have occurred and be continuing or would occur as a result of such Credit Event;

(d) After giving effect to such Credit Event, the aggregate Original Dollar Amount of Revolving Loans, Swing Loans and L/C Obligations then outstanding shall not exceed the Revolving Credit Commitments; and

(e) Such Credit Event shall not violate any order, judgment or decree of any court or other authority or any provision of law or regulation applicable to the Administrative Agent or any Lender (including, without limitation, Regulation U or X of the Board of Governors of the Federal Reserve System).

Each request for a Borrowing hereunder and each request for the issuance of, increase in the amount of, or extension of the expiration date of, a Letter of Credit shall be deemed to be a representation and warranty by the Borrowers on the date of such Credit Event as to the facts specified in paragraphs (a) through (d), both inclusive, of this Section 8.2.

SECTION 9. COVENANTS.

The Borrowers covenant and agree that, so long as any credit is available to or in use by the Borrowers hereunder, except to the extent compliance in any case is waived in writing pursuant to the terms of Section 14.13 hereof:

Section 9.1. Maintenance of Business. The Company shall, and shall cause each Subsidiary to, preserve and maintain its existence, and preserve and keep in force and effect all licenses, permits and franchises necessary to the proper conduct of its business; *provided, however,* that nothing in this Section 9.1 shall prohibit the dissolution, sale, transfer or other disposition of any Subsidiary which is otherwise permitted under Section 9.11 hereof.

Section 9.2. Taxes and Assessments. The Company shall duly pay and discharge, and shall cause each Subsidiary to duly pay and discharge, all material taxes, rates, assessments, fees and governmental charges upon or against it or its Properties, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves are provided therefor.

Section 9.3. Insurance. The Company shall insure and keep insured, and shall cause each Subsidiary to insure and keep insured, with responsible insurance companies, all insurable Property owned by it which is of a character usually insured by Persons similarly situated and operating like Properties against loss or damage from such hazards and risks, and in such amounts, as are insured by Persons similarly situated and operating like Properties; and the Company shall insure, and shall cause each Subsidiary to insure, such other hazards and risks (including employers' and public liability risks) with responsible insurance companies as and to the extent usually insured by Persons similarly situated and conducting similar businesses. The Company shall upon written request furnish to the Administrative Agent and any Lender a certificate setting forth in summary form the nature and extent of the insurance maintained pursuant to this Section.

Section 9.4. Financial Reports. The Company shall maintain a standard system of accounting in accordance with GAAP and shall furnish to the Administrative Agent, each Lender and their duly authorized representatives such information respecting the business and financial condition of the Company and its Subsidiaries as the Administrative Agent may reasonably request (each Lender to have the right to require the Administrative Agent make such request); and without any request, the Company will furnish each of the following to the Administrative Agent, with sufficient copies for each Lender (which the Administrative Agent shall promptly distribute to each Lender) or, in lieu of furnishing any such item to the Administrative Agent, may at such time notify the Administrative Agent that such item has been posted to a website maintained by or on behalf of the Company and accessible to all of the Lenders, such notification to inform the Administrative Agent of any information necessary to allow the Lenders to access such item:

- (a) as soon as available, and in any event within 45 days after the close of each fiscal quarter of the Company, a copy of the consolidated balance sheet of the Company and its Subsidiaries as of the last day of such period and the consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for the fiscal quarter and for the fiscal year- to- date period then ended, each in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous fiscal year, prepared by the Company in accordance with GAAP (subject to normal year- end adjustments) and certified to by its President or Chief Financial Officer or Vice President and Treasurer;
- (b) as soon as available, and in any event within 90 days after the close of each annual accounting period of the Company, a copy of the consolidated balance sheet of the Company and its Subsidiaries as of the last day of the period then ended and the consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for the period then ended, and accompanying notes thereto, each in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied by an opinion thereon, unqualified as to scope and going- concern status, of Ernst & Young LLP or another firm of independent public accountants of recognized national standing, selected by the Company and satisfactory to the Required Lenders, to the effect that the financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of the Company and its Subsidiaries as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;
- (c) within the period provided in subsection (b) above, the written statement of the accountants who certified the audit report thereby required that in the course of their audit they have obtained no knowledge of any Default or Event of Default with

respect to Sections 9.6, 9.7 and 9.8, or, if such accountants have obtained knowledge of any such Default or Event of Default, they shall disclose in such statement the nature and period of the existence thereof;

(d) promptly after receipt thereof, any additional written reports, management letters or other detailed information contained in writing given to it by its independent public accountants and having a material impact on the consolidated financial condition of the Company and its Subsidiaries;

(e) promptly after the sending or filing thereof, a copies of all proxy statements, financial statements and reports which the Company sends to its shareholders, and copies of all regular, periodic and special reports and all registration statements which the Company files with the SEC or with any national securities exchange; and

(f) promptly after knowledge thereof shall have come to the attention of any Responsible Officer of the Company, written notice of any threatened or pending litigation or governmental proceeding or labor controversy against the Company or any Subsidiary which could reasonably be expected to have a Material Adverse Effect or of the occurrence of any Default or Event of Default hereunder.

Each of the financial statements furnished to the Administrative Agent and the Lenders pursuant to subsections (a) and (b) of this Section shall be accompanied by a Compliance Certificate signed by the President, the Chief Financial Officer or the Vice President and Treasurer of the Company to the effect that to the best of such officer's knowledge and belief no Default or Event of Default has occurred during the period covered by such statements or, if any such Default or Event of Default has occurred during such period, setting forth a description of such Default or Event of Default and specifying the action, if any, taken by the Borrowers to remedy the same. Such Compliance Certificate shall also (i) set forth the calculations supporting such statements in respect of Sections 9.6, 9.7 and 9.8 of this Agreement and (ii) contain a calculation of the Cash Flow Leverage Ratio for purposes of determining adjustments (if any) to the Applicable Margins.

Section 9.5. Inspection. The Company shall, and shall cause each Subsidiary to, permit the Administrative Agent, each Lender and each of their duly authorized representatives and agents during normal business hours to visit and inspect any of the Properties, corporate books and financial records of the Company and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Company and each Subsidiary, and to discuss the affairs, finances and accounts of the Company and each Subsidiary with, and to be advised as to the same by, its officers, employees and independent public accountants (and by this provision the Company hereby authorizes such accountants to discuss with the Administrative Agent and such Lender the finances and affairs of the Company and of each Subsidiary) at such reasonable times and reasonable intervals as the Administrative Agent or any such Lender may designate.

Section 9.6. Net Worth. The Company shall not at any time permit its Net Worth to be less than \$550,000,000 plus 40% of Net Income for each calendar quarter (if positive for such quarter) completed as of the date of determination, commencing with the calendar quarter ending September 30, 2005.

Section 9.7. Cash Flow Leverage Ratio. The Company shall not at any time permit its Cash Flow Leverage Ratio to be more than 2.75 to 1.0.

Section 9.8. Interest Coverage Ratio. The Company shall not at any time permit its Interest Coverage Ratio to be less than 4.00 to 1.0.

Section 9.9. Liens. The Company shall not, nor shall it permit any Subsidiary to, create, incur or permit to exist any Lien of any kind on any Property owned by the Company or such Subsidiary; *provided, however*, that the foregoing shall not apply to nor operate to prevent:

(a) Liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges, good faith cash deposits in connection with tenders, contracts or leases to which the Company or any Subsidiary is a party or other cash deposits required to be made in the ordinary course of business, *provided* in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(b) mechanics', workmen's, materialmen's, landlords', carriers', or other similar Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(c) the pledge of assets for the purpose of securing an appeal, stay or discharge in the course of any legal proceeding, *provided* that the aggregate amount of liabilities of the Company and its Subsidiaries secured by a pledge of assets permitted under this subsection, including interest and penalties thereon, if any, shall not be in excess of \$50,000,000 at any one time outstanding;

(d) Liens on Property of the Company or any of its Subsidiaries created solely for the purpose of securing purchase money indebtedness or Capitalized Lease Obligations and, representing or incurred to finance, refinance or refund the purchase price of Property, *provided* that no such Lien shall extend to or cover other Property of the Company or such Subsidiary other than the respective Property so acquired, and the principal amount of indebtedness secured by any such Lien shall at no time exceed the original purchase price of such Property;

(e) leases or subleases granted to others in the ordinary course of business and any interest or title of a lessor under any lease permitted by this Agreement;

-
- (f) customary rights of set off, revocation, refund or chargeback under deposit agreements or under the Uniform Commercial Code in favor of banks or other financial institution where the Company or any Subsidiary maintains deposits in the ordinary course of business;
- (g) Liens constituting encumbrances in the nature of zoning restrictions, condemnations, easements, encroachments, covenants, rights of way, minor defects, irregularities and rights or restrictions of record on the title or use of real property, which do not materially detract from the value of such property or materially impair the use thereof in the business of the Company or any Subsidiary; and
- (h) Liens other than those permitted by any of the foregoing subsections (a) through (g) *provided* such Liens do not at any time secure obligations exceeding 10% of Net Worth as then determined and computed.

Section 9.10. Acquisitions. The Company shall not, nor shall it permit any Subsidiary to, acquire all or any substantial part of the assets or business of any other Person or division thereof; *provided, however*, that the foregoing shall not apply to nor operate to prevent acquisitions of all or substantially all of the assets or business of any other Person or division thereof, or all or any part of the Voting Stock of or other equity interest in any Person (including as such an acquisition, any action to participate as a joint venturer in any joint venture or as a partner in any partnership), in each case if and so long as (i) no Default or Event of Default exists or would exist after giving effect to such acquisition, (ii) after giving effect to such acquisition, the Borrowers would have unused Revolving Credit Commitments in excess of \$75,000,000, (iii) the Board of Directors or other governing body of such Person whose Property or Voting Stock or other equity interest is being so acquired has not opposed the terms of such acquisition and (iv) such acquisition involves a line of business which is complementary to the lines of business in which the Company or the Subsidiary, as the case may be, making such acquisition is engaged on the Effective Date.

Section 9.11. Mergers, Consolidations and Sales. The Company shall not be a party to any merger or consolidation unless the Company is the surviving entity and no Default or Event of Default exists or would exist after giving effect to such merger or consolidation. The Company shall not, nor shall it permit any Subsidiary to, sell, transfer, lease or otherwise dispose of all or any part of its Property, including any disposition of Property as part of a sale and leaseback transaction, or in any event sell or discount (with or without recourse) any of its notes or accounts receivable; *provided, however*, that so long as no Default or Event of Default exists this Section shall not apply to nor operate to prevent:

- (a) the sale or lease of inventory in the ordinary course of business;
- (b) the sale, transfer, lease or other disposition of Property of the Company and its Subsidiaries to one another;
- (c) the merger of any Subsidiary with or into the Company (with the Company being the surviving entity) or another existing or newly- formed Subsidiary;

-
- (d) the dissolution of any Subsidiary pursuant to a plan of dissolution requiring the conveyance or distribution of all or substantially all of the assets of such Subsidiary to the Company or to another existing or newly- formed Subsidiary;
 - (e) the dissolution, sale or transfer of any Non- Borrower Subsidiary;
 - (f) the sale of delinquent notes or accounts receivable in the ordinary course of business for purposes of collection only (and not for the purpose of any bulk sale or securitization transaction);
 - (g) the sale, transfer or other disposition of any tangible personal property that, in the reasonable business judgment of the Company or its Subsidiary, has become obsolete or worn out, and which is disposed of in the ordinary course of business;
 - (h) sales by the Company or its Subsidiaries of assets categorized in the "Financial Services" segment as identified in the Company's consolidated financial statements filed with the SEC; and
 - (i) any other sale, transfer, lease or disposition of Property of the Company or any Subsidiary not described in the foregoing clauses (a) through (h) (including any disposition of Property as part of a sale and leaseback transaction) aggregating for the Company and its Subsidiaries not more than \$340,000,000 during the term of this Agreement.

Section 9.12. ERISA. The Company shall, and shall cause each Subsidiary to, promptly pay and discharge all obligations and liabilities arising under ERISA of a character which if unpaid or unperformed could reasonably be expected to result in the imposition of a Lien against any of its Properties. The Company shall, and shall cause each Subsidiary to, promptly notify the Administrative Agent and each Lender of (i) the occurrence of any reportable event (as defined in ERISA) with respect to a Plan (other than a reportable event with respect to which the 30 day notice requirement is waived), (ii) receipt of any notice from the PBGC of its intention to seek termination of any Plan or appointment of a trustee therefor, (iii) its intention to terminate or withdraw from any Plan, and (iv) the occurrence of any event with respect to any Plan which would result in the incurrence by the Company or any Subsidiary of any material liability, fine or penalty, or any material increase in the contingent liability of the Company or any Subsidiary with respect to any post- retirement Welfare Plan benefit.

Section 9.13. Compliance with Laws. The Company shall, and shall cause each Subsidiary to, comply in all respects with the requirements of all federal, state and local laws, rules, regulations, ordinances and orders applicable to or pertaining to their Properties or business operations, non-compliance with which could reasonably be expected to have a Material Adverse Effect.

Section 9.14. Burdensome Contracts with Affiliates. The Company shall not, nor shall it permit any Subsidiary to, enter into any contract, agreement or business arrangement with any of its Affiliates (other than transactions between the Company and a Wholly- Owned Subsidiary or between Wholly- Owned Subsidiaries) on terms and conditions which are less favorable to the Company or such Subsidiary than would be usual and customary in similar contracts, agreements or business arrangements between Persons not affiliated with each other.

Section 9.15. No Changes in Fiscal Year. Neither the Company nor any Subsidiary shall change its fiscal year from its present basis without the prior written consent of the Required Lenders, such consent not to be unreasonably withheld.

Section 9.16. Change in the Nature of Business. The Company shall not, and shall not permit any Subsidiary to, engage in any business or activity if as a result the general nature of the business of the Company and its Subsidiaries taken as a whole would be changed in any material respect from the general nature of the business engaged in by the Company and its Subsidiaries on the date of this Agreement.

Section 9.17. Assets of Borrowers. The Borrowers (other than the Company) shall at all times maintain an aggregate asset value equal to or greater than the lesser of (a) 80% of the consolidated total assets of the Company and its Subsidiaries or (b) \$1,500,000,000.

SECTION 10. EVENTS OF DEFAULT AND REMEDIES.

Section 10.1. Events of Default. Any one or more of the following shall constitute an Event of Default:

- (a) default (i) in the payment when due of the principal amount of any Loan or (ii) for a period of three Business Days in the payment when due of interest or fees or any part of any other Obligation payable by the Borrowers hereunder or under any other Loan Document; or
- (b) default in the observance or performance of the Borrowers' obligation to deliver cash collateral for Letters of Credit as required by Section 1.2(b) hereof; or
- (c) default for a period of one Business Day in the observance or performance of the Company's obligations under Section 9.4 hereof; or
- (d) default in the observance or performance of any covenant set forth in Sections 9.6, 9.7, 9.8, 9.10, 9.11, 9.12 or 9.16 hereof; or
- (e) default in the observance or performance of any other provision hereof or of any other Loan Document which is not remedied within 30 days after the earlier of (i) the date on which such failure shall first become known to any Responsible Officer of the Company or (ii) written notice thereof is given to the Company by the Administrative Agent or any Lender; or
- (f) (i) any representation or warranty made by the Company herein or in any other Loan Document, or in any statement or certificate furnished by it pursuant hereto or thereto, or in connection with any Loan or other extension of credit made hereunder,

proves untrue in any material respect as of the date of the issuance or making thereof, or (ii) any representation or warranty made by any Borrower (other than the Company) or Guarantor herein or in any other Loan Document, or in any statement or certificate furnished by it pursuant hereto or thereto, or in connection with any Loan or other extension of credit made hereunder, proves untrue in any material respect as of the date of the issuance or making thereof and such untruthfulness could reasonably be expected to have a Material Adverse Effect; or

(g) default shall occur under any evidence of Indebtedness for Borrowed Money issued, assumed or guaranteed by the Company or any Subsidiary aggregating in excess of \$25,000,000, or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness for Borrowed Money (whether or not such maturity is in fact accelerated), or any such Indebtedness for Borrowed Money shall not be paid when due (whether by lapse of time, acceleration or otherwise); or

(h) any judgment or judgments, writ or writs, or warrant or warrants of attachment, or any similar process or processes in an aggregate amount in excess of \$50,000,000 shall be entered or filed against the Company or any Subsidiary or against any of their Property which remains unvacated, unbonded, unstayed or unsatisfied for a period of 30 days; or

(i) the Company or any member of its Controlled Group shall fail to pay when due an amount or amounts aggregating in excess of \$2,000,000 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans having aggregate Unfunded Vested Liabilities in excess of \$15,000,000 (collectively, a "*Material Plan*") shall be filed under Title IV of ERISA by the Company or any other member of its Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Material Plan or a proceeding shall be instituted by a fiduciary of any Material Plan against the Company or any member of its Controlled Group to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or

(k) any Borrower or any Material Subsidiary shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as

amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action in furtherance of any matter described in parts (ii) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in Section 10.1(l) hereof; or

(l) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for any Borrower or any Material Subsidiary or any substantial part of any of its Property, or a proceeding described in Section 10.1(k)(v) shall be instituted against any Borrower or any Material Subsidiary, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 days.

Section 10.2. Non-Bankruptcy Defaults. When any Event of Default other than those described in subsections (k) or (l) of Section 10.1 hereof has occurred and is continuing, the Administrative Agent shall, if so directed by the Required Lenders, by written notice to the Company: (a) terminate the remaining Revolving Credit Commitments and all other obligations of the Lenders hereunder on the date stated in such notice (which may be the date thereof); (b) declare the principal of and the accrued interest on all outstanding Loans to be forthwith due and payable and thereupon all outstanding Loans, including both principal and interest thereon, shall be and become immediately due and payable together with all other amounts payable under the Loan Documents without further demand, presentment, protest or notice of any kind; and (c) demand that the Borrowers immediately pay to the Administrative Agent, subject to Section 10.4, the full amount then available for drawing under each or any Letter of Credit, and the Borrowers agree to immediately make such payment and acknowledges and agrees that the Lenders would not have an adequate remedy at law for failure by the Borrowers to honor any such demand and that the Administrative Agent, for the benefit of the Lenders, shall have the right to require the Borrowers to specifically perform such undertaking whether or not any drawings or other demands for payment have been made under any Letter of Credit.

Section 10.3. Bankruptcy Defaults. When any Event of Default described in subsections (k) or (l) of Section 10.1 hereof has occurred and is continuing, then all outstanding Loans shall immediately become due and payable together with all other amounts payable under the Loan Documents without presentment, demand, protest or notice of any kind, the obligation of the Lenders to extend further credit pursuant to any of the terms hereof shall immediately terminate and the Borrowers shall immediately pay to the Administrative Agent, subject to Section 10.4, the full amount then available for drawing under all outstanding Letters of Credit, the Borrowers acknowledging that the Lenders would not have an adequate remedy at law for failure by the Borrowers to honor any such demand and that the Lenders, and the Administrative Agent on their behalf, shall have the right to require the Borrowers to specifically perform such undertaking whether or not any draws or other demands for payment have been made under any of the Letters of Credit.

Section 10.4. Collateral for Undrawn Letters of Credit. (a) If the payment or prepayment of the amount available for drawing under any or all outstanding Letters of Credit is required under Section 1.2(b), Section 10.2 or Section 10.3 above, the Borrowers shall forthwith pay the amount required to be so prepaid, to be held by the Administrative Agent as provided in subsection (b) below.

(b) All amounts prepaid pursuant to subsection (a) above shall be held by the Administrative Agent in a separate collateral account (such account, and the credit balances, properties and any investments from time to time held therein, and any substitutions for such account, any certificate of deposit or other instrument evidencing any of the foregoing and all proceeds of and earnings on any of the foregoing being collectively called the "*Account*") as security for, and for application by the Administrative Agent (to the extent available) to, the reimbursement of any payment under any Letter of Credit then or thereafter made by the Administrative Agent. The Account shall be held in the name of and subject to the exclusive dominion and control of the Administrative Agent for the benefit of the Administrative Agent, the L/C Issuer and the Lenders. If and when requested by the Company, the Administrative Agent shall invest funds held in the Account from time to time in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America with a remaining maturity of one year or less, *provided* that the Administrative Agent is irrevocably authorized to sell investments held in the Account when and as required to make payments out of the Account for application to amounts due and owing from any Borrower to the Administrative Agent, the L/C Issuer or Lenders; *provided, however*, that if (i) the Borrowers shall have made payment of all such obligations referred to in subsection (a) above and (ii) no Letters of Credit remain outstanding hereunder, then the Administrative Agent shall repay to the Company for the benefit of the Borrowers any remaining amounts held in the Account.

Section 10.5. Notice of Default. The Administrative Agent shall give notice to the Company under Section 10.1(c) hereof promptly upon being requested to do so by any Lender and shall thereupon notify all the Lenders thereof.

Section 10.6. Expenses. The Borrowers agree to pay to the Administrative Agent, for the account of the Administrative Agent and each Lender, and any other holder of any Obligation outstanding hereunder, all out- of- pocket expenses incurred or paid by the Administrative Agent and such Lender or any such holder, including attorneys' fees and court costs, in connection with any Default or Event of Default by any Borrower hereunder or in connection with the enforcement of any of the Loan Documents.

SECTION 11. CHANGE IN CIRCUMSTANCES.

Section 11.1. Change of Law. Notwithstanding any other provisions of this Agreement or any Note, if at any time after the date hereof any Lender shall determine in good faith that any change in applicable laws, treaties or regulations or in the interpretation thereof makes it unlawful for such Lender to make or continue to maintain Eurocurrency Loans, such Lender shall promptly give notice thereof to the Administrative Agent (which shall in turn promptly notify the Company and the other Lenders) and such Lender's obligations to make or maintain Eurocurrency Loans under this Agreement shall terminate until it is no longer unlawful for such Lender to make or maintain Eurocurrency Loans. The Borrowers shall prepay on the last day of the Interest Period for any such

affected Eurocurrency Loan, or within such earlier period as required by law upon demand from the affected Lender, the outstanding principal amount of any such affected Eurocurrency Loans, together with all interest accrued thereon and all other amounts payable to the affected Lender with respect thereto; *provided, however*, subject to all of the terms and conditions of this Agreement, the Company may then elect on behalf of the Borrowers to borrow the principal amount of the affected Eurocurrency Loans from such Lender by means of Base Rate Loans from such Lender, which Base Rate Loans shall not be made ratably by the Lenders but only from such affected Lender.

Section 11.2. Unavailability of Deposits or Inability to Ascertain, or Inadequacy of, Adjusted LIBOR. If on or prior to the first day of any Interest Period for any Borrowing of Eurocurrency Loans:

(a) the Administrative Agent determines that deposits in U.S. Dollars or the applicable Alternative Currency (in the applicable amounts) are not being offered to it in the eurocurrency interbank market for such Interest Period, or that by reason of circumstances affecting the interbank eurocurrency market adequate and reasonable means do not exist for ascertaining the applicable Adjusted LIBOR, or

(b) the Required Lenders determine and so advise the Administrative Agent that Adjusted LIBOR as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Lenders of funding their Eurocurrency Loans or Loan for such Interest Period,

then the Administrative Agent shall forthwith give notice thereof to the Company and the Lenders, whereupon until the Administrative Agent notifies the Company that the circumstances giving rise to such suspension no longer exist, the obligations of the Lenders to make Eurocurrency Loans in the currency so affected shall be suspended.

Section 11.3. Increased Cost and Reduced Return. (a) If, after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request or directive (whether or not having the force of law but, if not having the force of law, compliance with which is customary in the relevant jurisdiction) of any such authority, central bank or comparable agency issued after the date hereof:

(i) shall subject any Lender (or its Lending Office) to any tax, duty or other charge with respect to its Eurocurrency Loans, its Notes, its Letters of Credit, or its participation in any thereof, any Reimbursement Obligations owed to it or its obligation to make Eurocurrency Loans, issue Letters of Credit, or to participate therein, or shall change the basis of taxation of payments to any Lender (or its Lending Office) of the principal of or interest on its Eurocurrency Loans, Letters of Credit, or participations therein or any other amounts due under this Agreement in respect of its Eurocurrency Loans, Letters of Credit, or participations therein, any Reimbursement Obligations owed to it, or its obligation to make Eurocurrency Loans, issue a Letter of Credit, or

acquire participations therein (except for changes in the rate of tax on the overall net income or profits of such Lender or its Lending Office imposed by the jurisdiction in which such Lender or its lending office is incorporated, or in which such Lender's principal executive office or Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Eurocurrency Loans any such requirement included in an applicable Eurocurrency Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Lender (or its Lending Office) or shall impose on any Lender (or its Lending Office) or on the interbank market any other condition affecting its Eurocurrency Loans, its Notes, its Letters of Credit, or its participation in any thereof, any Reimbursement Obligation owed to it, or its obligation to make Eurocurrency Loans, to issue a Letter of Credit, or to participate therein;

and the result of any of the foregoing is to increase the cost to such Lender (or its Lending Office) of making or maintaining any Eurocurrency Loan, issuing or maintaining a Letter of Credit, or participating therein, or to reduce the amount of any sum received or receivable by such Lender (or its Lending Office) under this Agreement or under its Notes with respect thereto, by an amount deemed by such Lender to be material, then, within 15 days after demand by such Lender (with a copy to the Administrative Agent), the Borrowers shall be obligated to pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction. In the event any law, rule, regulation or interpretation described above is revoked, declared invalid or inapplicable or is otherwise rescinded, and as a result thereof a Lender is determined to be entitled to a refund from the applicable authority for any amount or amounts which were paid or reimbursed by the Borrowers to such Lender hereunder, such Lender shall refund such amount or amounts to the Company on behalf of the Borrowers without interest.

(b) If any Lender or the Administrative Agent shall have determined that the adoption, after the date hereof, of any applicable law, rule or regulation regarding capital adequacy, or any change therein (including, without limitation, any revision in the Final Risk- Based Capital Guidelines of the Board of Governors of the Federal Reserve System (12 CFR Part 208, Appendix A; 12 CFR Part 225, Appendix A) or of the Office of the Comptroller of the Currency (12 CFR Part 3, Appendix A), or in any other applicable capital rules heretofore adopted and issued by any governmental authority), or any change in the interpretation or administration thereof after the date hereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request or directive issued after the date hereof regarding capital adequacy (whether or not having the force of law but, if not having the force of law, compliance with which is customary in the applicable jurisdiction) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital, or on the capital of any corporation controlling such Lender, as a consequence of its obligations hereunder to a level below that which such Lender could have achieved but for such adoption, change or compliance

(taking into consideration such Lender's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, within 15 days after demand by such Lender (with a copy to the Administrative Agent), the Borrowers shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

(c) Each Lender that determines to seek compensation under this Section 11.3 shall notify the Company and the Administrative Agent of the circumstances that entitle the Lender to such compensation pursuant to this Section 11.3 and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section 11.3 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive if reasonably determined. The Borrowers shall not be obligated to reimburse, compensate or indemnify any Lender with respect to a claim or any portion thereof to the extent such claim or portion thereof arose more than 120 days prior to the notice of such claim delivered pursuant to this Section 11.3(c).

Section 11.4. Lending Offices. Each Lender may, at its option, elect to make its Loans hereunder at the branch, office or affiliate specified on the appropriate signature page hereof (each a "*Lending Office*") for each type of Loan available hereunder or at such other of its branches, offices or affiliates as it may from time to time elect and designate in a written notice to the Company and the Administrative Agent.

Section 11.5. Discretion of Lender as to Manner of Funding. Notwithstanding any other provision of this Agreement, each Lender shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if each Lender had actually funded and maintained each Eurocurrency Loan through the purchase of deposits of U.S. Dollars in the eurocurrency interbank market having a maturity corresponding to such Loan's Interest Period and bearing an interest rate equal to Adjusted LIBOR for such Interest Period.

Section 11.6. Replacement of Lenders. If the Borrowers are required pursuant to Section 11.3 or Section 14.1 hereof to make any additional payment to any Lender or if any Lender's obligation to make or continue, or to convert Base Rate Loans into, Eurocurrency Loans shall be suspended pursuant to Section 11.1 or Section 11.2 hereof, or if any Lender does not timely agree or consent, in writing, to any amendment or consent hereto or waiver of any provision hereof which is timely agreed or consented to by the Required Lenders (any such Lender being hereinafter referred to as a "*Replaced Lender*"), then in such case, the Company may, upon at least five Business Days' notice to the Administrative Agent and to such Replaced Lender, designate a replacement lender (a "*Replacement Lender*") acceptable to the Administrative Agent in its reasonable discretion, to which such Replaced Lender shall, subject to its receipt (unless a later date for the remittance thereof shall be agreed upon by the Company and the Replaced Lender) of all amounts owed to such Replaced Lender under Section 11.3 or Section 14.1, assign all (but not less than all) of its rights, obligations, Loans and Revolving Credit Commitment hereunder; *provided*, that all amounts (including amounts owed pursuant to Section 3.6 hereof) owed by the Borrowers to such Replaced Lender hereunder (except liabilities which by the terms hereof survive the payment in full of the Loans and termination of this Agreement) shall be paid in full as of the date of such assignment.

SECTION 12. THE ADMINISTRATIVE AGENT.

Section 12.1. Appointment and Authorization of Administrative Agent. Each Lender hereby appoints Harris N.A. as the Administrative Agent under the Loan Documents and hereby authorizes the Administrative Agent to take such action as the Administrative Agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto.

Section 12.2. Administrative Agent and its Affiliates. The Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any other Lender and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and the Administrative Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with any Borrower or any Affiliate of any Borrower as if it were not the Administrative Agent under the Loan Documents. The term "*Lender*" as used herein and in all other Loan Documents, unless the context otherwise clearly requires, includes the Administrative Agent in its individual capacity as a Lender. References in Section 1 hereof to the Administrative Agent's Loans, or to the amount owing to the Administrative Agent for which an interest rate is being determined, refer to the Administrative Agent in its individual capacity as a Lender.

Section 12.3. Action by Administrative Agent. If the Administrative Agent receives from the Company a written notice of an Event of Default pursuant to Section 9.4(f) hereof, the Administrative Agent shall promptly give each of the Lenders written notice thereof. The Lenders expressly agree that the Administrative Agent is not acting as a fiduciary of the Lenders in respect of the Loan Documents, the Borrowers or otherwise, and nothing herein or in any of the other Loan Documents shall result in any duties or obligations on the Administrative Agent or any of the Lenders except as expressly set forth herein. The obligations of the Administrative Agent under the Loan Documents are only those expressly set forth therein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action hereunder with respect to any Default or Event of Default, except as expressly provided in Sections 10.2 and 10.5 hereof. In no event, however, shall the Administrative Agent be required to take any action in violation of applicable law or of any provision of any Loan Document, and the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder or under any other Loan Document unless it shall be first indemnified to its reasonable satisfaction by the Lenders against any and all costs, expense, and liability which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall be entitled to assume that no Default or Event of Default exists unless notified to the contrary by a Lender or the Company. In all cases in which this Agreement and the other Loan Documents do not require the Administrative Agent to take certain actions, the Administrative Agent shall be fully justified in using its discretion in failing to take or in taking any action hereunder and thereunder.

Section 12.4. Consultation with Experts. The Administrative Agent may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 12.5. Liability of Administrative Agent; Credit Decision. Neither the Administrative Agent nor any of its directors, officers, agents, or employees shall be liable for any action taken or not taken by it in connection with the Loan Documents (i) with the consent or at the request of the Required Lenders or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement, any other Loan Document or any Credit Event; (ii) the performance or observance of any of the covenants or agreements of any Borrower contained herein or in any other Loan Document; (iii) the satisfaction of any condition specified in Section 8 hereof, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness, genuineness, enforceability, perfection, value, worth or collectibility hereof or of any other Loan Document or of any other documents or writing furnished in connection with any Loan Document; and the Administrative Agent makes no representation of any kind or character with respect to any such matter mentioned in this sentence. The Administrative Agent may execute any of its duties under any of the Loan Documents by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, the Borrowers, or any other Person for the default or misconduct of any such agents or attorneys-in-fact selected with reasonable care. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, other document or statement (whether written or oral) believed by it to be genuine or to be sent by the proper party or parties. In particular and without limiting any of the foregoing, the Administrative Agent shall have no responsibility for confirming the accuracy of any Compliance Certificate or other document or instrument received by it under the Loan Documents. The Administrative Agent may treat the payee of any Note as the holder thereof until written notice of transfer shall have been filed with the Administrative Agent signed by such payee in form satisfactory to the Administrative Agent. Each Lender acknowledges that it has independently and without reliance on the Administrative Agent or any other Lender, and based upon such information, investigations and inquiries as it deems appropriate, made its own credit analysis and decision to extend credit to the Borrowers in the manner set forth in the Loan Documents. It shall be the responsibility of each Lender to keep itself informed as to the creditworthiness of the Borrowers and the Administrative Agent shall have no liability to any Lender with respect thereto.

Section 12.6. Indemnity. The Lenders shall ratably, in accordance with their respective Percentages, indemnify and hold the Administrative Agent, and its directors, officers, employees, agents and representatives harmless from and against any liabilities, losses, costs or expenses suffered or incurred by it under any Loan Document or in connection with the transactions contemplated thereby, regardless of when asserted or arising, except to the extent they are promptly reimbursed for the same by the Borrowers and except to the extent that any event giving rise to a claim was caused by the gross negligence or willful misconduct of the party seeking to be indemnified. The obligations of the Lenders under this Section 12.6 shall survive termination of this Agreement.

Section 12.7. Resignation of Administrative Agent and Successor Administrative Agent. The Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Company. Upon any such notice of resignation of the Administrative Agent, the Required Lenders shall have the right to appoint a successor Administrative Agent with the consent of the Company. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be any Lender hereunder or any commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$200,000,000. The retiring Administrative Agent shall continue as Administrative Agent hereunder until a successor Administrative Agent has accepted appointment as Administrative Agent. Upon the acceptance of its appointment as the Administrative Agent hereunder, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring or removed Administrative Agent under the Loan Documents, and the retiring Administrative Agent shall be discharged from its duties and obligations thereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 12 and all protective provisions of the other Loan Documents shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

Section 12.8. L/C Issuer and Swing Line Lender. The L/C Issuer shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the Swing Line Lender shall act on behalf of the Lenders with respect to the Swing Loans made hereunder. The L/C Issuer and the Swing Line Lender shall each have all of the benefits and immunities (i) provided to the Administrative Agent in this Section 12 with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and the Applications pertaining to such Letters of Credit or by the Swing Line Lender in connection with Swing Loans made or to be made hereunder as fully as if the term "Administrative Agent", as used in this Section 12, included the L/C Issuer and Swing Line Lender with respect to such acts or omissions and (ii) as additionally provided in this Agreement with respect to such L/C Issuer.

Section 12.9. Syndication Agent. The Lenders designated as Syndication Agent or Documentation Agent shall have no duties or responsibilities for the administration of this Agreement or the other Loan Documents. The Administrative Agent shall have the continuing right, for purposes hereof, at any time and from time to time to designate one or more of the Lenders (and/or its or their Affiliates) as "syndication agents," "documentation agents," "arrangers," or other designations for purposes hereto, but such designation shall have no substantive effect, and such Lenders and their Affiliates shall have no additional powers, duties or responsibilities as a result thereof.

