GALLAGHER ARTHUR J & CO
Form 424B3
June 06, 2013
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PROSPECTUS

6,000,000 Shares of Common Stock

This prospectus relates to 6,000,000 shares of our common stock that we may offer and issue from time to time in connection with future acquisitions of other businesses, assets or securities.

We will determine the amount and type of consideration to be offered and the other specific terms of each acquisition following negotiation with the owners or controlling persons of the businesses, assets or securities to be acquired. The consideration for any such acquisition may consist of shares of our common stock or a combination of common stock, cash, notes or assumption of liabilities. We may structure business acquisitions in a variety of ways, including acquiring stock, other equity interests or assets of the acquired business or merging the acquired business with us or one of our subsidiaries. We expect that the shares of common stock issued in connection with these transactions will be valued at a price reasonably related to the market value of our common stock either at the time an agreement is reached regarding the terms of the acquisition, at the time we issue the shares, or during some other negotiated period. Persons to whom we issue our common stock under this prospectus may also use this prospectus to resell the common stock. We have not fixed a period of time during which the common stock offered by this prospectus may be offered or sold.

We may also issue shares of common stock upon the exercise of options, warrants, convertible securities or other similar securities assumed or issued by us from time to time in connection with these transactions.

We will pay all expenses of this offering. We will not pay underwriting discounts or commissions in connection with issuing these shares, although we may pay finder s fees in specific acquisitions. Any person receiving a finder s fee may be deemed an underwriter within the meaning of the Securities Act of 1933, as amended.

Our common stock is traded on the New York Stock Exchange under the symbol AJG. On May 14, 2013, the last reported per share sale price of our common stock was $45.20.

Investing in our common stock involves risk. You should carefully consider the Risk Factors beginning on page 5 in determining whether to accept stock as all or part of the purchase price for our acquisition of your business, securities or other assets.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 6, 2013.

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This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. We will provide, without charge upon written or oral request, a copy of any or all of the documents incorporated by reference in this prospectus. Direct any such requests to: General Counsel, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141 (telephone number (630) 773-3800). **To obtain timely delivery, you must request the information no later than five business days before the date that you must make your investment decision**.

You should rely only on information contained in this prospectus or any prospectus supplement. We have not authorized anyone to give you any information or make any representation about us that is different from, or in addition to, that contained in this prospectus or

any prospectus supplement. If anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this prospectus speaks only as of the date of this document, unless the information specifically indicates that another date applies.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. They use words such as anticipate, believe, estimate, expect, contemplate, forecast, project, intend, plan, potential, and other similar terms, and future or conditional tense verbs like could, may, might, see, and would. You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. For example, we may use forward-looking statements when addressing topics such as: market and industry conditions, including competitive and pricing trends; acquisition strategy; the expected impact of acquisitions and dispositions; the development and performance of our services and products; changes in the composition or level of our revenues or earnings; our cost structure and the outcome of cost-saving or restructuring initiatives; the outcome of contingencies; dividend policy; pension obligations; cash flow and liquidity; capital structure and financial losses; future actions by regulators; the impact of changes in accounting rules; financial markets; interest rates; foreign exchange rates; matters relating to our operations; income taxes; and expectations regarding our investments, including our clean energy investments. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors.

Many factors could affect our actual results, and variances from our current expectations regarding such factors could cause actual results to differ materially from those expressed in our forward-looking statements. Potential factors that could impact results include:

- Volatility or declines in premiums or other adverse trends in the insurance industry;
- An economic downturn, as well as uncertainty regarding the European debt crisis and market perceptions concerning the instability of the Euro;
- Competitive pressures in each of our businesses;
- Risks that could negatively affect the success of our acquisition strategy, including continuing consolidation in our industry, which could make it more difficult to identify targets and could make them more expensive, execution risks, integration risks, the risk of post-acquisition deterioration leading to intangible asset impairment charges, and the risk we could incur or assume unanticipated regulatory liabilities such as those relating to violations of anti-corruption laws;
- Failure to attract and retain experienced and qualified personnel;
- Risks arising from our growing international operations, including the risks posed by political and economic uncertainty in certain countries, risks related to maintaining regulatory and legal compliance across multiple jurisdictions, and risks arising from the complexity of managing businesses across different time zones, geographies, cultures and legal regimes;
- Risks particular to our risk management segment;

The lower level of predictability inherent in contingent and supplemental commissions versus standard commissions;

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- Sustained increases in the cost of employee benefits;
- Failure to apply technology effectively in driving value for our clients through technology-based solutions, or failure to gain internal efficiencies and effective internal controls through the application of technology and related tools;
- Inability to recover successfully should we experience a disaster, material cybersecurity attack or other significant disruption to business continuity;
- Failure to comply with regulatory requirements, or a change in regulations that adversely affects our operations;
- Violations of the U.S. Foreign Corrupt Practices Act (which we refer to as the FCPA), the UK Bribery Act of 2010 (which we refer to as the Bribery Act) or other anti-corruption laws;
- Failure to adapt our services to changes resulting from the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act (which we refer to as the 2010 Health Care Reform Legislation);
- Unfavorable determinations related to contingencies and legal proceedings;
- Improper disclosure of personal data;
- Significant changes in foreign exchange rates;
- Changes in our accounting estimates and assumptions;
- Risks related to our clean energy investments, including the risk of environmental and product liability claims and environmental compliance costs;
- Disallowance of Internal Revenue Code of 1986 (which we refer to as the IRC) Section 29 or IRC Section 45 tax credits;
- Risks related to losses on other investments held by our corporate segment;
- Restrictions and limitations in the agreements and instruments governing our debt;
- The risk of share ownership dilution when we issue common stock as consideration for acquisitions; and
- Volatility of the price of our common stock.

A detailed discussion of the factors that could cause actual results to differ materially from our published expectations is contained in this prospectus under the heading Risk Factors, and in our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2012, and any reports we file with the SEC in the future.

Any or all of our forward-looking statements may turn out to be inaccurate, and there are no guarantees about our performance. The factors identified above are not exhaustive. We operate in a dynamic business environment in which new risks may emerge frequently. 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 of this prospectus. Except as required by law, we expressly disclaim any obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after such date or to reflect the occurrence of anticipated or unanticipated events.

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SUMMARY

The following summary contains basic information and likely does not contain all the information that is important to you. We encourage you to read this entire document, including the financial statements and related notes, before making an investment decision. Except as otherwise indicated or the context otherwise requires, in this prospectus, the terms we, our, us and the Company refer to both Arthur J. Gallagher & Co. and its subsidiaries. The term you refers to a prospective investor.

About this Prospectus

This prospectus is part of a shelf registration statement on Form S-4 that we filed with the Securities and Exchange Commission, or SEC. Under the shelf registration process, we may from time to time, offer and issue up to 6,000,000 shares of our common stock in connection with future acquisitions of other businesses, assets or securities. This prospectus provides a general description of the common stock that we may offer and issue and that may be offered and sold by selling stockholders. We may add, update or change the information contained in this prospectus by means of one or more prospectus supplements. Before investing in our common stock, both this prospectus and any prospectus supplement should be carefully reviewed.

Our Company

We are engaged in providing insurance brokerage and third-party claims settlement and administration services to entities in the United States and abroad. We believe that our major strength is our ability to deliver comprehensively structured insurance and risk management services to our clients. Our brokers, agents and administrators act as intermediaries between insurers and their customers and we do not assume underwriting risks.

Since our founding in 1927, we have grown from a one-man agency to the world s fourth largest insurance broker based on revenues, according to *Business Insurance* magazine s July 16, 2012 edition, and the world s largest property/casualty third-party claims administrator, according to *Business Insurance* magazine s August 13, 2012 edition. We generate approximately 80% of our revenues domestically, with the remaining 20% derived primarily from operations in Australia, Bermuda, Canada, the Caribbean, New Zealand and the United Kingdom.

Shares of our common stock are traded on the New York Stock Exchange under the symbol AJG, and we had a market capitalization at March 31, 2013 of approximately $5.2 billion. We were reincorporated as a Delaware corporation in 1972. Our executive offices are located at Two Pierce Place, Itasca, Illinois 60143-3141, and our telephone number is (630) 773-3800.

We have three reporting segments: brokerage, risk management and corporate, which contributed approximately 73%, 22% and 5%, respectively, to 2012 revenues, and 67%, 23 % and 10%, respectively, to revenues during the first quarter of 2013. For more information about our business, please see the Business section of this prospectus, beginning on page 19.

Address, Telephone Number and Website

Our principal executive offices are located at Two Pierce Place, Itasca, Illinois 60143. Our telephone number is (630) 773-3800. Our website is *http://www.ajg.com*. Information on our website is not incorporated into or otherwise a part of this prospectus.

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RISK FACTORS

Investing in our common stock involves risks. These risks include normal market risks, which are generally outside our control, and risks that are inherent to our business. You should carefully consider all of the information set forth in this prospectus, and, in particular, you should evaluate the risk factors described below, before deciding whether to accept our common stock as all or part of the purchase price for our acquisition of your business, securities or assets.

The risks listed below may occur independent of each other or simultaneously. If any of the risks actually occur, our business, financial condition, and results of operations could suffer, and the trading price of our common stock could decline. Accordingly, you could lose part or all of your investment in our common stock. The risks and uncertainties discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. Please see Cautionary Statement Regarding Forward-Looking Statements in this prospectus for more information.

Risks Relating to our Business Generally

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

We derive much of our revenue from commissions and fees for our brokerage services. We do not determine the insurance premiums on which our commissions are generally based. Moreover, insurance premiums are cyclical in nature and may vary widely based on market conditions. For example, after three years of a hard market that began in late 2000 and was strengthened by the events of September 11th, 2001, in which premium rates were stable or increasing, in late 2003 the market experienced the return of flat or reduced premium rates (a soft market) in many lines and geographic areas. This put downward pressure on our commission revenues. In 2012, the market began showing signs of firming (as opposed to traditional hardening) across many lines and geographic areas. In this environment, rates increased at a moderate pace, clients could still obtain coverage, businesses continued to stay in standard-line markets and there was adequate capacity in the market. It is not clear whether this firming is sustainable given the uncertainty of the current economic environment. Because of these market cycles for insurance product pricing, which we cannot predict or control, our brokerage revenues and profitability can be volatile or remain depressed for significant periods of time.

As traditional risk-bearing insurance companies continue to outsource the production of premium revenue to non-affiliated brokers or agents such as us, those insurance companies may seek to further minimize their expenses by reducing the commission rates payable to insurance agents or brokers. The reduction of these commission rates, along with general volatility and/or declines in premiums, may significantly affect our profitability. Because we do not determine the timing or extent of premium pricing changes, we cannot accurately forecast our commission revenues, including whether they will significantly decline. As a result, our budgets for future acquisitions, capital expenditures, dividend payments, loan repayments and other expenditures may have to be adjusted to account for unexpected changes in revenues, and any decreases in premium rates may adversely affect the results of our operations.

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, historically, we have been able to participate in certain of these activities on behalf of our customers and obtain fee revenue for such services, there can be no assurance that we will realize revenues and profitability as favorable as those realized from our traditional brokerage activities.

An economic downturn, as well as uncertainty regarding the European debt crisis and market perceptions concerning the instability of the Euro, could adversely affect our results of operations and financial condition.

An overall decline in economic activity could adversely impact us in future years as a result of reductions in the overall amount of insurance coverage that our clients purchase due to reductions in their headcount, payroll, properties, and the market values of assets, among other factors. Such reductions could also adversely impact future commission revenues when the carriers perform

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exposure audits if they lead to subsequent downward premium adjustments. We record the income effects of subsequent premium adjustments when the adjustments become known and, as a result, any improvement in our results of operations and financial condition may lag an improvement in the economy. In addition, some of our clients may cease operations completely in the event of a prolonged deterioration in the economy, which would have an adverse effect on our results of operations and financial condition. We also have a significant amount of trade accounts receivable from some of the insurance companies with which we place insurance. If those insurance companies experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us, which could have a significant adverse impact on our consolidated financial condition and results of operations. In addition, if a significant insurer fails or withdraws from writing certain insurance coverages that we offer our client, overall capacity in the industry could be negatively affected, which could reduce our placement of certain lines and types of insurance and, as a result, reduce our revenues and profitability. The failure of an insurer with whom we place business could also result in errors and omissions claims against us by our clients, which could adversely affect our results of operations and financial condition.

Continued concerns regarding the ability of certain European countries to service their outstanding debt have given rise to instability in the global credit and financial markets. A potential consequence may be stagnant growth, or even recession, in the Eurozone economies and beyond, which could adversely affect our results of operations. The market instability caused by the Eurozone debt crisis has led to questions regarding the future viability of the Euro as a single currency for the region. The dissolution of the Euro (in the extreme case) could lead to further contraction in the Eurozone economies, adversely affecting our results of operations. In addition, the value of our assets held in the Eurozone, including cash holdings, would decline if currencies in the region were devalued.

We face significant competitive pressures in each of our businesses.

The insurance brokerage and service business is highly competitive and many insurance brokerage and service organizations, as well as individuals, actively compete with us in one or more areas of our business around the world. We compete with three firms in the global risk management and brokerage markets that have revenues significantly larger than ours. In addition, various other competing firms that operate nationally or that are strong in a particular country, region or locality may have, in that country, region or locality, an office with revenues as large as or larger than those of our corresponding local office. As a U.S. company with significant operations around the world, lower combined corporate tax rates in the countries where our overseas competitors are located could impact our ability to compete with such companies. We believe that the primary factors in determining our competitive position with other organizations in our industry are the quality of the services rendered and the overall costs to our clients. Losing business to competitors offering similar products at lower prices or having other competitive advantages would adversely affect our business.

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

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

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

- Changes in our business compensation model as a result of regulatory developments (for example, the 2010 Health Care Reform Legislation);

- Federal and state governments establishing programs to provide health insurance (such as public health insurance exchanges) or, in certain cases, property insurance in catastrophe-prone areas or other alternative market types of coverage, that compete with, or completely replace, insurance products offered by insurance carriers; and

- Increased competition from new market participants such as banks, accounting firms and consulting firms offering risk management or insurance brokerage services.

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

We have historically engaged in a large number of acquisitions of insurance brokers and benefits consulting firms. We may not be able to continue to implement such an acquisition strategy in the future and there are risks associated with such acquisitions, which could adversely affect our growth strategy and results of operations.

Historically, we have completed numerous acquisitions of insurance brokers and benefits consulting firms and may continue to make such acquisitions in the future. Our acquisition program has been an important part of our historical growth and we believe 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 us achieving slower growth. Continuing consolidation in our industry could make it more difficult to identify appropriate targets and could make them more expensive. Even if we are able to identify appropriate acquisition targets, we may not be able to execute transactions on favorable terms or integrate targets following acquisition in a manner that allows us to realize the anticipated benefits of such acquisitions. Our ability to integrate acquisitions may decrease if we complete a greater number of large acquisitions than we have historically. Our acquisitions also pose the risk of post-acquisition deterioration, which could result in lower or negative earnings contribution and/or goodwill impairment charges to earnings.

Additionally, we may incur or assume unanticipated liabilities or contingencies in connection with our acquisitions. These could include liabilities relating to regulatory or compliance issues, including, among other things, liabilities relating to violations of the FCPA, the Bribery Act or other anti-corruption laws when we acquire businesses with international operations. These liabilities could also include unforeseen integration difficulties, resulting in unanticipated expense, relating to accounting, information technology, human resources, or culture and fit issues. If any of these developments occur, our growth strategy and results of operations could be adversely affected.

We own interests in firms where we do not exercise management control (such as Casanueva Perez S.A.P. de C.V. (Grupo CP) in Mexico) and are therefore unable to direct or manage the business to realize the anticipated benefits, including mitigation of risks, that could be achieved through full integration.

Our future success depends, in part, on our ability to attract and retain experienced and qualified personnel.

We believe that our future success depends, in part, on our ability to attract and retain experienced personnel, including our senior management, brokers and other key personnel. In addition, we could be adversely affected if we fail to adequately plan for the succession of members of our senior management team. The insurance brokerage industry has experienced intense competition for the services of leading brokers, and we have lost key brokers to competitors in the past. The loss of our chief executive officer or any of our other senior managers, brokers or other key personnel (including the key personnel that manage our interests in our IRC Section 45 investments), or our inability to identify, recruit and retain such personnel, could materially and adversely affect our business, operating results and financial condition.

Our growing international operations expose us to risks different than those we face in the United States.

We conduct a growing portion of our operations outside the United States, including in countries where the risk of political and economic uncertainty is relatively greater than that present in the United States and more stable countries. Adverse geopolitical or economic conditions may temporarily or permanently disrupt our operations in these countries. For example, we use 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 our operations in India. However, such factors could potentially affect our operations or ability to use third-party providers in the future. Should our access to these services be disrupted, our business, operating results and financial condition could be adversely affected.

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Operating outside the United States may also present other risks that are different from, or greater than, the risks we face doing comparable business in the United States. These include, among others, risks relating to:

- Maintaining awareness of and complying with a wide variety of labor practices and foreign laws, including those relating to export and import duties, environmental policies and privacy issues, as well as laws and regulations applicable to U.S. business operations abroad. These include rules relating to trade sanctions administered by the U.S. Office of Foreign Assets Control, the European Union and the United Nations, the requirements of the FCPA and other anti-bribery and corruption rules and requirements in the countries in which we operate (such as the Bribery Act), as well as unexpected changes in such regulatory requirements and laws;
- Difficulties in staffing and managing foreign operations;
- Less flexible employee relationships, which may limit our ability to prohibit employees from competing with us after their employment, and may make it more difficult and expensive to terminate their employment;
- Political and economic instability (including the potential dissolution of the Euro, acts of terrorism and outbreaks of war);
- Coordinating our communications and logistics across geographic distances and multiple time zones, including during times of crisis management;
- Adverse trade policies, and adverse changes to any of the policies of the United States or any of the foreign jurisdictions in which we operate;
- Adverse changes in tax rates or discriminatory or confiscatory taxation in foreign jurisdictions;
- Legal or political constraints on our ability to maintain or increase prices;
- Cash balances held in foreign banks and institutions where governments have not specifically enacted formal guarantee programs; and
- Governmental restrictions on the transfer of funds to us from our operations outside the United States.

If any of these developments occur, our results of operations and financial condition could be adversely affected.

We face a variety of risks in our risk management operations that are distinct from those we face in our brokerage operations.

Our risk management operations face a variety of risks distinct from those faced by our brokerage operations, including the risk that:

- The favorable trend among insureds toward outsourcing various types of claims administration and risk management services will reverse or slow, causing our revenues or revenue growth to decline;

- Contracting terms will become less favorable or that the margins on our services will decrease due to increased competition, regulatory constraints or other developments;

- We will not be able to satisfy regulatory requirements related to third party administrators or that regulatory developments will impose additional burdens, costs or business restrictions that make our business less profitable;

- Continued economic weakness or a slow-down in economic activity could lead to a continued reduction in the number of claims we process;

- If we do not control our labor and technology costs, we may be unable to remain competitive in the marketplace and profitably fulfill our existing contracts (other than those that provide cost-plus or other margin protection);

- We may be unable to develop further efficiencies in our claims-handling business if we fail to make adequate improvements in technology or operations; and

- Insurance companies or certain insurance consumers may create in-house servicing capabilities that compete with our third party administration and other administration, servicing and risk management products.

If any of these developments occur, our results of operations and financial condition could be adversely affected.

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Contingent and supplemental commissions we receive from insurance companies are less predictable than standard commissions, and any decrease in the amount of these kinds of commissions we receive could adversely affect our results of operations.

A portion of our revenues consists of contingent and supplemental commissions we receive from insurance companies. Contingent commissions are paid by insurance companies based upon the profitability, volume and/or growth of the business placed with such companies during the prior year. Supplemental commissions are commissions paid by insurance companies that are established annually in advance based on historical performance criteria. If, due to the current economic environment or for any other reason, we are unable to meet insurance companies profitability, volume and/or growth thresholds, and/or insurance companies increase their estimate of loss reserves (over which we have no control), actual contingent commissions and/or supplemental commissions we receive could be less than anticipated, which could adversely affect our results of operations.

Sustained increases in the cost of employee benefits could reduce our profitability.