SECTION 13.A. JOINT AND SEVERAL OBLIGORS.

Section 13.1.A. Joint and Several Obligors. To induce the Lenders to provide the credits described herein and in consideration of benefits expected to accrue to the Borrowers by reason of the Revolving Credit Commitments and for other good and valuable consideration, receipt of which is hereby acknowledged, each Borrower hereby unconditionally and irrevocably confirms jointly and severally to the Administrative Agent and the Lenders, the due and punctual payment of all present and future Obligations, including, but not limited to, the due and punctual payment of principal of and interest on the Loan, Notes, the Reimbursement Obligations, and the due and punctual payment of all other Obligations now or hereafter owed by any Borrower under the Loan Documents as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, according to the terms hereof and thereof. In case of failure by any Borrower punctually to pay any Obligations, each other Borrower hereby unconditionally agrees to make such payment or to cause such payment to be made punctually as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise.

Section 13.2.A. Unconditional. The obligations of each Borrower under this Section 13.A shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged, or otherwise affected by:

- (a) any extension, renewal, settlement, compromise, waiver, or release in respect of any obligation of any Borrower or of any other guarantor under this Agreement or any other Loan Document or by operation of law or otherwise;
- (b) any modification or amendment of or supplement to this Agreement or any other Loan Document;
- (c) any change in the corporate existence, structure, or ownership of, or any insolvency, bankruptcy, reorganization, or other similar proceeding affecting, any Borrower or any of their respective assets, or any resulting release or discharge of any obligation of any Borrower contained in any Loan Document;
- (d) the existence of any claim, set-off, or other rights which any Borrower may have at any time against the Administrative Agent, any Lender, or any other Person, whether or not arising in connection herewith;
- (e) any failure to assert, or any assertion of, any claim or demand or any exercise of, or failure to exercise, any rights or remedies against any Borrower or any other Person or Property;
- (f) any application of any sums by whomsoever paid or howsoever realized to any obligation of any Borrower, regardless of what obligations of the Borrowers remain unpaid;

(g) any invalidity or unenforceability relating to or against any Borrower for any reason of this Agreement or of any other Loan Document or any provision of applicable law or regulation purporting to prohibit the payment by any Borrower of the principal of or interest on any Loan or any Reimbursement Obligation or any other amount payable under the Loan Documents; or

(h) any other act or omission to act or delay of any kind by the Administrative Agent, any Lender, or any other Person or any other circumstance whatsoever that might, but for the provisions of this paragraph, constitute a legal or equitable discharge of the obligations of any Borrower under this Section 13.A.

Section 13.3.A. Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances. Except as provided in Section 5.3, each Borrower's obligations under this Section 13.A. shall remain in full force and effect until the Revolving Credit Commitments are terminated, all Letters of Credit have expired, and the principal of and interest on the Loans, Notes and all other amounts payable by the Borrowers under this Agreement and all other Loan Documents shall have been paid in full. If at any time any payment of the principal of or interest on any Note or any Reimbursement Obligation or any other amount payable by any Borrower under the Loan Documents is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy, or reorganization of any Borrower, or otherwise, each Borrower's obligations under this Section 13.A with respect to such payment shall be reinstated at such time as though such payment had become due but had not been made at such time.

Section 13.4.A. Subrogation. Each Borrower agrees it will not exercise any rights which it may acquire by way of subrogation by any payment made hereunder, or otherwise, until all the Obligations shall have been paid in full subsequent to the termination of all the Revolving Credit Commitments and expiration of all Letters of Credit. If any amount shall be paid to a Borrower on account of such subrogation rights at any time prior to the later of (x) the payment in full of the Obligations and all other amounts payable by any Borrower hereunder and the other Loan Documents and (y) the termination of the Revolving Credit Commitments and expiration of all Letters of Credit, such amount shall be held in trust for the benefit of the Administrative Agent and the Lenders and shall forthwith be paid to the Administrative Agent for the benefit of the Lenders or be credited and applied upon the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement.

Section 13.5.A. Waivers. Each Borrower irrevocably waives acceptance hereof, presentment, demand, protest, and any notice not provided for herein, as well as any requirement that at any time any action be taken by the Administrative Agent, any Lender, or any other Person against any Borrower, any guarantor, or any other Person.

Section 13.6.A. Limit on Recovery. Notwithstanding any other provision hereof, the right of recovery against each Borrower under this Section 13.A. shall not exceed \$1.00 less than the lowest amount which would render such Borrower's obligations under this Section 13.A. void or voidable under applicable law, including, without limitation, fraudulent conveyance law.

Section 13.7.A. Stay of Acceleration. If acceleration of the time for payment of any amount payable by any Borrower under this Agreement or any other Loan Document is stayed upon the insolvency, bankruptcy or reorganization of such Borrower, all such amounts otherwise subject to acceleration under the terms of this Agreement or the other Loan Documents shall nonetheless be payable by the other Borrowers hereunder forthwith on demand by the Administrative Agent made at the request of the Required Lenders.

Section 13.8.A. Benefit to each Borrower. All of the Borrowers are engaged in related businesses and integrated to such an extent that the financial strength and flexibility of each Borrower has a direct impact on the success of each other Borrower. Each Borrower will derive substantial direct and indirect benefit from the extension of credit hereunder.

Section 13.9.A. Borrower Covenants. Each Borrower shall take such action as the Company is required by this Agreement to cause such Borrower to take, and shall refrain from taking such action as the Company is required by this Agreement to prohibit such Borrower from taking.

SECTION 13.B. THE GUARANTIES.

Section 13.1.B. The Guaranties. To induce the Lenders to provide the credits described herein and in consideration of benefits expected to accrue to the Borrowers by reason of the Revolving Credit Commitments and for other good and valuable consideration, receipt of which is hereby acknowledged, each Guarantor hereby unconditionally and irrevocably guarantees jointly and severally to the Administrative Agent and the Lenders, the due and punctual payment of all present and future Obligations, including, but not limited to, the due and punctual payment of principal of and interest on the Notes, the Reimbursement Obligations, and the due and punctual payment of all other Obligations now or hereafter owed by any Borrower under the Loan Documents as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, according to the terms hereof and thereof. In case of failure by any Borrower punctually to pay any Obligations guaranteed hereby, each Guarantor hereby unconditionally agrees to make such payment or to cause such payment to be made punctually as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, and as if such payment were made by the Borrower.

Section 13.2.B. Guarantee Unconditional. The obligations of each Guarantor under this Section 13.B shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged, or otherwise affected by:

- (a) any extension, renewal, settlement, compromise, waiver, or release in respect of any obligation of any Borrower or of any other guarantor under this Agreement or any other Loan Document or by operation of law or otherwise;
- (b) any modification or amendment of or supplement to this Agreement or any other Loan Document;

-
- (c) any change in the corporate existence, structure, or ownership of, or any insolvency, bankruptcy, reorganization, or other similar proceeding affecting, any Borrower, any other guarantor, or any of their respective assets, or any resulting release or discharge of any obligation of any Borrower or of any other guarantor contained in any Loan Document;
- (d) the existence of any claim, set-off, or other rights which any Borrower or any other guarantor may have at any time against the Administrative Agent, any Lender, or any other Person, whether or not arising in connection herewith;
- (e) any failure to assert, or any assertion of, any claim or demand or any exercise of, or failure to exercise, any rights or remedies against any Borrower, any other guarantor, or any other Person or Property;
- (f) any application of any sums by whomsoever paid or howsoever realized to any obligation of any Borrower, regardless of what obligations of the Borrowers remain unpaid;
- (g) any invalidity or unenforceability relating to or against any Borrower or any other guarantor for any reason of this Agreement or of any other Loan Document or any provision of applicable law or regulation purporting to prohibit the payment by any Borrower or any other guarantor of the principal of or interest on any Loan or any Reimbursement Obligation or any other amount payable under the Loan Documents; or
- (h) any other act or omission to act or delay of any kind by the Administrative Agent, any Lender, or any other Person or any other circumstance whatsoever that might, but for the provisions of this paragraph, constitute a legal or equitable discharge of the obligations of any Guarantor under this Section 13.B.

Section 13.3.B. Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances. Except as provided in Section 5.3, each Guarantor's obligations under this Section 13.B. shall remain in full force and effect until the Revolving Credit Commitments are terminated, all Letters of Credit have expired, and the principal of and interest on the Loans, Notes and all other amounts payable by the Borrowers and the Guarantors under this Agreement and all other Loan Documents shall have been paid in full. If at any time any payment of the principal of or interest on any Note or any Reimbursement Obligation or any other amount payable by any Borrower or any Guarantor under the Loan Documents is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy, or reorganization of any Borrower or of any guarantor, or otherwise, each Guarantor's obligations under this Section 13.B with respect to such payment shall be reinstated at such time as though such payment had become due but had not been made at such time.

Section 13.4.B. Subrogation. Each Guarantor agrees it will not exercise any rights which it may acquire by way of subrogation by any payment made hereunder, or otherwise, until all the Obligations shall have been paid in full subsequent to the termination of all the Revolving Credit Commitments and expiration of all Letters of Credit. If any amount shall be paid to a Guarantor on account

of such subrogation rights at any time prior to the later of (x) the payment in full of the Obligations and all other amounts payable by any Borrower hereunder and the other Loan Documents and (y) the termination of the Revolving Credit Commitments and expiration of all Letters of Credit, such amount shall be held in trust for the benefit of the Administrative Agent and the Lenders and shall forthwith be paid to the Administrative Agent for the benefit of the Lenders or be credited and applied upon the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement.

Section 13.5.B. Waivers. Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest, and any notice not provided for herein, as well as any requirement that at any time any action be taken by the Administrative Agent, any Lender, or any other Person against any Borrower, another guarantor, or any other Person.

Section 13.6.B. Limit on Recovery. Notwithstanding any other provision hereof, the right of recovery against each Guarantor under this Section 13.B. shall not exceed \$1.00 less than the lowest amount which would render such Guarantor's obligations under this Section 13.B. void or voidable under applicable law, including, without limitation, fraudulent conveyance law.

Section 13.7.B Stay of Acceleration. If acceleration of the time for payment of any amount payable by any Borrower under this Agreement or any other Loan Document is stayed upon the insolvency, bankruptcy or reorganization of such Borrower, all such amounts otherwise subject to acceleration under the terms of this Agreement or the other Loan Documents shall nonetheless be payable by the Guarantors hereunder forthwith on demand by the Administrative Agent made at the request of the Required Lenders.

Section 13.8.B Benefit to Guarantors. All of the Guarantors are engaged in related businesses and integrated to such an extent that the financial strength and flexibility of each Guarantor has a direct impact on the success of each other Guarantor. Each Guarantor will derive substantial direct and indirect benefit from the extension of credit hereunder.

Section 13.9.B Guarantor Covenants. Each Guarantor shall take such action as the Company is required by this Agreement to cause such Guarantor to take, and shall refrain from taking such action as the Company is required by this Agreement to prohibit such Guarantor from taking

SECTION 14. MISCELLANEOUS.

Section 14.1. Withholding Taxes. (a) *Payments Free of Withholding.* Except as otherwise required by law and subject to Section 14.1(b) hereof, each payment by a Borrower under this Agreement or the other Loan Documents shall be made without withholding for or on account of any present or future taxes (other than overall net income taxes on the recipient) imposed by or within the jurisdiction in which such Borrower is domiciled, any jurisdiction from which such Borrower makes any payment, or (in each case) any political subdivision or taxing authority thereof or therein. If any such withholding is so required, such Borrower shall make the withholding, pay the amount withheld to the appropriate governmental authority before penalties attach thereto or interest accrues thereon and forthwith pay such additional amount as may be necessary to ensure that the net amount actually received by each

Lender and the Administrative Agent free and clear of such taxes (including such taxes on such additional amount) is equal to the amount which that Lender or the Administrative Agent (as the case may be) would have received had such withholding not been made. If the Administrative Agent or any Lender pays any amount in respect of any such taxes, penalties or interest, the Borrowers shall reimburse the Administrative Agent or that Lender for that payment on demand in the currency in which such payment was made. If a Borrower pays any such taxes, penalties or interest, it shall deliver official tax receipts evidencing that payment or certified copies thereof to the Lender or Administrative Agent on whose account such withholding was made (with a copy to the Administrative Agent if not the recipient of the original) on or before the thirtieth day after payment.

(b) *U.S. Withholding Tax Exemptions.* Each Lender that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) shall submit to the Company and the Administrative Agent on or before the earlier of the initial Credit Event and 30 days after the date hereof, two duly completed and signed copies of either Form W- 8 BEN (or substantially similar substitute forms) or Form W- 8ECI (or substantially similar substitute forms) of the United States Internal Revenue Service certifying such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this Agreement. Thereafter and from time to time, each Lender shall submit to the Company and the Administrative Agent such additional duly completed and signed copies of one or the other of such Forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may be (i) requested by the Company in a written notice, directly or through the Administrative Agent, to such Lender and (ii) required under then- current United States law or regulations to avoid or reduce United States withholding taxes on payments in respect of all amounts to be received by such Lender, including fees, pursuant to the Loan Documents or the Loans. All forms or amendments described in the preceding sentence shall certify that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form or amendment with respect to it and such Lender advises the Company and the Administrative Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax. For any period during which a Lender that is not a United States Person has failed to provide the Company with an appropriate form pursuant to this Section 14.1(b) (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any governmental authority, occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under this Section 14.1 with respect to taxes imposed by the United States.

(c) *Inability of Lender to Submit Forms.* If any Lender determines, as a result of any change in applicable law, regulation or treaty, or in any official application or interpretation thereof, that it is unable to submit to the Company or Administrative Agent any form or certificate that such Lender is obligated to submit pursuant to subsection (b) of this Section 14.1 or that such Lender is required to withdraw or cancel any such form or certificate previously submitted or any such form or certificate otherwise becomes

ineffective or inaccurate, such Lender shall promptly notify the Company and Administrative Agent of such fact and the Lender shall to that extent not be obligated to provide any such form or certificate and will be entitled to withdraw or cancel any affected form or certificate, as applicable.

(d) *Tax Refunds.* If the Administrative Agent or a Lender determines that it has received a refund of any taxes as to which it has been indemnified by a Borrower or with respect to which a Borrower has paid additional amounts pursuant to this Section 14.1, it shall pay over such refund to such Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by such Borrower under this Section 14.1 with respect to the taxes giving rise to such refund), net of all out- of- pocket expenses of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant governmental authority with respect to such refund); *provided* that such Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to such Borrower (plus any penalties, interest or other charges imposed by the relevant governmental authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to pay such refund to such governmental authority.

Section 14.2. No Waiver of Rights. No delay or failure on the part of the Administrative Agent or any Lender or on the part of any holder or holders of any of the Obligations in the exercise of any power or right under any Loan Document shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise thereof preclude any other or further exercise of any other power or right. The rights and remedies hereunder of the Administrative Agent, the Lenders and any holder or holders of any of the Obligations are cumulative to, and not exclusive of, any rights or remedies which any of them would otherwise have.

Section 14.3. Non- Business Day. If any payment hereunder becomes due and payable on a day which is not a Business Day, the due date of such payment shall be extended to the next succeeding Business Day on which date such payment shall be due and payable. In the case of any payment of principal falling due on a day which is not a Business Day, interest on such principal amount shall continue to accrue during such extension at the rate per annum then in effect, which accrued amount shall be due and payable on the next scheduled date for the payment of interest.

Section 14.4. Documentary Taxes. The Borrowers agree that they will pay any documentary, stamp or similar taxes payable in respect of any Loan Document, including interest and penalties, in the event any such taxes are assessed, irrespective of when such assessment is made and whether or not any credit is then in use or available hereunder.

Section 14.5. Survival of Representations. All representations and warranties made herein or in certificates given pursuant hereto shall survive the execution and delivery of this Agreement and the other Loan Documents, and shall continue in full force and effect with respect to the date as of which they were made as long as any credit is in use or available hereunder.

Section 14.6. Survival of Indemnities. All indemnities and all other provisions relative to reimbursement to the Lenders of amounts sufficient to protect the yield of the Lenders with respect to the Loans, including, but not limited to, Section 3.6, Section 11.3 and Section 14.15 hereof, shall survive the termination of this Agreement and the other Loan Documents and the payment of the Loans and all other Obligations.

Section 14.7. Sharing of Set- Off. Each Lender agrees with each other Lender which is a party hereto that if such Lender shall receive and retain any payment, whether by set- off or application of deposit balances or otherwise ("*Set- off*"), on any of the Loans or Reimbursement Obligations in excess of its ratable share of payments on all such obligations then outstanding to the Lenders, then such Lender shall purchase for cash at face value, but without recourse, ratably from each of the other Lenders such amount of the Loans or Reimbursement Obligations, or participations therein, held by each such other Lenders (or interest therein) as shall be necessary to cause such Lender to share such excess payment ratably with all the other Lenders; *provided, however*, that if any such purchase is made by any Lender, and if such excess payment or part thereof is thereafter recovered from such purchasing Lender, the related purchases from the other Lenders shall be rescinded ratably and the purchase price restored as to the portion of such excess payment so recovered, but without interest. For purposes of this Section 14.7, amounts owed to or recovered by, the Administrative Agent in connection with Reimbursement Obligations in which Lenders have been required to fund their participation shall be treated as amounts owed to or recovered by the Administrative Agent as a Lender hereunder.

Section 14.8. Notices. Except as otherwise specified herein, all notices under the Loan Documents shall be in writing (including telecopy or other electronic communication) and shall be given to a party hereunder at its address or telecopier number set forth below or such other address or telecopier number as such party may hereafter specify by notice to the Administrative Agent and the Borrowers, given by courier, or by other telecommunication device capable of creating a written record of such notice and its receipt. Notices under the Loan Documents to the Lenders and the Administrative Agent shall be addressed to their respective addresses, telecopier or telephone numbers set forth on the signature pages hereof, and to any Borrower shall be addressed as follows:

Arthur J. Gallagher & Co.

Two Pierce Place

Itasca, Illinois 60143- 3141

Telephone: (630) 285- 3457

Telecopy: (630) 285- 3483

Arthur J. Gallagher & Co.
The Gallagher Centre
Itasca, Illinois 60143- 3141
Attention: Treasurer
Telecopy: (630) 285- 4272

Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section 14.8 or on the signature pages hereof and a confirmation of receipt of such telecopy has been received by the sender, (ii) if given by courier, when delivered or (iii) if given by any other means, when delivered at the addresses specified in this Section 14.8 or on the signature pages hereof; *provided* that any notice given pursuant to Section 1 hereof shall be effective only upon receipt.

Section 14.9. Counterparts. This Agreement may be executed in any number of counterpart signature pages, and by the different parties on different counterparts, each of which when executed shall be deemed an original but all such counterparts taken together shall constitute one and the same instrument. This Agreement will be deemed executed by the parties hereto when each has signed it and delivered its executed signature page to the Administrative Agent by facsimile transmission, electronic transmission or physical delivery.

Section 14.10. Successors and Assigns. This Agreement shall be binding upon the Borrowers and their respective successors and assigns, and shall inure to the benefit of each of the Lenders and the benefit of their respective successors and assigns, including any subsequent holder of any Note. Except as otherwise provided herein in connection with any transaction not prohibited by Section 9.11 hereof, neither any Borrower nor any Guarantor may assign any of its rights or obligations under any Loan Document without the written consent of all of the Lenders.

Section 14.11. Participants. Each Lender shall have the right at its own cost to grant participations (to be evidenced by one or more agreements or certificates of participation) in the Loans made and Reimbursement Obligations and/or Revolving Credit Commitment and/or participations in Swing Loans held by such Lender at any time and from time to time to one or more other banks, insurance companies, commercial lenders and other financial institutions; *provided* that no such participation shall relieve any Lender of any of its obligations under this Agreement, and *provided further* that no such participant shall have any rights under this Agreement except as provided in this Section 14.11, and the Administrative Agent shall have no obligation or responsibility to such participant. Any party to which such a participation has been granted shall have the benefits of Section 3.6 and Section 11.3 hereof but shall not be entitled to receive any greater payment under either such Section than the Lender granting such participation would have been entitled to receive with respect to the rights transferred. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the

Borrowers hereunder including, without limitation, the right to approve any amendment or modification or waiver of any provision of this Agreement; *provided* that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement that would (A) increase the Revolving Credit Commitment of such Lender if such increase would also increase the participant's obligations, (B) forgive any amount of or postpone the date for payment of any principal of or interest on any Loan or Reimbursement Obligation or of any fee payable hereunder in which such participant has an interest or (C) reduce the stated rate at which interest or fees accrue or other amounts payable hereunder in which such participant has an interest. The Borrowers authorize each Lender to disclose to any participant or prospective participant under this Section 14.11 any financial or other information pertaining to the Borrowers, subject to Section 14.21 hereof.

Section 14.12. Assignments. (a) Any Lender may at any time assign to one or more Eligible Assignees all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and the Loans at the time owing to it); *provided* that any such assignment shall be subject to the following conditions:

(i) *Minimum Amounts.* (A) In the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Credit Commitment and the Loans and participation interest in L/C Obligations at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and (B) in any case not described in subsection (a)(i)(A) of this Section, the aggregate amount of the Revolving Credit Commitment (which for this purpose includes Loans and participation interest in L/C Obligations outstanding thereunder) or, if the Revolving Credit Commitment is not then in effect, the principal outstanding balance of the Loans and participation interest in L/C Obligations of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent or, if "Effective Date" is specified in the Assignment and Acceptance, as of the Effective Date) shall not be less than \$5,000,000 in the case of any assignment in respect of the Revolving Credit, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Company otherwise consents (each such consent not to be unreasonably withheld or delayed);

(ii) *Proportionate Amounts.* Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loan or the Revolving Credit Commitment assigned.

(iii) *Required Consents.* No consent shall be required for any assignment except to the extent required by Section 14.12(a)(i)(B) and, in addition:

(a) the consent of the Company (such consent not to be unreasonably withheld or delayed) shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment or (y) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(b) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required for assignments if such assignment is to a Person that is not a Lender with a Commitment in respect of such facility, an Affiliate of such Lender or an Approved Fund with respect to such Lender;

(c) the consent of the L/C Issuer (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(d) the consent of the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Swing Loans (whether or not then outstanding).

(iv) *Assignment and Acceptance.* The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500, and the assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(v) *No Assignment to Company or Affiliates.* No such assignment shall be made to the Company or any of its Affiliates or Subsidiaries.

(vi) *No Assignment to Natural Persons.* No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to Section 14.12(b) hereof, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 14.6 and 14.15 with respect to facts and circumstances occurring prior to the effective date of such assignment. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 14.11 hereof.

(b) *Register.* The Administrative Agent, acting solely for this purpose as an agent of the Borrowers, shall maintain at one of its offices in Chicago, Illinois, a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "*Register*"). The entries in the Register shall be conclusive, and the Borrowers, the

Administrative Agent, and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrowers and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(c) Any Lender may at any time pledge or grant a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any such pledge or grant to a Federal Reserve Bank, and this Section shall not apply to any such pledge or grant of a security interest; *provided* that no such pledge or grant of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or secured party for such Lender as a party hereto; *provided further, however*, the right of any such pledgee or grantee (other than any Federal Reserve Bank) to further transfer all or any portion of the rights pledged or granted to it, whether by means of foreclosure or otherwise, shall be at all times subject to the terms of this Agreement.

(d) Notwithstanding anything to the contrary herein, if at any time the Swing Line Lender assigns all of its Revolving Credit Commitments and Loans pursuant to subsection (a) above, the Swing Line Lender may terminate the Swing Line. In the event of such termination of the Swing Line, the Company shall be entitled to appoint another Lender to act as the successor Swing Line Lender hereunder (with such Lender's consent); *provided, however*, that the failure of the Company to appoint a successor shall not affect the resignation of the Swing Line Lender. If the Swing Line Lender terminates the Swing Line, it shall retain all of the rights of the Swing Line Lender provided hereunder with respect to Swing Loans made by it and outstanding as of the effective date of such termination, including the right to require Lenders to make Revolving Loans or fund participations in outstanding Swing Loans pursuant to Section 2.5 hereof.

Section 14.13. Amendments. Any provision of the Loan Documents may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by (a) the Borrowers, (b) the Required Lenders, and (c) if the rights or duties of the Administrative Agent are affected thereby, the Administrative Agent; *provided that*:

(i) no amendment or waiver pursuant to this Section 14.13 shall (A) increase the Revolving Credit Commitment of any Lender without the consent of such Lender or (B) increase the Swing Line Sublimit without the consent of the Swing Line Lender or (C) forgive, or reduce the amount of, or postpone any fixed date for payment of, any principal of or interest on any Loan or Reimbursement Obligation or any fee payable hereunder without the consent of each Lender or (D) reduce the stated rate at which interest or any fee hereunder is calculated; and

(ii) no amendment or waiver pursuant to this Section 14.13 shall, unless signed by each Lender, change any provision of Section 8, Section 10.1(a), Section 11, this Section 14.13, or the definition of Required Lenders, or release any Borrower or any Guarantor (except as set forth in Section 5.3 hereof), or affect the number of Lenders required to take any action under the Loan Documents.

Section 14.14. Headings. Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

Section 14.15. Legal Fees, Other Costs and Indemnification. The Borrowers agree to pay all reasonable costs and expenses of the Administrative Agent in connection with the preparation and negotiation of the Loan Documents, including without limitation, the reasonable fees and disbursements of Chapman and Cutler, counsel to the Administrative Agent, in connection with the preparation and execution of the Loan Documents, and any amendment, waiver or consent related hereto, whether or not the transactions contemplated herein are consummated. The Borrowers further agree to indemnify each Lender, the Administrative Agent, and their respective directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and related expenses (including, without limitation, all expenses of litigation or preparation therefor, whether or not the indemnified Person is a party thereto) which any of them may incur or reasonably pay arising out of or relating to any Loan Document or any of the transactions contemplated thereby or the direct or indirect application or proposed application of the proceeds of any Loan or Letter of Credit, other than those which arise from the gross negligence or willful misconduct of the party claiming indemnification. The Borrowers, upon demand by the Administrative Agent or a Lender at any time, shall reimburse the Administrative Agent or Lender for any reasonable legal or other expenses incurred in connection with investigating or defending against any of the foregoing except if the same is directly due to the gross negligence or willful misconduct of the party to be indemnified.

Section 14.16. Set Off. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, each Lender and each subsequent holder of any Loan or Note is hereby authorized by each Borrower at any time or from time to time, without notice to such Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including, but not limited to, indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts or premium trust accounts, and in whatever currency denominated) and any other indebtedness at any time held or owing by that Lender or that subsequent holder to or for the credit or the account of such Borrower, whether or not matured, against and on account of the obligations and liabilities of such Borrower to that Lender or that subsequent holder under the Loan Documents, including, but not limited to, all claims of any nature or description arising out of or connected with the Loan Documents, irrespective of whether or not (a) that Lender or that subsequent holder shall have made any demand hereunder or (b) the principal of or the interest on the Loans or Notes and other amounts due hereunder shall have become due and payable pursuant to Section 8 and although said obligations and liabilities, or any of them, may be contingent or unmatured.

Section 14.17. Entire Agreement. The Loan Documents constitute the entire understanding of the parties thereto with respect to the subject matter thereof and any prior or contemporaneous agreements, whether written or oral, with respect thereto are superseded thereby.

Section 14.18. Governing Law. This Agreement and the other Loan Documents, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the internal laws of the State of Illinois.

Section 14.19. Currency. To the fullest extent permitted by law, the obligation of each Borrower and each Guarantor in respect of any amount due in U.S. Dollars or an Alternative Currency (the "*relevant currency*") under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the relevant currency that the Person entitled to received such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such Person receives such payment. If the amount of the relevant currency so purchased is less than the sum originally due to such Person in the relevant currency, the relevant Borrower or Guarantor, as applicable, agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such Person against such loss, and if the amount of the specified currency so purchased exceeds the sum of (a) the amount originally due to the relevant Person in the specified currency plus (b) any amounts shared with other Lenders as a result of allocations of such excess as a disproportionate payment to such Person under Section 14.7 hereof, such Person agrees to remit such excess to the relevant Borrower or Guarantor, as applicable.

Section 14.20. Submission to Jurisdiction; Waiver of Jury Trial. Each Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois State court sitting in the City of Chicago for purposes of all legal proceedings arising out of or relating to this Agreement, the other Loan Documents or the transactions contemplated hereby or thereby. Each Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. EACH BORROWER, THE ADMINISTRATIVE AGENT, AND EACH LENDER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY.

Section 14.21. USA Patriot Act. Each Lender that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107- 56 (signed into law October 26, 2001)) (the "*Act*") hereby notifies the Borrowers that pursuant to the requirements of the Act, it is required to obtain, verify, and record information that identifies each Borrower, which information includes the name and address of each Borrower and other information that will allow such Lender to identify each Borrower in accordance with the Act.

Section 14.22. Confidentiality. Each Lender agrees to maintain in confidence and not to disclose without the Company's consent (other than to its employees, affiliates, auditors, counsel or other professional advisors, or to another Lender, each of which shall also be bound by this Section 14.22) any information concerning the Company or any Subsidiaries furnished pursuant to this Agreement and not previously disclosed in any filing made by the Company with the SEC; *provided* that any Lender may disclose any such information (a) that has become generally available to the public, (b) if required or appropriate in any report, statement or testimony

submitted to any regulatory body having or claiming to have jurisdiction over such Lender, (c) if required or appropriate in response to any summons or subpoena or in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to such Lender, or (e) to any prospective or actual participant under Section 14.11 or 14.12 hereof in connection with any contemplated or actual transfer of a participating or other interest in such Lender's rights or obligations hereunder; *provided*, that (i) such actual or prospective transferee executes an agreement with such Lender containing provisions substantially identical to those contained in this Section 14.22 and (ii) in the case of any disclosure under subsection (c) above, such Lender shall (to the extent permitted by applicable law) notify the Company of such disclosure so that the Company may seek an appropriate protective order or waive such Lender's compliance with the provisions of this Section, it being understood that if the Company has no right to obtain such a protective order or if the Company does not commence procedures to obtain such a protective order within ten Business Days of the receipt of such notice, such Lender's compliance with this Section shall be deemed to have been waived with respect to such disclosure.

Section 14.23. Amendment and Restatement; Release of Existing Guarantors. On the Effective Date, this Agreement shall supersede all provisions of the Existing Credit Agreement as of such date and the Existing Guarantors shall be released from the guaranty set forth in the Existing Credit Agreement. From and after the Effective Date, all references made to the Existing Credit Agreement in any Loan Document or in any other instrument or document shall, without more, be deemed to refer to this Agreement.

[Signature Pages Follow.]

This Amended and Restated Multicurrency Credit Agreement is entered into between us for the uses and purposes hereinabove set forth as of the date first above written.

BORROWERS

ARTHUR J. GALLAGHER & CO.

By: /s/ Jack H. Lazzaro
Name: Jack H. Lazzaro
Title: Vice President and
Treasurer

ARTHUR J. GALLAGHER & CO. (ILLINOIS)
ARTHUR J. GALLAGHER BROKERAGE & RISK
MANAGEMENT SERVICES, LLC

RISK PLACEMENT SERVICES, INC.

GALLAGHER RE, INC.

GALLAGHER BASSETT SERVICES, INC.

GALLAGHER BENEFIT SERVICES, INC.

ARTHUR J. GALLAGHER RISK MANAGEMENT
SERVICES, INC.

ARTHUR J. GALLAGHER SERVICE COMPANY

By: /s/ Jack H. Lazzaro
Name: Jack H. Lazzaro
Title: Treasurer of each of the
foregoing entities

HARRIS N.A., individually as a Lender, as L/C
Issuer and as Administrative Agent

By: /s/ Gregory F. Tomczyk
Name: Gregory F. Tomczyk
Title: Relationship Manager

Address:

Harris N.A.
111 West Monroe Street
Attn.: Business Services Group
Chicago, Illinois 60603
Telecopy: (312) 461- 3318
Telephone: (312) 293- 8445

CITIBANK, N.A.

By: /s/ Matthew Nicholls
Name: Matthew Nicholls
Title: Managing Director

Address:

388 Greenwich Street
23rd Floor
New York, New York 10013
Attn.: Mr. Matthew Nicholls
Telecopy: (212) 816- 4143
Telephone: (212) 816- 3472

BARCLAYS BANK PLC

By: /s/ Carl Boulton
Name: Carl Boulton
Title: Director, Insurance

Address:

Financial Services Team
Level 11, 1 Churchill Place
London E14 5HP
Attn.: Mr. Carl Boulton
Telecopy: 020 7116 2726
Telephone: 020 7116 7643

JPMORGAN CHASE BANK, N.A.

By: /s/ Thomas A. Kiepura
Name: Thomas A. Kiepura
Title: Vice President

Address:

JPMorgan Chase Bank, N.A.
10 S. Dearborn
IL 1- 0364
Chicago, Illinois 60603
Attn.: Thomas A. Kiepura
Telecopy: (312) 794- 7684
Telephone: (312) 325- 3195

LaSALLE BANK NATIONAL ASSOCIATION

By: /s/ Sara J. Flynn
Name: Sara J. Flynn
Title: Officer

Address:

135 South LaSalle Street
Suite 1140
Chicago, Illinois 60603
Attn.: Ms. Sara Flynn
Telecopy: (312) 904- 6546
Telephone: (312) 992- 2838

FIFTH THIRD BANK (Chicago), a Michigan
banking corporation

By: /s/ Kim Puszczewicz
Name: Kim Puszczewicz
Title: Vice President

Address:

222 South Riverside Plaza
Mail Drop GRVR3E
Chicago, Illinois 60606
Attn.: Ms. Kim Puszczewicz
Telecopy: (312) 704- 2984
Telephone: (312) 704- 4379

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Beth C. McGuinness
Name: Beth C. McGuinness
Title: SVP

Address:

230 West Monroe Street
Suite 2900
Chicago, Illinois 60606
Attn.: Paul Schoper
Telecopy: (312) 845- 8606
Telephone: (312) 845- 4521

U.S. BANK NATIONAL ASSOCIATION

By: /s/ James N. DeVries
Name: James N. DeVries
Title: Senior Vice President

Address:

209 S. LaSalle St., Suite 410
Corporate Banking
Mail Code: MK- IL- RY4D
Chicago, Illinois 60604
Attn.: Mr. James DeVries
Telecopy: (312) 325- 8750
Telephone: (312) 325- 8885

BANK OF AMERICA N.A.

By: /s/ Sara J. Flynn
Name: Sara J. Flynn
Title: Officer

Address:

231 South LaSalle Street, 10th Floor
IL1- 231- 10- 44
Chicago, Illinois 60697
Attn.: Ms. Debra Basler
Telecopy: (312) 987- 0889
Telephone: (312) 828- 3734

BMO CAPITAL MARKETS FINANCING, INC., as a
Lender and as Swing Line Lender

By: /s/ Gregory F. Tomczyk
Name: Gregory F. Tomczyk
Title: Relationship Manager

Address:

BMO Capital Markets Financing, Inc.
Attn: Business Services Group
111 West Monroe Street
Chicago, Illinois 60603
Telecopy: (312) 461- 3318
Telephone: (312) 293- 8445

**ARTHUR J. GALLAGHER & CO.
DEFERRAL PLAN FOR NONEMPLOYEE DIRECTORS**

ARTICLE I

Purpose

The purpose of this Arthur J. Gallagher & Co. Deferral Plan for Nonemployee Directors is to provide Nonemployee Directors with the opportunity to defer the receipt of all or a portion of the Annual Retainer or Restricted Stock Awards which they earn as directors of the Company. All capitalized terms used in the Plan shall have the meanings set forth in Article II.