The cost of current employees medical and other benefits, as well as pension retirement benefits and postretirement medical benefits under our legacy defined benefit plans, substantially affects our profitability. In the past, we have occasionally experienced significant increases in these costs as a result of macro-economic factors beyond our control, including increases in health care costs, declines in investment returns on pension assets and changes in discount rates used to calculate pension and related liabilities. A significant decrease in the value of our defined benefit pension plan assets or decreases in the interest rates used to discount the pension plans liabilities could cause an increase in pension plan costs in future years. Although we have actively sought to control increases in these costs, we can make no assurance that we will succeed in limiting future cost increases, and continued upward pressure in these costs could reduce our profitability.

If we are unable to apply technology effectively in driving value for our clients through technology-based solutions or gain internal efficiencies and effective internal controls through the application of technology and related tools, our client relationships, growth strategy, compliance programs and operating results could be adversely affected.

Our future success depends, in part, on our ability to develop and implement technology solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards, client preferences and internal control standards. We may not be successful in anticipating or responding to these developments on a timely and cost-effective basis and our ideas may not be accepted in the marketplace. Additionally, the effort to gain technological expertise and develop new technologies in our business requires us to incur significant expenses. If we cannot offer new technologies as quickly as our competitors, or if our competitors develop more cost-effective technologies, we could experience a material adverse effect on our client relationships, growth strategy, compliance programs and operating results.

Our inability to recover successfully should we experience a disaster, material cybersecurity attack or other significant disruption to business continuity could have a material adverse effect on our operations.

Our ability to conduct business may be adversely affected, even in the short-term, by a disruption in the infrastructure that supports our business and the communities where we are located. For example, our risk management segment is highly dependent on the continued and efficient functioning of RISX-FACS®, our proprietary risk management information system, to provide clients with insurance claim settlement and administration services. Disruptions could be caused by, among other things, restricted physical site access, terrorist activities, disease pandemics, material cybersecurity attacks, or outages to electrical, communications or other services used by our company, our employees or third parties with whom we conduct business. We have certain disaster recovery procedures in place and insurance to protect against such contingencies. However, such procedures may not be effective and any insurance or recovery procedures may not continue to be available at reasonable prices and may not address all such losses or compensate us for the possible loss of clients or increase in claims and lawsuits directed against us because of any period during which we are unable to provide services. Our inability to successfully recover should we experience a disaster or other significant disruption to business continuity could have a material adverse effect on our operations.

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Regulatory, Legal and Accounting Risks

We are subject to regulation worldwide. If we fail to comply with regulatory requirements or if regulations change in a way that adversely affects our operations, we may not be able to conduct our business or may be less profitable.

Many of our activities are subject to regulatory supervision, including insurance industry regulation, Federal and state employment regulation and regulations promulgated by regulatory bodies such as the Securities and Exchange Commission (SEC) and Department of Justice (DOJ) in the United States, and the Financial Services Authority (FSA) in the U.K. As our operations grow around the world, it is increasingly difficult to monitor and enforce regulatory compliance across the organization. A compliance failure by even one of our smallest branches could lead to litigation and/or disciplinary actions that may include compensating clients for loss, the imposition of penalties and the revocation of our authorization to operate. In all such cases, we would also likely incur significant internal investigation costs.

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 our ability to operate our business. For example, although our inability to accept contingent commissions under an agreement with the Attorney General of the State of Illinois and the Director of Insurance of the State of Illinois ended on October 1, 2009, compensation practices such as contingent commissions could in the future return to the scrutiny of the public, State Attorneys General, and state insurance departments. This could lead to regulations prohibiting or placing restrictions upon the practice. If this or other changes in regulation or enforcement occur, our results of operations and financial condition could be adversely affected.

We could be adversely affected by violations of the FCPA, the Bribery Act or other anti-corruption laws.

The FCPA, the Bribery Act and other anti-corruption laws generally prohibit companies and their intermediaries from making improper payments (to foreign officials and otherwise) and require companies to keep accurate books and records and maintain appropriate internal controls. Our training program and policies mandate compliance with such laws. We operate in some parts of the world that have experienced governmental corruption to some degree, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. In recent years, two of the five publicly traded insurance brokerage firms were investigated in the U.K. by the FSA, and one was investigated in the United States by the SEC and DOJ, for improper payments to foreign officials. These firms paid significant settlements and undertook internal investigations. If we are found to be liable for violations of anti-corruption laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others, including employees of our third party partners or agents), we could suffer from civil and criminal penalties or other sanctions, incur significant internal investigation costs and suffer reputational harm.

Our business could be negatively impacted if we are unable to adapt our services to changes resulting from the 2010 Health Care Reform Legislation.

In June 2012, the U.S. Supreme Court upheld the constitutionality of portions of the 2010 Health Care Reform Legislation. The 2010 Health Care Reform Legislation, among other things, increases the level of regulatory complexity for companies that offer health and welfare benefits to their employees. Many clients of our brokerage segment purchase health and welfare products for their employees and, therefore, are impacted by the 2010 Health Care Reform Legislation. We have made significant investments in product and knowledge development to assist clients as they navigate the complex requirements of this legislation. Depending on future changes to health legislation, these investments may not yield returns. In addition, if we are unable to adapt our services to changes resulting from this law and any subsequent regulations, our ability to grow our business or to provide effective services, particularly in our employee benefits consulting business, will be negatively impacted. In addition, if our clients reduce the role or extent of employer sponsored health care in response to this law, our results of operations could be adversely impacted.

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We are subject to a number of contingencies and legal proceedings which, if determined unfavorably to us, would adversely affect our financial results.

We are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business. Such claims, lawsuits and other proceedings could, for example, include claims for damages based on allegations that our employees or sub-agents improperly failed to procure coverage, report claims on behalf of clients, provide insurance companies with complete and accurate information relating to the risks being insured, provide clients with appropriate consulting and claims handling services, or appropriately apply funds that we hold for our clients on a fiduciary basis. We have established provisions against these potential matters that we believe are adequate in light of current information and legal advice, and we adjust such provisions from time to time based on current material developments. The damages claimed in these matters are or may be substantial, including, in many instances, claims for punitive, treble or extraordinary damages. It is possible that, if the outcomes of these contingencies and legal proceedings were not favorable to us, it could materially adversely affect our future financial results. In addition, our results of operations, financial condition or liquidity may be adversely affected if, in the future, our insurance coverage proves to be inadequate or unavailable or we experience an increase in liabilities for which we self-insure. We have purchased errors and omissions insurance and other insurance to provide protection against losses that arise in such matters. Accruals for these items, net of insurance receivables, when applicable, have been provided to the extent that losses are deemed probable and are reasonably estimable. These accruals and receivables are adjusted from time to time as current developments warrant.

As more fully described in Note 12 to our unaudited interim financial statements for the three-month periods ended March 31, 2013 and 2012, which we refer to as the First Quarter 2013 Financials, and Note 13 to our audited financial statements for each of the three years in the period ended December 31, 2012, which we refer to as the 2012 Financials, we are subject to a number of legal proceedings, regulatory actions and other contingencies. An adverse outcome in connection with one or more of these matters could have a material adverse effect on our business, results of operations or financial condition in any given quarterly or annual period. In addition, regardless of any eventual monetary costs, these matters could expose us to negative publicity, reputational damage, harm to our client or employee relationships, or diversion of personnel and management resources, which could adversely affect our ability to recruit quality brokers and other significant employees to our business, and otherwise adversely affect our results of operations.

Improper disclosure of personal data could result in legal liability or harm our reputation.

One of our significant responsibilities is to maintain the security and privacy of our clients confidential and proprietary information and the personal data of their employees and other benefit plan participants. We maintain policies, procedures and technological safeguards designed to protect the security and privacy of this information from threats such as a cybersecurity attack. Nonetheless, we cannot entirely eliminate the risk of improper access to or disclosure of personally identifiable information. Such disclosure could harm our reputation and subject us to liability under our contracts and laws that protect personal data, resulting in increased costs or loss of revenue. In the past, we have experienced attempts to wrongfully access our computer and information systems, which, if successful, could have resulted in harm to our business. Our systems were successful in identifying the risk and preventing unauthorized access, and management is not aware of a cybersecurity incident that has had a material effect on our operations. However, there can be no assurance that cybersecurity incidents that could have a material impact on our business will not occur.

Data privacy is subject to frequently changing rules and regulations that sometimes conflict among the various jurisdictions and countries in which we provide services, and may be more stringent in some jurisdictions outside the United States. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or damage our reputation.

Significant changes in foreign exchange rates may adversely affect our results of operations.

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

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Changes in our accounting estimates and assumptions could negatively affect our financial position and operating results.

We prepare our financial statements in accordance with generally accepted accounting principles (which we refer to as GAAP). These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We are also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions, including those relating to the valuation of goodwill and other intangible assets, investments, income taxes, stock-based compensation, claims handling obligations, retirement plans, litigation and contingencies. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Actual results could differ from these estimates. Additionally, changes in accounting standards could increase costs to the organization and could have an adverse impact on our future financial position and results of operations.

Risks Relating to our Investments, Debt and Common Stock

Our clean energy investments are subject to various risks and uncertainties.

We have invested in clean energy operations capable of producing refined coal that we believe qualify for tax credits under IRC Section 45.

See Note 11 to the First Quarter 2013 Financials, and Note 12 to the 2012 Financials for a description of these investments. Our ability to generate returns and avoid write-offs in connection with these investments is subject to various risks and uncertainties. These include, but are not limited to, the risks and uncertainties as set forth below.

Availability of the tax credits under IRC Section 45. Our ability to claim tax credits under IRC Section 45 depends upon the operations in which we have invested satisfying certain ongoing conditions set forth in IRC Section 45. These include, among others, the emissions reduction, qualifying technology , and placed-in-service requirements of IRC Section 45, as well as the requirement that at least one of the operations owners qualifies as a producer of refined coal. While we have received some degree of confirmation from the IRS relating to our ability to claim these tax credits, the IRS could ultimately determine that the operations have not satisfied, or have not continued to satisfy, the conditions set forth in IRC Section 45. Additionally, Congress could modify or repeal IRC Section 45 and remove the tax credits retroactively.

Business risks. We are working to negotiate and finalize arrangements with potential co-investors for the purchase of equity stakes in one or more of the operations that are not currently producing refined coal. If no satisfactory arrangements can be reached with these potential co-investors, or if in the future any one of our co-investors leaves a project, we could have difficulty finding replacements in a timely manner. We could also be exposed to risk due to our lack of control over the operations if future developments, for example a regulatory change affecting public and private companies differently, causes our interests and those of our co-investors to diverge. Finally, our partners responsible for operation and management could fail to run the operations in compliance with IRC Section 45. If any of these developments occur, our investment returns may be negatively impacted.