ARTICLE II

Definitions

"Annual Retainer" means the annual cash retainer earned by a Nonemployee Director for his or her service on the Board or any committee thereof.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation Committee of the Board.

"Common Stock" means the common stock of the Company, par value \$1.00 per share.

"Company" means Arthur J. Gallagher & Co., a Delaware corporation.

"Deferral Account" means a bookkeeping account in the name of a Nonemployee Director who elects to defer, pursuant to the Plan, all or a portion of his or her Annual Retainer or Restricted Stock Awards.

"Deferral Election" shall have the meaning set forth in Section 4.2.

"Effective Date" means January 1, 2008.

"Fair Market Value" means the closing transaction price of a share of Common Stock as reported on the New York Stock Exchange on the date as of which such value is being determined or, if the Common Stock is not listed on the New York Stock Exchange, the closing transaction price of a share of Common Stock on the principal national stock exchange on which the Common Stock is traded on the date as of which such value is being determined or, if there shall be no reported transactions for such date, on the next preceding date for which transactions were reported; provided, however, that if the Common Stock is not listed on a national stock exchange or if Fair Market Value for any date cannot be so determined, Fair Market Value shall be determined by the Committee by whatever means or method as the Committee, in the good faith exercise of its discretion, shall at such time deem appropriate.

"Nonemployee Director" means any director serving on the Board, other than a director who is an officer or employee of the Company or any Subsidiary.

"Plan" means this Arthur J. Gallagher & Co. Deferral Plan for Nonemployee Directors, as amended from time to time.

"Plan Year" means the 12- month period coinciding with the calendar year.

"Restricted Stock Award" means an award of restricted stock units granted to a Nonemployee Director for his or her service on the Board or any committee thereof.

"Separation Date" means the date on which a Nonemployee Director separates from service as a director of the Company, within the meaning of Section 409A of the Code.

"Share Unit" means a bookkeeping unit credited to a Nonemployee Director's Deferral Account and having a value equal to one share of Common Stock.

"Subsidiary" means any corporation or other business entity, the majority of the outstanding voting stock or other equity interests of which are owned, directly or indirectly, by the Company.

"Trust" shall have the meaning set forth in Article IX.

"Unforeseeable Emergency" means (i) a severe financial hardship to a Nonemployee Director resulting from an illness or accident of the Nonemployee Director, or the spouse or a dependent (as defined in Section 152(a) of the Code) of the Nonemployee Director, (ii) the loss of a Nonemployee Director's property due to casualty or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Nonemployee Director, within the meaning of Section 409A of the Code.

ARTICLE III

Administration

The Plan shall be administered by the Committee. The Committee shall, subject to the terms of this Plan, interpret this Plan and the application thereof, and establish rules and regulations it deems necessary or desirable for the administration of this Plan. All such interpretations, rules and regulations shall be final, binding and conclusive. The Committee may delegate administrative duties under the Plan to one or more employees or agents of the Company or its Subsidiaries, as it shall deem necessary or advisable.

ARTICLE IV

Deferral Elections

Section 4.1. Eligibility for Deferral Elections. Each Nonemployee Director shall be eligible to participate in the Plan. A Nonemployee Director shall be eligible to make a Deferral Election pursuant to Section 4.2 if he or she serves as a Nonemployee Director or has been elected to serve as a Nonemployee Director on the date such election is made.

Section 4.2. Election Procedures. Prior to the first day of a Plan Year, each Nonemployee Director may make an election to defer the receipt of all or any portion of the Annual Retainer to be earned by such Nonemployee Director or the Restricted Stock Awards to be granted to such Nonemployee Director in such Plan Year (each such election shall be referred to as a "Deferral Election" and the amounts deferred pursuant to such an election the "Deferral"). Notwithstanding the foregoing, a Nonemployee Director who is elected for the first time to serve as a Nonemployee Director later than the first day of a Plan Year may make a Deferral Election for such Plan Year within 30 days after such election to the Board. All Deferral Elections must be made in accordance with procedures prescribed by the Committee. Any Deferral Election shall apply only to the Annual Retainer earned or the Restricted Stock Awards granted in the Plan Year for which the Deferral Election is made. In no event shall an election under the Plan apply to the Annual Retainer payable or the Restricted Stock Awards granted to the Nonemployee Director with respect to the period prior to the date on which such election is received by the Company.

Section 4.3. Changes in Deferral Election. A Nonemployee Director must make a new Deferral Election with respect to each Plan Year by submitting a new election prior to the first day of such Plan Year in accordance with Section 4.2. A Nonemployee Director may elect to suspend his or her Deferrals during a Plan Year only if the Nonemployee Director demonstrates to the satisfaction of the Committee that he or she has incurred an Unforeseeable Emergency. No other changes may be made during a Plan Year to a Nonemployee Director's Deferral Election.

Section 4.4. Effect of Deferral Election. The submission of an election form pursuant to Section 4.2 shall evidence the Nonemployee Director's authorization of the Company to withhold the payment of the Annual Retainer otherwise payable to the Nonemployee Director or the shares of Common Stock otherwise issued to the Nonemployee Director upon the vesting of a Restricted Stock Award, to the extent such Annual Retainer or Restricted Stock Award is deferred pursuant to such election, and to credit such amounts to the Nonemployee Director's Deferral Account in accordance with Article V.

ARTICLE V

Deferral Accounts

Section 5.1. Deferral Account. As of each date on which a Nonemployee Director otherwise would be entitled to receive payment of an Annual Retainer from the Company, the Nonemployee Director's Deferral Account under the Plan shall be credited with a number of Share Units determined by dividing the amount of such Annual Retainer that has been deferred pursuant to Article IV by the Fair Market Value of a share of Common Stock as of such date. As of each date on which a Nonemployee Director otherwise would be entitled to receive shares of Common Stock upon the vesting of a Restricted Stock Award, the Nonemployee Director's Deferral Account under the Plan shall be credited with a number of Share Units equal to the number of shares of Common Stock that have been deferred pursuant to Article IV. A Nonemployee Director shall be fully vested in all amounts credited to his or her Deferral Account.

Section 5.2. Dividend Equivalents. Upon the payment of a dividend by the Company on issued and outstanding shares of Common Stock, an amount equal to such per share dividend amount multiplied by the number of Share Units credited to each Nonemployee Director's Deferral Account shall be credited to the Nonemployee Director's Deferral Account within 10 days after the dividend payment date and shall be deemed invested in additional Share Units as though such dividend credit was a Deferral for such year.

Section 5.3. Alternative Investment Funds. If shares of Common Stock shall at any time cease to be traded on an established stock exchange or national market system, the Committee, in its sole discretion, may transfer the Fair Market Value of the Share Units accumulated in each Nonemployee Director's Deferral Account to alternative investment funds maintained for the benefit of such Nonemployee Director, as the Committee deems appropriate.

ARTICLE VI

Payment of Deferral Accounts

Section 6.1. Time and Method of Payment. Except as otherwise specifically provided herein, the entire amount credited to a Nonemployee Director's Deferral Account shall be paid to such Nonemployee Director in a single lump sum payment as soon as administratively practicable, but not later than 90 days, after the Distribution Date elected by the Nonemployee Director on the initial Deferral Election form submitted to the Company upon the commencement of the Nonemployee Director's participation in the Plan. The Distribution Date elected by the Nonemployee Director (the "Distribution Date") may be (i) the Nonemployee Director's Separation Date or (ii) the first day of any Plan Year which is at least three years after the first day of the Plan Year in which the Nonemployee Director's participation in the Plan commences; provided, however, that if the Nonemployee Director's Separation Date occurs prior to the date elected by the Nonemployee Director, the Distribution Date shall be the Nonemployee Director's Separation Date. If a Nonemployee Director elects a Distribution Date that occurs prior to his or her Separation Date, then in order for such Nonemployee Director to elect Deferrals with respect to Plan Years beginning with or after the Plan Year in which such Distribution Date occurs, such Nonemployee Director must elect a new Distribution Date that will apply to such subsequent Deferrals. The Nonemployee Director must elect such new Distribution Date prior to the first Plan Year for which any such subsequent Deferral is elected.

Section 6.2. Change in Payment Election. If a Nonemployee Director elects a Distribution Date other than his or her Separation Date, such Nonemployee Director may elect in accordance with procedures prescribed by the Committee to change such Distribution Date; provided that, subject to Section 409A of the Code, such new election shall not be effective unless (A) such new election is received by the Company at least one year prior to the previously scheduled Distribution Date, (ii) such new election does not take effect for 12 months after it is received by the Company and (iii) such new election extends the Distribution Date by at least five years; and provided, further, that if the Nonemployee Director's Separation Date occurs prior to the date elected by the Nonemployee Director, the Distribution Date shall be the Nonemployee Director's Separation Date.

Section 6.3. Form of Payment. To the extent a Nonemployee Director's Deferral Account is credited with Share Units, such Deferral Account shall be paid to the Nonemployee Director in the form of whole shares of Common Stock equal to the number of whole Share Units credited to such Deferral Account and cash in an amount equal to the Fair Market Value of any fractional Share Unit credited to such account. All other amounts credited to a Nonemployee Director's Deferral Account shall be paid in the form of cash.

Section 6.4. Unforeseeable Emergency. In the event of an Unforeseeable Emergency, a Nonemployee Director may file a written request with the Committee to receive all or any portion of the vested balance of such Nonemployee Director's Deferral Account in an immediate lump sum cash payment. A Nonemployee Director's written request for such a payment shall describe the circumstances which the Nonemployee Director believes justify the payment and an estimate of the amount necessary to eliminate the Unforeseeable Emergency. An immediate payment to satisfy an Unforeseeable Emergency will be made only to the extent necessary to satisfy the emergency need, plus an amount necessary to pay any taxes reasonably anticipated as a result of such payment, and will not be made to the extent the need is or may be relieved through reimbursement or compensation, by insurance or otherwise or by liquidation of the Nonemployee Director's assets (to the extent such liquidation itself would not cause severe financial hardship). Any payment from a Nonemployee Director's Deferral Account on account of an Unforeseeable Emergency shall be deemed to cancel any Deferral Election of the Nonemployee Director then in effect and the Nonemployee Director shall be suspended from making further Deferral Elections under the Plan for the remainder of the Plan Year in which such payment is made.

Section 6.5. Distributions to Minor and Incompetent Persons. If a payment is to be made to a minor or to an individual who, in the opinion of the Committee, is unable to manage his or her financial affairs by reason of illness or mental incompetency, such distribution may be made to or for the benefit of any such individual in such of the following ways as the Committee shall direct: (a) directly to any such minor individual if, in the opinion of the Committee, he or she is able to manage his or her financial affairs, (b) to the legal representative of any such individual, (c) to a custodian under a Uniform Gifts to Minors Act for any such minor individual or (d) to some near relative of any such individual to be used for the latter's benefit. Neither the Committee nor the Company shall be required to see to the application by any third party of any payment made to or for the benefit of a Nonemployee Director or beneficiary pursuant to this Section.

ARTICLE VII

Payment Upon Death of a Nonemployee Director

Section 7.1. Payment to Beneficiary. In the event a Nonemployee Director dies before all amounts credited to his or her Deferral Account have been paid, payment of the Nonemployee Director's Deferral Account shall be made in a lump sum payment as soon as practicable, but not later than 90 days, after the date of such death.

Section 7.2. Designation of Beneficiary. Each Nonemployee Director may file with the Company a written designation of one or more persons as such Nonemployee Director's beneficiary or beneficiaries (both primary and contingent) in the event of the Nonemployee Director's death. Each beneficiary designation shall become effective only when filed in writing with the Company

during the Nonemployee Director's lifetime on a form prescribed by the Company. The filing with the Company of a new beneficiary designation shall cancel all previously filed beneficiary designations. If a Nonemployee Director fails to designate a beneficiary, or if all designated beneficiaries of a Nonemployee Director predecease the Nonemployee Director, then the Deferral Account shall be paid to the Nonemployee Director's estate.

ARTICLE VIII

Funding

Benefits payable under the Plan to any Nonemployee Director shall be paid by the Company. The Company shall not be required to fund, or otherwise segregate assets to be used for payment of benefits under the Plan. Notwithstanding the foregoing, the Company, in the discretion of the Committee, may maintain one or more grantor trusts (each, a "Trust") to hold assets to be used for payment of benefits under the Plan. The assets of the Trust shall remain the assets of the Company subject to the claims of its general creditors. Any payments by a Trust of benefits provided to a Nonemployee Director under the Plan shall be considered payment by the Company and shall discharge the Company of any further liability under the Plan for such payments.

ARTICLE IX

General

Section 9.1. Effective Date; Termination. This Plan shall be effective as of the Effective Date. The Committee may terminate this Plan at any time. Termination of this Plan shall not affect the payment of any amounts credited to a Nonemployee Director's Deferral Account; provided that the Board may, in its discretion, terminate the Plan and accelerate the payment of all Deferral Accounts:

(a) within 12 months of a corporate dissolution taxed under Section 331 of the Code, or with the approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that the payments with respect to each such Deferral Account are included in the Nonemployee Director's gross income in the later of (i) the calendar year in which the Plan termination occurs or (ii) the first calendar year in which the payments are administratively practicable;

(b) in connection with a "change in control event," as defined in, and to the extent permitted under, Treasury regulations promulgated under Section 409A of the Code or

(c) upon any other termination event permitted under Section 409A of the Code.

Section 9.2. Amendments. The Committee may amend this Plan as it shall deem advisable. No amendment may impair the rights of a Nonemployee Director to payment of his or her Deferral Account without the consent of such Nonemployee Director.

Section 9.3. Nontransferability of Benefits. No benefit payable at any time under the Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or other legal process, or encumbrance of any kind. Any attempt to alienate,

sell, transfer, assign, pledge or otherwise encumber any such benefits, whether currently or thereafter payable, shall be void. No person shall, in any manner, be liable for or subject to the debts or liabilities of any person entitled to such benefits. If any person shall attempt to, or shall alienate, sell, transfer, assign, pledge or otherwise encumber his benefits under the Plan, or if by any reason of his bankruptcy or other event happening at any time, such benefits would devolve upon any other person or would not be enjoyed by the person entitled thereto under the Plan, then the Committee, in its discretion, may terminate the interest in any such benefits of the person entitled thereto under the Plan and hold or apply them for or to the benefit of such person entitled thereto under the Plan or his spouse, children or other dependents, or any of them, in such manner as the Committee may deem proper.

Section 9.4. Adjustment. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a regular cash dividend, the number of Share Units credited to each Deferral Account under the Plan shall be appropriately adjusted by the Committee. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive.

Section 9.5. Forfeitures and Unclaimed Amounts. Unclaimed amounts shall consist of the amounts of the Deferral Account of a Nonemployee Director that are not distributed because of the Company's inability, after a reasonable search, to locate a Nonemployee Director or his or her beneficiary, as applicable, within a period of two (2) years after the distribution date upon which the payment of any benefits becomes due. Unclaimed amounts shall be forfeited at the end of such two- year period. These forfeitures will reduce the obligations of the Company under the Plan and the Nonemployee Director or beneficiary, as applicable, shall have no further right to his or her Deferral Account.

Section 9.6. Compliance With Section 409A of Code. This Plan is intended to comply with the provisions of Section 409A of the Code, and shall be interpreted and construed accordingly. The Committee shall have the discretion and authority to amend the Plan at any time to satisfy any requirements of Section 409A of the Code or guidance provided by the U.S. Treasury Department to the extent applicable to the Plan. Notwithstanding any other provision in this Plan, if as of a Nonemployee Director's Separation Date the Nonemployee Director is a "specified employee," as defined in Section 409A of the Code, then to the extent any amount under this Plan is payable upon such Separation Date, such payment shall be delayed until the earlier to occur of (i) the six- month anniversary of such Separation Date or (ii) the date of such Nonemployee Director's death.

Section 9.7. Governing Law. This Plan and all determinations made and actions taken pursuant thereto shall be governed by the laws of the State of Delaware and construed in accordance therewith without giving effect to principles of conflicts of laws.

Arthur J. Gallagher & Co.
2007 Financial Statements
Index

	Page Number
Management's Discussion and Analysis of Financial Condition and Results of Operations	
Introduction	F - 2
Insurance Market Overview	F - 2
Contingent Commissions and Other Industry Developments	F - 3
Critical Accounting Policies	F - 4
Business Combinations and Dispositions	F - 5
Results of Operations	F - 6
Financial Condition and Liquidity	F - 16
Contractual Obligations and Commitments	F - 19
Off- Balance Sheet Arrangements	F - 20
Quantitative and Qualitative Disclosure about Market Risk	F - 21
Consolidated Financial Statements	
Consolidated Statement of Earnings	F - 22
Consolidated Balance Sheet	F - 23
Consolidated Statement of Cash Flows	F - 24
Consolidated Statement of Stockholders' Equity	F - 25
Notes to Consolidated Financial Statements	
Note 1: Summary of Significant Accounting Policies	F - 26
Note 2: Effect of New Accounting Pronouncements	F - 30
Note 3: Investments	F - 32
Note 4: Business Combinations	F - 38
Note 5: Discontinued Operations	F - 41
Note 6: Fixed Assets	F - 42
Note 7: Intangible Assets	F - 42
Note 8: Credit and Other Debt Agreements	F - 43
Note 9: Capital Stock	F - 45
Note 10: Earnings per Share	F - 45
Note 11: Stock Option Plans	F - 45
Note 12: Deferred Compensation	F - 48
Note 13: Restricted Stock Awards	F - 48
Note 14: Employee Stock Purchase Plan	F - 50
Note 15: Retirement Plans	F - 50
Note 16: Postretirement Benefits Other than Pensions	F - 53
Note 17: Commitments, Contingencies and Off- Balance Sheet Arrangements	F - 55
Note 18: Income Taxes	F - 59
Note 19: Quarterly Operating Results (unaudited)	F - 62
Note 20: Segment Information	F - 62
Report of Independent Registered Public Accounting Firm on Financial Statements	F - 66
Management's Report on Internal Control Over Financial Reporting	F - 67
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	F - 68

Management's Discussion and Analysis of Financial Condition and Results of Operations
Introduction

The following discussion and analysis should be read in conjunction with Arthur J. Gallagher & Co.'s (Gallagher) consolidated financial statements and the related notes thereto that are included elsewhere herein.

Gallagher is engaged in providing insurance brokerage and third- party property/casualty (P/C) claims settlement and administration services to entities in the U.S. and abroad. Gallagher believes that one of its major strengths is its ability to deliver comprehensively structured insurance and risk management services to its clients. Gallagher's brokers, agents and administrators act as intermediaries between insurers and their customers and Gallagher does not assume underwriting risks. Gallagher is headquartered in Itasca, Illinois, has operations in thirteen countries and does business in more than 100 countries globally through a network of correspondent brokers and consultants. It generates approximately 88% of revenues domestically, with the remaining 12% derived primarily in Canada, the United Kingdom (U.K.), Australia and Bermuda. Gallagher operates three business segments: Brokerage, Risk Management and Financial Services, which contributed 69%, 27% and 4%, respectively, to 2007 revenues. The

two major sources of operating revenues for Gallagher are commissions and fees from brokerage operations and fees from risk management operations. Investment income and other revenue is generated from Gallagher's investment portfolio, which includes invested cash, fiduciary funds, tax advantaged and other investments.

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 2007 Annual Report.

Insurance Market Overview

Fluctuations in premiums charged by P/C insurance carriers (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. Insurance premiums are cyclical in nature and may vary widely based on market conditions. Various factors, including competition for market share among insurance carriers, increased underwriting capacity and improved economies of scale following consolidations, can result in flat or reduced P/C premium rates (a "soft" market). A soft market tends to put downward pressure on commission revenues. Various countervailing factors, such as heavier than anticipated loss experience and capital shortages, can result in increasing P/C premium rates (a "hard" market). A hard market tends to favorably impact commission revenues. Hard and soft markets may be broad- based or more narrowly focused across individual product lines or geographic areas.

As markets harden, there historically has been resistance among certain insureds, who are the buyers of insurance (Gallagher's brokerage 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 a hard market, buyers may switch to negotiated fee in lieu of commission arrangements to compensate Gallagher for placing their risks, or may consider the alternative insurance market, which includes self- insurance, captives, rent- a- captives, risk retention groups and capital market solutions to transfer risk. According to industry estimates, these mechanisms now account for nearly 50% of the total U.S. commercial P/C market. Gallagher's brokerage units are very active in these markets as well. While increased use by insureds of these alternative markets historically has reduced commission revenue to Gallagher, such trends generally have been accompanied by new sales and renewal increases in the areas of risk management, claims management, captive insurance and self- insurance services and related growth in fee revenue. Inflation tends to increase the levels of insured values and risk exposures, thereby resulting in higher overall premiums and higher commissions. However, the impact of hard and soft market fluctuations historically has had a greater impact on changes in premium rates, and therefore on Gallagher's revenues, than inflationary pressures.

Following a period of market hardening between 2001 and 2003, beginning in 2004 and continuing through 2007, the P/C insurance market has been relatively soft in most lines and in most geographic areas, notwithstanding an abnormally high level of hurricane activity and other natural disasters in 2005 and 2006. For example, surveys by the Council of Insurance Agents & Brokers (CIAB) indicated that commercial P/C rates fell sharply throughout 2007, with renewal premiums for over 80% of all account sizes dropping between 1.0% and 30.0%. The CIAB represents the leading domestic and international insurance brokers who write approximately 80% of the commercial P/C premiums in the U.S. According to an analysis of CIAB's first quarter 2007 data by Lehman Brothers Equity Research (Lehman), the average commercial P/C account renewing in first quarter 2007 experienced a rate decline of 11.3%. The Lehman analysis showed premiums for all sizes of accounts were at their lowest points since they peaked in fourth quarter 2001 following the September 11th terrorist attacks. Based on an

analysis of the second quarter 2007 data by Lehman, the average decrease in premium rates for all account sizes was 11.8% in the quarter. Small account premium rates decreased by an average of 8.3%, medium account rates decreased by an average of 12.6% and large account rates decreased by an average of 14.5% in second quarter 2007. Based on an analysis of the third quarter 2007 data by Lehman, the average decrease in premium rates for all account sizes was 13.3% in the quarter compared to second quarter 2007. Large account premium rates decreased by an average of 15.9%, medium account rates decreased by an average of 15.0% and small account rates decreased by an average of 8.9% in third quarter 2007. According to the CIAB, commercial insurance premiums continued to decline during fourth quarter 2007 compared to third quarter 2007, with insurers willing to lower premium rates and place fewer restrictions on coverages in order to obtain new business. Based on an analysis of the fourth quarter 2007 data by Lehman, the average decrease in premium rates for all account sizes was 12.0% in the quarter compared to third quarter 2007, with commercial property and general liability experiencing the largest price declines. The average decline was 13.8% for large and medium accounts and 8.4% for small accounts.

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 industries. Gallagher expects that its Brokerage Segment's commission and fee revenues will continue to grow from acquisitions. Gallagher is considering, and intends to continue to consider from time- to- time, additional acquisitions on terms that it deems advantageous. At any particular time, Gallagher generally will be engaged in discussions with multiple acquisition candidates. However, no assurances can be given that any additional acquisitions will be consummated, or, if consummated, that they will be advantageous to Gallagher.

Contingent Commissions and Other Industry Developments

The insurance industry continues to be subject to 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 (generally known as contingent commission or placement service arrangements) and other matters. The Attorney General of the State of New York (the New York AG) issued subpoenas to various insurance brokerage firms and Carriers beginning in April 2004. The investigation by the New York AG, among other things, led to its filing a complaint 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. Following these allegations, Marsh announced that it would permanently eliminate the practice of receiving any form of contingent compensation from Carriers, and shortly thereafter, two other large insurance brokerage firms, Willis Group and Aon Corporation, made similar announcements regarding the discontinuation and unwinding of contingent commissions agreements.

The Attorney General of the State of Illinois and the Director of Insurance of the State of Illinois (collectively, the IL State Agencies) commenced an investigation of Gallagher in November 2004 and issued subpoenas to Gallagher concerning certain of its business practices. On May 18, 2005, Gallagher and its subsidiaries and affiliates, except for Gallagher Bassett Services, Inc., entered into an Assurance of Voluntary Compliance (the AVC) with the IL State Agencies to resolve all of the issues related to certain investigations conducted by the IL State Agencies involving contingent commission arrangements. As stipulated in the AVC, on January 12, 2006, Gallagher paid \$26.9 million into a fund (the Fund) to be distributed to certain eligible policyholder clients. At December 31, 2007, \$8.6 million remained in the Fund, which is available to satisfy existing and future AVC related claims and other potential settlement obligations as allowed by the AVC. Gallagher intends to use all of the remaining AVC funds to satisfy part of its MDL Settlement obligation (see MDL discussion below).

In addition, under the AVC, Gallagher agreed to implement, to the extent not previously undertaken, certain business changes, including agreeing not to accept U.S.- domiciled retail contingent compensation as defined in the AVC, except as described below. On October 26, 2004, Gallagher announced that it would not enter into any new volume- based or profit- based contingent commissions agreements as a retail broker effective January 1, 2005. However, as allowed under the AVC, Gallagher has continued to accept contingent compensation in connection with its international operations and certain non- retail business, including business generated by wholesalers, managing general agents and managing general underwriters. In addition, the AVC allows Gallagher to collect retail contingent compensation related to contracts in place at entities acquired by Gallagher for up to three years from the date of each such acquisition. Gallagher's contingent commissions for the years ended December 2007, 2006 and 2005 were \$13.3 million, \$7.3 million and \$35.2 million, respectively. The contingent commissions recognized in 2007 and 2006 by Gallagher relate to contingent commission agreements from retail brokerage acquisitions and non- retail business. The amount of contingent commission revenue for 2007, 2006 and 2005 in which Gallagher participated as a retail broker and which involved volume- based or profit- based contingent commission agreements aggregated \$4.1 million, \$2.5 million and \$28.8 million, respectively. See Note 17 to the Consolidated Financial Statements for a discussion of the material terms of the AVC. Accordingly, beginning in 2005 and more significantly in 2006, Gallagher began to experience reduced retail contingent commission revenue and it is expected that future retail contingent commission revenues will be substantially reduced from the amount received in 2005.

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 payments by Carriers in return for business and enhanced disclosure of contingent commission arrangements to insureds.

Gallagher, along with other major insurance brokerage firms, was named as a defendant in various lawsuits brought by private litigants which relate to contingent commission arrangements. Certain of these lawsuits have been included in a Multi-District Litigation (MDL) proceeding before the U.S. District Court for the District of New Jersey. On December 29, 2006 Gallagher reached an agreement to resolve all claims in the MDL (the MDL Settlement). On September 4, 2007, the court granted final approval of the MDL Settlement. The MDL Settlement provides for Gallagher to distribute \$28.0 million to current and former clients and others that purchased retail insurance through Gallagher or other brokers named as defendants in the MDL during the period beginning on August 26, 1994 and ending on December 31, 2005. A notice of appeal has been filed challenging the final approval of the MDL Settlement. Gallagher also agreed to pay up to \$8.9 million in attorney fees, of which Gallagher paid \$8.6 million in November 2007.

Gallagher Bassett Services, Inc., a third party administrator and a wholly-owned subsidiary of Gallagher, has received subpoenas from the Offices of the Attorney General of the State of New York, Connecticut and Illinois. The subpoenas request information in connection with separate investigations being conducted by each state and none of the subpoenas relate to Gallagher's brokerage operations. Gallagher is fully cooperating with these investigations.

Gallagher continues to be the subject of a number of state investigations concerning various historical business practices in the insurance industry and is fully cooperating with these investigations.

In 2005, Gallagher recorded pretax charges totaling \$73.6 million (\$44.2 million after tax) in connection with the regulatory and legal actions by the State Attorneys General and private litigants related to contingent commissions and various other historical business practices, as described above. In 2006, Gallagher recorded an additional pretax charge of \$9.0 million to increase its reserve for the costs to be incurred to administratively conclude the MDL Settlement and to resolve other regulatory matters and investigations. See Note 17 to the Consolidated Financial Statements for additional discussion relating to these matters.

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 to the insureds generally relate to a large number of small premium P/C transactions and a substantial portion of the revenues generated by Gallagher's employee benefit operations. Under these direct bill arrangements, 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 the decline in fair value 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 incorporates 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 (five to fifteen years for expiration lists and five to six 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 consolidated balance sheet.

While goodwill is not amortized, it is subject to periodic reviews for impairment. Gallagher reviews all of its 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. Based on the results of impairment review in 2007 and 2006, Gallagher wrote- off \$8.8 million and \$1.0 million, respectively, of amortizable intangible assets related to the Brokerage Segment acquisitions. The 2007 intangible asset write- off was reported in discontinued operations in the 2007 consolidated statement of earnings. No such indicators were noted in 2005. 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 and Dispositions

See Notes 4 and 5 to the Consolidated Financial Statements for a discussion of 2007 business combinations and 2007 and 2005 dispositions, respectively. In addition, see Note 3 to the Consolidated Financial Statements for a discussion on dispositions of certain Gallagher consolidated investments in 2007 and 2006.

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 and the net commission and fee revenues related to operations disposed of in each year presented. These 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 both the current and prior year. In addition, organic growth excludes contingent commission revenues. These commission revenues are excluded from organic revenues in order to determine the revenue growth that is associated with the revenue sources that will be continuing in 2007 and beyond. 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.

Allocations of investment income and certain expenses are based on reasonable assumptions and estimates primarily using revenue, headcount and other information. Gallagher allocates the provision for income taxes to the Brokerage and Risk Management Segments as if those segments were preparing income tax provisions on a separate company basis. As a result, the provision for income taxes for the Financial Services Segment reflects the entire benefit to Gallagher of the IRC Section 29- related credits because that is the segment which produces the credits. Gallagher anticipates reporting an effective tax rate of approximately 39.0% to 41.0% in both its Brokerage Segment and its Risk Management Segment for the foreseeable future. Reported operating results by segment would change if different allocation methods were applied.

In the discussion that follows regarding Gallagher's results of operations, Gallagher provides the following ratios with respect to its operating results: pretax profit margin before the impact of pretax retail contingent commission related matters, claims handling obligations, and medical and pension plan changes, compensation expense ratio and operating expense ratio. Pretax profit margin before the impact of pretax retail contingent commission related matters, claims handling obligations and medical and pension plan changes represents pretax earnings from continuing operations before the impact of pretax retail contingent commission related matters (in 2006 and 2005), claims handling obligations (in 2005) and medical and pension plan changes (in 2006 and 2005) divided by total revenues, excluding retail contingent commissions. The compensation expense ratio is derived by dividing compensation expense, after excluding the impact of medical and pension plan changes (in 2006 and 2005), by total revenues, excluding retail contingent commissions. The operating expense ratio is derived by dividing operating expense, after excluding retail contingent commission related matters (in 2006 and 2005) and claims handling obligations (in 2005), by total revenues, excluding retail contingent commissions.

Brokerage

The Brokerage Segment accounted for 69% of Gallagher's revenue in 2007. Gallagher's Brokerage Segment is primarily comprised of retail and wholesale brokerage operations. Gallagher's retail brokerage operations negotiate and place P/C, employer- provided health and welfare insurance and retirement solutions, principally for middle- market commercial, industrial, public entity, religious and not- for- profit entities. Many of Gallagher's retail brokerage customers choose to place their insurance with insurance underwriters while others choose to use alternative vehicles such as self- insurance pools, risk retention groups or captive insurance companies. In addition, Gallagher's wholesale brokerage operations assist Gallagher brokers and other unaffiliated brokers and agents in the placement of specialized, unique and hard to place insurance programs. The primary source of Gallagher's compensation for its retail brokerage services are commissions paid by insurance companies, which are usually based upon a percentage of the premium paid by insureds and brokerage and advisory fees paid directly by its clients. For wholesale brokerage services, Gallagher generally receives a share of the commission received by the retail broker from the insurer. Commission rates are dependent on a number of factors, including the type of insurance, the particular insurance company underwriting the policy and whether Gallagher acts as a retail or wholesale broker. Advisory fees are dependent on the extent and value of services provided. Under certain circumstances, Gallagher may also receive contingent commissions, which are based on the estimated profit the underwriting insurance company earns and/or the overall volume of business placed by Gallagher in a given period of time. Financial information relating to Gallagher's Brokerage Segment is as follows (in millions):

	2007	Percent Change	2006	Percent Change	2005
Commissions	\$ 863.2	9%	\$ 790.4	8%	\$ 733.4
Retail contingent commissions	4.1	64%	2.5	(91%)	28.8
Fees	216.8	16%	186.4	12%	166.9
Investment income and other	30.1	9%	27.5	65%	16.7
Total revenues	1,114.2	11%	1,006.8	6%	945.8
Compensation	655.9	10%	598.2	8%	551.6
Operating	229.9	14%	201.5	0%	201.5
Depreciation	16.1	14%	14.1	11%	12.7
Amortization	28.8	39%	20.7	20%	17.2
Medical and pension plan changes	-	NMF	4.6	167%	(6.9)
Retail contingent commission related matters	-	NMF	9.0	(88%)	73.6
Claims handling obligations	-	NMF	-	NMF	5.2
Total expenses	930.7	10%	848.1	(1%)	854.9
Earnings from continuing operations before income taxes	183.5	16%	158.7	75%	90.9
Provision for income taxes	71.2	8%	66.0	39%	47.4
Earnings from continuing operations	\$ 112.3	21%	\$ 92.7	113%	\$ 43.5
Growth - revenues excluding retail contingent commissions	11%		10%		11%
Organic growth in commissions and fees	2%		5%		2%
Compensation expense ratio	59%		60%		60%
Operating expense ratio	21%		20%		22%
Pretax profit margin excluding retail contingent commission related matters and claims handling obligations and medical and pension plan changes	16%		17%		15%
Effective tax rate	39%		42%		52%
Identifiable assets at December 31	\$ 2,731.0		\$ 2,580.6		\$ 2,498.5

In fourth quarter 2007, Gallagher undertook a strategic review of its operations and made a determination to exit its global reinsurance operations and its wholesale brokerage operations in Ireland. In January 2008, Gallagher announced plans to sell these operations. Accordingly, in the table above, the revenues and expenses of these operations, for all periods presented,

have been reclassified from continuing operations to discontinued operations and have not been included herein. In Gallagher's previously reported financial information, the reinsurance and Irish wholesale brokerage operating results were included in the Brokerage Segment.