Operational risks. Chem-Mod LLC s multi-pollutant reduction technologies (The Chem-Mod Solution) require chemicals that may not be readily available in the marketplace at reasonable costs. Utilities that use the technologies could be idled for various reasons, including operational or environmental problems at the plants or in the boilers, disruptions in the supply or transportation of coal, revocation of their Chem-Mod technologies environmental permits, labor strikes, force majeure events such as hurricanes, or terrorist attacks, any of which could halt or impede the operations. Long-term operations using Chem-Mod s multi-pollutant reduction technologies could also lead to unforeseen technical or other problems not evident in the short- or medium-term. A serious injury or death of a worker connected with the production of refined coal using Chem-Mod s technologies could expose the operations to material liabilities, jeopardizing our investment, and could lead to reputational harm. In the event of any such operational problems, we may not be able to take full advantage of the tax credits.

Market demand for coal. When the price of natural gas and/or oil declines relative to that of coal, some utilities may choose to burn natural gas or oil instead of coal. Market demand for coal may also decline as a result of an economic slowdown and a corresponding decline in the use of electricity. If utilities burn less coal or eliminate coal in the production of electricity, the availability of the tax credits would also be reduced.

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IRC Section 45 phase out provisions. IRC Section 45 contains phase out provisions based upon the market price of coal, such that, if the price of coal rises to specified levels, we could lose some or all of the tax credits we expect to receive from these investments.

Environmental concerns regarding coal. Environmental concerns about greenhouse gases, toxic wastewater discharges and the potential hazardous nature of coal combustion waste could lead to regulations that discourage the burning of coal. For example, such regulations could mandate that electric power generating companies purchase a minimum amount of power from renewable energy sources such as wind, hydroelectric, solar and geothermal. This could result in utilities burning less coal, which would reduce the generation of tax credits.

Costs of moving a commercial refined coal plant. Changes in circumstances, such as those described above, may cause a commercial refined coal plant to be moved to a different power generation facility, which could require us to invest additional capital.

Intellectual property risks. Other companies may make claims of intellectual property infringement with respect to The Chem-Mod Solution. Such intellectual property claims, with or without merit, could require that Chem-Mod (or we and our investment and operational partners) obtain a license to use the intellectual property, which might not be obtainable on favorable terms, if at all. If Chem-Mod (or we and our investment and operational partners) cannot defend such claims or obtain necessary licenses on reasonable terms, the operations may be precluded from using The Chem-Mod Solution.

Strategic alternatives risk. While we currently expect to continue to hold at least a portion of these refined coal investments, if for any reason in the future we decide to sell more of our interests, the discount rate on future cash flows could be excessive, and could result in an impairment on our investment.

The IRC Section 45 operations in which we have invested and the by-products from such operations may result in environmental and product liability claims and environmental compliance costs.

The construction and operation of the IRC Section 45 operations are subject to Federal, state and local laws, regulations and potential liabilities arising under or relating to the protection or preservation of the environment, natural resources and human health and safety. Such laws and regulations generally require the operations and/or the utilities at which the operations are located to obtain and comply with various environmental registrations, licenses, permits, inspections and other approvals. Such laws and regulations also impose liability, without regard to fault or the legality of a party s conduct, on certain entities that are considered to have contributed to, or are otherwise involved in, the release or threatened release of hazardous substances into the environment. Such hazardous substances could be released as a result of burning refined coal produced using The Chem-Mod Solution in a number of ways, including air emissions, waste water, and by-products such as fly ash. One party may, under certain circumstances, be required to bear more than its share or the entire share of investigation and cleanup costs at a site if payments or participation cannot be obtained from other responsible parties. By using The Chem Mod Solution at locations owned and operated by others, we and our partners may be exposed to the risk of becoming liable for environmental damage we may have had little, if any, involvement in creating. Such risk remains even after production ceases at an operation to the extent the environmental damage can be traced to the types of chemicals or compounds used or operations conducted in connection with The Chem-Mod Solution. For example, we and our partners could face the risk of product and environmental liability claims related to concrete incorporating fly ash produced using The Chem-Mod Solution. No assurances can be given that contractual arrangements and precautions taken to ensure assumption of these risks by facility owners or operators will result in that facility owner or operator accepting full responsibility for any environmental damage. It is also not uncommon for private claims by third parties alleging contamination to also include claims for personal injury, property damage, diminution of property or similar claims. Furthermore, many environmental, health and safety laws authorize citizen suits, permitting third parties to make claims for violations of laws or permits and force compliance. Our insurance may not cover all environmental risk and costs or may not provide sufficient coverage in the event of an environmental claim. If significant uninsured losses arise from environmental damage or product liability claims, or if the costs of environmental compliance increase for any reason, our results of operations and financial condition could be adversely affected.

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We have historically benefited from IRC 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 us to claim IRC Section 29 tax credits related to our synthetic coal operations expired on December 31, 2007. We believe our claim for IRC Section 29 tax credits in 2007 and prior years is in accordance with IRC Section 29 and four private letter rulings previously obtained by IRC Section 29-related limited liability companies in which we had an interest. We understand these private letter rulings are consistent with those issued to other taxpayers and have received no indication from the IRS that it will seek to revoke or modify them. However, while our 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 or cause us to be subject to liability under indemnification obligations related to prior sales of partnership interests in partnerships claiming IRC Section 29 tax credits. 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.

We are exposed to various risks relating to losses on investments held by our corporate segment.

Our corporate segment 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 our invested assets and adversely affect our net worth and profitability. Additionally, our cash holdings, including cash held in our fiduciary capacity, are subject to the credit, liquidity and other risks faced by our financial institution counterparties.

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

The agreements governing our debt contain covenants that, among other things, restrict our 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 our business or make investments.

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

Economic, financial and industry conditions beyond our control may affect our ability to comply with the covenants and restrictions contained in the agreements governing our debt. 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 under such agreements to be due and payable, together with accrued and unpaid interest, which could have a material adverse effect on our financial condition and results of operations.

In the event we issue common stock as consideration for certain acquisitions we may make, we could dilute share ownership.

We grow our business organically as well as through acquisitions. One method of acquiring companies or otherwise funding our corporate activities is through the issuance of additional equity securities. Should we issue additional equity securities, such issuances could have the effect of diluting our earnings per share as well as existing stockholders individual ownership percentages in our company.

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Volatility of the price of our common stock could adversely affect our stockholders.

The market price of our common stock could fluctuate significantly as a result of:

- Quarterly variations in our operating results;
- Seasonality of our business cycle;
- Changes in the market s expectations about our operating results;
- Our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- Changes in financial estimates and recommendations by securities analysts concerning us or the financial services industry in general;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends in our markets, including any expectations regarding an upcoming hard or soft market;
- Changes in laws and regulations affecting our business;
- Material announcements by us or our competitors;
- The impact or perceived impact of developments relating to our investments, including the possible perception by securities analysts or investors that such investments divert management attention from our core operations;
- Quarter-to-quarter volatility in the earnings impact of IRC Section 45 tax credits from our clean energy investments, due to the application of accounting standards applicable to the recognition of tax credits;
- Sales of substantial amounts of common shares by our directors, executive officers or significant stockholders or the perception that such sales could occur; and
- General economic and political conditions such as recessions, economic downturns and acts of war or terrorism.

Shareholder class action lawsuits may be instituted against us following a period of volatility in our stock price. Any such litigation could result in substantial cost and a diversion of management s attention and resources.

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SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data that has been derived from the First Quarter 2013 Financials and 2012 Financials, which are included elsewhere in this prospectus. Such data should be read in conjunction with the First Quarter 2013 Financials and 2012 Financials and related notes thereto,

	Year Ended December 31,					Three Months Ended March 31, (unaudited)	
	2012	2011	2010	2009	2008	2013	2012
	(In millions, except per share and employee data)						
Consolidated Statement of Earnings Data:							
Commissions	$ 1,302.5	$ 1,127.4	$ 957.3	$ 912.9	$ 854.2	$ 326.8	$ 272.0
Fees	971.7	870.2	735.0	733.8	711.3	239.7	215.6
Supplemental commissions	67.9	56.0	60.8	37.4	20.4	17.3	17.1
Contingent commissions	42.9	38.1	36.8	27.6	25.3	22.5	19.0
Investment income and other	135.3	43.0	74.3	17.6	33.8	67.8	23.1
Total revenues	2,520.3	2,134.7	1,864.2	1,729.3	1,645.0	674.1	546.8
Total expenses	2,275.0	1,926.9	1,661.2	1,518.2	1,481.4	631.8	514.3
Earnings before income taxes	245.3	207.8	203.0	211.1	163.6	42.3	32.5
Provision for income taxes	50.3	63.7	39.7	78.0	52.2	1.8	4.4
Earnings from continuing operations	195.0	144.1	163.3	133.1	111.4	40.5	28.1
Earnings (loss) from discontinued operations, net of income taxes			10.8	(4.5)	(34.1)		
Net earnings	$ 195.0	$ 144.1	$ 174.1	$ 128.6	$ 77.3	$ 40.5	$ 28.1
Per Share Data:							
Diluted earnings from continuing operations per share(1)	$ 1.59	$ 1.28	$ 1.56	$ 1.32	$ 1.18	$ .32	$ .24
Diluted net earnings per share(1)	1.59	1.28	1.66	1.28	.82	.32	.24
Dividends declared per common share(2)	1.36	1.32	1.28	1.28	1.28	.35	.34
Share Data:							
Shares outstanding at period end	125.6	114.7	108.4	102.5	96.4	126.8	118.3
Weighted average number of common shares outstanding	121.0	111.7	104.8	100.5	93.8	126.1	116.4
Weighted average number of common and common equivalent shares outstanding	122.5	112.5	105.1	100.6	94.2	127.5	117.8
Consolidated Balance Sheet Data:							
Total assets	$ 5,352.3	$ 4,483.5	$ 3,596.0	$ 3,250.3	$ 3,271.3	$ 5,225.1	$ 4,602.7
Long-term debt less current portion	725.0	675.0	550.0	550.0	400.0	725.0	675.0
Total stockholders equity	1,658.6	1,243.6	1,106.7	892.9	738.5	1,664.7	1,356.6
Return on beginning stockholders equity(3)	16%	13%	20%	17%	11%	N/A	N/A
Employee Data:							
Number of employees - continuing operations at period end	13,707	12,383	10,736	9,840	9,863	13,760	12,532
Total revenue per employee(4)	$ 184,000	$ 172,000	$ 174,000	$ 176,000	$ 167,000	N/A	N/A
Earnings from continuing operations per employee(4)	$ 14,000	$ 12,000	$ 15,000	$ 14,000	$ 11,000	N/A	N/A

(1) Based on the weighted average number of common and common equivalent shares outstanding during the period.