The increase in commissions and fees for 2007 was principally due to revenues associated with acquisitions that were made during 2007 (\$77.2 million) and organic growth from existing operations. Also, contributing to the increase in commissions and fees in 2007 was new business production of \$158.0 million, which was offset by renewal rate decreases and lost business of \$132.0 million. The increase in commissions and fees for 2006 was principally due to revenues associated with acquisitions that were made during 2006 (\$33.7 million) and organic growth from existing operations. Also contributing to the increase in commissions and fees in 2006 was new business production of \$147.0 million, which was offset by renewal rate decreases and lost business of \$104.0 million. The organic growth in commission and fee revenues was 2% in 2007, 5% in 2006 and 2% in 2005. The following net commission and fee revenues related to retail contingent commissions and acquisitions were excluded in deriving the organic growth percentages: \$90.5 million in 2007, \$41.0 million in 2006 and \$99.2 million in 2005. In 2007 and 2006, fees grew faster than commissions primarily as a result of transparency with Gallagher's clients, a focus on building a more stable revenue stream and an increase in revenues from large clients, which are typically fee- based.

Investment income and other, which primarily represents interest income earned on cash and restricted funds, increased in 2007 and 2006 primarily due to increases in short- term interest rates, which were partially offset by increased use of cash to repurchase common stock and fund acquisitions in 2007. Also contributing to the increase in 2007 were \$7.1 million of one- time gains related to the sales of small books of business compared to \$4.5 million in 2006. The increase in investment income in 2006 compared to 2005 was primarily due to increases in short- term interest rates and increases in the amount of cash available to invest due to growth in operations. Also contributing to the increase in 2006 were \$4.5 million of one- time gains related to the sales of small books of business compared to \$1.5 million in 2005.

The increase in compensation expense in 2007 compared to 2006 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 (\$59.8 million in the aggregate), an increase in severance costs (\$2.1 million) and the adverse impact of foreign currency translation (\$6.2 million). These increases were partially offset by a decrease in expense related to stock- based compensation (\$2.6 million) and employee benefit plan cost savings (\$7.8 million). The increase in employee headcount in 2007 primarily relates to the addition of employees associated with the acquisitions that were made in the last twelve months. The increase in compensation expense in 2006 compared to 2005 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 (\$32.9 million in the aggregate), an increase in expense related to stock- based compensation (\$6.2 million), an increase in severance costs (\$1.7 million), an increase in employee benefit plan costs (\$4.5 million) and the adverse impact of foreign currency translation (\$1.3 million). The increase in employee headcount in 2006 primarily relates to the addition of employees associated with the acquisitions that were made during 2006.

Also contributing to the increase in expenses in 2006 compared to 2005 were the defined benefit pension plan curtailment gain of \$6.9 million that was recognized as an offset to compensation expense in 2005 and a \$4.6 million one- time medical plan termination charge recorded in 2006, which was incurred when Gallagher changed its medical plan administrator during fourth quarter 2006. These items are presented in a separate line in the table above labeled medical and pension plan changes.

The increase in operating expenses in 2007 compared to 2006 was due primarily to increases in insurance costs (\$4.4 million), travel and entertainment (\$4.7 million), increased costs associated with operational improvement initiatives (\$4.3 million), legal costs (\$1.5 million), severance related costs (\$0.5 million) and the unfavorable impact of foreign currency translation (\$2.5 million) in 2007. Also contributing to the increase in operating expenses in 2007 were expenses associated with the acquisitions (\$13.4 million) completed in the last twelve months. These increases were partially offset by a decrease in bad debt expense (\$2.1 million). Operating expenses were relatively unchanged in 2006 compared to 2005. Gallagher incurred increases in expenses related to acquisitions completed during 2006, inflationary increases in operating expenses and an increase in lease costs (\$1.9 million) related to lease terminations. These increases were substantially offset by a decrease in business insurance costs (\$4.4 million), a decrease in bad debt expense (\$2.2 million), the favorable impact of foreign currency translation (\$2.6 million) and expense savings related to sourcing and other cost containment initiatives put in place in the latter part of 2005.

The increases in depreciation expense in 2007 compared to 2006 and in 2006 compared to 2005 were due primarily to the purchases of furniture, equipment and leasehold improvements related to office expansions and moves, and expenditures related to upgrading computer systems made during 2007, 2006 and 2005. Also contributing to the increase in 2007 and 2006 was the depreciation expense associated with the acquisitions completed in 2007, 2006 and 2005.

The increases in amortization in 2007 compared to 2006 and in 2006 compared to 2005 were due primarily to amortization expense of intangible assets associated with acquisitions completed in 2007, 2006 and 2005. Expiration lists and non- compete agreements are amortized using the straight- line method over their estimated useful lives (five to fifteen years for expiration lists and five to six years for non- compete agreements). Also contributing to the increase in amortization expense

in 2006 was the \$1.0 million impairment of amortizable intangible assets in 2006 related to one of Gallagher's 2003 acquisitions. In 2005, Gallagher recorded pretax charges totaling \$73.6 million (\$44.2 million after tax) in connection with the regulatory and legal actions by the State Attorneys General and private litigants related to contingent commissions and various other historical business practices, as described more fully in Note 17 to the Consolidated Financial Statements and "Management's Discussion and Analysis Contingent Commissions and Other Industry Developments". In 2006, Gallagher recorded a pretax charge of \$9.0 million (\$5.4 million after tax) to increase its reserve for the costs to be incurred to administratively conclude the MDL Settlement and to resolve other regulatory matters and investigations. Claims handling obligations in 2005 represented a pretax charge of \$5.2 million (\$3.6 million after tax) recorded by Gallagher related to obligations to provide future claims handling and certain administrative services for brokerage clients. During 2005 and the latter part of 2004, in connection with legal interpretations and accounting guidance issued by the Institute of Chartered Accountants in the U.K., many global insurance brokerage firms reassessed their obligations to provide future claims handling and certain administrative services for brokerage clients. This guidance, which is referred to as FRS 5, was issued in 2004 and is specifically directed to insurance brokers engaged in the industry practice of providing clients future claims handling and administrative services. Based on a detailed review of its brokerage operations in both the U.S. and U.K. that was completed in 2005, its accounting practices for these operations and applicable legal interpretations, Gallagher determined that under certain circumstances it is obligated to provide future claims handling and certain administrative services based on its current business practices. Gallagher recorded a non-cash pretax charge of \$5.2 million to reflect the change in the estimated costs to provide these future services to former clients. The Brokerage Segment's effective tax rate in 2007, 2006 and 2005 was 39.0%, 42.0% and 52.0%, respectively. The effective income tax rate reported in 2005 was adversely impacted by the annualized effect of foreign dividend repatriations that occurred in 2005. See the Results of Operations for the Financial Services Segment for a discussion on the overall effective income tax rate in 2007, 2006 and 2005.

Risk Management

The Risk Management Segment accounted for 27% of Gallagher's revenue in 2007. It provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their P/C coverages and for insurance companies that choose to outsource some or all of their P/C claims departments. In addition, Gallagher generates revenues from integrated disability management programs, information services, risk control consulting (loss control) services and appraisal services, either individually or in combination with arising claims. This segment's revenues for risk management services are substantially in the form of fees. These fees are generally negotiated in advance on a per-claim or per-service basis depending upon the type and estimated volume of the services to be performed. Financial information relating to Gallagher's Risk Management Segment is as follows (in millions):

	2007	Percent Change	2006	Percent Change	2005
Fees	\$ 439.4	11%	\$ 397.3	8%	\$ 367.7
Investment income	4.1	3%	4.0	38%	2.9
Total revenues	443.5	11%	401.3	8%	370.6
Compensation	255.7	10%	233.0	11%	209.0
Operating	112.1	10%	102.1	16%	88.2
Depreciation	11.2	18%	9.5	23%	7.7
Amortization	0.5	-	0.5	25%	0.4
Medical and pension plan changes	-	NMF	2.9	NMF	(3.1)
Total expenses	379.5	9%	348.0	15%	302.2
Earnings from continuing operations before income taxes	64.0	20%	53.3	(22%)	68.4
Provision for income taxes	24.4	15%	21.3	(24%)	28.1
Earnings from continuing operations	\$ 39.6	24%	\$ 32.0	(21%)	\$ 40.3
Growth - revenues	11%		8%		7%
Organic growth in fees	11%		8%		7%
Compensation expense ratio	58%		58%		56%
Operating expense ratio	25%		25%		24%
Pretax profit margin	14%		14%		18%
Effective tax rate	38%		40%		41%
Identifiable assets at December 31	\$ 352.5		\$ 308.2		\$ 284.4

The increase in fees for 2007 compared to 2006 was due primarily to new business production and renewal rate increases of \$58.0 million in 2007 and was offset by lost business of \$16.0 million. Also contributing to the increase in 2007 was \$3.5 million of non-recurring revenues related to the collection of a historical make-whole payment received in fourth quarter 2007. The increase in fees for 2006 compared to 2005 was due primarily to new business production of \$56.0 million in 2006 and was offset by lost business and renewal rate decreases of \$27.0 million. The organic growth in fee revenues was 11% in 2007, 8% in 2006 and 7% in 2005. Historically, the Risk Management Segment has made few acquisitions, and these acquisitions have not been material to this Segment's operations. Thus, there typically is no material difference between GAAP revenues and organic revenues for this Segment.

Investment income, which primarily represents interest income earned on Gallagher's cash and cash equivalents, was relatively unchanged in 2007 compared to 2006. Investment income in 2006 compared to 2005 increased primarily due to increases in short-term interest rates and increases in the amount of cash available to invest due to growth in operations.

The increase in compensation expense in 2007 compared to 2006 was due to an increase in the average number of employees and salary increases (\$23.3 million in the aggregate), an increase in incentive compensation (\$2.9 million) and the adverse impact of foreign currency translation (\$3.8 million), partially offset by a decrease in employee benefit plan costs (\$4.9 million) and decreased temporary-help costs (\$2.4 million). The increase in employee headcount relates to the hiring of additional staff to support claims activity related to new business generated. The increase in compensation expense in 2006 compared to 2005 was due to an increase in the average number of employees and salary increases (\$15.1 million in the aggregate), increases in employee benefit plan costs (\$6.1 million), an increase in stock-based compensation expense in 2006 (\$2.3 million) and the adverse impact of foreign currency translation (\$0.5 million).

Also contributing to the increase in expenses in 2006 compared to 2005 were the defined benefit pension plan curtailment gain of \$3.1 million that was recognized as an offset to compensation expense in 2005 and a \$2.9 million one-time medical

plan termination charge recorded in 2006, which was incurred when Gallagher changed its medical plan administrator during fourth quarter 2006. These items are presented in a separate line in the table above labeled medical and pension plan changes.

The increase in operating expenses in 2007 compared to 2006 was primarily due to increases in insurance costs (\$2.3 million), professional fees (\$1.3 million), rent expense (\$2.7 million), office expense (\$1.6 million) and travel and entertainment costs (\$1.2 million). The increase in operating expenses in 2006 from 2005 was due primarily to increases in business insurance costs (\$1.8 million), lease costs (\$3.2 million), professional services fees (\$2.3 million), travel and entertainment expenses (\$1.4 million) and office expenses (\$2.6 million), which were partially offset by the favorable impact of foreign currency translation (\$0.6 million) in 2006.

The increases in depreciation expense in 2007 compared to 2006 and in 2006 compared to 2005 were due primarily to the purchases of furniture, equipment and leasehold improvements related to office expansions and moves and expenditures related to upgrading computer systems made during 2007, 2006 and 2005.

Amortization expense was relatively unchanged in 2007 compared to 2006 and in 2006 compared to 2005. Historically, the Risk Management Segment has made few acquisitions, and no material acquisitions were made by this Segment in 2007, 2006 or 2005.

The Risk Management Segment's effective tax rate in 2007, 2006 and 2005 was 38.0%, 40.0% and 41.0%, respectively. See the Results of Operations for the Financial Services Segment for a discussion on changes in the overall effective income tax rate in 2007 compared to 2006 and 2006 compared to 2005.

Financial Services

The Financial Services Segment manages Gallagher's interests in tax- advantaged and clean- energy investments as well as its equity ownership position in an alternative investment fund manager that has ownership interests in private investment management firms. Operations are in Itasca, Illinois and Gallagher has been winding down its financial services activities since 2003. Management expects to continue to divest most of the remaining investments in 2008. The Financial Services Segment also includes Gallagher's \$400.0 million Note Purchase Agreement, which was entered into on August 3, 2007, and borrowings made under Gallagher's unsecured multicurrency credit agreement. See Note 3 to the Consolidated Financial Statements for a summary of Gallagher's investments at December 31, 2007 and 2006 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):

	2007	Percent Change	2006	Percent Change	2005
Investment income (loss):					
Asset Alliance Corporation (AAC)	\$ (4.8)	(433%)	\$ (0.9)	67%	\$ (2.7)
IRC Section 29 Syn/Coal facilities:					
Unconsolidated facilities	10.9	(66%)	32.2	(42%)	55.5
Consolidated facilities	52.2	6%	49.3	15%	42.8
Other alternative energy investments	(0.1)	92%	(1.3)	NMF	0.8
Real estate, venture capital and other investments	4.2	(46%)	7.8	(38%)	12.5
Total investment income	62.4	(28%)	87.1	(20%)	108.9
Investment gains (losses)	3.2	113%	(25.1)	NMF	3.6
Total revenues	65.6	6%	62.0	(45%)	112.5
Investment expenses:					
IRC Section 29 Syn/Coal facilities:					
Unconsolidated facilities	12.7	(31%)	18.4	16%	15.8
Consolidated facilities	69.8	(6%)	74.1	1%	73.4
Compensation, professional fees and other	12.5	12%	11.2	(29%)	15.7
Total investment expenses	95.0	(8%)	103.7	(1%)	104.9
Interest	16.0	88%	8.5	(27%)	11.6
Depreciation	2.0	(73%)	7.3	(36%)	11.4
Litigation related matters	-	NMF	-	NMF	131.0
Total expenses	113.0	(5%)	119.5	(54%)	258.9
Loss from continuing operations before income taxes	(47.4)	18%	(57.5)	61%	(146.4)
Benefit for income taxes	(50.1)	18%	(61.2)	40%	(101.7)
Earnings (loss) from continuing operations	\$ 2.7	(27%)	\$ 3.7	108%	\$ (44.7)

Identifiable assets at December 31 \$ 473.3 \$ 531.3 \$ 606.6

Investment income from AAC is primarily derived from Gallagher's investments in common stock, preferred stock and debt of 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. Full payment of Gallagher's debt instrument in AAC was received in December 2006. The AAC related loss was greater in 2007 compared to 2006 primarily due to Gallagher's equity basis portion of AAC losses, which included AAC's impairment write- down of one of its investment managers and the write- off by AAC of professional fees capitalized by AAC related to an unsuccessful equity offering. The AAC related loss in 2006 was more favorable than the 2005 loss due primarily to Gallagher's equity accounting portion of a 2005 AAC loss adjustment related to the sales and impairment of its investments in three of its private investment management firms. AAC's 2006 loss included an adjustment from 2005 that AAC recognized in 2006 for taxes related to the sales and impairment of AAC's investment in three of its private investment management firms.

On January 8, 2008, AAC entered into a reverse merger agreement with Tailwind Financial, Inc (AMEX: TNF) (Tailwind). In this proposed transaction, Tailwind will issue its common stock in exchange for 100% of the common stock of AAC. At closing, Tailwind will issue 10.6 million shares to AAC shareholders. An additional 2.5 million shares will be issued to AAC shareholders if certain earnout based performance milestones are met after a three year period. The proposed share amounts issued equate to a purchase price for AAC of \$85.0 million plus an earnout of \$20.0 million assuming an \$8.00 price per Tailwind share. Current Tailwind shareholders will retain approximately 65% ownership in the surviving entity. The shares owned by AJG will be subject to trading restrictions. The contemplated transaction is subject to approval by AAC and Tailwind shareholders and the SEC.

Investment income from IRC Section 29- related Syn/Coal facilities consists of two pieces: income from unconsolidated facilities and income from consolidated facilities. Income from the unconsolidated facilities relates to the installment sale gains from the sales of Gallagher's interests in limited partnerships that operate IRC Section 29- related Syn/Coal facilities. The decrease in income from these investments in 2007 compared to 2006 and 2006 compared to 2005 was primarily due to the estimated IRC Section 29 phase- out of 66% for 2007 compared to 33% for 2006 and no phase- out in 2005. Income from the consolidated facilities relates to Gallagher's 98% (12% as of May 17, 2007) and 99% equity interests in two IRC Section 29- related Syn/Coal production facilities (only one facility was consolidated as of May 17, 2007) that are held by Gallagher to generate IRC Section 29- related Syn/Coal credits. The increase in income from these investments in 2007 compared to 2006 was primarily due to these facilities being operated throughout all of 2007 as compared with 2006, during which they were idled until June 12, 2006, offset by the negative impact of the estimated 33% increase in the IRC Section 29 phase- out in 2007 compared to 2006. The increase in income from these investments in 2006 was due to higher production in 2006 than in 2005.

Income from other alternative energy investments primarily relates to Gallagher's equity interest in a "parent" company and related partnerships that own the rights to Biogas from landfills and the wells, infrastructure and a pipeline to capture, distribute and sell Biogas. The improvement in the loss from other alternative energy investments in 2007 compared to 2006 was primarily due to a decrease in the losses (\$2.0 million) of the entity that operates the Biogas projects and the pipeline offset by a decrease (\$1.0 million) in Biogas installment sale gains due primarily to the estimated 33% increase in the IRC Section 29 phase- out in 2007 compared to 2006. The decrease in income from these investments in 2006 was due to a \$0.7 million decrease in the earnings, using equity method accounting, from the entity that operates the Biogas projects and the pipeline, a \$0.4 million reduction in interest income from the same entity due to a conversion of a substantial portion of debt to equity in 2005, a \$0.5 million reduction in fees primarily as a result of a catch- up payment received by Gallagher in 2005 as part of the Headwaters royalty settlement (discussed below) and a \$0.5 million reduction in equity accounting income which ceased after the sale of a Biogas project in second quarter 2005.

Income from real estate, venture capital and other investments primarily relates to Gallagher's portion of the earnings of these entities that are accounted for using equity method accounting, changes in market value of public company stock and in 2007, interest earnings related to the invested proceeds from Gallagher's \$400.0 million Note Purchase Agreement (\$2.4 million), which was entered into on August 3, 2007. For 2006 and 2005, this income category included rental income of \$ 4.9 million and \$6.5 million, respectively, related to Gallagher's 60% ownership interest in a limited partnership that, prior to December 2006, owned the building that Gallagher leases for its home office and several of its subsidiary operations. In December 2006, the real estate partnership sold Gallagher's home office land and building. The 2006 decrease in income from this investment was due to an early termination fee from an unrelated party in 2005 and another unrelated tenant moving out of the building in January 2006. Prior to December 2006, this investment was consolidated into Gallagher's consolidated financial statements. Also included in this income category is rental income related to Gallagher's 90% ownership interest in an airplane leasing company that leases two cargo airplanes to the French Postal Service. The 2007 decrease in income from this investment (\$3.4 million) was due to Gallagher selling its 90% ownership interest in January 2007. The 2006 decrease from this investment (\$0.6 million) was primarily due to the renegotiation of the lease arrangement with the French Postal Service in December 2005. Prior to January 2007, this investment was consolidated into Gallagher's consolidated financial statements. For 2006 and 2005, this income category included income (losses) from the investment in a low income housing (LIH) developer. There was a \$1.9 million improvement in 2007 from a lack of losses generated under equity method accounting from the LIH developer due to Gallagher selling off its interests in the LIH developer in fourth quarter 2006. The decrease in 2006 compared to 2005 included Gallagher's equity accounting portion of bad debt write- offs (\$1.6 million) of the LIH developer. There was a distribution in 2007 from one of the venture capital funds that netted a \$1.4 million gain to Gallagher, a \$1.6 million improvement from 2006. Also impacting the decrease in 2006 was a decrease in fair value of the stock of a public company (\$0.4 million) and a decrease in income from one of the venture capital funds (\$0.6 million).

Investment gains (losses) primarily include realized gains and losses that occurred in the respective years related to impairments, dispositions and recoveries of venture capital investments and clean energy investments.

During 2007, Gallagher recognized a net gain of \$3.2 million the main components of which were as follows: \$14.5 million gain from an oil price derivative related to hedge position established for IRC Section 29- related tax credits, a \$5.5 million loss as a result of equity method accounting related to the investment made to acquire an additional indirect ownership of 16% from existing owners of Chem- Mod, a \$4.4 million loss to establish a reserve for the reclamation of a former coal production

site and a \$1.8 million impairment loss on a LIH bridge loan. The remaining \$0.4 million net gain was from other transactions, none of which was greater than \$0.3 million.

During 2006, Gallagher recognized a net investment loss of \$25.1 million, the main components of which were as follows: a \$2.2 million loss as a result of a fair market value adjustment for the option costs of clean energy related ventures C- Quest Technologies LLC and C- Quest Technologies International LLC, a \$2.4 million loss as a result of the write- offs of its equity investments in the C- Quest entities, an \$8.5 million loss on an oil price derivative instrument related to IRC Section 29- related investments, a \$4.2 million loss on the sale of its 60% interest in the home office land and building, a \$3.0 million loss on the sale of its interests in the LIH developer, a \$2.7 million loss on the pending sale of its interests in the airplane leasing company and a \$2.4 million loss related to the write- down of two waste- to- energy (Biomass) partnerships. The remaining \$0.3 million net gain was from other transactions, none of which was greater than \$0.2 million.

During 2005, Gallagher recognized a net \$3.6 million investment gain related to assets impaired in prior years, the main components of which were as follows: \$0.6 million gain on the sale of a shopping center investment, a \$2.5 million loss as a result of the write- downs of substantial portions of Gallagher's ownership interests in multi- pollutant reduction ventures Chem- Mod LLC and Chem- Mod International LLC, a \$2.1 million dividend from its investment in Allied World Assurance Holdings, Ltd, a \$1.3 million gain on the sale of a Biogas project and a \$1.2 million gain on a recovery from a Biogas project that had previously been impaired. The remaining \$0.9 million net gain was from other transactions, none of which was greater than \$0.5 million.

The investment expenses in 2007 related to the unconsolidated facilities decreased compared to 2006 primarily due to a \$6.5 million decrease in the Headwaters royalty (discussed below) as a result of the increased IRC Section 29 phase- out in 2007. The investment expenses in 2006 related to the unconsolidated facilities increased compared to 2005 primarily due to professional fee expenses. The investment expenses in 2007 related to the consolidated facilities decreased compared to 2006 due to an increase in production volume offset by the favorable impact on production expenses of the increased phase- out. The investment expenses in 2006 related to the consolidated facilities were relatively unchanged compared to 2005. The production volume increased marginally which was offset by the favorable impact on production expenses as a result of the phase- out.

The increase in investment expenses in 2007 related to compensation, professional fees and other expenses was due to an increase in incentive compensation and related benefits (\$0.6 million), and an increase in operating expenses of the home office facility (\$1.4 million), partially offset by a decrease in expenses related to the airplane leasing company (\$0.6 million). The decrease in investment expenses in 2006 related to compensation, professional fees and other expenses was primarily due to a reduction in incentive compensation and related benefits (\$1.8 million), a decrease in corporate overhead (\$2.8 million), a decrease in franchise taxes (\$0.7 million) and a decrease in professional fees (\$1.1 million), which were offset by an increase in operating expenses of the home office facility (\$1.2 million).

The increase in interest expense in 2007 compared to 2006 was primarily related to Gallagher's \$400.0 million Note Purchase Agreement (\$10.9 million), which was entered into on August 3, 2007, plus interest incurred on the 2007 borrowings made under Gallagher's unsecured multicurrency credit agreement (\$4.6 million) (which was fully repaid on August 7, 2007), partially offset by a decrease in interest expense due to the sales of the home office building in December 2006 (\$6.4 million) and the airplane leasing company in January 2007 (\$1.5 million). Prior to the sale transactions, these two investments were consolidated into Gallagher's Consolidated Financial Statements and had outstanding debt. The decrease in interest expense in 2006 compared to 2005 was due to selling a Biogas project in 2005 which had debt (\$1.1 million) plus a reduction in interest (\$2.0 million) on the Headwaters royalty settlement paid in first quarter 2006.

The decrease in depreciation expense in 2007 compared to 2006 was primarily due to the sale of the airplane leasing company (\$3.4 million) and the deconsolidation of the Syn/Coal facility in 2007 (\$2.0 million). The decrease in depreciation expense in 2006 compared to 2005 was primarily due to a decrease in depreciation expense of the home office facility (\$2.9 million) and at one of the IRC Section 29- related Syn/Coal facilities (\$1.0 million).

Litigation related matters in 2005 represented a pretax charge of \$131.0 million (\$84.2 million after tax) recorded by Gallagher in first quarter 2005. On February 11, 2005, a jury in the Fourth District Court for the State of Utah awarded damages against Gallagher's subsidiary, AJG Financial Services, Inc. (AJGFS), and in favor of Headwaters Incorporated (Headwaters) in the amount of \$175.0 million. AJGFS and Headwaters entered into a definitive agreement effective as of May 1, 2005 to settle this and all other litigation between the companies for \$50.0 million, which was paid to Headwaters in May 2005. Additionally, AJGFS and Headwaters modified their existing licensing agreement, allowing AJGFS to utilize Headwaters' technology on two of AJGFS' synthetic fuel facilities in exchange for (i) \$70.0 million, which was paid to Headwaters on January 4, 2006, and (ii) an annual royalty to Headwaters in 2005, 2006 and 2007. The 2005 litigation charge provides for amounts related to this settlement, including the \$120.0 million of settlement costs, together with litigation, bonding and other costs of approximately \$11.0 million. In connection with the Headwaters licensing agreement, Gallagher recorded \$8.9 million, \$15.4 million and \$14.6 million of royalty expense in 2007, 2006 and 2005, respectively, which was included in investment expenses.

Gallagher anticipates reporting an effective tax rate of approximately 39.0% to 41.0% in both its Brokerage Segment and its Risk Management Segment for the foreseeable future, regardless of historical or future oil prices. In general, the overall effective income tax rate for Gallagher reflects the impact of 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. Gallagher's annual effective tax rate, on a consolidated basis was 22.7% and 16.9% for 2007 and 2006, respectively. The rates for 2007 and 2006 reflect the impact of 66% (estimated) and 33% phase- outs of IRC Section 29- related tax credits, respectively and adjustments related to uncertain tax positions. There was no phase- out in 2005. During 2007, Gallagher resolved a number of income tax matters related to prior years and revised estimates of its tax reserves, which resulted in a net decrease in Gallagher's tax reserves of \$5.9 million. The effective income tax rate reported in 2005 was impacted by the marginal income tax (benefit) effect of the two previously discussed litigation related charges that Gallagher recorded in 2005. Due to the size and nature of the litigation charges, Gallagher recorded an income tax benefit in 2005 using an effective marginal income tax rate of 40.0% for the Brokerage related litigation charge and 35.7% for the Financial Services related litigation charge.

The law that provided for IRC Section 29 tax credits expired on December 31, 2007. Gallagher has utilized published 2007 Market Wellhead Prices, 2007 NYMEX crude oil prices, U.S. Department of Commerce 2007 inflation data and IRS published data for 2006 in arriving at its estimate of a 66% phase- out of tax credits for 2007. Inflation and wellhead price data has not yet been published for all of 2007, which necessitated estimates for months not yet published. The actual phase- out under IRC Section 29 will not be known until the IRS publishes actual tax credit and phase- out information in April 2008. Gallagher's effective tax rate in 2008 will likely be approximately 39.0% to 41.0%.

Gallagher is an investor in two privately- owned clean energy ventures. Chem- Mod LLC (Chem- Mod), a multi- pollutant reduction venture, possesses rights, information and technology for the reduction of unwanted emissions created during the combustion of coal. As reported by Chem- Mod in a press release dated February 8, 2006, Chem- Mod has developed and is the exclusive licensee of a new proprietary emissions technology it refers to as The Chem- Mod Solution, which uses a dual injection sorbent system to reduce mercury, sulfur dioxide and other toxic emissions at coal- fired power plants. Substantial testing of The Chem- Mod Solution has been completed both in a laboratory environment and at seven full- scale commercial power plants, all yielding positive test results. Although Chem- Mod is in the early stages of commercializing the technology, the principal potential market for The Chem- Mod Solution is coal- fired power plants owned by utility companies. On October 17, 2007, Chem- Mod signed its first commercial license agreement with a utility company for use of The Chem- Mod Solution. Chem- Mod has indicated publicly that it believes The Chem- Mod Solution is a more cost- effective technology for reducing emissions in a manner consistent with the Environmental Protection Agency's Clean Air Mercury Rules than other technologies currently in the marketplace. Gallagher, through a wholly- owned subsidiary, owns a 10% direct equity interest in Chem- Mod and had an option to acquire an additional 32% indirect equity interest in Chem- Mod. On December 28, 2007, Gallagher exercised one- half of its option for \$5.5 million to acquire an additional indirect ownership of 16% from existing owners of Chem- Mod. The second half (\$5.5 million) of the option, which was to expire on December 31, 2007, has been extended to June 30, 2008. The direct and indirect interests are accounted for using equity method accounting. Gallagher recognized a \$5.5 million loss as a result of equity method accounting related to the additional investment made by Gallagher. In addition, Gallagher, through another wholly- owned subsidiary, owns a 20% direct equity interest in Chem- Mod International LLC, the exclusive licensee of The Chem- Mod Solution on a global basis, excluding the U.S. and Canada (Gallagher's interests in Chem- Mod and Chem- Mod International LLC are collectively referred to herein as Chem- Mod Interests). Gallagher first began providing funding to Chem- Mod in June 2004. Currently, Gallagher's carrying value with respect to its Chem- Mod Interests is approximately \$0.9 million. Gallagher also has additional funding commitments of approximately \$0.5 million. Chem- Mod continues to test and market its technology in an effort to secure more commercial licenses. While Gallagher currently believes that its Chem- Mod Interests may prove to have substantial value, there can be no assurance given as to timing or amount, if any, with respect to any realization on this investment. On April 19, 2006, Gallagher funded \$4.7 million related to another clean energy venture formed by the founders of Chem- Mod, C- Quest Technologies LLC (C- Quest). C- Quest possesses rights, information and technology for the reduction of carbon dioxide emissions created by burning fossil fuels. Preliminary laboratory testing of C- Quest's technologies has been completed yielding promising results. Gallagher, through a wholly- owned subsidiary, currently owns a 5% direct equity interest in C- Quest and has an option to acquire an additional 22% direct interest in C- Quest. In addition, Gallagher, through a wholly- owned subsidiary, currently owns a 5% direct equity interest in C- Quest Technologies International LLC (C- Quest International), and has an option to acquire an additional 22% direct interest in C- Quest International, which possesses rights to use information and technology of C- Quest on a global basis, excluding the U.S. and Canada (the equity interest and option rights in C- Quest and C- Quest International are collectively referred to herein as C- Quest Interests). Currently, Gallagher's carrying value with respect to its C- Quest Interests are \$0.1 million. Gallagher's options to acquire the additional 22% direct interest in C- Quest and C- Quest International are exercisable at any time on or prior to April 18, 2010 at an exercise price of \$5.5 million for each option (\$11.0 million total). While Gallagher currently believes that its C- Quest Interests may prove to have substantial value, there can be no assurance given as to timing or amount, if any, with respect to any realization on this investment.

Financial Condition and Liquidity

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.

Cash Flows From Operating Activities

Gallagher's primary source for meeting its cash requirements historically has depended upon Gallagher's ability to generate positive cash flows from its operating activities. However, to fund repurchases of its common stock and acquisitions made during 2007, Gallagher relied to a large extent on proceeds from the Note Purchase Agreement (as described below) and borrowings under its Credit Agreement. Management believes that Gallagher will have adequate resources to meet its liquidity needs in the foreseeable future.

Cash provided by operating activities was \$252.3 million, \$104.7 million and \$189.4 million for 2007, 2006 and 2005, respectively. The increase in cash provided by operating activities in 2007 compared to 2006, and the decrease in cash provided by operating activities in 2006 compared to 2005, was primarily due to the \$92.1 million of payments made for Headwaters litigation in first quarter 2006 related to a 2005 settlement and to the \$26.9 million Gallagher paid into a fund in first quarter 2006 to be distributed to certain eligible policyholder clients under the AVC. Gallagher's cash flows from operating activities are primarily derived from its earnings from operations, as adjusted for realized gains and losses and its non- cash expenses, which include depreciation, amortization, deferred compensation, restricted stock and stock- based compensation expenses.

Net cash outflows related to charges incurred for litigation and retail contingent commission related matters had a negative impact on Gallagher's net cash provided by operating activities in 2007 and 2006. Gallagher anticipates that any contingent commission matters in 2008 will be funded by net cash flows from operating activities. If net cash flows from operating activities do not provide the necessary cash flow to cover the contingent commission matters, then Gallagher may use borrowings under its Credit Agreement to meet its short- term cash flow needs.

When assessing Gallagher's overall liquidity, the focus should be on earnings from operations, adjusted for non- cash 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 receivable, premiums payable or restricted cash for trends in liquidity. Because of the variability in the timing of premiums and fees receivable and premiums payable, net cash flows provided by operations may vary substantially from quarter- to- quarter and year- to- year related to these items. 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 addition, funds legally restricted as to Gallagher's use related to premiums and clients' claim funds 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.

Cash Flows From Financing Activities

At December 31, 2007, Gallagher had \$400.0 million of corporate related borrowings outstanding under its Note Purchase Agreement and a cash and cash equivalent balance of \$255.9 million. Gallagher also has a \$450.0 million Credit Agreement it uses from time- to- time to borrow funds to supplement operating cash flows. Due to outstanding letters of credit, \$433.1 million remained available for potential borrowings under the Credit Agreement at December 31, 2007.

On August 3, 2007, Gallagher entered into a Note Purchase Agreement with certain accredited institutional investors (the Purchasers), pursuant to which Gallagher issued and sold to the Purchasers \$100.0 million in aggregate principal amount of Gallagher's 6.26% Senior Notes, Series A, due August 3, 2014 and \$300.0 million in aggregate principal amount of Gallagher's 6.44% Senior Notes, Series B, due August 3, 2017 in a private placement (collectively the Notes). See Note 8 to the Consolidated Financial Statements for a discussion of the terms of the Note Purchase Agreement. During 2007 and 2006, Gallagher borrowed and repaid \$283.9 million and \$37.0 million, respectively, under the Credit Agreement. Principal uses of the borrowings under the Credit Agreement in 2007 were to fund acquisitions and earn- out payments related to acquisitions completed prior to 2007 and to fund stock repurchases. Borrowings outstanding under the Credit Agreement in 2007 were fully repaid in third quarter 2007 using proceeds from the Note Purchase Agreement. The remaining net proceeds from the Note Purchase Agreement were principally used for acquisitions and stock repurchases. Principal uses of the borrowings under the Credit Agreement in 2006 were used to fund Gallagher's short- term cash flow needs and were fully repaid in third quarter 2006 using cash flows from operations.

The Note Purchase Agreement and the Credit Agreement contain 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, 2007.