(2) Based on the total dividends declared on a share of common stock outstanding during the entire period.
(3) Represents net earnings divided by total stockholders equity, as of the beginning of the period.
(4) Based on the number of employees at period end related to continuing operations.

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PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our 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 our common stock for the period from January 1, 2011 through March 31, 2013 and the dividends declared per common share for such periods. The table reflects the range of high and low sales prices per share as reported on the New York Stock Exchange composite listing.

Quarterly Periods	High	Low	Dividends Declared Per Common Share
2013			
First	$ 41.31	$ 34.97	$ .35
2012			
First	$ 36.33	$ 32.01	$ .34
Second	38.24	33.75	.34
Third	37.56	34.46	.34
Fourth	36.99	34.20	.34
2011			
First	$ 31.92	$ 28.40	$ .33
Second	31.22	27.68	.33
Third	29.13	24.29	.33
Fourth	33.99	25.27	.33

On May 14, 2013 the last reported sale price of common stock was $45.20. As of such date, there were approximately 1,000 holders of record of our common stock.

Dividend Policy

Our board of directors determines our dividend policy. Our board of directors declares dividends on a quarterly basis after considering our available cash from earnings, our anticipated cash needs and current conditions in the economy and financial markets.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks in our 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 us at March 31, 2013 that are sensitive to changes in interest rates. The range of changes in interest rates used in the analyses reflects our view of changes that are reasonably possible over a one year period. This discussion of market risks related to our 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 our estimates. In the ordinary course of business, we also face risks that are either nonfinancial or unquantifiable, including credit risk and legal risk. These risks are not included in the following analyses.

Our 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 our portfolio of cash and cash equivalents at March 31, 2013 approximated its carrying value due to its short-term duration. We estimated market risk 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 March 31, 2013.

At March 31, 2013, we had $725.0 million of borrowings outstanding under our various note purchase agreements. The aggregate estimated fair value of these borrowings at March 31, 2013 was $813.0 million due to their long-term duration and fixed interest rates associated with these debt obligations. No active or observable market exists for our private placement long-term debt. Therefore, the estimated fair value of this debt is based on discounted future cash flows using current interest rates available for debt with similar terms and remaining maturities. To estimate an all-in interest rate for discounting, we obtained market quotes for notes with the same terms as ours, which we have deemed to be the closest approximation of current market rates. We have not adjusted this rate for risk profile changes, covenant issues or credit rating changes. We estimated market risk as the potential impact on the value of the debt recorded in our consolidated balance sheet resulting from a hypothetical one percentage point decrease in our weighted average borrowing rate at March 31, 2013 and the resulting fair values would have been $31.6 million higher than their carrying value (or $756.6 million).

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As of March 31, 2013, we had $50.0 million of borrowings outstanding under our Credit Agreement. The fair values of these borrowings approximated their carrying value due to their short-term duration and variable interest rates. Market risk is estimated as the potential increase in fair value resulting from a hypothetical one percentage point decrease in our weighted average short-term borrowing rate at March 31, 2013, and the resulting fair values would not have been materially different from their carrying value.

We are subject to foreign currency exchange rate risk primarily from one of our larger U.K. based brokerage subsidiaries that incur expenses denominated primarily in British pounds while receiving a substantial portion of their revenues in U.S. dollars. In addition, we are subject to foreign currency exchange rate risk from our Australian, Canadian, Indian, Jamaican, Singaporean and various other Caribbean operations because we transact business in their local denominated currencies. Foreign currency gains (losses) related to this market risk are recorded in earnings before income taxes as transactions occur. Assuming a hypothetical adverse change of 10% in the average foreign currency exchange rate for three-month period ended March 31, 2013 (a weakening of the U.S. dollar), earnings before income taxes would have decreased by approximately $2.0 million. Assuming a hypothetical favorable change of 10% in the average foreign currency exchange rate for three-month period ended March 31, 2013 (a strengthening of the U.S. dollar), earnings before income taxes would have increased by approximately $2.1 million. We are also subject to foreign currency exchange rate risk associated with the translation of local currencies of our foreign subsidiaries into U.S. dollars. However, it is management s opinion that this foreign currency exchange risk is not material to our consolidated operating results or financial position. We manage the balance sheets of our foreign subsidiaries, where practical, such that foreign liabilities are matched with equal foreign assets, maintaining a balanced book which minimizes the effects of currency fluctuations. Historically, we have not entered into derivatives or other similar financial instruments for trading or speculative purposes. However, with respect to managing foreign currency exchange rate risk in the U.K., we have periodically purchased financial instruments when market opportunities arose to minimize our exposure to this risk. During the three-month periods ended March 31, 2013 and 2012, we had several monthly put/call options in place with an external financial institution that are designed to hedge a significant portion of our future U.K. currency revenues (in 2013) and disbursements (in 2012) through various future payment dates. In addition, during the three-month period ended March 31, 2013, we had several monthly put/call options in place with an external financial institution that are designed to hedge a significant portion of our Indian currency disbursements through various future payment dates. These hedging strategies are designed to protect us against significant U.K. and India currency exchange rate movements, but we are still exposed to some foreign currency exchange rate risk for the portion of the payments and currency exchange rate that are unhedged. The impact of these hedging strategies was not material to the First Quarter 2013 Financials. See Note 13 to the First Quarter 2013 Financials for the changes in fair value of these derivative instruments reflected in comprehensive earnings for the three-month period ended March 31, 2013, and Note 15 to the 2012 Financials for the changes in fair value of these derivative instruments reflected in comprehensive earnings in 2012, 2011 and 2010.

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BUSINESS

Overview

We are engaged in providing insurance brokerage and third-party claims settlement and administration services to entities in the United States and abroad. We believe that our major strength is our ability to deliver comprehensively structured insurance and risk management services to our clients. Our brokers, agents and administrators act as intermediaries between insurers and their customers and we do not assume underwriting risks.

Since our founding in 1927, we have grown from a one-man agency to the world s fourth largest insurance broker based on revenues, according to *Business Insurance* magazine s July 16, 2012 edition, and the world s largest property/casualty third-party claims administrator, according to *Business Insurance* magazine s August 13, 2012 edition. We generate approximately 80% of our revenues domestically, with the remaining 20% derived primarily from operations in Australia, Bermuda, Canada, the Caribbean, New Zealand and the United Kingdom (U.K.).

Shares of our common stock are traded on the New York Stock Exchange under the symbol AJG, and we had a market capitalization at March 31, 2013 of approximately $5.2 billion. Information in this section is as of December 31, 2012 unless otherwise noted. We were reincorporated as a Delaware corporation in 1972. Our executive offices are located at Two Pierce Place, Itasca, Illinois 60143-3141, and our telephone number is (630) 773-3800.

We have three reporting segments: brokerage, risk management and corporate, which contributed approximately 73%, 22% and 5%, respectively, to 2012 revenues, and 67%, 23 % and 10%, respectively, to revenues during the first quarter of 2013.

Operating Segments

We report our results in three segments: brokerage, risk management and corporate. The major sources of our operating revenues are commissions, fees and supplemental and contingent commissions from brokerage operations and fees from risk management operations. Information with respect to all sources of revenue, by segment, for each of the three years in the period ended December 31, 2012, is as follows (in millions):

	2012		2011		2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Brokerage						
Commissions	$ 1,302.5	52%	$ 1,127.4	53%	$ 957.3	51%
Fees	403.2	16%	324.1	15%	274.9	15%
Supplemental commissions	67.9	3%	56.0	3%	60.8	3%
Contingent commissions	42.9	2%	38.1	2%	36.8	2%
Investment income and other	11.1	%	10.9	%	10.8	1%
	1,827.6	73%	1,556.5	73%	1,340.6	72%
Risk Management						
Fees	568.5	22%	546.1	26%	460.1	25%
Investment income	3.2	%	2.7	%	2.0	%
	571.7	22%	548.8	26%	462.1	25%
Corporate						
Clean energy and other investment income	121.0	5%	29.4	1%	61.5	3%

Total revenues	$ 2,520.3	100%	$ 2,134.7	100%	$ 1,864.2	100%

See Note 14 to the First Quarter 2013 Financials and Note 17 to the 2012 Financials for additional financial information, including earnings from continuing operations before income taxes and identifiable assets by segment for the three months ended March 31, 2013 and the years ended December 31, 2012, 2011 and 2010, respectively.

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Our business, particularly our 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 and the timing of receipt of information from insurance carriers. On the other the hand, salaries and employee benefits, rent, depreciation and amortization expenses generally tend to be more uniform throughout the year. The timing of acquisitions and recognition of investment gains and losses also impact the trends in our quarterly operating results. See Note 16 to the 2012 Financials for unaudited quarterly operating results for 2012 and 2011.

Brokerage Segment

The brokerage segment accounted for 73% of our revenues in 2012 and 67% of our revenues for the first quarter of 2013. Our brokerage segment is primarily comprised of retail and wholesale insurance brokerage operations. Our retail brokerage operations negotiate and place property/casualty, employer-provided health and welfare insurance, and healthcare exchange and retirement solutions principally for middle-market commercial, industrial, public entity, religious and not-for-profit entities. Many of our 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. Our wholesale brokerage operations assist our brokers and other unaffiliated brokers and agents in the placement of specialized, unique and hard-to-place insurance programs.

Our primary sources of compensation for our retail brokerage services are commissions paid by insurance carriers, which are usually based upon either a percentage of the premium paid by insureds or brokerage and advisory fees paid directly by our clients. For wholesale brokerage services, we generally receive a share of the commission paid to the retail broker by the insurer. Commission rates depend on a number of factors, including the type of insurance, the particular insurance company underwriting the policy and whether we act as a retail or wholesale broker. Advisory fees paid to us by our clients depend on the extent and value of the services we provide. In addition, under certain circumstances, we receive supplemental and contingent commissions for both retail and wholesale brokerage services. A supplemental commission is a commission paid by an insurance carrier that is above the base commission paid. The insurance carrier determines the supplemental commission that is eligible to be paid annually based on historical performance criteria in advance of the contractual period. A contingent commission is a commission paid by an insurance carrier based on the overall profit and/or the overall volume of business placed with that insurance carrier during a particular calendar year and is determined after the contractual period.