Dividends - In 2007, Gallagher declared \$117.9 million in cash dividends on its common stock, or \$1.24 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 15, 2008, Gallagher paid a fourth quarter dividend of \$.31 per common share to shareholders of record at December 31, 2007, a 3.3% increase over the fourth quarter dividend per share in 2006. On January 24, 2008, Gallagher announced an increase in its quarterly dividend for the first quarter of 2008 from \$.31 to \$.32 per common share, a 3.2% increase over 2007. If each quarterly dividend in 2008 is \$.32 per common share, this increase in the dividend will result in an annualized increase in the net cash used by financing activities in 2008 of approximately \$3.7 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 9.2 million shares at a cost of \$260.8 million and 1.1 million shares at a cost of \$31.3 million in 2007 and 2006, respectively. Gallagher did not repurchase any shares under the plan in 2005 primarily due to anticipated cash needs to fund the Headwaters and AVC related payments in 2005 and 2006. Repurchased shares are generally held for reissuance in connection with Gallagher's equity compensation and stock option plans. Under the provisions of the repurchase plan, at December 31, 2007, Gallagher was authorized to repurchase approximately 2.8 million additional shares. The plan authorizes the repurchase of Gallagher's common stock at such times and prices as Gallagher may deem advantageous, in transactions on the open market or in privately negotiated transactions. Gallagher is under no commitment or obligation to repurchase any particular amount of common stock, and the share repurchase plan can be suspended at any time at Gallagher's discretion. Funding for share repurchases may come from a variety of sources, including cash from operations, short- term or long- term borrowings under Gallagher's loan, line of credit or other sources. The common stock repurchases reported in the consolidated cash flow statement for 2007 also include 37,000 shares (at a cost of \$1.0 million) that were repurchased by Gallagher from its employees to cover their income tax withholding obligations in connection with 2007 restricted stock distributions. Under these circumstances, Gallagher will withhold the proceeds from the repurchases and remit them to the taxing authorities on the employees' behalf to cover their income tax withholding obligations. The common stock repurchases reported in the consolidated cash flow statement for 2006 also include 23,000 shares (at a cost of \$0.7 million) that were repurchased by Gallagher to settle escrow obligations in connection with two acquisitions made prior to 2006 and 47,000 shares (at a cost of \$1.3 million) that were repurchased from its employees to cover their income tax withholding obligations in connection with 2006 restricted stock distributions. The common stock repurchases reported in the consolidated cash flow statement for 2005 represent 76,000 shares (at a cost of \$2.2 million) that were repurchased by Gallagher from its employees to cover their income tax withholding obligations in connection with 2005 restricted stock distributions.

Another source of liquidity to Gallagher is the issuance of its common stock pursuant to its stock option and employee stock purchase plans. Proceeds from issuance of common stock under these plans were \$22.2 million in 2007, \$24.1 million in 2006 and \$28.1 million in 2005. 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 which 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.

Cash Flows From Investing Activities

Capital Expenditures - Net capital expenditures were \$40.7 million, \$33.0 million and \$23.4 million for 2007, 2006 and 2005, respectively. In 2008, Gallagher expects total expenditures for capital improvements to be approximately \$40.0 million, primarily related to office moves and expansions and updating computer systems and equipment. The increase in net capital expenditures in 2007 primarily related to capitalized costs associated with the implementation of new accounting and financial reporting systems and several other system initiatives.

Acquisitions - Cash paid for acquisitions, net of cash acquired, was \$215.0 million, \$80.8 million and \$32.9 million in 2007, 2006 and 2005, respectively. The increased use of cash for acquisitions in 2007 compared to 2006 was due to the increase in the number of acquisitions made in 2007. The increased use of cash for acquisitions in 2006 compared to 2005 correlates with the reduction in the use of common stock to fund acquisition activity in 2006. Gallagher completed twenty- one, eleven and ten acquisitions in 2007, 2006 and 2005, respectively. During 2007, Gallagher issued 322,000 shares of its common stock, paid \$1.7 million in cash and accrued \$1.7 million in current liabilities related to earnout obligations of fourteen acquisitions made prior to 2007 and recorded additional goodwill of \$26.4 million. During 2006, Gallagher issued 136,000 shares of its common stock, paid \$8.9 million in cash and accrued \$7.0 million in current liabilities related to earnout obligations of fifteen acquisitions made prior to 2006 and recorded additional goodwill of \$17.0 million. During 2005, Gallagher issued 439,000 shares of its common stock and paid \$1.8 million in cash and accrued \$2.7 million in current liabilities related to earnout obligations of eight acquisitions made prior to 2005 and recorded additional goodwill of \$15.3 million.

Dispositions - Prior to January 25, 2007, Gallagher owned 90% of an airplane leasing company that leases two cargo airplanes to the French Postal Service. On December 22, 2006, Gallagher agreed to sell its 90% interest in the airplane leasing company and recognized a \$2.7 million pretax loss in the Financial Services Segment in its 2006 Consolidated Financial Statements. On January 25, 2007, the transaction closed and Gallagher received cash of \$40.7 million and extinguished related debt of \$27.9 million. On December 7, 2006, the real estate partnership that owned Gallagher's home office land and building, in which Gallagher has a 60% ownership interest, sold Gallagher's home office land and building. As a result of the sale, Gallagher received cash proceeds of \$7.9 million, extinguished related debt of \$75.2 million and recognized a \$4.2 million pretax loss in the Financial Services Segment.

On May 17, 2007, the manager of a Syn/Coal production facility in which Gallagher had a 98% equity interest exercised its right to reduce Gallagher's equity interest to 12% through a non- cash transaction.

During 2007, 2006 and 2005, Gallagher sold several small books of business and recognized one- time gains of \$7.1 million, \$4.5 million and \$1.5 million, respectively, which approximated the cash proceeds received related to these transactions.

In first quarter 2005, Gallagher entered into an agreement to sell the net assets of Northshore International Insurance Services (NiiS), a medical claims management and auditing services provider, for cash of \$4.8 million. Gallagher recognized a pretax loss of \$12.7 million (\$12.3 million after tax loss) in first quarter 2005 in connection with the sale. Also, in first quarter 2005, Gallagher entered into an agreement to sell all of the stock of Gallagher Benefit Administrators, Inc. (GBA), a third party employee benefit claim payment administrator, for cash of \$9.2 million and a promissory note in the amount of \$4.4 million. Gallagher recognized a pretax gain of \$9.6 million (\$6.8 million after tax gain) in first quarter 2005 in connection with the sale. The promissory note had a 10% fixed rate of interest, with interest only payments payable monthly through August 22, 2007, when the note was scheduled to mature. During fourth quarter 2006, Gallagher changed its medical plan administrator and recorded a medical plan termination charge. In connection with this termination charge, Gallagher forgave the \$4.4 million promissory note, plus the accrued interest as of the settlement date. In second quarter 2005, Gallagher sold its ownership interests in the limited partnership that owns the Florida Community Development investment. Pursuant to the transaction, Gallagher received cash of \$25.7 million and recorded a pretax gain of \$12.6 million (\$7.6 million after tax gain) in second quarter 2005 in connection with the sale. See Note 5 to the Consolidated Financial Statements for an additional discussion on the 2005 business dispositions.

Gallagher believes it has sufficient capital to meet its short- and long- term cash flow needs. Except for 2005, Gallagher's earnings from continuing operations before income taxes have increased year over year since 1991. In 2005, earnings from continuing operations before income taxes were adversely impacted by charges incurred for the litigation and retail contingent commission related matters and the claims handling obligations. Gallagher expects the historically favorable trend in earnings from continuing operations before income taxes to continue in the foreseeable future because it intends to continue to expand its business through organic growth from existing operations and growth through acquisitions. Additionally, Gallagher anticipates that it will continue to use cash flows from operations and, if needed, borrowings under the Credit Agreement to fund acquisitions and stock repurchases. In addition, Gallagher may from time- to- time consider other alternatives for longer- term funding sources. Such alternatives could include raising additional capital through public or private debt markets, equity markets, or restructuring its operations in the event that cash flows from operations are reduced dramatically due to lost business.

Contractual Obligations and Commitments

In connection with its investing and operating activities, Gallagher has entered into certain contractual obligations and commitments. See Notes 3, 8 and 17 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 Note Purchase Agreement, Credit Agreement, investment related borrowings, operating leases and purchase commitments at December 31, 2007 were as follows (in millions):

Contractual Obligations	Payments Due by Period						Total
	2008	2009	2010	2011	2012	Thereafter	
Note Purchase Agreement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400.0	\$ 400.0
Credit Agreement	-	-	-	-	-	-	-
Investment related borrowings:							
Syn/Coal facility purchase note (1)	-	-	-	-	-	-	-
Total debt obligations	-	-	-	-	-	400.0	400.0
Operating lease obligations	61.3	52.7	46.0	39.1	29.2	44.6	272.9
Less sublease arrangements	(1.8)	(1.5)	(1.6)	(1.6)	(1.4)	(0.3)	(8.2)
Outstanding purchase obligations	8.4	1.9	0.6	0.6	0.4	-	11.9
Total contractual obligations	\$ 67.9	\$ 53.1	\$ 45.0	\$ 38.1	\$ 28.2	\$ 444.3	\$ 676.6

- (1) The periodic payments under the Syn/Coal facility purchase note were deferred in 2007 and are due not later than January 15, 2009. The payment of this obligation is affected by the estimated substantial IRC Section 29 phase- out during 2007. As a result of the phase- out, Gallagher currently estimates that no payments will be made related to this obligation.

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. In addition, due to the uncertainty with respect to the timing of future cash flows associated with Gallagher's unrecognized tax benefits at December 31, 2007, Gallagher is unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, \$56.0 million of unrecognized tax benefits have been excluded from the contractual obligations table above. See Note 18 to the Consolidated Financial Statements for a discussion on income taxes.

Note Purchase Agreement - On August 3, 2007, Gallagher entered into a Note Purchase Agreement with certain accredited institutional investors (the Purchasers), pursuant to which Gallagher issued and sold to the Purchasers \$100.0 million in aggregate principal amount of Gallagher's 6.26% Senior Notes, Series A, due August 3, 2014 and \$300.0 million in aggregate principal amount of Gallagher's 6.44% Senior Notes, Series B, due August 3, 2017 in a private placement. See Note 8 to the Consolidated Financial Statements for a discussion of the terms of the Note Purchase Agreement.

Credit Agreement - Gallagher has a \$450.0 million Credit Agreement it uses to post letters of credit (LOCs) and from time- to- time to borrow to supplement operating cash flows. At December 31, 2007, \$16.9 million of LOCs (of which Gallagher has \$10.3 million of liabilities recorded at December 31, 2007) were outstanding under the Credit Agreement, some of which related to Gallagher's investments as discussed in Note 3 to the Consolidated Financial Statements. There were no borrowings outstanding under the Credit Agreement at December 31, 2007. Accordingly, at December 31, 2007, \$433.1 million remained available for potential borrowings, of which \$108.1 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 8 to the Consolidated Financial Statements for a discussion of the terms of the Credit Agreement.

Investment Related Borrowings - As more fully described in Notes 3 and 8 to the Consolidated Financial Statements, the consolidated balance sheet includes no investment related borrowings at December 31, 2007 and \$34.8 million at December 31, 2006 of borrowings related to Gallagher's investment related enterprises, none of which is recourse to Gallagher.

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, which are generally related to increases in an inflation index.

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 contractual obligations table above represents the aggregate amount of unrecorded purchase obligations that Gallagher has outstanding at December 31, 2007. 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 and funding commitments at December 31, 2007 were as follows (in millions):

Off- Balance Sheet Commitments	Amount of Commitment Expiration by Period						Total Amounts Committed
	2008	2009	2010	2011	2012	Thereafter	
Investment related:							
Letters of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16.9	\$ 16.9
Funding commitments	0.5	0.2	-	-	-	0.6	1.3
Total commitments	\$ 0.5	\$ 0.2	\$ -	\$ -	\$ -	\$ 17.5	\$ 18.2

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 17 to the Consolidated Financial Statements for a discussion of Gallagher's outstanding LOCs and funding commitments. All of the LOCs represent multiple year commitments and have annual, automatic renewing provisions and are classified by the latest commitment date.

Since January 1, 2002, Gallagher acquired eighty- five 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 2007 acquisitions are disclosed in Note 4 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 additional goodwill when the earnouts are settled. The aggregate amount of unrecorded earnout payables outstanding at December 31, 2007 was \$134.8 million and related to acquisitions made by Gallagher in the period from 2004 to 2007.

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, as 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, 2007 and 2006. However, the December 31, 2007 and 2006 balance sheets of these unconsolidated investments do not contain any amounts of outstanding debt that are recourse to Gallagher.

At December 31, 2007, Gallagher had posted a \$4.4 million LOC related to the reclamation of a former coal production site, for which it had a recorded liability of \$4.4 million. At December 31, 2007, Gallagher had posted two LOCs totaling \$6.8 million for the benefit of two insurance companies related to Gallagher's self- insurance deductibles, for which it had a recorded liability of \$5.9 million. Gallagher has an equity investment in a rent- a- captive facility, formed in 1997, which Gallagher uses as a placement facility for certain of its insurance brokerage operations. At December 31, 2007, Gallagher had posted \$5.7 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.

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. The following analyses present the hypothetical loss in fair value of the financial instruments held by Gallagher at December 31, 2007 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 market 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, 2007 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, 2007.

Gallagher has other investments that have valuations that are indirectly influenced by equity market and general economic conditions, which 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, 2007, Gallagher had \$400.0 million of borrowings outstanding under its Note Purchase Agreement. The fair value of these borrowings at December 31, 2007 was \$395.6 million due to their long- term duration and fixed interest rates. Market risk was estimated as the potential increase in fair value resulting from a hypothetical one- percentage point decrease in Gallagher's weighted average borrowing rate at December 31, 2007 and the resulting fair values would be \$27.5 million higher than their carrying value.

At December 31, 2007, 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 approximate their carrying value due to their short- term duration and variable interest rates. Market risk would be estimated as the potential increase in fair value resulting from a hypothetical one- percentage point decrease in Gallagher's weighted average short- term borrowing rate at December 31, 2007 and the resulting fair values would not be materially different from their carrying value.

During 2007, Gallagher had an arrangement with an unaffiliated third party which constituted a call spread on oil futures that created a financial hedge, which was designed to generate gains to Gallagher in the event of certain levels of increased oil prices. This hedge was not intended to be a "perfect hedge" for accounting purposes, but was intended to mitigate a substantial portion of the negative impact to Gallagher of increased oil prices. Any hedging gains were designed to offset a portion of the expenses associated with operating Gallagher's IRC Section 29- Syn/Coal facilities in the event of a phase- out of IRC Section 29 tax credits, which phase- outs were based on oil prices averaging certain levels for calendar year 2007.

Gallagher made an up- front payment of \$2.7 million to enter into this financial hedge, which was marked to market value throughout 2007 as part of the Financial Services Segment's operating results. The contract was due to expire on December 31, 2007. In November 2007, Gallagher sold this oil price derivative for

\$17.2 million and realized a gain of \$14.5 million that was included in the Financial Services Segment's 2007 operating results.

Gallagher is subject to foreign currency exchange rate risk primarily from its U.K. based subsidiaries that incur expenses denominated primarily in British pounds while receiving a substantial portion of their revenues in U.S. dollars. In addition, Gallagher is subject to foreign currency exchange rate risk from its Canadian and Australian operations due to transacting business in their local denominated currencies. Foreign currency gains (losses) related to this market risk are recorded in earnings from continuing operations before income taxes as they are incurred. Assuming a hypothetical adverse change of 10% in the average foreign currency exchange rate for 2007 (a weakening of the U.S. dollar), earnings from continuing operations before income taxes would decrease by approximately \$9.0 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, where possible, such that foreign liabilities are matched with equal foreign assets thereby maintaining a "balanced book" which minimizes the effects of currency fluctuations. Historically, Gallagher has rarely entered into derivatives or other similar financial instruments for hedging, trading or speculative purposes. However, with respect to managing foreign currency exchange rate risk in the U.K., Gallagher periodically purchased financial instruments when market opportunities arose to minimize its exposure to this risk. The impact of this hedging strategy was not material to Gallagher's Consolidated Financial Statements for 2007, 2006 or 2005.

Arthur J. Gallagher & Co.
Consolidated Statement of Earnings
(In millions, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Commissions	\$ 863.2	\$ 790.4	\$ 733.4
Retail contingent commissions	4.1	2.5	28.8
Fees	656.2	583.7	534.6
Investment income - Brokerage and Risk Management	34.2	31.5	19.6
Investment income - Financial Services	62.4	87.1	108.9
Investment gains (losses)	3.2	(25.1)	3.6
Total revenues	1,623.3	1,470.1	1,428.9
Compensation	911.6	838.7	750.6
Operating	342.0	303.6	294.9
Investment expenses	95.0	103.7	104.9
Interest	16.0	8.5	11.6
Depreciation	29.3	30.9	31.8
Amortization	29.3	21.2	17.6
Litigation related matters	-	-	131.0
Retail contingent commission related matters	-	9.0	73.6
Total expenses	1,423.2	1,315.6	1,416.0
Earnings from continuing operations before income taxes	200.1	154.5	12.9
Provision (benefit) for income taxes	45.5	26.1	(26.2)
Earnings from continuing operations	154.6	128.4	39.1
Discontinued operations:			
Earnings (loss) from discontinued operations before income taxes	(18.3)	(1.4)	(15.5)
Gain on disposal of operations	-	-	9.5
Provision (benefit) for income taxes	(2.5)	(1.5)	2.3
Earnings (loss) from discontinued operations	(15.8)	0.1	(8.3)
Net earnings	\$ 138.8	\$ 128.5	\$ 30.8
Basic net earnings (loss) per share:			
Earnings from continuing operations	\$ 1.61	\$ 1.32	\$.42
Earnings (loss) from discontinued operations	(.16)	-	(.09)
Net earnings	\$ 1.45	\$ 1.32	\$.33
Diluted net earnings (loss) per share:			
Earnings from continuing operations	\$ 1.59	\$ 1.31	\$.41
Earnings (loss) from discontinued operations	(.16)	-	(.09)
Net earnings	\$ 1.43	\$ 1.31	\$.32

Dividends declared per
common share

\$

1.24 \$

1.20 \$

1.12

See notes to consolidated financial statements.

F - 22

Arthur J. Gallagher & Co.
Consolidated Balance Sheet
(In millions)

	December 31,	
	2007	2006
Cash and cash equivalents	\$ 255.9	\$ 208.0
Restricted cash	601.4	588.9
Unconsolidated investments - current	7.5	49.2
Premiums and fees receivable	1,303.7	1,422.3
Other current assets	107.3	107.8
Total current assets	2,275.8	2,376.2
Unconsolidated investments - noncurrent	26.3	32.5
Fixed assets related to consolidated investments - net	1.9	32.5
Other fixed assets - net	86.0	70.6
Deferred income taxes	292.6	286.8
Other noncurrent assets	118.0	91.8
Goodwill - net	440.6	316.6
Amortizable intangible assets - net	315.6	213.1
Total assets	\$ 3,556.8	\$ 3,420.1
Premiums payable to insurance and reinsurance companies	\$ 1,874.0	\$ 1,958.8
Accrued compensation and other accrued liabilities	281.3	316.4
Unearned fees	44.1	39.7
Income taxes payable	-	51.0
Other current liabilities	32.8	26.5
Corporate related borrowings	-	-
Investment related borrowings - current	-	8.9
Total current liabilities	2,232.2	2,401.3
Corporate related borrowings - noncurrent	400.0	-
Investment related borrowings - noncurrent	-	25.9
Other noncurrent liabilities	209.1	128.8
Total liabilities	2,841.3	2,556.0
Stockholders' equity:		
Common stock - issued and outstanding		
92.0 shares in 2007 and 98.4 shares in 2006	92.0	98.4
Capital in excess of par value	120.2	285.7
Retained earnings	495.9	475.0
Accumulated other comprehensive earnings	7.4	5.0
Total stockholders' equity	715.5	864.1
Total liabilities and stockholders' equity	\$ 3,556.8	\$ 3,420.1

See notes to consolidated financial statements.

F - 23

Arthur J. Gallagher & Co.
Consolidated Statement of Cash Flows
(In millions)

	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Earnings from continuing operations	\$ 154.6	\$ 128.4	\$ 39.1
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:			
Net loss (gain) on investments and other	(3.2)	25.1	(3.6)
Depreciation and amortization	58.6	52.1	49.4
Amortization of deferred compensation and restricted stock	6.7	8.6	7.2
Stock- based compensation expense	12.3	16.0	8.9
Increase in restricted cash	32.0	(55.7)	(29.4)
Decrease (increase) in premiums receivable	144.4	(1.1)	(51.0)
(Decrease) increase in premiums payable	(152.2)	16.1	67.2
Decrease (increase) in other current assets	36.8	(10.8)	6.9
Net change in accrued compensation and other accrued liabilities	(38.9)	(50.9)	105.6
Net change in fees receivable/unearned fees	(1.1)	(9.8)	14.9
Net change in income taxes payable	(4.6)	26.4	(0.2)
Tax benefit from issuance of common stock	-	-	10.6
Net change in deferred income taxes	(4.2)	(41.1)	(84.0)
Other	13.9	(3.0)	60.9
Net cash provided by operating activities of continuing operations	255.1	100.3	202.5
Earnings (loss) from discontinued operations	(15.8)	0.1	(8.3)
Depreciation and amortization from discontinued operations	13.0	4.3	4.7
Net gain on sales of discontinued operations	-	-	(9.5)
Net cash provided by operating activities	252.3	104.7	189.4
Cash flows from investing activities:			
Net additions to fixed assets	(40.7)	(33.0)	(23.4)
Cash paid for acquisitions, net of cash acquired	(215.0)	(80.8)	(32.9)
Proceeds from sales of discontinued operations	-	-	37.6
Proceeds from sale of consolidated operations	0.7	7.9	-
Net proceeds from investment transactions	9.1	10.0	3.5
Net cash used by investing activities	(245.9)	(95.9)	(15.2)
Cash flows from financing activities:			
Proceeds from issuance of common stock	22.2	24.1	28.1
Tax benefit from issuance of common stock	3.4	7.9	-
Repurchases of common stock	(261.8)	(33.3)	(2.2)
Dividends paid	(118.8)	(114.4)	(102.3)
Borrowings on line of credit facilities	283.9	37.0	1.9
Repayments on line of credit facilities	(283.9)	(37.0)	(0.1)
Borrowings of corporate related long-term debt	400.0	-	-
Borrowings of investment related long-term debt	-	-	0.1
Repayments of investment related long-term debt	(3.5)	(2.9)	(6.5)

Net cash provided (used) by financing activities	<u>41.5</u>	<u>(118.6)</u>	<u>(81.0)</u>
Net increase (decrease) in cash and cash equivalents	47.9	(109.8)	93.2
Cash and cash equivalents at beginning of year	<u>208.0</u>	<u>317.8</u>	<u>224.6</u>
Cash and cash equivalents at end of year	\$ <u>255.9</u>	\$ <u>208.0</u>	\$ <u>317.8</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 5.2	\$ 9.3	\$ 12.7
Income taxes paid	47.8	30.6	47.0
See notes to consolidated financial statements.			

Arthur J. Gallagher & Co.
Consolidated Statement of Stockholders' Equity
(In millions)

	<u>Common Stock</u>		<u>Capital in</u>		<u>Retained</u>	<u>Accumulated</u>		
	<u>Shares</u>	<u>Amount</u>	<u>Excess of</u>	<u>Par Value</u>	<u>Earnings</u>	<u>Other Comprehensive</u>	<u>Earnings</u>	<u>Total</u>
						<u>(Loss)</u>		
Balance at December 31, 2004	92.1	\$ 92.1	\$	129.9	\$	539.0	\$ -	\$ 761.0
Net earnings	-	-		-		30.8	-	30.8
Net change in pension asset/liability, net of taxes of \$4.0 million	-	-		-		-	(6.2)	(6.2)
Unrealized loss on foreign currency hedge, net of taxes of \$0.2 million	-	-		-		-	(0.4)	(0.4)
Comprehensive earnings								24.2
Compensation expense related to stock option plan grants	-	-		8.9		-	-	8.9
Tax benefit from issuance of common stock	-	-		10.6		-	-	10.6
Common stock issued in:								
Eleven purchase transactions	1.3	1.3		36.1		-	-	37.4
Stock option plans	1.6	1.6		17.8		-	-	19.4
Employee stock purchase plan	0.4	0.4		8.3		-	-	8.7
Deferred compensation/restricted stock	0.4	0.4		6.8		-	-	7.2
Common stock repurchases	(0.1)	(0.1)		(2.1)		-	-	(2.2)
Cash dividends declared on common stock	-	-		-		(106.1)	-	(106.1)
Balance at December 31, 2005	95.7	95.7		216.3		463.7	(6.6)	769.1
Net earnings	-	-		-		128.5	-	128.5
Net change in pension asset/liability, net of taxes of \$4.0 million	-	-		-		-	6.2	6.2
Net change in value of foreign hedge, net of taxes of \$0.2 million	-	-		-		-	0.4	0.4
Comprehensive earnings								135.1
Impact of new pension accounting standard net of taxes of \$3.4 million - See Note 2	-	-		-		-	5.0	5.0
Compensation expense related to stock option plan grants	-	-		15.7		-	-	15.7
Tax benefit from issuance of common stock	-	-		7.9		-	-	7.9
Common stock issued in:								
Thirteen purchase transactions	1.8	1.8		47.3		-	-	49.1
Stock option plans	1.3	1.3		14.0		-	-	15.3
Employee stock purchase plan	0.4	0.4		8.4		-	-	8.8
Deferred compensation/restricted stock	0.4	0.4		8.2		-	-	8.6

Common stock repurchases	(1.2)	(1.2)	(32.1)	-	-	(33.3)
Cash dividends declared on common stock	-	-	-	(117.2)	-	(117.2)
Balance at December 31, 2006	98.4	98.4	285.7	475.0	5.0	864.1
Net earnings	-	-	-	138.8	-	138.8
Net change in pension asset/liability, net of taxes of \$1.0 million	-	-	-	-	(1.4)	(1.4)
Foreign currency translation, net of taxes of \$2.0 million	-	-	-	-	3.8	3.8
Comprehensive earnings						141.2
Compensation expense related to stock option plan grants	-	-	12.3	-	-	12.3
Tax benefit from issuance of common stock	-	-	3.4	-	-	3.4
Common stock issued in:						
Seventeen purchase transactions	1.6	1.6	43.7	-	-	45.3
Stock option plans	0.7	0.7	12.2	-	-	12.9
Employee stock purchase plan	0.4	0.4	8.9	-	-	9.3
Deferred compensation/restricted stock	0.1	0.1	6.6	-	-	6.7
Common stock repurchases	(9.2)	(9.2)	(252.6)	-	-	(261.8)
Cash dividends declared on common stock	-	-	-	(117.9)	-	(117.9)
Balance at December 31, 2007	92.0	\$ 92.0	\$ 120.2	\$ 495.9	\$ 7.4	\$ 715.5

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Notes to Consolidated Financial Statements
December 31, 2007

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 and fee revenue generated by the Brokerage Segment is primarily related to the negotiation and placement of insurance for its clients. Fee revenue generated by the Risk Management Segment is primarily related to claims management, information management, risk control services and appraisals in the property/casualty (P/C) market. Investment income and other revenue is generated from Gallagher's investment portfolio, which includes invested cash, fiduciary funds, tax advantaged and other investments. Gallagher is headquartered in Itasca, Illinois, has operations in fourteen 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, as appropriate, depending on the legal form of Gallagher's ownership interest and the applicable ownership percentage of the entity. 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.

See Note 5 to the consolidated financial statements for a discussion on the amounts reclassified to discontinued operations related to Gallagher's global reinsurance and Irish wholesale brokerage businesses.

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. 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. 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 to the insureds generally relate to a large number of small premium P/C transactions and a substantial portion of the revenues generated by Gallagher's employee benefit operations. Under these direct bill arrangements 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.

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 Segment. 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 \$5.5 million and \$4.9 million at December 31, 2007 and 2006, 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 \$6.7 million and \$7.5 million at December 31, 2007 and 2006, 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 accrued as it is earned. Income (loss) from equity investments represents Gallagher's proportionate share of income or losses from investments accounted for using the equity method.

Claims Handling Obligations - Based on legal interpretations and accounting guidance issued by the Institute of Chartered Accountants in the U.K. in 2004, Gallagher reassessed its obligations in 2005 to provide future claims handling and certain administrative services for reinsurance and global risks brokerage clients. This guidance, which is referred to as FRS 5, was first applicable in 2004 and is specifically directed to insurance brokers engaged in the industry practice of providing clients future claims handling and administrative services. Based on a detailed review of business practices for its reinsurance brokerage operations in both the U.S. and the U.K. (and global risks brokerage operations in the U.K.) that was completed in 2005, its accounting practices for these operations and applicable legal interpretations, Gallagher determined that under certain circumstances, it is obligated to provide future claims handling and certain administrative services. Accordingly, a liability of \$16.3 million and \$16.1 million was accrued at December 31, 2007 and 2006, respectively, in the accompanying consolidated balance sheet based on the estimated costs to provide these future services to former clients. This liability is based on estimates and assumptions using historical data to project future experience. Gallagher periodically reviews (at least annually) the adequacy of this liability and will make adjustments as necessary. The use of different estimates or assumptions could produce different results. A portion of claims handling obligation liability relates to reinsurance brokerage business that has been included in discontinued operations.

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 cash and money market accounts that have average maturities of 90 days or less, 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 and money market accounts. Gallagher earns interest income on these unremitted funds, which is included in investment income - Brokerage and Risk Management 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, 2007.

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 - Gallagher has a management investment committee that meets eight to twelve 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 in determining impairment.

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 impairment 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 the decline in fair value is other- than- temporary, and therefore that an impairment is required, the impairment 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 incorporates 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.

Premium Financing - A Brokerage Segment subsidiary of Gallagher makes short- term loans (generally with terms of twelve months or less) to its clients to finance premiums. These premium financing contracts are structured to result in minimal potential bad debt expense to Gallagher. Such receivables are considered delinquent after seven days of the payment due date. Generally, insurance policies are cancelled within one month of the contractual payment due date if the payment remains delinquent. Interest income is recognized as it is earned over the life of the contract using the interest "level- yield" method. Unearned interest related to contracts receivable is included in the receivable balance in the accompanying consolidated balance sheet. The outstanding contracts receivable balance was \$3.4 million and \$3.7 million at December 31, 2007 and 2006, respectively.

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	Three to ten years
Airplanes of a consolidated leasing company	Fifteen years
Syn/Coal equipment	Monthly pro rata basis through December 2007
Leasehold improvements	Lesser of remaining life of the asset or life of the 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 (five to fifteen years for expiration lists and five to six 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 all of its 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. Based on the results of impairment reviews in 2007 and 2006, Gallagher wrote- off \$8.8 million and \$1.0 million, respectively, of amortizable intangible assets related to the Brokerage Segment acquisitions. The 2007 intangible asset write- off was reported in discontinued operations in the accompanying consolidated statement of earnings. No such indicators were noted in 2005. 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.

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, 2007 and 2006, approximate fair value because of the short maturity of these instruments. Fair values for investments, where applicable, at December 31, 2007 and 2006 are disclosed in Note 3 to the consolidated financial statements. See Note 8 to the consolidated financial statements for the fair values related to borrowings outstanding at December 31, 2007 and 2006 under Gallagher's debt agreements.

Litigation - Gallagher is engaged in various legal actions related to claims, lawsuits and proceedings incident to the nature of its business. Gallagher records liabilities for material loss contingencies, including legal costs (such as fees and expenses of external lawyers and other service providers) to be incurred, when it is probable that a liability has been incurred on or before the balance sheet date and the amount of the liability can be reasonably estimated. Such contingent liabilities are not discounted. To the extent such losses and legal costs can be recovered under Gallagher's insurance programs, estimated recoveries are recorded concurrently with the losses recognized. Significant management judgment is required to estimate the amounts of such contingent liabilities and the related insurance recoveries. In order to assess its potential liability, Gallagher analyzes its litigation exposure based on available information, including consultation with outside counsel handling the defense of these matters. As these liabilities are uncertain by their nature, the recorded amounts may change due to a variety of different factors, including new developments in, or changes in approach, such as changing the settlement strategy as applicable to each matter.

Stock- Based Compensation - Effective January 1, 2006, Gallagher adopted the fair value method of accounting for employee stock options using the modified- prospective method to account for share- based payments made to employees pursuant to Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS 123(R)), "Share- Based Payment," which is a revision of SFAS 123, "Accounting for Stock- Based Compensation." SFAS 123(R) superseded Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Under the modified- prospective 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 on or after January 1, 2006 and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to January 1, 2006 that remain unvested on the effective date. In addition, Gallagher has elected to use the alternative transition method of Financial Accounting Standards Board (FASB) Staff Position SFAS 123R- 3 to determine the accounting of the income tax effects of payments made related to stock- based compensation.

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 effective January 1, 2003 using the prospective method, which applied only to awards granted, modified or settled after the adoption date, compensation cost for some previously granted awards that was not recognized under SFAS 123 is now recognized under SFAS 123(R). Beginning in 2006, Gallagher is applying 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. Prior to January 1, 2003, Gallagher applied the intrinsic value method as permitted under SFAS 123 and defined in APB 25, 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 prior to January 1, 2003.

SFAS 123(R) requires that compensation cost be recognized for unvested awards over the period through the date that the employee is no longer required to provide future services to earn the award, rather than over the explicit service period. Accordingly, for 2007 and future stock option grants, Gallagher has adjusted its existing accounting policy to recognize compensation cost to coincide with the date that the employee is eligible to retire, rather than the actual retirement date, for all options granted. However, stock options granted after May 15, 2007 no longer contain the accelerated vesting upon retirement provision.

At December 31, 2007, Gallagher had four stock option plans, which are described more fully in Note 11 to the consolidated financial statements. 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 2005 (for all options granted prior to January 1, 2003), Gallagher accounted for stock option grants under the recognition and measurement principles of APB 25 and related interpretations and, accordingly, recognized virtually no compensation expense for these stock options granted to employees. The following table illustrates the effect on earnings from continuing operations and earnings from continuing operations per share for the year ended December 31, 2005, if Gallagher had applied the fair value recognition provisions of SFAS 123 to all of its stock-based employee compensation (in millions, except per share data):

Earnings from continuing operations - as reported	\$	39.1
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects		6.9
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards (see Note 11 to the consolidated financial statements), net of related tax effects		(10.0)
Pro forma earnings from continuing operations	\$	36.0
Basic earnings from continuing operations per share - as reported	\$.42
Basic earnings from continuing operations per share - pro forma		.38
Diluted earnings from continuing operations per share - as reported		.41
Diluted earnings from continuing operations per share - pro forma		.37

2. Effect of New Accounting Pronouncements

Income Taxes

In 2006, the FASB issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 also prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise's tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, Gallagher adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have any impact on Gallagher's consolidated financial position.

Gallagher had \$67.2 million of gross unrecognized tax benefits as of January 1, 2007. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$59.7 million as of January 1, 2007. Gallagher accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. As of January 1, 2007, Gallagher had accrued interest and penalties related to unrecognized tax benefits of \$5.2 million. See Note 18 to the consolidated financial statements for additional disclosures related to FIN 48.

Defined Benefit Pension and Other Postretirement Plans

In 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 applies to all plan sponsors who offer defined postretirement benefit plans and requires an entity to:

Recognize in its balance sheet an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status.

Measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year.

Recognize changes in the funded status of a defined benefit postretirement plan in comprehensive earnings in the year in which the changes occur.