We operate our brokerage operations through a network of approximately 350 sales and service offices located throughout the United States and in 18 other countries. Most of these offices are fully staffed with sales and service personnel. In addition, we offer client-service capabilities in more than 140 countries around the world through a network of correspondent brokers and consultants.

Retail Insurance Brokerage Operations

Our retail insurance brokerage operations accounted for 76% of our brokerage segment revenues in 2012. Our retail brokerage operations place nearly all lines of commercial property/casualty and health and welfare insurance coverage. Significant lines of insurance coverage and consultant capabilities are as follows:

401(k) Solutions	Dental	Fire	Products Liability
403(b) Solutions	Directors & Officers Liability	General Liability	Professional Liability
Aviation	Disability	Life	Property
Casualty	Earthquake	Marine	Wind
Commercial Auto	Errors & Omissions	Medical	Workers Compensation

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Our retail brokerage operations are organized in more than 300 geographical profit centers primarily located in the United States, Australia, Canada and U.K. and operate within certain key niche/practice groups, which account for approximately 61% of our retail brokerage revenues. These specialized teams target areas of business and/or industries in which we have developed a depth of expertise and a large client base. Significant niche/practice groups we serve are as follows:

Agribusiness	Executive Benefits	International Benefits	Religious/Not-for-Profit
Automotive	Global Risks	Marine	Restaurant
Aviation & Aerospace	Health and Welfare	Manufacturing	Retirement
Captive Consulting	Healthcare	Personal	Scholastic
Construction	Healthcare Analytics	Private Equity	Technology/Telecom
Energy	Higher Education	Professional Groups	Transportation
Entertainment	Hospitality	Public Entity	Voluntary Benefits
Environmental	Human Resources	Real Estate	

Our 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. We believe that our detailed understanding and broad client contacts within these niche/practice groups provide us with a competitive advantage.

We anticipate that our retail brokerage operations greatest revenue growth over the next several years will continue to come from:

- Mergers and acquisitions;
- Our niche/practice groups and middle-market accounts;
- Cross-selling other brokerage products to existing customers; and
- Developing and managing alternative market mechanisms such as captives, rent-a-captives and deductible plans/self-insurance.

Wholesale Insurance Brokerage Operations

Our wholesale insurance brokerage operations accounted for 24% of our brokerage segment revenues in 2012. Our wholesale brokers assist our retail brokers and other non-affiliated brokers in the placement of specialized and hard-to-place insurance. These brokers operate through more than 65 geographical profit centers located across the United States, Bermuda and through our approved Lloyd s of London brokerage operation. In certain cases, we act as a brokerage wholesaler and, in other cases, we act as a managing general agent or managing general underwriter distributing specialized insurance coverages for insurance carriers. Managing general agents and managing general underwriters are agents authorized by an insurance company to manage all or a part of the insurer s business in a specific geographic territory. Activities they perform on behalf of the insurer may include marketing, underwriting (although we do not assume any underwriting risk), issuing policies, collecting premiums, appointing and supervising other agents, paying claims and negotiating reinsurance.

More than 75% of our wholesale brokerage revenues come from non-affiliated brokerage customers. Based on revenues, our domestic wholesale brokerage operation ranked as the largest domestic managing general agent/underwriting manager according to *Business Insurance* magazine s October 8, 2012 edition.

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

Risk Management Segment

Our risk management segment accounted for 22% of our revenues in 2012, and 23% of our revenues in the first quarter of 2013. Our risk management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property/casualty coverages and for insurance companies that choose to outsource some or all of their property/casualty claims departments. Approximately 68% of our risk management segment s revenues are from workers compensation related claims, 27% are from general and commercial auto liability related claims and 5% are from property related claims. In addition, we generate revenues from integrated disability management (employee absence management) programs, information services, risk control consulting (loss control) services and appraisal services, either individually or in combination with arising claims. Revenues for risk management services are comprised of fees 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.

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Risk management services are primarily marketed directly to Fortune 1000 companies, larger middle-market companies, not-for-profit organizations and public entities on an independent basis from our brokerage operations. We manage our third-party claims adjusting operations through a network of approximately 110 offices located throughout the United States, Australia, Canada, New Zealand and the U.K. Most of these offices are fully staffed with claims adjusters and other service personnel. Our adjusters and service personnel act solely on behalf and under the instruction of our clients and customers.

While this segment complements our insurance brokerage offerings, more than 88% of our risk management segment s revenues come from non-affiliated brokerage customers, such as insurance companies and clients of other insurance brokers. Based on revenues, our risk management operation ranked as the world s largest property/casualty third party claims administrator according to *Business Insurance* magazine s August 13, 2012 edition.

We expect that the risk management segment s most significant growth prospects through the next several years will come from increased levels of business with Fortune 1000 companies, larger middle-market companies, captives, program business and the outsourcing of insurance company claims departments. In addition, the risk management segment may grow in the future through mergers and acquisitions.

Corporate Segment

The corporate segment accounted for 5% of our revenues in 2012, and 10% of our revenues for the first quarter of 2013. The corporate segment reports the financial information related to our debt, clean energy investments, external acquisition-related expenses and other corporate costs. The revenues reported by this segment in 2012 resulted primarily from our consolidation of refined fuel operations that we control and own more than 50% of and from leased facilities we operate and control. At December 31, 2012, significant investments managed by this segment include:

Clean Coal Related Ventures

We have a 46.54% interest in a privately-held enterprise (Chem-Mod LLC) that has commercialized multi-pollutant reduction technologies to reduce mercury, sulfur dioxide and other emissions at coal-fired power plants. We also have an 8.0% interest in a privately-held start-up enterprise (C-Quest Technology LLC), which owns technologies that reduce carbon dioxide emissions created by burning fossil fuels.

Tax-Advantaged Investments

Prior to January 1, 2008, we owned certain partnerships formed to develop energy that qualified for tax credits under the former IRC Section 29. These consisted of waste-to-energy and synthetic coal operations. These investments helped to substantially reduce our effective income tax rate from 2002 through 2007. The law that permitted us to claim IRC Section 29 tax credits expired on December 31, 2007. In 2009 and 2011, we built a total of 29 commercial clean coal production plants to produce refined coal using Chem-Mod s proprietary technologies. We believe these operations produce refined coal that will qualify for tax credits under IRC Section 45. The law that provides for IRC Section 45 tax credits substantially expires in December 2019 for the fourteen plants we built and placed in service in 2009 (2009 Era Plants) and in December 2021 for the fifteen plants we built and placed in service in 2011 (2011 Era Plants).

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International Operations

Our total revenues by geographic area for each of the three years in the period ended December 31, 2012 were as follows (in millions):

	2012		2011		2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United States	$ 2,006.1	80%	$ 1,725.1	81%	$ 1,613.5	87%
United Kingdom	352.3	14%	260.5	12%	148.8	8%
Other foreign, principally Australia, Bermuda and Canada	161.9	6%	149.1	7%	101.9	5%
Total revenues	$ 2,520.3	100%	$ 2,134.7	100%	$ 1,864.2	100%

See Notes 4 and 14 to the First Quarter 2013 Financials for additional financials information related to our foreign operations including goodwill allocation, and identifiable assets, be segment, for the three months ended March 31, 2013 and 2012. See Notes 5, 14 and 17 to the 2012 Financials for additional financial information related to our foreign operations, including goodwill allocation, earnings from continuing operations before income taxes and identifiable assets, by segment, for 2012, 2011 and 2010.

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

The majority of our international brokerage operations are in Australia, Bermuda, Canada and the U.K.

We operate in Australia and Canada primarily as a retail commercial property and casualty broker. In the U.K., we also have a retail brokerage and underwriting operation for clients to access the Lloyd s of London and other international insurance markets, and a program operation offering customized risk management products and services to U.K. public entities. In Bermuda, we act principally as a wholesaler for clients looking to access the Bermuda insurance markets and also provide services relating to the formation and management of offshore captive insurance companies.

We also have ownership interests in two Bermuda-based insurance companies and a Guernsey-based insurance company that operate segregated account rent-a-captive facilities. These facilities enable clients to receive the benefits of owning a captive insurance company without incurring 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 insureds generally for reducing future costs of their insurance programs.

We also have strategic brokerage alliances with a variety of international brokers in countries where we do not have a local office presence. Through a network of correspondent insurance brokers and consultants in more than 140 countries, we are able to fully serve our clients coverage and service needs in virtually any geographic area.

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

Our international risk management operations are principally in Australia, Canada, New Zealand and the U.K. Services are similar to those provided in the United States and are provided primarily on behalf of commercial and public entity clients.

Markets and Marketing

We manage our brokerage operations through a network of approximately 350 sales and service offices located throughout the United States and in 18 other countries. We manage our third-party claims adjusting operations through a network of approximately 110 offices located throughout the United States, Australia, Canada, New Zealand and the U.K. Our customer base is highly diversified and includes commercial, industrial, public entity, religious and not-for-profit entities. No material part of our business depends upon a single customer or on a few customers. The loss of any one customer would not have a material adverse effect on our operations. In 2012, our largest single customer accounted for approximately 2% of total revenues and our ten largest customers represented 5% of total revenues in the aggregate. Our revenues are geographically diversified, with both domestic and international operations.

Each of our retail and wholesale brokerage operations has a small market-share position and, as a result, we believe has substantial organic growth potential. In addition, each of our retail and wholesale brokerage operations has the ability to grow through the acquisition of small- to medium-sized independent brokerages. See Business Combinations below.

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While historically we have generally grown our risk management segment organically, and we expect to continue to do so, from time to time we consider acquisitions for this segment.

We require our employees serving in sales or marketing capacities, including all of our executive officers, to enter into agreements with us restricting disclosure of confidential information and solicitation of our clients and prospects upon their termination of employment. The confidentiality and non-solicitation provisions of such agreements terminate in the event of a hostile change in control, as defined in the agreements.