SFAS 158 does not change the amount of net periodic benefit cost included in net earnings. The requirement to recognize the funded status of a defined benefit postretirement plan and the disclosure requirements were effective for fiscal years ending after December 15, 2006 for public entities. Accordingly, Gallagher adopted SFAS 158 in fourth quarter 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year end balance sheet is effective for fiscal years ending after December 15, 2008. Gallagher currently utilizes December 31 as the measurement date for its plan assets and benefit obligations and, therefore, complies with this requirement. Effective December 31, 2006, Gallagher adopted SFAS 158 and recognized a noncurrent prepaid pension asset of \$8.4 million, a noncurrent deferred tax liability of \$3.4 million and accumulated other comprehensive earnings of \$5.0 million in the accompanying 2006 consolidated balance sheet. See Notes 15 and 16 to the consolidated financial statements for additional information required to be disclosed in accordance with SFAS 158.

Fair Value Measurements

In 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 also responds to investors' requests for expanded information about the extent to which entities measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts business. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for all interim periods within those fiscal years. Gallagher is currently evaluating the impact that the adoption of SFAS 157 will have, if any, on the disclosures made in the notes to consolidated financial statements. SFAS 157 will not have any impact on the amounts reported in Gallagher's consolidated financial statements.

Fair Value Option

In 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently.

Different measurement attributes have been required under GAAP for different assets and liabilities that can create artificial volatility in earnings. SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS 107, "Disclosures about Fair Value of Financial Instruments."

SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Gallagher has elected not to report any financial assets or liabilities at fair value under SFAS 159 on January 1, 2008.

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141(R)), "Business Combinations," which is a revision of SFAS 141, "Business Combinations." The primary requirements of SFAS 141(R) are as follows:

Upon initially obtaining control, the acquiring entity in a business combination must recognize 100% of the fair values of the acquired assets, including goodwill, and assumed liabilities, with only limited exceptions even if the acquirer has not acquired 100% of its target. As a consequence, the current step acquisition model will be eliminated.

Contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. The concept of recognizing contingent consideration at a later date when the amount of that consideration is determinable beyond a reasonable doubt, will no longer be applicable.

All transaction costs will be expensed as incurred.

SFAS 141 (R) is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. Gallagher is currently evaluating the impact that the adoption of SFAS 141 (R) will have on its consolidated financial statements and notes thereto.

3. Investments

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

	December 31, 2007			December 31, 2006		
	Current	Noncurrent	Funding Commitments	Current	Noncurrent	
Unconsolidated Investments:						
Direct and indirect investments in Asset						
Alliance Corporation (AAC):						
Common stock	\$ -	\$ 9.2	\$ -	\$ -	\$ 13.7	
Preferred stock	5.3	-	-	13.4	-	
Indirectly held	-	0.5	-	-	1.1	
Total AAC	5.3	9.7	-	13.4	14.8	
Alternative energy investments:						
IRC Section 29 Syn/Coal production net receivables	1.6	-	-	25.7	-	
IRC Section 29 Syn/Coal unamortized assets	-	-	-	6.6	-	
Equity interest in biomass projects and pipeline	0.3	8.8	-	0.1	9.5	
Clean energy related ventures	0.1	0.8	0.5	-	0.6	
Total alternative energy investments	2.0	9.6	0.5	32.4	10.1	
Real estate, venture capital and other investments	0.2	7.0	0.8	3.4	7.6	
Total unconsolidated investments	\$ 7.5	\$ 26.3	\$ 1.3	\$ 49.2	\$ 32.5	

Asset Alliance Corporation - Through common stock and preferred stock investments, Gallagher effectively owns 20% of AAC (25% ownership at December 31, 2006), an investment management company that owns up to a two-thirds interest in nine private investment management firms (the Firms). AAC redeemed \$5.0 million and \$3.0 million of Gallagher's AAC preferred stock investment on July 16, 2007 and December 28, 2007, respectively. On January 15, 2008, AAC redeemed \$2.3 million of Gallagher's AAC preferred stock investment. AAC is contractually obligated to repurchase the remaining balance of Gallagher's preferred stock investment in AAC by January 25, 2009. AAC and the Firms collectively manage domestic and international investment hedge fund portfolios for various institutions and individuals, which totaled approximately \$3.7 billion at December 31, 2007. AAC has a proportional interest in the Firms' revenues or net earnings 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.

In 2002, Beacon Hill Asset Management LLC (Beacon Hill) withdrew from managing hedge fund portfolios for AAC due to various legal, contractual and business issues. In 2003, investors in a Beacon Hill investment partnership filed a lawsuit to recover investment losses naming AAC as a co-defendant. In fourth quarter 2006, all parties to this lawsuit entered into a settlement agreement, which is subject to court approval, to resolve this pending litigation.

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. These 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 seven IRC Section 29-related Biomass limited partnerships and five IRC Section 29-related Syn/Coal limited partnerships or limited liability companies that generate tax benefits to Gallagher in the form of both tax deductions for operating losses and tax credits. At December 31, 2007, one of the IRC Section 29-related Syn/Coal limited partnerships was consolidated into Gallagher's financial statements (two at December 31, 2006) due to Gallagher's percentage ownership in the partnership. The remainder of these investments were carried at amortized cost. Gallagher recognizes the tax credits as a component of the provision for income taxes as they are allocated by the partnerships.

IRC Section 29 Syn/Coal Production Receivables represent the uncollected installment sale proceeds as of each balance sheet date related to Gallagher's sales of several IRC Section 29-related operations (Biomass and Syn/Coal) that have been either partially or completely sold to third parties.

Four of the Biomass projects have been determined to be variable interest entities (VIEs), as defined by FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," 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, 2007, total assets and total debt of these investments were approximately \$5.0 million and \$3.0 million, respectively. Gallagher's maximum exposure to a potential loss from these VIEs was zero at December 31, 2007, which equaled the net aggregate carrying value of its investments.

As part of selling its interests in IRC Section 29- related 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, 2007, the maximum potential amount of future payments that Gallagher could be required to make under these indemnifications totaled approximately \$16.6 million, net of the applicable income tax benefit. As part of selling its interests in IRC Section 29- related 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 subsequently obtained private letter rulings (PLRs) from the Internal Revenue Service (IRS). Gallagher has not recorded any liability in its December 31, 2007 consolidated balance sheet for these potential indemnifications. See IRC Section 29- related Syn/Coal Matters below for the potential exposures related to Syn/Coal at December 31, 2007.

IRC Section 29 Syn/Coal Unamortized Assets primarily represented the remaining book value related to the IRC Section 29- related operations (Biomass and Syn/Coal) that had been either partially or completely sold to third parties. Gallagher accounted for these investments on the installment sale basis, which required that the amortization of the bases of the assets sold be recognized ratably over time against the installment sale proceeds received as a component of investment income. The amortization period was based on the expected life of the IRC Section 29- related tax credits. The law that provided for IRC Section 29- related tax credits expired on December 31, 2007. IRC Section 29 unamortized assets also included the remaining book value of the portion of the IRC Section 29- related Syn/Coal limited partnerships that Gallagher owned.

IRC Section 29- related Syn/Coal Matters - The Permanent Subcommittee on Investigations of the Government Affairs Committee of the U.S. 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 September 2006, stated that the investigation is examining the utilization of IRC Section 29- related 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 IRC Section 29- related Syn/Coal Credits. Gallagher believes it is claiming IRC Section 29- related Syn/Coal Credits in accordance with IRC Section 29 and four PLRs previously obtained by IRC Section 29- related 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. One of the IRC Section 29- related Syn/Coal partnerships in which Gallagher has an interest was under examination by the IRS for the tax year 2000. In March 2004, Gallagher was notified that the examination was closed without any changes being proposed. In third quarter 2006, the IRS began an examination of this same partnership for the tax year 2004. In November 2007, Gallagher was notified that the examination was closed without any changes being proposed. The IRS is continuing to audit taxpayers claiming IRC Section 29- related 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 IRC Section 29- related Syn/Coal Credits or cause it to be subject to liability under indemnification obligations related to the prior sale of interests in partnerships claiming IRC Section 29- related Syn/Coal Credits. Furthermore, IRC Section 29- related Syn/Coal Credits have been controversial both politically and administratively, and no assurance can be given that the IRS will not issue administrative guidance adverse to Gallagher's interests, or support the enactment of legislation to curtail or repeal IRC Section 29. Future administrative or judicial decisions could adversely affect Gallagher's ability to claim IRC Section 29- related Syn/Coal Credits or cause it to be subject to liability under indemnification obligations related to prior sales of partnership interests.

There are potential indemnification and tax exposures related to any retroactive disallowance of IRC Section 29 tax credits. Gallagher has exposure on \$198.6 million of tax credits recorded through December 31, 2007, and has insurance policies in place, the scope of which would provide up to \$53.4 million of after tax coverage in the event IRC Section 29- related Syn/Coal Credits are disallowed. There can be no assurance that such coverage and/or the full amount of the policies would ultimately be available. These policies provide coverage on a claims made basis through various dates up to December 31, 2009. Gallagher also has a maximum after tax indemnification exposure of \$287.5 million at December 31, 2007 to the purchasers of certain Syn/Coal facilities, if it was found that Gallagher had misrepresented IRC Section 29 facts or had breached its representations or warranties provided in the sale agreements.

The law that provided for IRC Section 29- related tax credits expired on December 31, 2007. At December 31, 2007, there was no remaining carrying value for the five IRC Section 29- related Syn/Coal facilities and other related assets.

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. Gallagher estimated the IRC Section 29 phase- out for 2007 to be 66% (33% for 2006). The actual phase- out for 2007 will not be known until the IRS publishes actual information in April 2008.

During 2007 and 2006, Gallagher had arrangements with unaffiliated third parties which constituted call spreads on oil futures that created financial hedges which were designed to generate gains to Gallagher in the event of certain levels of increased oil prices. These hedges were not intended to be "perfect hedges" for accounting purposes, but were intended to mitigate a substantial portion of the negative impact to Gallagher of increased oil prices. Any hedging gains were designed to offset a portion of the expenses associated with operating Gallagher's IRC Section 29- Syn/Coal facilities in the event of a phase- out of IRC Section 29 tax credits. In 2006, Gallagher made an up- front payment of \$8.5 million to enter into a financial hedge, which was marked to market value each period with the resulting unrealized gain/loss included in Gallagher's operating results. The oil price derivative expired on December 31, 2006 and resulted in a realized loss of \$8.5 million that was included in Gallagher's Financial Services Segment operating results for 2006. In January 2007, Gallagher made an up- front payment of \$2.7 million to enter into a similar arrangement, which was also marked to market value throughout 2007 as part of the Financial Services Segment's operating results. The contract was due to expire on December 31, 2007. In November 2007, Gallagher sold this oil price derivative for \$17.2 million and realized a gain of \$14.5 million.

The litigation related matters charge of \$131.0 million (\$84.2 million after tax) recorded by Gallagher in 2005 related to a jury verdict in the Fourth District Court for the State of Utah, In February 2005, the jury awarded damages against Gallagher's subsidiary, AJG Financial Services, Inc. (AJGFS), and in favor of Headwaters Incorporated (Headwaters) in the amount of \$175.0 million. AJGFS and Headwaters entered into a definitive agreement effective as of May 1, 2005 to settle this and all other litigation between the companies for \$50.0 million, which was paid to Headwaters in May 2005. Additionally, AJGFS and Headwaters modified their existing licensing agreement, allowing AJGFS to utilize Headwaters' technology on two of AJGFS' synthetic fuel facilities in exchange for (i) \$70.0 million, which was paid to Headwaters on January 4, 2006 and (ii) an annual royalty to Headwaters in 2005, 2006 and 2007. The 2005 litigation charge provides for amounts related to this settlement, including the \$120.0 million of settlement costs, together with litigation, bonding and other costs of approximately \$11.0 million. In connection with the Headwaters licensing agreement, Gallagher recorded \$8.9 million, \$15.4 million and \$14.6 million of royalty expense in 2007, 2006 and 2005, respectively, which was included in investment expenses of the Financial Services Segment.

Equity Interest in Biomass Projects and Pipeline consists of a Biomass "parent" company and related partnerships which own the rights to Biogas from landfills and the wells, infrastructure and a pipeline to capture, distribute and sell Biogas.

Clean Energy Related Ventures represent Gallagher's ownership interests in two privately- owned entities.

Chem- Mod LLC (Chem- Mod), a multi- pollutant reduction venture, possesses rights, information and technology for the reduction of unwanted emissions created during the combustion of coal. As reported by Chem- Mod in a press release dated February 8, 2006, Chem- Mod has developed and is the exclusive licensee of a new proprietary emissions technology it refers to as The Chem- Mod Solution, which uses a dual injection sorbent system to reduce mercury, sulfur dioxide and other toxic emissions at coal- fired power plants. Substantial testing of The Chem- Mod Solution has been completed both in a laboratory environment and at seven full- scale commercial power plants, all yielding positive test results. Although Chem- Mod is in the early stages of commercializing the technology, the principal potential market for The Chem- Mod Solution is coal- fired power plants owned by utility companies. On October 17, 2007, Chem- Mod signed its first commercial license agreement with a utility company for use of The Chem- Mod™ Solution. Chem- Mod has indicated publicly that it believes The Chem- Mod Solution is a more cost- effective technology for reducing emissions in a manner consistent with the EPA's Clean Air Mercury Rules than other technologies currently in the marketplace. Gallagher, through a wholly- owned subsidiary, initially owned a 10% direct equity interest in Chem- Mod and had an option to acquire an additional 32% indirect equity interest in Chem- Mod. On December 28, 2007, Gallagher exercised one- half of its option for \$5.5 million to acquire an additional indirect ownership of 16% from existing owners of Chem- Mod. The second half (\$5.5 million) of the option which was to expire on December 31, 2007, has been extended to June 30, 2008. The direct and indirect interests are accounted for using equity method accounting. Gallagher recognized a \$5.5 million loss as a result of equity method accounting related to the additional investment made by Gallagher. In addition, Gallagher, through another wholly- owned subsidiary, owns a 20% direct equity interest in Chem- Mod International LLC, the exclusive licensee of The Chem- Mod Solution on a global basis, excluding the U.S. and Canada (Gallagher's interests in Chem- Mod and Chem- Mod International LLC are collectively referred to herein as Chem- Mod Interests). Gallagher first began providing funding to Chem- Mod in June 2004. Currently, Gallagher's carrying value with respect to its Chem- Mod Interests is approximately \$0.9 million. Gallagher also has additional funding commitments of approximately \$0.5 million. Chem- Mod continues to test and market its technology in an effort to secure more commercial licenses. While Gallagher currently believes that its Chem- Mod Interests may prove to have substantial value, there can be no assurance given as to timing or amount, if any, with respect to any realization on this investment.

On April 19, 2006, Gallagher funded \$4.7 million related to another clean energy venture formed by the founders of Chem- Mod, C- Quest Technologies LLC (C- Quest). C- Quest possesses rights, information and technology for the reduction of

carbon dioxide emissions created by burning fossil fuels. Preliminary laboratory testing of C- Quest's technologies has been completed yielding promising results. Gallagher, through a wholly- owned subsidiary, currently owns a 5% direct equity interest in C- Quest and has an option to acquire an additional 22% direct interest in C- Quest. In addition, Gallagher, through a wholly- owned subsidiary, currently owns a 5% direct equity interest in C- Quest Technologies International LLC (C- Quest International), and has an option to acquire an additional 22% direct interest in C- Quest International, which possesses rights to use information and technology of C- Quest on a global basis, excluding the U.S. and Canada (the equity interest and option rights in C- Quest and C- Quest International are collectively referred to herein as C- Quest Interests). Currently, Gallagher's carrying value with respect to its C- Quest Interests is \$0.1 million. Gallagher's options to acquire the additional 22% direct interest in C- Quest and C- Quest International are exercisable at any time on or prior to April 18, 2010 at an exercise price of \$5.5 million for each option (\$11.0 million total). During 2006, Gallagher recognized a \$2.2 million loss as a result of adjustments to the fair values of the option costs and a \$2.4 million loss as a result of the write- offs of its ownership interests in C- Quest and C- Quest International. While Gallagher currently believes that its C- Quest Interests may prove to have substantial value, there can be no assurance given as to timing or amount, if any, with respect to any realization on this investment.

Real Estate, Venture Capital and Other Investments - At December 31, 2007, Gallagher had investments in three real estate ventures with a net carrying value of \$0.4 million in the aggregate, the largest of which was \$0.3 million. In addition, at December 31, 2007, Gallagher had ownership interests in twenty- one completed and certified low income housing developments with zero carrying value. Gallagher also had investments in three venture capital investment funds that invest in debt and equity of development- stage and turn- around companies, with an aggregate net carrying value of \$6.8 million, the largest of which was \$5.7 million. Eleven of the twenty- seven investments discussed above have been determined to be VIEs but are not required to be consolidated. These were originally invested in between 1997 and 2006. At December 31, 2007, total assets and total debt of these eleven investments were approximately \$64.0 million and \$66.0 million, respectively. Gallagher's maximum exposure to a potential loss related to these investments was \$0.3 million at December 31, 2007, which equaled the net aggregate carrying value of these investments.

Consolidated Investments - Gallagher has an ownership interest in excess of 50% in one IRC Section 29- related Syn/Coal facility which is consolidated into Gallagher's consolidated financial statements (two facilities were consolidated at December 31, 2006). This investment represents Gallagher's 99% equity interest in an IRC Section 29- related Syn/Coal facility. The other investment originated when Gallagher purchased a 98% equity interest in a Syn/Coal production facility in 2004 that had previously been operated by Gallagher through a facility rental agreement. The purchase was made with an \$11.1 million seller financed note payable that is non- recourse to Gallagher. No further principal and interest payments are anticipated to be made, based on the acquisition agreement, as a result of the 2007 IRC Section 29 tax credit phase- out. On May 17, 2007, the manager of the facility exercised its right to reduce Gallagher's equity interest to 12%, which necessitated deconsolidating this facility. In connection with this transaction, \$1.2 million of net fixed assets were removed from the consolidated balance sheet. With the expiration of the IRC Section 29 at December 31, 2007, Gallagher will liquidate and dissolve its interest in the related operations in 2008.

Prior to January 25, 2007, Gallagher owned 90% of an airplane leasing company that leased two cargo airplanes to the French Postal Service. On December 22, 2006, Gallagher agreed to sell its 90% interest in the airplane leasing company and recognized a \$2.7 million pretax loss in the Financial Services Segment's 2006 operating results. On January 25, 2007, the transaction closed and Gallagher received cash of \$0.7 million. In connection with the sale of the airplane leasing company, \$27.5 million of net fixed assets and \$27.9 million of investment related borrowings were removed from the consolidated balance sheet and such amounts were treated as non- cash items in the accompanying 2007 consolidated statement of cash flows.

Prior to second quarter 2005, Gallagher had an 80% investment in a limited partnership that is developing an 11,000- acre community near Orlando, Florida (Florida Community Development). In second quarter 2005, Gallagher sold its ownership interests in the limited partnership that owns the Florida Community Development investment. In Gallagher's previously reported financial information, the Florida Community Development's operating results were included in the Financial Services Segment. The Florida Community Development's 2005 operating results were reclassified to discontinued operations in the accompanying consolidated statement of earnings. See Note 5 to the consolidated financial statements for a discussion on discontinued operations.

Gallagher had a 60% ownership interest in a real estate limited partnership that, prior to December 7, 2006, owned the land and building that Gallagher leases for its executive offices and several of its subsidiary operations, which was consolidated into Gallagher's consolidated financial statements. On December 7, 2006, the real estate partnership sold Gallagher's home office land and building. Pursuant to the sale transaction, the total purchase price paid by the buyer for the building was \$83.8 million. In addition, the buyer also reimbursed the real estate partnership for a prepayment fee equal to \$4.8 million incurred by the real estate partnership in connection with the prepayment of the mortgage on the building and other loan fees. The outstanding balance on the mortgage as of the sale date was \$75.2 million. Based on its ownership in the real estate partnership, Gallagher received cash proceeds of \$7.9 million related to the sale, which resulted in a pretax loss to Gallagher of \$4.2 million that was recorded in fourth quarter 2006 in the Financial Services Segment. Terms of the transaction required Gallagher to post a one- year, \$1.0 million letter of credit as collateral for Gallagher's representations and warranties, which expired on December 7, 2007. In connection with the sale of Gallagher's home office land and building, \$84.1 million of net

fixed assets and \$75.2 million of investment related borrowings were removed from Gallagher's consolidated balance sheet and such amounts were treated as non- cash items in the accompanying 2006 consolidated statement of cash flows.

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

	Year Ended December 31,		
	2007	2006	2005
Investment income - Brokerage and Risk Management	\$ 34.2	\$ 31.5	\$ 19.6
Investment income - Financial Services:			
AAC related investments:			
Interest and dividends	0.3	1.2	1.4
Loss from equity ownership	(5.1)	(2.1)	(4.1)
IRC Section 29- related Syn/Coal facilities:			
Unconsolidated facilities			
Installment gains	7.8	31.7	54.5
Other income	3.1	0.5	1.0
Consolidated facilities			
Operating revenue	52.2	49.3	42.8
Oil hedge gain (loss)	14.5	(8.5)	-
Other alternative energy investments:			
Interest and other income	0.3	0.3	1.0
Installment gains	0.2	1.1	1.3
Loss from equity ownership	(0.6)	(2.7)	(1.5)
Other realized losses	(5.7)	(7.0)	(2.5)
Real estate, venture capital and other investments:			
Interest, dividends and other income	4.1	1.3	1.8
Net realized gains on dispositions, recoveries and impairments	0.6	0.3	4.0
Reserve for reclamation of a former coal production site	(4.4)	-	-
Operating revenue of airplane leasing company	0.1	3.5	4.1
Loss on sale of airplane leasing company	-	(2.7)	-
Operating revenue of home office land and building	-	4.9	6.5
Loss on sale of home office land and building	-	(4.2)	-
Income (loss) from equity ownership of low income housing developer	-	(1.9)	0.1
Loss on sale of equity ownership of low income housing developer	-	(3.0)	-
Loss on write- off of low income housing bridge loan investment	(1.8)	-	-
Dividend from Allied World Assurance Holdings, Ltd	-	-	2.1
Total investment income - Financial Services	65.6	62.0	112.5
Total investment income	\$ 99.8	\$ 93.5	\$ 132.1

Investment income - Brokerage and Risk Management primarily represents interest income earned on Gallagher's cash and cash equivalents, and one- time gains related to sales of small books of business of \$7.1 million, \$4.5 million and \$1.5 million in 2007, 2006 and 2005, respectively. Investment income from AAC related investments primarily represents income associated with Gallagher's common stock, preferred stock and debt 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. Full payment of Gallagher's debt instrument in AAC was received in December 2006. In 2007, Gallagher recognized its equity basis portion of AAC losses related to an impairment write- down for one of AAC's

investment managers (\$2.2 million) and the write- off by AAC of professional fees capitalized by AAC related to an unsuccessful equity offering (\$1.6 million). In 2006, Gallagher recognized a \$2.2 million charge using equity method accounting for an AAC tax adjustment for the sales and impairments of three of its private investment management firms. In 2005, Gallagher recognized a \$3.1 million charge using equity method accounting related to the sales and impairment of AAC's investments in three private investment management firms.

Investment income from IRC Section 29- related Syn/Coal facilities consists of two pieces: income from unconsolidated facilities and income from consolidated facilities. Income from the unconsolidated facilities primarily relates to the installment sale gains from the sales of Gallagher's interests in limited partnerships that operate IRC Section 29- related

Syn/Coal facilities. Other income includes consulting fees related to the operations of the facility deconsolidated on May 17, 2007. Income from the consolidated facilities relates to Gallagher's 98% and 99% equity interests in two IRC Section 29- related Syn/Coal production facilities (one facility at December 31, 2007) that are held by Gallagher to generate IRC Section 29- related Syn/Coal Credits. In 2007, 2006 and 2005, income from the consolidated Syn/Coal facilities was \$52.2 million, \$49.3 million and \$42.8 million, respectively. Total expenses, including interest and depreciation expenses, relating to this income were \$79.9 million, \$78.1 million and \$78.7 million in 2007, 2006 and 2005, respectively.

Gallagher recognized a pretax gain in 2007 of \$14.5 million and a pretax loss in 2006 of \$8.5 million related to oil price derivative investments. The oil price hedging strategies are described above in the section titled "IRC Section 29- related Syn/Coal Matters".

Investment income (loss) from other alternative energy investments primarily relates to Gallagher's equity interest in a company and related partnerships that own the rights to Biogas from landfills and the wells, infrastructure and a pipeline to capture, distribute and sell Biogas and investments in clean energy related entities. Interest and other income includes interest income earned on debt investments related to the Biogas partnerships. Other realized losses are a result of writing- off the equity and option investments in the clean energy related investments in 2007, 2006 and 2005 and an impairment in 2006 on the company that has the rights to the Biogas capture, distribution and sale. During 2007, Gallagher recognized a \$5.7 million loss from other alternative energy investments, \$5.5 million of which was the result of equity method accounting related to the investment made to acquire an additional indirect ownership of 16% from existing owners of Chem- Mod. During 2006, Gallagher recognized a \$2.2 million loss as a result of fair market value adjustments for the option costs of C- Quest and C- Quest International, a \$2.4 million loss as a result of the write- offs of its equity investments in C- Quest and C- Quest International and a \$2.4 million loss related to the write- down of two Biomass partnerships. During 2005, Gallagher recognized a \$2.5 million loss as a result of a write- down of a substantial portion of its equity investment in Chem- Mod.

Investment income from real estate, venture capital and other investments principally relates to interest and dividend income, Gallagher's portion of the earnings (losses) of these entities that are accounted for using equity method accounting, operating (rental) income from two previously consolidated investments and in 2007, interest earnings related to the invested proceeds from Gallagher's \$400.0 million Note Purchase Agreement (\$2.4 million in 2007), which was entered into on August 3, 2007.

Net realized gains on dispositions, recoveries and impairments include realized gains and losses related to impairments, dispositions and recoveries of venture capital investments, which included loans and equity holdings in start- up companies. During 2007, Gallagher received \$0.6 million related to recoveries from two investments previously written- off. During 2006, Gallagher received \$0.3 million related to recoveries from five investments previously written- off. During 2005, Gallagher realized a net \$4.0 million gain related to assets impaired in prior years, the main components of which were as follows: a \$1.3 million gain on the sale of a Biogas project, a \$1.2 million gain on a recovery from a Biogas project and a \$0.6 million gain on the sale of a shopping center investment. The remaining \$0.9 million net gain is from other transactions, none of which is greater than \$0.5 million, related to the sales or recoveries of venture capital investments.

The reserve for reclamation of a former coal production site was established in fourth quarter 2007 based on an impairment review.

Investment income from the airplane leasing company relates to rental income recognized due to Gallagher's 90% ownership interest in an airplane leasing company that leases two cargo airplanes to the French Postal Service. On December 22, 2006, Gallagher agreed to sell its 90% ownership interest in the cargo plane leasing enterprise and recognized a \$2.7 million pretax loss. The sale transaction was completed on January 25, 2007. Prior to January 25, 2007, this investment was consolidated into Gallagher's consolidated financial statements. In 2007, 2006 and 2005, rental income of the airplane leasing company was \$0.1 million, \$3.5 million and \$4.1 million, respectively. In 2007, 2006 and 2005, total expenses associated with this income, including interest and depreciation expenses, was zero, \$5.5 million and \$5.5 million, respectively.

Investment income from the home office land and building relates to rental income recognized due to Gallagher's 60% ownership interest in a limited partnership that owned the building that Gallagher leases for its executive offices and several of its subsidiary operations. On December 7, 2006, the real estate partnership sold Gallagher's home office land and building. Based on its ownership in the real estate partnership, Gallagher received cash proceeds of \$7.9 million related to the sale, which resulted in a pretax loss to Gallagher of \$4.2 million that was recorded in fourth quarter 2006 in the Financial Services Segment. Prior to December 7, 2006, this investment was consolidated into Gallagher's consolidated financial statements. Rental income of the home office building was \$4.9 million and \$6.5 million in 2006 and 2005, respectively. Total expenses associated with the home office building rental income, including interest and depreciation expenses, were \$4.9 million and \$6.3 million in 2006 and 2005, respectively.

Investment income from low income housing (LIH) investments primarily represents income (loss) associated with Gallagher's equity investment in a LIH developer that was accounted for using equity method accounting and interest income from bridge loans made by Gallagher related to LIH developments. Gallagher sold its interests in the LIH developer in 2006 and recognized a \$3.0 million loss on the sale. In 2007, Gallagher wrote- off the remaining LIH bridge loan (\$1.8 million) which was deemed uncollectible.

4. Business Combinations

During 2007, Gallagher acquired substantially all of the net assets of the following insurance brokerage firms in exchange for its common stock and/or cash. These acquisitions have been accounted for using the purchase accounting method for recording business combinations (in millions except share data):

Name and Effective Date of Acquisitions	Common Shares Issued (000s)	Common Share Value	Cash Paid	Accrued Liability	Escrow Deposited	Recorded Purchase Price	Potential Earnout Payables
Financial Profiles Inc. (FPI) - January 1, 2007	305	\$ 8.5	\$ 9.0	\$ -	\$ 0.5	\$ 18.0	\$ 9.5
InterNational Insurance Group, Ltd. - January 1, 2007	50	1.3	-	-	0.2	1.5	-
Fishermans Insurance Services, Inc. - January 1, 2007	21	-	9.9	-	0.6	10.5	5.5
Lowndes Lambert Group Canada, Ltd. (LLG) - February 1, 2007	-	-	26.1	-	1.1	27.2	3.0
Elite Benefits Insurance Marketing Services, Inc. - February 1, 2007	71	1.6	6.0	-	0.4	8.0	4.5
The Producer's Choice, Inc. - March 1, 2007	56	1.3	5.0	-	0.3	6.6	6.0
ISG International Inc. (ISG) - March 1, 2007	70	0.4	14.0	-	1.6	16.0	5.0
Melton Insurance Associates, Inc. - April 1, 2007	37	1.0	2.3	-	0.4	3.7	0.7
Tropp & Company - May 1, 2007	115	2.9	-	-	0.3	3.2	1.0
Woods & Grooms Inc. - May 31, 2007	-	-	1.6	0.1	-	1.7	2.8
Carpenter, Cammack & Associates Inc. - June 1, 2007	35	-	8.1	-	1.0	9.1	2.5
Spanjers Insurance Agency, Inc. - July 1, 2007	-	-	3.3	-	0.3	3.6	0.9
Strategic Health Plans Corporation (SHP) - August 1, 2007	-	-	10.5	-	0.5	11.0	3.0
BIS Insurance Services Inc. - October 1, 2007	-	-	5.4	-	0.6	6.0	3.0
Cedar Hill Insurance Agency, Inc. (CHI) - October 1, 2007	450	11.8	-	-	-	11.8	3.9
C & B Consulting Group, Inc. (C&B) - November 1, 2007	35	0.9	31.9	-	-	32.8	19.3
Powell Insurance Agency, Inc. - November 1, 2007	-	-	8.5	-	0.5	9.0	3.3
Robert A. Schneider Agency, Inc. - November 1, 2007	40	1.1	4.2	-	-	5.3	4.2
Intermountain Financial Benefits - December 1, 2007	18	0.5	7.5	-	-	8.0	8.0
Koster Insurance Agency, Inc. (KIA) - December 1, 2007	-	-	16.2	-	0.8	17.0	6.8
AVRECO - December 31, 2007	-	-	6.7	1.7	-	8.4	-
	1,303	\$ 31.3	\$ 176.2	\$ 1.8	\$ 9.1	\$ 218.4	\$ 92.9

Common shares exchanged in connection with acquisitions are 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 reductions of goodwill when the escrows are settled. The potential earnout payables disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid pursuant to the purchase agreement related to each applicable acquisition. 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 each applicable acquisition at its acquisition date because they are not fixed and determinable. Future payments made under these arrangements, if any, will generally be recorded as additional goodwill when the earnouts are settled. The aggregate amount of unrecorded earnout payables outstanding at December 31, 2007 related to acquisitions made by Gallagher in the period from 2004 to 2007 was \$134.8 million.

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

	FPI	LLG	ISG	SHP	CHI	C&B	KIA	Fourteen Other Acquisitions	Total
Current assets	\$ 0.1	\$ 18.0	\$ 3.3	\$ 0.1	\$ 7.6	\$ 0.3	\$ 23.5	\$ 24.1	\$ 77.0
Fixed assets	0.1	1.3	0.1	0.1	0.1	0.2	0.1	0.7	2.7
Goodwill	6.8	11.2	7.6	4.2	3.4	7.6	5.7	31.7	78.2
Expiration lists	10.6	12.8	7.8	6.5	7.1	24.3	10.1	51.6	130.8
Non- compete agreements	0.4	1.4	0.2	0.1	0.3	0.4	0.1	1.7	4.6
Total assets acquired	18.0	44.7	19.0	11.0	18.5	32.8	39.5	109.8	293.3
Current liabilities	-	17.5	3.0	-	6.7	-	22.5	24.3	74.0
Noncurrent liabilities	-	-	-	-	-	-	-	0.9	0.9
Total liabilities assumed	-	17.5	3.0	-	6.7	-	22.5	25.2	74.9
Total net assets acquired	\$ 18.0	\$ 27.2	\$ 16.0	\$ 11.0	\$ 11.8	\$ 32.8	\$ 17.0	\$ 84.6	\$ 218.4

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 \$78.2 million, \$130.8 million and \$4.6 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.

Of the \$130.8 million of expiration lists and \$4.6 million of non-compete agreements related to the 2007 acquisitions, \$22.7 million and \$1.8 million, respectively, are not expected to be deductible for income tax purposes. Accordingly, Gallagher recorded a deferred tax liability of \$9.4 million, and a corresponding amount of goodwill, in 2007 related to the nondeductible amortizable intangible assets. This amount has not been included in the above table.

During 2007, Gallagher issued 322,000 shares of its common stock, paid \$21.7 million in cash and accrued \$1.7 million in liabilities related to earnout obligations of fourteen acquisitions made prior to 2007 and recorded additional goodwill of \$26.4 million. During 2006, Gallagher issued 136,000 shares of its common stock and paid \$8.9 million in cash and accrued \$7.0 million in liabilities related to earnout obligations of fifteen acquisitions made prior to 2006 and recorded additional goodwill of \$17.0 million. During 2005, Gallagher issued 439,000 shares of its common stock and paid \$1.8 million in cash and accrued \$2.7 million in liabilities related to earnout obligations of eight acquisitions made prior to 2005 and recorded additional goodwill of \$15.3 million.

In addition to the above acquisitions, Gallagher acquired a 38.5% equity interest for \$11.9 million in CGM Group Limited (CGM), which is headquartered in St. Lucia. Gallagher will account for its holding in CGM's common stock using equity method accounting. CGM is an insurance intermediary and risk management company that provides P/C, health, risk management and other related services to clients throughout the Caribbean. CGM has operations in Jamaica, Barbados, St. Vincent and St. Lucia.

Gallagher's consolidated financial statements for the year ended December 31, 2007 include the operations of the entities acquired from the dates of their respective acquisitions. The following is a summary of the unaudited pro forma historical results, as if these purchased entities had been acquired at January 1, 2006 (in millions, except per share data):

	Year Ended December 31,	
	2007	2006
Total revenues	\$ 1,671.8	\$ 1,570.7
Earnings from continuing operations	157.1	134.6
Basic Earnings from continuing operations per share	1.63	1.37
Diluted Earnings from continuing operations per share	1.61	1.35

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, 2006, nor are they necessarily indicative of future operating results. Annualized revenues of entities acquired in 2007 totaled approximately \$99.3 million.

5. Discontinued Operations

In fourth quarter 2007, Gallagher undertook a strategic review of its operations and made a determination to exit its global reinsurance operations and its wholesale brokerage operations in Ireland. In January 2008, Gallagher announced plans to sell these operations. Accordingly, in the accompanying consolidated statement of earnings, the revenues and expenses of these operations have been reclassified from continuing operations to discontinued operations for all periods presented. In Gallagher's previously reported financial information, the operating results for these discontinued operations were included in the Brokerage Segment.

Total revenues reclassified to discontinued operations related to Gallagher's reinsurance brokerage and Irish wholesale brokerage businesses for 2007, 2006 and 2005 were \$51.8 million, \$63.9 million and \$55.0 million, respectively.

The assets and liabilities included in the accompanying December 31, 2007 consolidated balance sheet related to these discontinued operations were as follows (in millions):

Restricted cash	\$	39.5
Premiums and fees receivables		587.2
Other current assets		3.2
Fixed assets - net		2.8
Other noncurrent assets		5.8
Goodwill - net		25.8
Amortizable intangible assets - net		4.3
Total assets	\$	668.6
Premiums payable to insurance and reinsurance companies	\$	622.2
Other current liabilities		2.5
Noncurrent liabilities		9.7
Total liabilities	\$	634.4

In first quarter 2005, Gallagher entered into an agreement to sell the net assets of Northshore International Insurance Services (NiiS), a medical claims management and auditing services provider, for cash of \$4.8 million. Gallagher recognized a pretax loss of \$12.7 million (\$12.3 million after tax loss) in first quarter 2005 in connection with the sale. In Gallagher's previously reported financial information, NiiS's operating results were included in the Brokerage Segment, which have been reclassified to discontinued operations in the accompanying consolidated statement of earnings for all periods presented.

In first quarter 2005, Gallagher entered into an agreement to sell all of the stock of Gallagher Benefit Administrators, Inc. (GBA), a third party employee benefit claim payment administrator, for cash of \$9.2 million and a promissory note in the amount of \$4.4 million. Gallagher recognized a pretax gain of \$9.6 million (\$6.8 million after tax gain) in first quarter 2005 in connection with the sale. The promissory note had a 10% fixed rate of interest, with interest only payments payable monthly through August 22, 2007, when the note was scheduled to mature. During fourth quarter 2006, Gallagher changed its medical plan administrator and recorded a medical plan termination charge. In connection with this termination charge, Gallagher forgave the \$4.4 million promissory note, plus the accrued interest as of the settlement date. In Gallagher's previously reported financial information, GBA's operating results were included in the Risk Management Segment, which have been reclassified to discontinued operations in the accompanying consolidated statement of earnings for all periods presented.

In second quarter 2005, Gallagher sold its ownership interests in the limited partnership that owns the Florida Community Development investment. Pursuant to the transaction, Gallagher received cash of \$25.7 million and recorded a pretax gain of \$12.6 million (\$7.6 million after tax gain) in second quarter 2005 in connection with the sale. In Gallagher's previously reported financial information, the Florida Community Development's operating results were included in the Financial Services Segment, which have been reclassified to discontinued operations in the accompanying consolidated statement of earnings for all periods presented.

Total revenues reclassified to discontinued operations for 2005 were \$11.0 million related to the 2005 transactions discussed above.

6. Fixed Assets

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

	December 31,	
	2007	2006
Furniture and equipment	\$ 213.1	\$ 183.0
Airplanes of consolidated leasing company	-	49.1
Leasehold improvements	41.6	37.1
Syn/Coal equipment	4.2	15.7
	258.9	284.9
Accumulated depreciation	(171.0)	(181.8)
Net fixed assets	\$ 87.9	\$ 103.1

7. Intangible Assets

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

	December 31,	
	2007	2006
Expiration lists	\$ 395.0	\$ 266.1
Accumulated amortization - expiration lists	(85.9)	(60.0)
	309.1	206.1
Non- compete agreements	22.9	20.5
Accumulated amortization - non- compete agreements	(16.4)	(13.5)
	6.5	7.0
Net amortizable assets	\$ 315.6	\$ 213.1

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

2008	\$	36.2
2009		34.4
2010		31.3
2011		30.4
2012		27.4
Total	\$	159.7

The changes in the carrying amount of goodwill for 2007 are as follows (in millions):

	Brokerage	Risk Management	Financial Services	Total
Balance as of January 1, 2007	\$ 307.1	\$ 9.5	\$ -	\$ 316.6
Goodwill acquired during the year	87.4	-	-	87.4
Goodwill related to earnouts paid during the year	26.4	-	-	26.4
Adjustments related to independent appraisals and other purchase accounting adjustments	8.7	-	-	8.7
Goodwill written- off related to sales of business units and impairment reviews during the year	-	-	-	-
	1.5	-	-	1.5

Foreign currency
translation adjustments
during the year

Balance as of							
December 31, 2007	\$	431.1	\$	9.5	\$	-	\$ 440.6

The carrying amount of goodwill at December 31, 2007 allocated by domestic and foreign operations is as follows (in millions):

	Brokerage	Risk Management	Financial Services	Total
United States	\$ 381.4	\$ 8.1	\$ -	\$ 389.5
Foreign, principally United Kingdom, Australia and Bermuda	49.7	1.4	-	51.1
Total goodwill - net	\$ 431.1	\$ 9.5	\$ -	\$ 440.6

8. Credit and Other Debt Agreements

Note Purchase Agreement- On August 3, 2007, Gallagher entered into a Note Purchase Agreement, as amended and restated (Note Purchase Agreement) with certain accredited institutional investors (the Purchasers), pursuant to which Gallagher issued and sold to the Purchases \$100.0 million in aggregate principal amount of Gallagher's 6.26% Senior Notes, Series A, due August 3, 2014 (the Series A Notes) and \$300.0 million in aggregate principal amount of Gallagher's 6.44% Senior Notes, Series B, due August 3, 2017 (the Series B Notes and, together with the Series A Notes, the Notes(s)), in a private placement. In connection with entering into the Note Purchase Agreement, Gallagher incurred approximately \$1.3 million of debt acquisition costs that were capitalized and are being amortized on a pro rata basis over a seven year period.

Under the terms of the Note Purchase Agreement, the Notes are redeemable by Gallagher at any time, in whole or in part, at 100% of the principal amount of such Notes being redeemed, together with accrued and unpaid interest and a "make- whole amount". The "make- whole amount" is derived from a net present value computation of the remaining scheduled payments of principal and interest using a discount rate based on U.S. Treasury yield plus 0.5% and is designed to compensate the Purchasers for their investment risk in the event prevailing interest rates at the time of prepayment are less favorable than the interest rates under the Notes. Gallagher currently has no intention of prepaying the Notes.

The Note Purchase Agreement contains customary provisions for transactions of this type, including representations and warranties regarding Gallagher and its subsidiaries and various covenants, including covenants that require Gallagher to maintain specified financial ratios. Gallagher was in compliance with these covenants at December 31, 2007. The Note Purchase Agreement provides customary events of default, generally with corresponding grace periods, including, without limitation, payment defaults with respect to the Notes, covenant defaults, cross- defaults to other agreements evidencing indebtedness of Gallagher or its subsidiaries, certain judgments against Gallagher or its subsidiaries and events of bankruptcy involving Gallagher or its material subsidiaries.

The Notes are senior unsecured obligations of Gallagher and rank equal in right of payment with Gallagher's unsecured multicurrency credit agreement. The Note Purchase Agreement and Notes were amended and restated on December 19, 2007 primarily to provide for several of Gallagher's wholly- owned domestic subsidiaries to become co- obligors on the Notes.

Credit Agreement- On October 5, 2005, Gallagher entered into an unsecured multicurrency credit agreement (Credit Agreement), which expires on October 4, 2010, with a group of ten financial institutions. The Credit Agreement provides for a revolving credit commitment of up to \$450.0 million, of which up to \$125.0 million may be used for issuances of standby or commercial letters of credit (LOCs) and up to \$30.0 million may be used for the making of swing loans. Gallagher may from time- to- time request, subject to certain conditions, an increase in the revolving credit commitment up to a maximum aggregate revolving credit commitment of \$550.0 million.

The Credit Agreement provides that Gallagher may elect that each borrowing in U.S. dollars be either base rate loans or Eurocurrency loans, as defined in the Credit Agreement. All loans denominated in currencies other than U.S. dollars shall be Eurocurrency loans. Interest rates on base rate loans and outstanding drawings on LOCs in U.S. dollars under the Credit Agreement are based on the base rate, as defined in the Credit Agreement. Interest rates on Eurocurrency loans or outstanding drawings on LOCs in currencies other than U.S. dollars under the Credit Agreement are based on adjusted LIBOR, as defined in the Credit Agreement, plus a margin of .400%, .500%, .600% or .800%, depending on the financial leverage ratio maintained by Gallagher. Interest rates on swing loans are based, at the election of Gallagher, on either the base rate, as defined in the Credit Agreement, or such alternate rate as may be quoted by the lead lender. The annual facility fee related to the Credit Agreement is either .100%, .125%, .150% or .200% of the used and unused portions of the revolving credit commitment, depending on the financial leverage ratio maintained by Gallagher. In connection with entering into the Credit Agreement, Gallagher incurred approximately \$1.4 million of debt acquisition costs that were capitalized and are being amortized on a pro rata basis over the term of the Credit Agreement.

The terms of the Credit Agreement include various covenants, including 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, 2007. The Credit Agreement also includes customary events of default, with corresponding grace periods, including, without limitation, payment defaults, cross- defaults to other agreements evidencing indebtedness and bankruptcy- related

defaults. The Credit Agreement was amended and restated on December 19, 2007 primarily to provide for several of Gallagher's wholly-owned domestic subsidiaries to become co-obligors on the Credit Agreement.

At December 31, 2007, \$16.9 million of LOCs (for which Gallagher had \$10.3 million of liabilities recorded at December 31, 2007) were outstanding under the Credit Agreement. See Notes 3 and 17 to the consolidated financial statements for a discussion on the LOCs. There were no borrowings outstanding under the revolving credit commitment at December 31, 2007. Accordingly, at December 31, 2007, \$433.1 million remained available for potential borrowings, of which \$108.1 million may be in the form of additional LOCs.

The following is a summary of Gallagher's corporate and investment related debt (in millions):

	December 31,	
	2007	2006
Corporate related borrowings:		
Note Purchase Agreement:		
Semi-annual payments of interest, fixed rate of 6.26%, balloon due 2014	\$ 100.0	\$ -
Semi-annual payments of interest, fixed rate of 6.44%, balloon due 2017	300.0	-
Total Note Purchase Agreement	400.0	-
Credit Agreement:		
Periodic payments of interest and principal, prime or LIBOR plus up to 0.80%, expires 2010	-	-
Investment related borrowings:		
Loan on airplanes leased to French Postal Service:		
Monthly principal and interest payments, fixed rate of 5.38%	-	28.0
Syn/Coal facility purchase note:		
Periodic payments of interest and principal, fixed rate of 7.00%	-	6.8
	\$ 400.0	\$ 34.8

Periodic payments under the Syn/Coal facility purchase note were deferred in 2007 and are due not later than January 15, 2009. The repayment of this obligation is affected by the estimated substantial IRC Section phase-out for 2007. As a result of the phase-out for 2007, Gallagher currently estimates that no payments will be made related to this obligation.

The fair value of the \$400.0 million Note Purchase Agreement debt at December 31, 2007 was \$395.6 million due to the long-term duration and fixed interest rates associated with this debt obligation. At December 31, 2007 and 2006, 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 approximate their carrying value due to their short-term duration and variable interest rates.

See Note 17 to the consolidated financial statements for additional discussion on commitments and contingencies.

9. Capital Stock

Capital Stock- The table below summarizes certain information about Gallagher's capital stock at December 31, 2007 and 2006 (in millions, except par value data):

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

10. 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,		
	2007	2006	2005
Earnings from continuing operations	\$ 154.6	\$ 128.4	\$ 39.1
Earnings (loss) from discontinued operations	(15.8)	0.1	(8.3)
Net earnings	\$ 138.8	\$ 128.5	\$ 30.8
Weighted average number of common shares outstanding	95.9	97.1	94.1
Dilutive effect of stock options using the treasury stock method	1.2	1.3	2.0
Weighted average number of common and common equivalent shares outstanding	97.1	98.4	96.1
Basic net earnings (loss) per share:			
Earnings from continuing operations	\$ 1.61	\$ 1.32	\$ 0.42
Earnings (loss) from discontinued operations	(0.16)	-	(0.09)
Net earnings	\$ 1.45	\$ 1.32	\$ 0.33
Diluted net earnings (loss) per share			
Earnings from continuing operations	\$ 1.59	\$ 1.31	\$ 0.41
Earnings (loss) from discontinued operations	(0.16)	-	(0.09)
Net earnings	\$ 1.43	\$ 1.31	\$ 0.32

Options to purchase 7.0 million, 8.9 million and 7.3 million shares of common stock were outstanding at December 31, 2007, 2006 and 2005, respectively, 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 Gallagher's common shares during the respective period and, therefore, would be antidilutive to earnings per share under the treasury stock method.

11. Stock Option Plans

Gallagher has four stock option- based employee compensation plans. 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 of Gallagher common stock at the date of grant. All options granted under the plans must be approved by either the Compensation Committee of the Board of Directors (the Compensation Committee), which consists entirely of independent directors within the meaning of the listing rules of the New York Stock Exchange, or the Chief Executive Officer of Gallagher under a limited delegation of authority from the Compensation Committee.

Gallagher grants both incentive and nonqualified stock option to officers and key employees of Gallagher and its subsidiaries. Most options granted under the incentive plan prior to 2007 become exercisable at the rate of 10% per year beginning the calendar year after the date of grant. Most options granted under the nonqualified plan prior to 2007 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 (if the retirement eligible age requirement is met). On May 15, 2007, the Compensation Committee granted 540,000 options to officers and key employees of Gallagher that become exercisable at the rate of 20% per year on the

anniversary date of the grant. Options expire ten years from the date of grant, or earlier in the event of termination of the employee (if the retirement eligible age requirement is not met). Stock options granted after May 15, 2007 no longer provide for accelerated vesting upon retirement.

F - 45

In addition, Gallagher has a non-employee directors' stock option plan, where by in 2007 and prior years, Discretionary Options were granted at the direction of the Compensation Committee and Retainer Options were granted in lieu of the directors' annual retainer. Discretionary Options are exercisable at such rates as shall be determined by the Compensation Committee on the date of grant. Retainer Options are 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. Options granted under the non-employee directors' plan contain provisions where the vesting of the stock options accelerates to 100% on the termination of the director. At December 31, 2007, 1.9 million shares were authorized to be granted under this plan.

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

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.

During 2007, 2006 and 2005, Gallagher recognized \$10.6 million, \$13.8 million and \$6.9 million, respectively, of compensation expense related to its stock option plans.

For purposes of expense recognition in 2007, 2006 and 2005 (and for the pro forma disclosures in Note 1 to the consolidated financial statements), 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,		
	2007	2006	2005
Expected dividend yield	4.0%	3.0%	3.0%
Expected risk- free interest rate	4.3%	4.9%	4.2%
Volatility	25.7%	25.8%	26.2%
Expected life (in years)	5.4	6.5	6.9

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 2007, 2006 and 2005, as determined on the grant date using the Black- Scholes option valuation model, was \$5.47, \$6.87 and \$6.69, respectively.

F - 46

The following is a summary of Gallagher's stock option activity and related information for 2007, 2006 and 2005 (in millions, except exercise price data):

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
<u>Year Ended December 31,</u>				
<u>2007</u>				
Beginning balance	15.2	\$ 24.81		
Granted	0.8	28.44		
Exercised	(0.7)	16.53		
Forfeited or canceled	(0.6)	26.90		
Ending balance	14.7	\$ 25.36	5.42	\$ 21.3
Exercisable at end of year	7.3	\$ 24.27	4.47	\$ 16.4
Ending vested and expected to vest	14.5	\$ 25.33	5.40	\$ 21.2
<u>Year Ended December 31,</u>				
<u>2006</u>				
Beginning balance	16.6	\$ 23.82		
Granted	0.4	27.52		
Exercised	(1.3)	11.82		
Forfeited or canceled	(0.5)	27.28		
Ending balance	15.2	\$ 24.81	6.07	\$ 75.3
Exercisable at end of year	6.4	\$ 23.30	5.00	\$ 41.9
Ending vested and expected to vest	14.9	\$ 24.77	6.05	\$ 74.4
<u>Year Ended December 31,</u>				
<u>2005</u>				
Beginning balance	15.7	\$ 22.00		
Granted	3.1	27.37		
Exercised	(1.6)	11.96		
Forfeited or canceled	(0.6)	26.81		
Ending balance	16.6	\$ 23.82	6.63	\$ 119.4
Exercisable at end of year	5.6	\$ 20.67	4.90	\$ 58.1
Ending vested and expected to vest	16.6	\$ 23.82	6.63	\$ 119.4

Options with respect to 4.1 million shares were available for grant at December 31, 2007.

The total intrinsic value of options exercised during 2007, 2006 and 2005 amounted to \$9.6 million, \$20.8 million and \$27.8 million, respectively. At December 31, 2007, there was approximately \$44.4 million of total unrecognized compensation cost related to nonvested options. That cost is expected to be recognized over a weighted average period of approximately five years.

Other information regarding stock options outstanding and exercisable at December 31, 2007 is summarized as follows (in millions, except exercise price and year data):

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 1.11 - \$ 22.70	3.4	2.92	\$ 17.98	2.3	\$ 17.09	
23.72 - 25.79	2.5	5.23	24.86	1.3	24.83	
26.00 - 27.25	4.4	6.08	26.95	1.9	26.79	
27.29 - 29.42	3.2	7.28	29.06	0.9	29.21	
29.45 - 36.53	1.1	5.60	32.04	0.8	32.14	
36.94 - 36.94	0.1	3.84	36.94	0.1	36.94	
\$ 1.11 - \$ 36.94	14.7	5.42	\$ 25.36	7.3	\$ 24.27	

12. 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 when they attain age 62 or upon or after their actual retirement. Under the provisions of the plan, Gallagher contributes shares of its common stock or cash, 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 of stock contributions from the plan, except for accumulated non-invested dividends, are made in the form of Gallagher's common stock and all distributions of cash contributions are distributed in cash.

In first quarter 2006 and 2005, Gallagher contributed \$4.3 million and \$4.7 million, respectively, to the plan through the issuance of 148,000 and 157,000 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). The unearned deferred compensation obligation is recorded as a reduction of capital in excess of par value 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 do not have any impact on Gallagher's consolidated financial statements. During 2007, 2006 and 2005, \$2.3 million, \$2.6 million and \$2.3 million, respectively, was charged to compensation expense related to this plan. During 2006 and 2005, 30,000 and 68,000 shares of Gallagher's common stock, respectively, were vested and distributed to employees under this plan, with an aggregate fair value of \$0.8 million and \$1.9 million, respectively. No shares were vested or distributed to employees in 2007. At December 31, 2007 and 2006, \$13.9 million (related to 780,000 shares) and \$16.2 million (related to 780,000 shares), respectively, of unearned deferred compensation was recorded as an offset to capital in excess of par value in the accompanying consolidated balance sheet. The total intrinsic value of unvested Gallagher common stock under the plan at December 31, 2007 and 2006 was \$18.9 million and \$23.0 million, respectively.

In first quarter 2007, the Compensation Committee approved \$4.7 million of cash awards in the aggregate to certain key executives under the Deferred Equity Participation Plan that were contributed to the rabbi trust in second quarter 2007. The fair value of the cash award assets at December 31, 2007 was \$4.5 million and has been included in other noncurrent assets in the accompanying consolidated balance sheet. During 2007, \$0.8 million was charged to compensation expense related to this plan. During 2007, awards with an aggregate fair value of \$0.1 million were vested and distributed to employees under this plan.

13. Restricted Stock Awards

Gallagher has 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 restricted shares or related stock units 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. At December 31, 2007, 2.7 million restricted shares were available for grant under this plan.

In 2007, 2006 and 2005, Gallagher granted 258,000, 229,000 and 200,000 shares, respectively, of its common stock to employees related to incentive compensation plans, with an aggregate fair value of \$7.4 million, \$6.3 million and \$5.9 million, respectively, at the date of grant.

The 2007, 2006 and 2005 restricted stock awards generally vest annually on a pro rata basis however, 116,000 shares granted in second quarter 2007 vest in full based on continued employment through May 15, 2011. The vesting periods of the 2007, 2006 and 2005 restricted stock awards are as follows (in actual shares):

Vesting Period	Shares Granted		
	2007	2006	2005
One year	-	-	21,000
Two years	-	58,000	53,000
Three years	61,000	51,000	90,000
Four years	137,000	19,000	-
Five years	60,000	51,000	36,000
Ten years	-	50,000	-
Total shares granted	258,000	229,000	200,000

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 capital in excess of par value in the accompanying consolidated balance sheet and is amortized to compensation expense ratably over the vesting period of the participants. Prior to June 30, 2006, the restricted stock awards granted by Gallagher typically contained provisions where participants will continue to vest in the awards through the vest dates if they leave Gallagher and have met the retirement eligible age requirement. Thus, the recognition of stock compensation expense related to restricted stock awards will not follow the vesting schedules presented above. Future changes in the fair value of the Gallagher common stock that is owed to the participants do not have any impact on Gallagher's consolidated financial statements. During 2007, 2006 and 2005, \$4.4 million, \$6.0 million and \$4.9 million, respectively, was charged to compensation expense related to restricted stock awards granted in 2003 to 2007. At December 31, 2007 and 2006, \$5.6 million (related to 346,000 shares) and \$5.5 million (related to 345,000 shares), respectively, of unearned restricted stock outstanding was recorded as an offset to capital in excess of par value in the accompanying consolidated balance sheet. The total intrinsic value of unvested restricted stock at December 31, 2007 and 2006 was \$11.1 million and \$10.2 million, respectively.

On May 15, 2007, the Compensation Committee approved the future grant of provisional cash awards of \$13.5 million in the aggregate to officers and key employees of Gallagher that are denominated in units (470,000 units in the aggregate), each of which is equivalent to the value of one share of Gallagher's common stock on the date of grant pursuant to a Performance Unit Program. The Performance Unit Program consists of a one- year performance period based on financial performance and a two- year vesting period. At the discretion of the Compensation Committee and determined based on company performance, the officer or key employee will be granted a percentage of the provisional cash award units that equates to the EBITA (as defined in the Program) growth achieved. At the end of the performance period (December 31, 2007 for the 2007 awards), eligible employees will be granted an amount of units based on achievement of the performance goal and subject to approval by the Compensation Committee. Granted units will fully vest based on continuous employment through January 1, 2010. The ultimate award value will be equal to the trailing twelve month stock price on December 31, 2009, multiplied by the number of units subject to the award, but limited to between 0.5 and 1.5 times the original value of the units determined as of the grant date. The fair value of the grant will be paid out in cash as soon as practicable in 2010. If an eligible employee leaves Gallagher prior to the vesting date, the entire award will be forfeited. No compensation expense was recognized during 2007 related to this program. Based on company performance for 2007, Gallagher expects to grant 230,000 units under the Performance Unit Program in first quarter 2008 that will fully vest on January 1, 2010.

14. Employee Stock Purchase Plan

Gallagher has 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. Under the ESPP, eligible employees may purchase Gallagher common stock at a purchase price equal to 85% of the lesser of the fair market value of Gallagher's common stock on the first business day or the last business day of the quarterly offering period. Eligible employees may annually purchase shares of Gallagher's common stock with an aggregate fair market value of up to \$25,000 (measured as of the first day of each quarterly offering period of each calendar year). Gallagher recognizes compensation expense related to the common stock issued under the ESPP. Currently, there are 2.4 million shares of Gallagher's common stock reserved for future issuance under the ESPP.

The 2007, 2006 and 2005 ESPP information is as follows (in millions, except per share and share data):

	1st		2nd		3rd		4th		Total	
2007										
Fair market value per share at date of purchase	\$	28.33	\$	27.88	\$	28.97	\$	24.19		
Purchase price per share	\$	24.08	\$	23.70	\$	23.97	\$	20.56		
Shares issued		146,000		90,000		79,000		82,000		397,000
Aggregate purchase price	\$	3.5	\$	2.1	\$	1.9	\$	1.8	\$	9.3
Stock compensation expense recognized	\$	0.6	\$	0.4	\$	0.4	\$	0.3	\$	1.7
2006										
Fair market value per share at date of purchase	\$	27.81	\$	25.34	\$	26.67	\$	29.55		
Purchase price per share	\$	23.64	\$	21.54	\$	21.54	\$	22.64		
Shares issued		130,000		105,000		83,000		73,000		391,000
Aggregate purchase price	\$	3.1	\$	2.3	\$	1.8	\$	1.6	\$	8.8
Stock compensation expense recognized	\$	0.5	\$	0.4	\$	0.5	\$	0.5	\$	1.9
2005										
Fair market value per share at date of purchase	\$	28.80	\$	27.13	\$	28.81	\$	30.88		
Purchase price per share	\$	24.48	\$	23.06	\$	23.13	\$	24.62		
Shares issued		121,000		94,000		81,000		70,000		366,000
Aggregate purchase price	\$	2.9	\$	2.2	\$	1.9	\$	1.7	\$	8.7
Stock compensation expense recognized	\$	0.5	\$	0.4	\$	0.5	\$	0.4	\$	1.8

15. Retirement Plans

Gallagher has a noncontributory defined benefit pension plan that prior to July 1, 2005 covered substantially all domestic employees who had attained a specified age and one year of employment. Benefits under the plan were based on years of service and salary history. Gallagher accounts for the defined benefit pension plan in accordance with SFAS 87, "Employers' Accounting for Pensions," and related pronouncements. In 2005, Gallagher amended its defined benefit pension plan to freeze the accrual of future benefits for all domestic employees, effective on July 1, 2005, which resulted in Gallagher recognizing a curtailment gain of \$10.0 million. In the table below, the service cost component in 2007 and 2006 represents plan administration costs that are incurred directly by the plan.

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,			
	2007		2006	
Change in pension benefit obligation:				
Benefit obligation at beginning of year	\$	177.6	\$	181.7
Service cost		0.5		0.2
Interest cost		10.6		9.8
Net actuarial (gain) loss		2.7		(10.1)
Benefits paid		(4.1)		(4.0)
Benefit obligation at end of year	\$	187.3	\$	177.6
Change in plan assets:				
Fair value of plan assets at beginning of year	\$	187.5	\$	169.3
Actual return on plan assets		15.1		22.2
Contributions by Gallagher		-		-
Benefits paid		(4.1)		(4.0)
Fair value of plan assets at end of year	\$	198.5	\$	187.5
Funded status of the plan	\$	11.2	\$	9.9
Unrecognized net actuarial (gain) loss		0.4		(8.3)
Net amount recognized	\$	11.6	\$	1.6
Amounts recognized in the consolidated balance sheet consist of:				
Prepaid benefit cost	\$	11.2	\$	9.9
Accumulated other comprehensive earnings		(5.8)		(8.3)
Net amount recognized	\$	5.4	\$	1.6

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

	Year Ended December 31,					
	2007		2006		2005	
Service cost- benefits earned during the year	\$	0.5	\$	0.2	\$	10.7
Interest cost on benefit obligation		10.6		9.8		10.8
Expected return on plan assets		(14.8)		(13.8)		(12.1)
Amortization of prior service cost		-		-		0.2
Amortization of net actuarial loss		-		-		0.6
Net periodic benefit (earnings) cost		(3.7)		(3.8)		10.2
Curtailment gain		-		-		(10.0)
Total benefit (earnings) cost	\$	(3.7)	\$	(3.8)	\$	0.2

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

December 31,

	2007		2006	
Projected benefit obligation	\$	187.3	\$	177.6
Accumulated benefit obligation		187.3		177.6
Fair value of plan assets		198.5		187.5

F - 51

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

	December 31,	
	2007	2006
Discount rate	6.00%	5.75%
Weighted average expected long- term rate of return on plan assets	8.00%	8.25%

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

	Year Ended December 31,		
	2007	2006	2005
Discount rate	5.75%	5.75%	6.00%
Weighted average rate of increase in future compensation levels	-	-	6.10%
Weighted average expected long- term rate of return on plan assets	8.00%	8.25%	8.25%

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

Asset Category	December 31,	
	2007	2006
Equity securities	61.0%	62.0%
Debt securities	29.0%	29.0%
Real estate	10.0%	9.0%
Total	100.0%	100.0%

The following benefit payments are expected to be paid by the plan (in millions):

2008	\$	5.0
2009		5.6
2010		6.1
2011		7.0
2012		7.9
Years 2013 to 2017		51.8

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, as amended, (ERISA) by investing the funds in a manner consistent with ERISA's fiduciary standards. The weighted average expected long- term rate of return on plan assets assumption of 8.00% was determined based on a review of the asset allocation strategy of the plan using expected ten- year return assumptions for all of the asset classes in which the plan was invested at December 31, 2007. The ten- year return assumptions used in the valuation were based on data provided by the plan's external investment advisors.

In 2008, Gallagher does not anticipate making any contributions to the pension plan. This expected level of funding is based on the plan being frozen and overfunded at December 31, 2007. In addition, no minimum contribution is required to be made to the plan by Gallagher under the IRC. During 2007 and 2006, Gallagher did not make any contributions to the plan.

Gallagher also 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 5.0% of eligible compensation in 2007 and 2006; up to a maximum of 2.5% of eligible compensation in 2005) 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 \$23.2 million, \$20.8 million and \$9.5 million to the plan in 2007, 2006 and 2005, respectively.

Gallagher also has a nonqualified deferred compensation plan for certain employees who, due to IRS 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 or a future date. Gallagher's matching contributions to this plan are also at the discretion of Gallagher's Board of Directors. Gallagher contributed \$1.7 million, \$1.4 million and \$0.9 million to the plan in 2007, 2006 and 2005, respectively. The fair value of the plan's assets at December 31, 2007 and 2006 including employee contributions and investment earnings thereon, was \$68.8 million and \$59.3 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.

F - 52

Gallagher also has several foreign benefit plans, the largest of which is a defined contribution plan that provides for contributions by Gallagher of 5% of eligible compensation. In addition, the plan allows for voluntary contributions by U.K. employees, which are matched 100% by Gallagher, up to a maximum of an additional 5% of eligible compensation. Net expense for foreign retirement plans amounted to \$8.4 million, \$6.8 million and \$6.3 million in 2007, 2006 and 2005, respectively.

16. 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,			
	2007		2006	
Change in postretirement benefit obligation:				
Benefit obligation at beginning of year	\$	8.1	\$	8.0
Service cost		-		-
Interest cost		0.4		0.4
Net actuarial (gain) loss		0.1		(0.1)
Benefits paid		(0.1)		(0.2)
Benefit obligation at end of year	\$	8.5	\$	8.1
Change in plan assets:				
Fair value of plan assets at beginning of year	\$	-	\$	-
Actual return on plan assets		-		-
Contributions by Gallagher		0.1		0.2
Benefits paid		(0.1)		(0.2)
Fair value of plan assets at end of year	\$	-	\$	-
Funded status of the plan (underfunded)	\$	(8.5)	\$	(8.1)
Unrecognized net actuarial gain		(2.9)		(3.2)
Unrecognized transition obligation		2.6		3.1
Net amount recognized	\$	(8.8)	\$	(8.2)
Amounts recognized in the consolidated balance sheet consist of:				
Accrued benefit liability	\$	(8.5)	\$	(8.1)
Accumulated other comprehensive earnings		(0.3)		(0.1)
Net amount recognized	\$	(8.8)	\$	(8.2)

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

	Year Ended December 31,			
	2007		2006	
Service cost- benefits earned during the year	\$	-	\$	-
Interest cost on benefit obligation		0.4		0.5
Amortization of transition obligation		0.5		0.5
Amortization of net actuarial gain		(0.2)		(0.3)
Net periodic benefit cost	\$	0.7	\$	0.7

The discount rate used to measure the postretirement benefit obligation was 5.50% and 5.25% at December 31, 2007 and 2006, respectively. The discount rate used to measure the net periodic postretirement benefit cost at January 1 was 5.25% for 2007 and 2006, respectively. The transition obligation is being amortized at a rate of \$0.5 million per year over a twenty- year period ending on December 31, 2012.

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

	December 31,	
	2007	2006
Healthcare cost trend rate assumed for next year	9.00%	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year the rate reaches the ultimate trend rate	2011	2011

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 2007	\$ 0.1	\$ (0.1)
Effect on the postretirement benefit obligation at December 31, 2007	0.9	(0.8)

The following represents expected future benefit payments to be paid by the plan and contributions to be made by Gallagher (in millions):

	Prior to Reflecting Medicare Part D		After Reflecting Medicare Part D
2008	\$ 0.6	\$	0.6
2009	0.7		0.6
2010	0.7		0.6
2011	0.7		0.6
2012	0.7		0.6
Years 2013 to 2017	3.7		3.3

17. Commitments, Contingencies 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 8 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 the Note Purchase Agreement and Credit Agreement, investment related borrowings, operating leases and purchase commitments at December 31, 2007 were as follows (in millions):

Contractual Obligations	Payments Due by Period						Total
	2008	2009	2010	2011	2012	Thereafter	
Note Purchase Agreement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400.0	\$ 400.0
Credit Agreement	-	-	-	-	-	-	-
Investment related borrowings:							
Syn/Coal facility purchase note (1)	-	-	-	-	-	-	-
Total debt obligations	-	-	-	-	-	400.0	400.0
Operating lease obligations	61.3	52.7	46.0	39.1	29.2	44.6	272.9
Less sublease arrangements	(1.8)	(1.5)	(1.6)	(1.6)	(1.4)	(0.3)	(8.2)
Outstanding purchase obligations	8.4	1.9	0.6	0.6	0.4	-	11.9
Total contractual obligations	\$ 67.9	\$ 53.1	\$ 45.0	\$ 38.1	\$ 28.2	\$ 444.3	\$ 676.6

(1) The periodic payments under the Syn/Coal facility purchase note were deferred in 2007 and are due not later than January 15, 2009. The payment of this obligation is affected by the estimated substantial IRC Section 29 phase- out 2007. As a result of the phase- out, Gallagher currently estimates that no payments will be made related to this obligation.

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.

Note Purchase Agreement - On August 3, 2007, Gallagher entered into a Note Purchase Agreement with certain accredited institutional investors (the Purchasers), pursuant to which Gallagher issued and sold to the Purchasers \$100.0 million in aggregate principal amount of Gallagher's 6.26% Senior Notes, Series A, due August 3, 2014 and \$300.0 million in aggregate principal amount of Gallagher's 6.44% Senior Notes, Series B, due August 3, 2017 in a private placement. See Note 8 to the consolidated financial statements for a discussion of the terms of the Note Purchase Agreement.