Competition

Brokerage Segment

According to *Business Insurance* magazine s July 16, 2012 edition, we were the fourth largest insurance broker worldwide based on total revenues. 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 us in every area of our business.

Our retail and wholesale brokerage operations compete with Aon plc, Marsh & McLennan Companies, Inc. and Willis Group Holdings, Ltd., each of which has greater worldwide revenues than us. In addition, various other competing firms, such as Wells Fargo Insurance Services, Inc., Brown & Brown Inc., Hub International Ltd., Lockton Companies, Inc. and USI Holdings Corporation, operate nationally or are strong in a particular region or locality and may have, in that region or locality, an office with revenues as large as or larger than those of our corresponding local office. We believe that the primary factors determining our competitive position with other organizations in our industry are the quality of the services we render and the overall costs to our clients. In addition, for health/welfare products and benefit consultant services, we compete with larger firms such as Aon Hewitt, Mercer (a subsidiary of Marsh & McLennan Companies, Inc.), Towers Watson & Co. and the benefits consulting divisions of the national public accounting firms, as well as a vast number of local and regional brokerages and agencies.

Our wholesale brokerage operations compete with large wholesalers such as CRC Insurance Services, Inc., RT Specialty, AmWINS Group, Inc., Swett & Crawford Group, Inc., as well as a vast number of local and regional wholesalers.

We also compete 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 us.

Risk Management Segment

Our risk management operation currently ranks as the world s largest property/casualty third party administrator based on revenues, according to *Business Insurance* magazine s August 13, 2012 edition. While many global and regional claims administrators operate within this space, we compete directly with Sedgwick Claims Management Services, Inc., Broadspire Services, Inc. (a subsidiary of Crawford & Company) and ESIS (a subsidiary of ACE Limited). Several large insurance companies, such as AIG Insurance and Zurich Insurance, also maintain their own claims administration units, which can be strong competitors. In addition, we compete with various smaller third party administrators on a regional level. We believe that our competitive position is due to our strong reputation for outstanding service and our ability to resolve customers losses in the most cost-efficient manner possible.

Regulation

We are required to be licensed or receive regulatory approval in nearly every state and foreign jurisdiction in which we do 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, licensing laws and regulations generally grant broad discretion to supervisory authorities to adopt and amend regulations and to supervise regulated activities.

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Business Combinations

We completed and integrated 252 acquisitions from January 1, 2002 through March 31, 2013, almost exclusively within our brokerage segment. The majority of these acquisitions have been smaller regional or local property/casualty retail or wholesale operations with a strong middle-market client focus or significant expertise in one of our focus market areas. Over the last decade, we have also increased our acquisition activity in the retail employee benefits brokerage and wholesale brokerage areas. The total purchase price for individual acquisitions have typically ranged from $1 million to $50 million.

Through acquisitions, we seek to expand our talent pool, enhance our geographic presence and service capabilities, and/or broaden and further diversify our business mix. We also focus on identifying:

- A corporate culture that matches our sales-oriented culture;
- A profitable, growing business whose ability to compete would be enhanced by gaining access to our greater resources; and
- Clearly defined financial criteria.

See Note 3 to the First Quarter 2013 Financials for a summary of our first quarter 2013 acquisitions, the amount and form of the consideration paid and the dates of acquisitions, and Note 3 to our 2012 Financials for a summary of our 2012 acquisitions, the amount and form of the consideration paid and the dates of acquisition.

Employees

As of March 31, 2013, we had approximately 13,760 employees. We continuously review benefits and other matters of interest to our employees and consider our relations with our employees to be satisfactory.

PROPERTIES

The executive offices of our corporate segment and certain subsidiary and branch facilities of our brokerage and risk management segments are located at Two Pierce Place, Itasca, Illinois, where we lease approximately 306,000 square feet of space, or approximately 60% of the building. The lease commitment on this property expires on February 28, 2018.

Elsewhere, we generally operate in leased premises related to the facilities of our brokerage and risk management operations. We prefer to lease office space rather than own real estate. Certain of our office space leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of our leases contain annual escalation clauses generally related to increases in an inflation index. See Note 12 to the First Quarter 2013 Financials for information with respect to our lease commitments as of March 31, 2013.

LEGAL PROCEEDINGS

As of March 31, 2013, we are not a party to any material pending legal proceedings, other than ordinary routine litigation incidental to our business.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion and analysis should be read in conjunction with our unaudited interim financial statements for the three-month periods ended March 31, 2013 and 2012, which we refer to as the First Quarter 2013 Financials, and our audited financial statements for each of the three years in the period ended December 31, 2012, which we refer to as the 2012 Financials, both of which are included in this prospectus. In addition, please see Information Regarding Non-GAAP Measures and Other below for a reconciliation of the non-GAAP measures for adjusted total revenues, organic commission, fee and supplemental commission revenues and adjusted EBITDAC to the comparable GAAP measures, as well as other important information regarding these measures.

We are engaged in providing insurance brokerage and third-party property/casualty claims settlement and administration services to entities in the United States and abroad. Throughout 2012 and into 2013, we have expanded and expect to continue to expand our international operations through both acquisitions and organic growth. We generate approximately 80% of our revenues domestically, with the remaining 20% derived internationally, primarily in Australia, Bermuda, Canada, the Caribbean, New Zealand and the U.K. (based on first quarter 2013 reported revenues). We expect that our international revenue will continue to grow as a percentage of our total revenues in 2013 compared to 2012. We have three reportable segments: brokerage, risk management and corporate, which contributed approximately 73%, 22% and 5%, respectively, to 2012 revenues, and 67%, 23% and 10%, respectively, to revenues during the three-month period ended March 31, 2013. Our major sources of operating revenues are commissions, fees and supplemental and contingent commissions from brokerage operations and fees from risk management operations. Investment income is generated from our investment portfolio, which includes invested cash and fiduciary funds, as well as clean energy 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. Please see Cautionary Statement Regarding Forward-Looking Statements beginning on page 2 of this prospectus, for certain cautionary information regarding forward-looking statements and a list of factors that could cause our actual results to differ materially from those predicted in the forward-looking statements.

Information Regarding Non-GAAP Measures and Other

In the discussion and analysis of our results of operations, that follows, in addition to reporting financial results in accordance with GAAP, we provide information regarding EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, diluted net earnings per share (as adjusted) for the brokerage and risk management segments, adjusted revenues, adjusted compensation and operating expenses, adjusted compensation expense ratio, adjusted operating expense ratio and organic revenue measures for each operating segment. These measures are not in accordance with, or an alternative to, the GAAP information provided in this prospectus. We believe that these presentations provide useful information to management, analysts and investors regarding financial and business trends relating to our results of operations and financial condition. Our industry peers provide similar supplemental non-GAAP information related to organic revenues and EBITDAC, although they may not use the same or comparable terminology and may not make identical adjustments. The non-GAAP information we provide should be used in addition to, but not as a substitute for, the GAAP information provided. Certain reclassifications have been made to the prior-year amounts reported in this prospectus in order to conform them to the current-year presentation.

Adjusted presentation - We believe that the adjusted presentations of the 2013 and 2012 information presented on the following pages, provides stockholders and other interested persons with useful information regarding certain of our financial metrics that will assist such persons in analyzing our operating results as they develop a future earnings outlook for us. The after-tax amounts related to the adjustments were computed using the normalized effective tax rate for each respective period.

Adjusted revenues and expenses - We define these measures as revenues, compensation expense and operating expense, respectively, each adjusted to exclude net gains realized from sales of books of business, Heath Lambert integration costs, New Zealand earthquake claims administration, South Australia ramp up fees/costs, workforce related charges, lease termination related charges, acquisition related adjustments and the impact of foreign currency translation, as applicable. Integration costs include costs related to transactions not expected to occur on an ongoing basis in the future once we fully assimilate the applicable acquisition. These costs are typically associated with redundant workforce, extra lease space, duplicate services and external costs incurred to assimilate the acquisition on to our IT related systems.

Adjusted ratios - Adjusted compensation expense ratio and operating expense ratio are defined as adjusted compensation expense and adjusted operating expense, respectively, each divided by adjusted revenues.

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Earnings Measures - We believe that the presentation of EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, adjusted EBITDAC margin excluding Heath Lambert, EBITAC and diluted net earnings per share (as adjusted) for the brokerage and risk management segment, as defined below, provides a meaningful representation of our operating performance. We consider EBITDAC and EBITDAC margin as a way to measure financial performance on an ongoing basis. Adjusted EBITDAC, adjusted EBITDAC margin, adjusted EBITDAC margin excluding Heath Lambert and diluted net earnings per share (as adjusted) for the brokerage and risk management segments are presented to improve the comparability of our results between periods by eliminating the impact of items that have a high degree of variability.

EBITDAC - We define this measure as net earnings before interest, income taxes, depreciation, amortization and the change in estimated acquisition earnout payables.

EBITDAC margin - We define this measure as EBITDAC divided by total revenues.

Adjusted EBITDAC - We define this measure as EBITDAC adjusted to exclude gains realized from sales of books of business, Heath Lambert integration costs, earnout related compensation charges, workforce related charges, lease termination related charges, New Zealand earthquake claims administration, South Australia ramp up fees/costs, acquisition related adjustments, and the period-over-period impact of foreign currency translation, as applicable.

Adjusted EBITDAC margin - We define this measure as adjusted EBITDAC divided by total adjusted revenues, (defined above).

Adjusted EBITDAC margin excluding Heath Lambert - We define this measure as adjusted EBITDAC further adjusted to exclude the EBITDAC associated with the acquired Heath Lambert operations divided by total adjusted revenues (defined above).

EBITAC - We define this measure as earnings from continuing operations for our brokerage and risk management segments before interest, taxes, amortization and change in estimated acquisition earnout payables. EBITAC is a non-GAAP measure of earnings used by the Compensation Committee solely in the context of determining incentive compensation awards. The Compensation Committee believes this measure provides a meaningful representation of our operating performance and improves the comparability of Gallagher s results between periods by eliminating the impact of certain items that have a high degree of variability. The most directly comparable GAAP measure is earnings from continuing operations, which was $195.0 million, $144.1 million and $163.3 million on a consolidated basis in 2012, 2011 and 2010, respectively.