Credit Agreement - Gallagher has a \$450.0 million Credit Agreement it uses to post LOCs and that it can use from time- to- time to borrow funds to supplement operating cash flows. At December 31, 2007, \$16.9 million of LOCs (of which Gallagher has \$10.3 million of liabilities recorded at December 31, 2007) were outstanding under the Credit Agreement, some of which related to Gallagher's investments as discussed in Note 3 to the consolidated financial statements. There were no borrowings outstanding under the Credit Agreement at December 31, 2007. Accordingly, at December 31, 2007, \$433.1 million remained available for potential borrowings, of which \$108.1 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 8 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, the accompanying consolidated balance sheet includes no investment related borrowings at December 31, 2007 and \$34.8 million at December 31, 2006, none of which is recourse to Gallagher.

Operating Lease Obligations - Gallagher's executive offices and certain subsidiary and branch facilities are located at Two Pierce Place, Itasca, Illinois, where Gallagher leases approximately 306,000 square feet of space, or approximately 60% of the building. The lease commitment on this property expires February 28, 2018. Gallagher had a 60% ownership interest in a real estate limited partnership that, prior to December 7, 2006, owned the Two Pierce Place property. On December 7, 2006, the real estate partnership sold Gallagher's home office land and building. Prior to December 7, 2006, this investment was consolidated into Gallagher's consolidated financial statements.

Gallagher generally operates in leased premises at its other locations. 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 which are 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 \$72.0 million in 2007, \$66.3 million in 2006 and \$62.4 million in 2005.

Gallagher has leased certain office space to several non- Gallagher tenants under operating sublease arrangements. In the normal course of business, Gallagher expects that the leases will not be renewed or replaced. 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 contractual obligations table above.

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 contractual obligations table above represents the aggregate amount of unrecorded purchase obligations that Gallagher had outstanding at December 31, 2007. 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 and funding commitments at December 31, 2007 were as follows (in millions):

Off- Balance Sheet Commitments	Amount of Commitment Expiration by Period						Total Amounts Committed
	2008	2009	2010	2011	2012	Thereafter	
Investment related:							
Letters of credit	\$	-	\$	-	\$	-	\$
						16.9	\$
							16.9
Funding commitments							
		0.5	0.2	-	-	-	
						0.6	1.3
Total commitments	\$	0.5	\$	0.2	\$	-	\$
						17.5	\$
							18.2

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 to the consolidated financial statements for a discussion of Gallagher's outstanding LOCs and funding commitments related to its Financial Services Segment and the Off- Balance Sheet Debt section below for a discussion of other LOCs. All of the LOCs represent multiple year commitments and have annual, automatic renewing provisions and are classified by the latest commitment date. Since January 1, 2002, Gallagher has acquired eighty- five 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 2007 acquisitions are disclosed in Note 4 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 additional goodwill when the earnouts are settled. The aggregate amount of unrecorded earnout payables outstanding at December 31, 2007 was \$134.8 million related to acquisitions made by Gallagher in the period from 2004 to 2007.

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, as 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 were not consolidated in Gallagher's consolidated balance sheet at December 31, 2007 and 2006. However, the December 31, 2007 and 2006 balance sheets of these unconsolidated investments do not contain any amounts of outstanding debt that are recourse to Gallagher. At December 31, 2007, Gallagher has posted a \$4.4 million LOC related to the reclamation of a former coal production site, for which it had a recorded liability of \$4.4 million. At December 31, 2007, Gallagher had posted two LOCs totaling \$6.8 million in the aggregate related to Gallagher's self- insurance deductibles, for which it had a recorded liability of \$5.9 million. Gallagher has an equity investment in a rent- a- captive facility, formed in 1997, which Gallagher uses as a placement facility for certain of its insurance brokerage operations. At December 31, 2007, Gallagher had posted \$5.7 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.

Gallagher's commitments associated with outstanding LOCs and funding commitments at December 31, 2007 were as follows (all dollar amounts in table are in millions):

Description, Purpose and Trigger	Collateral	Compensation to Gallagher	Maximum Exposure	Liability Recorded
Alternative energy investments				
Funding commitment to a multi- pollutant reduction venture - expires 2008	None	None	\$ 0.5	\$ -
Trigger - Agreed conditions met				
Real estate, venture capital and other investments				
"Reclamation" collateral (LOC) for land owned by Gallagher - expires after reclamation	(1)	None	4.4	4.4
Trigger - Activities cease and Gallagher does not proceed with the reclamation process				
Funding commitments to two funds- expires 2013	None	None	0.8	-
Trigger - Agreed conditions met				
Other				
Credit support (LOC) for deductibles due by Gallagher on its own insurance coverages - expires after 2012	None	None	6.8	5.9
Trigger - Gallagher does not reimburse the insurance company for deductibles the insurance company advances on behalf of Gallagher				
Credit enhancement (LOC) for Gallagher's Bermuda captive insurance operation to meet minimum statutory capital requirements - expires after 2012	(2)	Reimbursement of LOC fees	3.7	-
Trigger - Dissolution or catastrophic financial results of the operation				
Credit support (LOC) for clients' claim funds held by Gallagher's Bermuda captive insurance operation in a fiduciary capacity - expires after 2012	None	Reimbursement of LOC fees	2.0	-
Trigger - Investments fall below prescribed levels				
			\$ 18.2	\$ 10.3

(1) Specific parcels of land.

(2) The majority owners of the operation pledge their percentage ownership portion of any draw.

See Management's Discussion and Analysis of Financial Condition and Results of Operations section of Gallagher's 2007 Annual Report 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 Note 3 to the consolidated financial statements, at December 31, 2007, Gallagher had LOCs and funding commitments related to its investments.

Litigation - Gallagher is engaged in various legal actions related to claims, lawsuits and proceedings, a summary of which is as follows:

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 various large insurance brokerage firms and 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." Since fourth quarter 2004, similar purported class actions have been filed alleging claims similar to those alleged by the plaintiff in the OptiCare litigation and such cases have been included in a Multi-District Litigation (MDL) proceeding before the U.S. District Court for the District of New Jersey. On October 3, 2007, the U.S. District Court for the District of New Jersey entered orders dismissing, with prejudice, the Federal antitrust and RICO claims and dismissing, without prejudice, the state claims made in the MDL amended complaints. On October 10, 2007, the plaintiffs filed a notice of appeal to these orders.

On December 29, 2006 Gallagher reached an agreement to resolve all claims in the MDL (the MDL Settlement). On September 4, 2007, the court granted final approval of the MDL Settlement. The MDL Settlement provides for Gallagher to distribute \$28.0 million to current and former clients and others that purchased retail insurance through Gallagher or other brokers named as defendants in the MDL during the period beginning on August 26, 1994 and ending on December 31, 2005. A notice of appeal has been filed challenging the final approval of the MDL Settlement. Gallagher also agreed to pay up to \$8.9 million in attorney fees, of which Gallagher paid \$8.6 million in November 2007.

Gallagher's former Chief Financial Officer (Former CFO) filed a lawsuit against Gallagher in the Chancery Division of the Circuit Court of Cook County, Illinois on May 23, 2006, alleging Gallagher's breach and/or anticipatory breach of the Former CFO's employment agreement and bonus deferral agreement due to Gallagher's purported refusal to pay the Former CFO certain salary, bonus and other amounts. Gallagher denies the Former CFO's claims.

In addition, Gallagher is engaged in various other legal actions incident to the nature of its business. Gallagher believes it has meritorious defenses and intends to defend itself vigorously in all unresolved legal actions. However, neither the outcomes of these legal actions nor their effect upon Gallagher's business, financial condition or results of operations can be predicted at this time.

Contingent Commissions and Other Industry Developments - The insurance industry continues to be subject to a significant level of scrutiny by various regulatory bodies, including State Attorneys General and departments of insurance, with respect to certain contingent commission arrangements (generally known as contingent commission or placement service agreements) between insurance brokers and insurance carriers.

On May 18, 2005, Gallagher and its subsidiaries and affiliates, except for Gallagher Bassett Services, Inc., entered into an Assurance of Voluntary Compliance (the AVC) with the Attorney General of the State of Illinois and the Director of Insurance of the State of Illinois (collectively, the IL State Agencies) to resolve all of the issues related to certain investigations conducted by the IL State Agencies involving contingent commission arrangements. A copy of the AVC was previously disclosed as an exhibit to Gallagher's Current Report on Form 8-K dated May 18, 2005.

As has been described in detail in Gallagher's previous filings, the AVC required Gallagher to pay \$26.9 million into a fund (the Fund) to be distributed to certain eligible policyholder clients. These payments are in full satisfaction of Gallagher's obligations under the AVC and the IL State Agencies have agreed not to impose any other financial obligation or liability on Gallagher in connection with their investigations. No portion of the payments by Gallagher is considered a fine or penalty. At December 31, 2007, \$8.6 million remained in the Fund, which is available to satisfy existing and future AVC related claims and other potential settlement obligations as allowed by the AVC. Gallagher intends to use all of the remaining AVC funds to satisfy part of its MDL Settlement obligation.

On or before December 31, 2005, Gallagher undertook certain changes to its business practices, including agreeing not to accept any contingent compensation from an insurer in connection with any retail insurance policy covering U.S. clients or risks other than as provided in the AVC. In addition, the AVC provides that Gallagher shall not take or receive any material compensation or consideration from an insurer other than as provided in the AVC. As allowed under the AVC, Gallagher has continued to accept contingent compensation in connection with its international operations and certain non-retail business, including business generated by wholesalers, managing general agents and managing general underwriters. In addition, the AVC allows Gallagher to collect retail contingent compensation related to contracts in place at entities acquired by Gallagher for up to three years from the date of each such acquisition.

In 2005, Gallagher recorded a pretax charge of \$73.6 million (\$44.2 million after tax) in connection with the regulatory and legal actions by the State Attorneys General and private litigants related to contingent commissions and various other historical business practices discussed above. Gallagher continues to be the subject of a number of state investigations concerning various historical business practices in the insurance industry. In 2006, Gallagher recorded a pretax charge of

\$9.0 million (\$5.2 million after tax) to increase its reserve for the costs to be incurred to administratively conclude the MDL Settlement and to resolve other regulatory matters and investigations.

Gallagher Bassett Services, Inc., a third party administrator and a wholly- owned subsidiary of Gallagher, has received subpoenas from the Offices of the Attorney General of the States of New York, Connecticut and Illinois. The subpoenas request information in connection with separate investigations being conducted by each state and none of the subpoenas relates to Gallagher's brokerage operations. Gallagher is fully cooperating with these investigations.

Gallagher continues to be the subject of state investigations concerning various historical business practices in the insurance industry and is fully cooperating with these investigations.

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. Gallagher currently retains the first \$5.0 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 that rely heavily on projecting historical claim data into the future.

Gallagher's E&O reserve in the December 31, 2007 consolidated balance sheet is above the lower end of the most recently determined actuarial range by \$2.0 million and below the upper end of the actuarial range by \$5.0 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.

18. 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 from continuing operations before income taxes and the provision (benefit) for income taxes are as follows (in millions):

	Year Ended December 31,		
	2007	2006	2005
Earnings (loss) from continuing operations before income taxes:			
Domestic	\$ 172.3	\$ 142.3	\$ 15.1
Foreign, principally United Kingdom, Australia and Bermuda	27.8	12.2	(2.2)
	\$ 200.1	\$ 154.5	\$ 12.9
Provision (benefit) for income taxes- continuing operations:			
Federal:			
Current	\$ 21.7	\$ 39.9	\$ 42.7
Deferred	2.9	(31.4)	(72.3)
	24.6	8.5	(29.6)
State and local:			
Current	12.0	9.8	11.5
Deferred	2.3	1.5	(9.4)
	14.3	11.3	2.1
Foreign:			
Current	8.8	1.5	6.0
Deferred	(2.2)	4.8	(4.7)
	6.6	6.3	1.3
Total provision (benefit) for income taxes- continuing operations	\$ 45.5	\$ 26.1	\$ (26.2)

A reconciliation of the provision (benefit) for income taxes from continuing operations with the U.S. Federal income tax rate is as follows (in millions):

	Year Ended December 31,					
	2007		2006		2005	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Federal statutory rate	\$ 70.0	35.0	\$ 54.1	35.0	\$ 4.5	35.0
State income taxes-net of						
Federal benefit	8.9	4.4	7.3	4.7	1.4	NMF
Foreign taxes	(3.2)	(1.6)	2.0	1.3	2.2	NMF
Low income housing and alternative energy tax credits	(28.2)	(14.1)	(50.1)	(32.4)	(53.6)	NMF
Amortization expense of low income housing, net of tax benefit	-	-	0.3	0.2	0.3	NMF
Foreign dividends and other permanent differences	1.3	0.6	0.9	0.6	3.7	NMF
Stock compensation	0.6	0.3	0.7	0.5	0.6	NMF
Impact of sale of the airplane leasing company	-	-	4.3	2.8	-	NMF
Net change in uncertain tax positions	(5.9)	(2.9)	8.9	5.7	15.5	NMF
Other	2.0	1.0	(2.3)	(1.5)	-	NMF
Foreign tax credit	-	-	-	-	(1.9)	NMF
IRC Section 965 dividend	-	-	-	-	1.1	NMF
Provision (benefit) for income taxes-continuing operations	\$ 45.5	22.7	\$ 26.1	16.9	\$ (26.2)	NMF

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in millions):

Gross unrecognized tax benefits at January 1, 2007	\$ 67.2
Increases in tax positions for prior years	2.3
Decreases in tax positions for prior years	(7.7)
Increases in tax positions for current year	7.7
Settlements	(4.3)
Lapse in statute of limitations	(9.5)
Gross unrecognized tax benefits at December 31, 2007	\$ 55.7

The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$50.0 million at December 31, 2007.

Gallagher accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. At December 31, 2007, Gallagher had accrued interest and penalties related to unrecognized tax benefits of \$6.0 million.

Gallagher and its subsidiaries file income tax returns in the U.S. and in various state, local and foreign jurisdictions. Gallagher and its subsidiaries are routinely examined by tax authorities in these jurisdictions. At December 31, 2007, Gallagher had been examined by the Internal Revenue Service (IRS) through calendar year 2004. During third quarter 2007, the IRS initiated an examination of Gallagher's Federal income tax return for the calendar year 2005. In addition, a number of state and local examinations are currently ongoing. It is possible that these examinations may be resolved within twelve months. Due to the potential for resolution of Federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible that Gallagher's gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to \$12.0 million.

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,	
	2007	2006
Deferred tax assets:		
Alternative minimum tax (AMT) and other credit carryforwards	\$ 163.0	\$ 156.6
Accrued and unfunded compensation and employee benefits	43.5	39.1
Compensation expense related to stock options	14.8	10.5
Litigation and contingent commission related matters	52.4	59.5
Investment- related partnerships	28.9	37.1
Accrued liabilities	27.3	32.4
Other	13.1	10.8
Total deferred tax assets	343.0	346.0
Valuation allowance for deferred tax assets	-	-
Deferred tax assets	343.0	346.0
Deferred tax liabilities:		
Nondeductible amortizable intangible assets	29.8	23.1
Prepaid pension cost	2.4	3.4
Accrued liabilities	1.8	3.1
Other prepaid items	3.9	-
Investment- related partnerships	4.8	4.1
Total deferred tax liabilities	42.7	33.7
Net deferred tax assets	\$ 300.3	\$ 312.3

At December 31, 2007 and 2006, \$50.4 million and \$59.2 million, respectively, of deferred tax assets have been included in other current assets in the accompanying consolidated balance sheet. At December 31, 2007 and 2006, \$42.7 million and \$33.7 million, respectively, of deferred tax liabilities have been included in other current and noncurrent liabilities in the accompanying consolidated balance sheet. AMT credits and other credits have an indefinite and twenty year life, respectively. Gallagher expects to fully utilize the amounts carried forward.

Gallagher does not provide for U.S. Federal income taxes on the undistributed earnings (\$53.5 million at December 31, 2007) of foreign subsidiaries which are considered permanently invested outside of the U.S. The amount of unrecognized deferred tax liability on these undistributed earnings was \$13.4 million at December 31, 2007.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Jobs Act) was signed into law. The Jobs Act provided for a special one- time opportunity for Gallagher to repatriate foreign earnings at a maximum rate of 5.25%. In 2005, Gallagher repatriated \$29.5 million from its foreign subsidiaries. Accordingly, in 2005, Gallagher recorded income tax expense of \$1.1 million related to the repatriation under the Jobs Act.

19. Quarterly Operating Results (unaudited)

Quarterly operating results for 2007 and 2006 were as follows (in millions, except per share data):

	1st	2nd	3rd	4th
2007				
Total revenues	\$ 375.0	\$ 427.6	\$ 410.7	\$ 410.0
Total expenses	351.2	367.6	344.3	360.1
Earnings from continuing operations before income taxes	\$ 23.8	\$ 60.0	\$ 66.4	\$ 49.9
Earnings from continuing operations	\$ 21.3	\$ 45.8	\$ 52.4	\$ 35.1
Earnings (loss) from discontinued operations	(1.5)	(2.0)	(0.6)	(11.7)
Net earnings	\$ 19.8	\$ 43.8	\$ 51.8	\$ 23.4
Basic net earnings per share:				
Earnings from continuing operations	\$ 0.21	\$ 0.47	\$ 0.56	\$ 0.38
Earnings (loss) from discontinued operations	(0.01)	(0.02)	(0.01)	(0.13)
Net earnings	\$ 0.20	\$ 0.45	\$ 0.55	\$ 0.25
Diluted net earnings per share:				
Earnings from continuing operations	\$ 0.21	\$ 0.46	\$ 0.54	\$ 0.37
Earnings (loss) from discontinued operations	(0.01)	(0.02)	-	(0.12)
Net earnings	\$ 0.20	\$ 0.44	\$ 0.54	\$ 0.25
2006				
Total revenues	\$ 311.0	\$ 355.7	\$ 404.7	\$ 398.7
Retail contingent commission related matters	-	-	-	9.0
Other expenses	283.4	307.3	345.0	370.9
Total expenses	283.4	307.3	345.0	379.9
Earnings from continuing operations before income taxes	\$ 27.6	\$ 48.4	\$ 59.7	\$ 18.8
Earnings from continuing operations	\$ 15.9	\$ 36.8	\$ 49.1	\$ 26.6
Earnings (loss) from discontinued operations	1.2	(0.2)	1.1	(2.0)
Net earnings	\$ 17.1	\$ 36.6	\$ 50.2	\$ 24.6
Basic net earnings per share:				
Earnings from continuing operations	\$ 0.17	\$ 0.38	\$ 0.51	\$ 0.27
Earnings (loss) from discontinued operations	0.01	-	0.01	(0.02)
Net earnings	\$ 0.18	\$ 0.38	\$ 0.52	\$ 0.25
Diluted net earnings per share:				
Earnings from continuing operations	\$ 0.16	\$ 0.37	\$ 0.50	\$ 0.27
Earnings (loss) from discontinued operations	0.01	-	0.01	(0.02)
Net earnings	\$ 0.17	\$ 0.37	\$ 0.51	\$ 0.25

See Note 5 to the consolidated financial statements for a discussion on the amounts reclassified to discontinued operations related to Gallagher's global reinsurance and Irish wholesale brokerage businesses. Accordingly, in fourth quarter 2007, Gallagher reclassified the previously reported 2007 and 2006 quarterly operating results for these discontinued operations.

20. Segment Information

Gallagher has identified three operating segments: Brokerage, Risk Management and Financial Services.

The Brokerage Segment comprises two operating divisions: Retail Insurance Brokerage and Wholesale Insurance Brokerage. The Brokerage Segment generates revenues through commissions paid by insurance underwriters and through fees charged to its clients. Gallagher's brokers, agents and administrators act as intermediaries between insurers and their customers and Gallagher does not assume underwriting risks.

The Risk Management Segment provides claim settlement and administration services for enterprises that choose to self-insure some or all of their P/C coverages and for insurance companies that choose to outsource some or all of their P/C claims departments. These operations also provide claims management, loss control consulting and insurance property appraisal services. Revenues are generally generated on a negotiated per-claim or per-service fee basis.

The Financial Services Segment manages Gallagher's interests in tax- advantaged and clean- energy investments as well as its equity ownership position in an alternative investment fund manager that has ownership interests in private investment management firms. Allocations of investment income and certain expenses are based on reasonable assumptions and estimates primarily using revenue, headcount and other information. Gallagher allocates the provision for income taxes to the Brokerage and Risk Management Segments as if those segments were preparing income tax provisions on a separate company basis. As a result, the provision for income taxes for the Financial Services Segment reflects the entire benefit to Gallagher of the IRC Section 29- related credits because that is the segment which produces the credits. Reported operating results by segment would change if different allocation methods were applied.

Financial information relating to Gallagher's segments for 2007, 2006 and 2005 is as follows (in millions):

	Brokerage		Risk Management		Financial Services		Total
Year Ended December 31, 2007							
Revenues:							
Commissions	\$	863.2	\$	-	\$	-	\$ 863.2
Retail contingent commissions		4.1		-		-	4.1
Fees		216.8		439.4		-	656.2
Investment income - Brokerage and Risk Management		30.1		4.1		-	34.2
Investment income - Financial Services		-		-		62.4	62.4
Investment income gains		-		-		3.2	3.2
Total revenues		1,114.2		443.5		65.6	1,623.3
Compensation		655.9		255.7		-	911.6
Operating		229.9		112.1		-	342.0
Investment expenses		-		-		95.0	95.0
Interest		-		-		16.0	16.0
Depreciation		16.1		11.2		2.0	29.3
Amortization		28.8		0.5		-	29.3
Retail contingent commissions related matters		-		-		-	-
Total expenses		930.7		379.5		113.0	1,423.2
Earnings (loss) from continuing operations before income taxes		183.5		64.0		(47.4)	200.1
Provision (benefit) for income taxes		71.2		24.4		(50.1)	45.5
Earnings from continuing operations	\$	112.3	\$	39.6	\$	2.7	\$ 154.6
Net foreign exchange gain (loss)	\$	0.6	\$	1.0	\$	-	\$ 1.6
Revenues:							
United States	\$	986.7	\$	375.3	\$	63.9	\$ 1,425.9
Foreign, principally Australia, Bermuda, Canada and the United Kingdom		127.5		68.2		1.7	197.4
Total revenues	\$	1,114.2	\$	443.5	\$	65.6	\$ 1,623.3
At December 31, 2007							
Identifiable assets:							
United States	\$	2,168.2	\$	278.9	\$	470.5	\$ 2,917.6
Foreign, principally Australia, Bermuda, Canada and the United Kingdom		562.8		73.6		2.8	639.2
Total identifiable assets	\$	2,731.0	\$	352.5	\$	473.3	\$ 3,556.8

Goodwill - net	\$	431.1	\$	9.5	\$	-	\$	440.6
Amortizable intangible assets - net		312.5		3.1		-		315.6

F - 63

	Brokerage		Risk Management		Financial Services		Total	
Year Ended								
December 31, 2006								
Revenues:								
Commissions	\$	790.4	\$	-	\$	-	\$	790.4
Retail contingent commissions		2.5		-		-		2.5
Fees		186.4		397.3		-		583.7
Investment income - Brokerage and Risk Management		27.5		4.0		-		31.5
Investment income - Financial Services		-		-		87.1		87.1
Investment income gains		-		-		(25.1)		(25.1)
Total revenues		1,006.8		401.3		62.0		1,470.1
Compensation		602.8		235.9		-		838.7
Operating		201.5		102.1		-		303.6
Investment expenses		-		-		103.7		103.7
Interest		-		-		8.5		8.5
Depreciation		14.1		9.5		7.3		30.9
Amortization		20.7		0.5		-		21.2
Retail contingent commissions related matters		9.0		-		-		9.0
Total expenses		848.1		348.0		119.5		1,315.6
Earnings (loss) from continuing operations before income taxes		158.7		53.3		(57.5)		154.5
Provision (benefit) for income taxes		66.0		21.3		(61.2)		26.1
Earnings (loss) from continuing operations	\$	92.7	\$	32.0	\$	3.7	\$	128.4
Net foreign exchange gain (loss)	\$	1.8	\$	0.2	\$	-	\$	2.0
Revenues:								
United States	\$	904.3	\$	346.7	\$	63.6	\$	1,314.6
Foreign, principally Australia, Bermuda and the United Kingdom		102.5		54.6		(1.6)		155.5
Total revenues	\$	1,006.8	\$	401.3	\$	62.0	\$	1,470.1
At December 31, 2006								
Identifiable assets:								
United States	\$	2,012.9	\$	247.9	\$	502.0	\$	2,762.8
Foreign, principally Australia, Bermuda and the United Kingdom		567.7		60.3		29.3		657.3
Total identifiable assets	\$	2,580.6	\$	308.2	\$	531.3	\$	3,420.1
Goodwill - net	\$	307.1	\$	9.5	\$	-	\$	316.6
Amortizable intangible assets - net		209.5		3.6		-		213.1

F - 64

	Brokerage	Risk Management	Financial Services	Total
Year Ended December 31, 2005				
Revenues:				
Commissions	\$ 733.4	\$ -	\$ -	\$ 733.4
Retail contingent commissions	28.8	-	-	28.8
Fees	166.9	367.7	-	534.6
Investment income - Brokerage and Risk Management	16.7	2.9	-	19.6
Investment income - Financial Services	-	-	108.9	108.9
Investment income gains	-	-	3.6	3.6
Total revenues	945.8	370.6	112.5	1,428.9
Compensation	544.7	205.9	-	750.6
Operating	206.7	88.2	-	294.9
Investment expenses	-	-	104.9	104.9
Interest	-	-	11.6	11.6
Depreciation	12.7	7.7	11.4	31.8
Amortization	17.2	0.4	-	17.6
Litigation related matters	-	-	131.0	131.0
Retail contingent commissions related matters	73.6	-	-	73.6
Total expenses	854.9	302.2	258.9	1,416.0
Earnings (loss) from continuing operations before income taxes	90.9	68.4	(146.4)	12.9
Provision (benefit) for income taxes	47.4	28.1	(101.7)	(26.2)
Earnings (loss) from continuing operations	\$ 43.5	\$ 40.3	\$ (44.7)	\$ 39.1
Net foreign exchange gain (loss)	\$ (2.0)	\$ (0.1)	\$ -	\$ (2.1)
Revenues:				
United States	\$ 855.1	\$ 335.1	\$ 109.8	\$ 1,300.0
Foreign, principally Australia, Bermuda and the United Kingdom	90.7	35.5	2.7	128.9
Total revenues	\$ 945.8	\$ 370.6	\$ 112.5	\$ 1,428.9
At December 31, 2005				
Identifiable assets:				
United States	\$ 1,927.7	\$ 239.8	\$ 569.7	\$ 2,737.2
Foreign, principally Australia, Bermuda and the United Kingdom	570.8	44.6	36.9	652.3
Total identifiable assets	\$ 2,498.5	\$ 284.4	\$ 606.6	\$ 3,389.5
Goodwill - net	\$ 236.2	\$ 9.5	\$ -	\$ 245.7
Amortizable intangible assets - net	168.2	4.2	-	172.4

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, 2007 and 2006, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

During 2006, Gallagher changed its method of accounting for the recognition of stock- based compensation expense and the recognition of the funded status of its defined benefit pension and postretirement plans, which has been discussed in Notes 1 and 2 to the consolidated financial statements, respectively.

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, 2007, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 1, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP

Chicago, Illinois
February 1, 2008

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 Rule 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 2007 of Fishermans Insurance Services, Inc., Lowndes Lambert Group Canada, Ltd., The Producer's Choice, Inc., ISG International Inc., Melton Insurance Associates, Inc., Carpenter, Cammack & Associates, Inc., Cedar Hill Insurance Agency, Inc., Powell Insurance Agency, Inc., Robert A. Schneider Agency, Inc., Intermountain Financial Benefits, Koster Insurance Agency, Inc. and AVRECO, which are included in the 2007 consolidated financial statements of Gallagher. Collectively, these acquisitions constituted approximately 2.4% of total assets as of December 31, 2007 and approximately 2.0% of total revenues and 2.5% of earnings from continuing operations 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, 2007. In addition, the effectiveness of Gallagher's internal control over financial reporting as of December 31, 2007 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
February 1, 2008

/s/ J. Patrick Gallagher, Jr.
J. Patrick Gallagher, Jr.
Chairman, President and Chief Executive 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 the internal control over financial reporting of Arthur J. Gallagher & Co. (Gallagher) as of December 31, 2007, 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 of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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 U.S. 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 U.S. 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 Fishermans Insurance Services, Inc., Lowndes Lambert Group Canada, Ltd., The Producer's Choice, Inc., ISG International Inc., Melton Insurance Associates, Inc., Carpenter, Cammack & Associates, Inc., Cedar Hill Insurance Agency, Inc., Powell Insurance Agency, Inc., Robert A. Schneider Agency, Inc., Intermountain Financial Benefits, Koster Insurance Agency, Inc. and AVRECO, which are included in the 2007 consolidated financial statements of Gallagher. Collectively, these acquisitions constituted approximately 2.4% of total assets as of December 31, 2007 and approximately 2.0% of total revenues and 2.5% of earnings from continuing operations 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 2007. 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, Gallagher maintained in all material respects, effective internal control over financial reporting as of December 31, 2007, 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, 2007 and 2006 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007 and our report dated February 1, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP

Chicago, Illinois
February 1, 2008

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 Service Company	Delaware
Arthur J. Gallagher & Co. (Illinois)	Illinois
Gallagher Mauritius Holdings	India
Gallagher Offshore Support Services Private Limited	India
Arthur J. Gallagher Brokerage & Risk Management Services, LLC	Delaware
Arthur J. Gallagher Risk Management Services, Inc.	Illinois
Gallagher Healthcare Insurance Services of Kansas City, LLC ⁽¹⁾	Missouri
Arthur J. Gallagher & Co. of New York, Inc.	New York
Arthur J. Gallagher & Co. Insurance Brokers of California, Inc.	California
Charity First Insurance Services, Inc.	California
Lamberson Koster & Company	California
Manning & Smith Insurance, Inc.	Kansas
Commonwealth Premium Finance Corporation	Kentucky
Artex Risk Solutions, Inc.	Delaware
Western Litigation, Inc.	Texas
Arthur J. Gallagher & Co. (Canada) Ltd.	Canada
AJG Canada ULC	Canada
AJG North America ULC	Canada
Gallagher Lambert Group	Canada
Risk Placement Services, Inc.	Illinois
Edwin M. Rollins Company	North Carolina
Risk Placement Services of Nevada, Inc.	Nevada
Arthur J. Gallagher & Co. (Bermuda) Limited	Bermuda
Arthur J. Gallagher Intermediaries (Bermuda) Limited	Bermuda
Arthur J. Gallagher Management (Bermuda) Limited	Bermuda
Artex Risk Solutions, Inc. (Cayman) Limited	Cayman Islands
SEG Insurance Ltd. ⁽²⁾	Bermuda
Artex Intermediaries Ltd.	Bermuda
Artex Risk Solutions (Bermuda) Ltd.	Bermuda
Protected Insurance Company Ltd.	Bermuda
Gallagher Holdings (UK) Limited	England
Arthur J. Gallagher (UK) Limited	England
Gallagher Re Limited	England
Re- Ex Ltd.	England
Strand Underwriting Limited	England
Arthur J. Gallagher Middle East BSC(c) ⁽³⁾	Bahrain
Risk Management Partners Ltd.	England
Arthur J. Gallagher Asia Pte Ltd	Singapore
Arthur J. Gallagher Asia Limited	Hong Kong
Arthur J. Gallagher Asia (L) BHD	Malaysia
Connor Hale Kerslake Limited	England
Arthur J. Gallagher Australasia Holdings Pty Ltd	Australia
Australis Group (Underwriting) Pty Ltd	Australia
Interpacific Underwriting Agencies Pty Ltd	Australia
Arthur J. Gallagher (Aus) Pty Ltd	Australia
Arthur J. Gallagher Reinsurance Australasia Pty Ltd	Australia

Name	State or Other Jurisdiction of Incorporation
Gallagher Re, Inc.	Delaware
Gallagher Bassett Services, Inc.	Delaware
Gallagher Bassett of New York, Inc.	New York
Gallagher Bassett International Ltd. (UK)	England
Gallagher Bassett Canada Inc.	Canada

Gallagher Bassett Services Pty Ltd	Australia
Gallagher Bassett Workers Compensation Victoria Pty Ltd	Australia
Gallagher Bassett International S.A.	France
AJG Financial Services, Inc.	Delaware
AJG Capital, Inc.	Illinois
AJG Investments, Inc.	Delaware
AJG Coal, Inc.	Delaware
AJG Chem Mod Holdings LLC.	Delaware
Gallagher Holdings Bermuda Company Limited	Bermuda
MG Advanced Coal Technologies- 1 LLC	Delaware
Advanced Energy Systems LLC ⁽⁴⁾	Delaware
AJG Coal Indiana LLC	Delaware
AJG Two Pierce, Inc.	Delaware
Gallagher Benefit Services, Inc.	Delaware
GBS Retirement Services, Inc.	New York
GBS Insurance and Financial Services, Inc.	Delaware
GBS Administrators, Inc.	Washington
GBS Investment Consulting, LLC	Delaware

- (1) 49% of the Common Stock of this subsidiary is owned by a third party.
- (2) 76% of the Common Stock of this subsidiary is owned by two third parties.
- (3) 49% of the Common Stock of this subsidiary is owned by a third party.
- (4) 15% of the Membership Interests of this subsidiary is owned by an unrelated 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 February 1, 2008, on the consolidated financial statements and on internal control over financial reporting, included in Gallagher's 2007 Annual Report to Stockholders.

Our audits also included the consolidated financial statement schedule of Gallagher listed in Item 15(2)(a). 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- 3, No. 333- 84139, Form S- 4, No. 333- 55254, Form S- 4, No. 333- 75197 and Form S- 4, No. 333- 84896), and in the related Prospectuses, of our reports dated February 1, 2008 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, 2007.

/s/ Ernst & Young LLP

Ernst & Young LLP

Chicago, Illinois
February 1, 2008

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell his true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ WILLIAM L. BAX

William L. Bax

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell his true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ T. KIMBALL BROOKER

T. Kimball Brooker

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell his true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ GARY P. COUGHLAN

Gary P. Coughlan

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell her true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ ILENE S. GORDON

Ilene S. Gordon

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell his true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ ELBERT O. HAND

Elbert O. Hand

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell his true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ DAVID S. JOHNSON

David S. Johnson

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell her true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ KAY W. McCURDY

Kay W. McCurdy

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell his true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/s/ NORMAN L. ROSENTHAL

Norman L. Rosenthal

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Walter D. Bay and Douglas K. Howell his true and lawful attorneys- in- fact and agents, 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, 2007 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 attorneys- in- fact and agents 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 attorneys- in- fact and agents, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of this 1st day of February, 2008.

/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 U.S. 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: February 1, 2008

/s/ J. Patrick Gallagher, Jr.
J. Patrick Gallagher, Jr.
Chairman, 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 U.S. 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: February 1, 2008

/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, 2007 (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: February 1, 2008

/s/ J. Patrick Gallagher, Jr.

J. Patrick Gallagher, Jr.
Chairman, 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, 2007 (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: February 1, 2008

/s/ Douglas K. Howell

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