Diluted earnings from continuing operations per share (as adjusted) - We define this measure as net earnings adjusted to exclude the after-tax impact of gains realized from sales of books of business, Heath Lambert integration costs, New Zealand earthquake claims administration, South Australia ramp up fees/costs, the impact of foreign currency translation, workforce related charges, lease termination related charges, acquisition related adjustments, adjustments to the change in estimated acquisition earnout payables and effective income tax rate impact, divided by diluted weighted average shares outstanding.

Organic Revenues - Organic revenues, which we also refer to as Organic Change, in base commission and fee revenues excludes the first twelve months of net commission and fee revenues generated from acquisitions accounted for as purchases 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 help interested persons analyze the revenue growth associated with the operations that were a part of our business in both the current and prior year. In addition, change in organic revenues excludes the impact of supplemental and contingent commission revenues and the period-over-period impact of foreign currency translation and disposed of operations. The amounts excluded with respect to foreign currency translation are calculated by applying current year foreign exchange rates to the same prior year periods. For the risk management segment, organic change in fees excludes South Australia ramp up fees, New Zealand earthquake claims administration and the period-over-period impact of foreign currency translation to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability or are due to the limited-time nature of these revenue sources.

These revenue items are excluded from organic revenues in order to determine a comparable measurement of revenue growth that is associated with the revenue sources that are expected to continue in 2013 and beyond. We have historically viewed organic revenue growth as an important indicator when assessing and evaluating the performance of our brokerage and risk management segments. We also believe that using this measure allows readers of our financial statements to measure, analyze and compare the growth from our brokerage and risk management segments in a meaningful and consistent manner.

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Reconciliation of Non-GAAP Information Presented to GAAP Measures - This prospectus includes tabular reconciliations to the most comparable GAAP measures for adjusted revenues, adjusted compensation expense and adjusted operating expense, EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, adjusted EBITDAC margin excluding Heath Lambert, diluted net earnings per share (as adjusted) and organic revenue measures.

Other Information

Allocations of investment income and certain expenses are based on reasonable assumptions and estimates primarily using revenue, headcount and other information. We allocate the provision for income taxes to the brokerage and risk management segments as if those segments were computing income tax provisions on a separate company basis. As a result, the provision for income taxes for the corporate segment reflects the entire benefit to us of the IRC Section 45 credits generated, because that is the segment which produced the credits. The law that provides for IRC Section 45 tax credits substantially expires in December 2019 for our fourteen 2009 Era Plants and in December 2021 for our fifteen 2011 Era Plants. We anticipate reporting an effective tax rate of approximately 37.0% to 39.0% in both our brokerage segment and our 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 our results of operations, we also provide the following ratios with respect to our operating results: pretax profit margin, compensation expense ratio and operating expense ratio. Pretax profit margin represents pretax earnings from continuing operations divided by total revenues. The compensation expense ratio is compensation expense divided by total revenues. The operating expense ratio is operating expense divided by total revenues.

Overview and Financial Highlights

First Quarter 2013

We have generated positive organic growth in the last nine quarterly periods in both the brokerage and risk management segments. Based on our experience with customers, we believe we are seeing further evidence of market firming and our customers are being cautiously optimistic about their business prospects. The first quarter 2013 Council of Insurance Agents and Brokers (which we refer to as CIAB) survey indicated that rates were up, on average 5.2% across all sized accounts. Rates are continuing to rise as insurance carriers tighten their underwriting standards and press for higher pricing and deductibles on renewals. In addition insurance carriers are reducing their exposure to riskier business, which means more business is moving into the alternative markets. The survey also reflected an on-going Superstorm Sandy effect with tighter underwriting on property risks with CAT exposure on the eastern coast of the United States. The CIAB represents the leading domestic and international insurance brokers, who write approximately 80% of the commercial property/casualty premiums in the United States.

Our operating results improved in first quarter 2013 compared to the same period in 2012 in both our brokerage and risk management segments:

- In our brokerage segment, total revenues and adjusted total revenues were 18% and 19%, respectively, base organic commission and fee revenues were up 4.8%, net earnings were up 39%, adjusted EBITDAC was up 28% and adjusted EBITDAC margins were up 130 basis points. In addition, we completed four acquisitions with annualized revenues totaling $5.0 million in first quarter 2013.

- In our risk management segment, total revenues and adjusted total revenues were up 9% and 11%, respectively, organic fees were up 10.8%, net earnings were up 19%, adjusted EBITDAC was up 13% and adjusted EBITDAC margins improved by 30 basis points.

- In our combined brokerage and risk management segments, total revenues and adjusted total revenues were up 15% and 16%, respectively, base organic commissions and fee revenues were up 6.0%, net earnings were up 31%, adjusted EBITDAC was up 24% and improved adjusted EBITDAC margins by 107 basis points.

In our corporate segment we made steady progress in rolling-out our clean energy investments during 2012 and we now have most of our plants in various stages of ramping up production. Our clean energy investments contributed $13.2 million to net earnings in the first quarter of 2013. We anticipate clean energy investments to generate between $70.0 million and $80.0 million for all of 2013. These additional earnings will be used to continue our mergers and acquisition strategy in our core brokerage and risk management operations.

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The following provides non-GAAP information that management believes is helpful when comparing first quarter 2013 revenues, EBITDAC and diluted net earnings (loss) per share with the same period in 2012:

For the Three-Month Periods Ended March 31,	Revenues			EBITDAC			Diluted Net Earnings (Loss) Per Share		
Segment	2013	2012	Chg	2013	2012	Chg	2013	2012	Chg
	(in millions)			(in millions)					
Brokerage, as adjusted	$ 454.0	$ 383.0	19%	$ 82.9	$ 64.9	28%	$ 0.22	$ 0.18	22%
Net gains on book sales	0.4	0.7		0.4	0.7				
Heath Lambert integration costs				(3.0)	(4.0)		(0.02)	(0.02)	
Workforce & lease termination					(2.8)			(0.01)	
Acquisition related adjustments							(0.01)		
Levelized foreign currency translation		1.6			(0.6)				
Brokerage, as reported	454.4	385.3		80.3	58.2		0.19	0.15	
Risk Management, as adjusted	152.1	137.5	11%	25.2	22.4	13%	0.10	0.09	11%
New Zealand earthquake claims administration	0.1	3.8			1.2			0.01	
South Australia ramp up	1.4			1.3			0.01		
Risk Management, as reported	153.6	141.3		26.5	23.6		0.11	0.10	
Total Brokerage & Risk Management, as reported	608.0	526.6		106.8	81.8		0.30	0.25	
Corporate, as reported	66.1	20.2		(8.5)	(5.4)		0.02	(0.01)	
Total Company, as reported	$ 674.1	$ 546.8		$ 98.3	$ 76.4		$ 0.32	$ 0.24	
Total Brokerage & Risk Management, as adjusted	$ 606.1	$ 520.5	16%	$ 108.1	$ 87.3	24%	$ 0.32	$ 0.27	19%

Fiscal Year Ended December 31, 2012

Even though we generated positive organic growth in the year ended December 31, 2012 in both our brokerage and risk management segments, the uncertain economic environment continued to provide headwinds for our business in 2012. In first quarter 2012, surveys by the CIAB indicated that commercial property/casualty rates were up, on average 4.4% across all sized accounts. The second quarter report indicated that rates were up, on average 4.3% across all sized accounts. The third quarter report indicated that rates were up, on average 3.9% across all sized accounts. The fourth quarter report indicated that rates were up, on average 5.0% across all sized accounts. The CIAB survey did not reveal any significant new emerging trends, but did note that rates appear to be continuing the trend upward. Although competition is still stiff in the marketplace, the fourth quarter survey indicated that property/casualty insurance carriers appear to be tightening their underwriting standards, particularly on accounts with poor loss experience. The survey also indicated that there is some upward rate pressure on workers compensation and property lines of business. However, the demand for insurance continues to be restrained due to the sluggish economy, which could offset the impact of the favorable pricing trend noted in the fourth quarter survey. The CIAB represents the leading domestic and international insurance brokers, who write approximately 80% of the commercial property/casualty premiums in the United States.

Our operating results improved in 2012 compared to 2011 in both our brokerage and risk management segments:

In our brokerage segment, total revenues and adjusted total revenues were up 17% and 18%, respectively, base organic commission and fee revenues were up 4.4%, earnings from continuing operations were up 11%, adjusted EBITDAC was up 22% and adjusted EBITDAC margins were up 70 basis points. In addition, we completed 58 acquisitions totaling $231.3 million of annualized revenues in 2012.

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In our risk management segment, total revenues and adjusted total revenues were up 4% and 7%, respectively, base organic fee revenues were up 3.7%, earnings from continuing operations were up 28% and adjusted EBITDAC was up 11%. We improved adjusted EBITDAC margins by 60 basis points and hit our targeted adjusted EBITDAC margin of 16% while making our planned client-centric investments.

In our combined brokerage and risk management segments, total revenues and adjusted total revenues were up 14% and 15%, respectively, base organic commission and fee revenues were up 4.2%, earnings from continuing operations were up 14%, adjusted EBITDAC was up 20% and improved adjusted EBITDAC margins by 90 basis points.

During the fourth quarter 2012, we took actions to contract our global workforce by approximately 3%, or 400 middle-office and back-office positions. These actions reflect our investments in productivity initiatives and improved technology utilization. Pretax charges totaled approximately $12.3 million and we expect related future annual workforce savings of approximately $35.0 million. Anticipated to mostly offset these future savings will be increased medical costs, reduced discount rate on our frozen pension plan, salary increases, increased performance-based compensation and increased long-term incentive compensation.

In our corporate segment, we made tremendous progress in rolling-out our clean energy investments during 2012 and we now have most of our plants in various stages of ramping up production. Our clean energy investments contributed $32.7 million to net earnings in 2012 and could be more than double that in 2013. These additional earnings will be used to continue our mergers and acquisition strategy in our core brokerage and risk management operations.

The following provides non-GAAP information that management believes is helpful when comparing 2012 revenues, EBITDAC and diluted net earnings (loss) per share with the same periods in 2011.

Year Ended December 31,							Diluted Net Earnings	
	Revenues			EBITDAC			(Loss) Per Share	
Segment	2012	2011	Chg	2012	2011	Chg	2012	2011
	(in millions)			(in millions)				
Brokerage, as adjusted	$ 1,823.7	$ 1,549.3	18%	$ 414.7	$ 340.5	22%	$ 1.43	$ 1.28
Gains on book sales	3.9	5.5		3.9	5.5		0.02	0.03
Heath Lambert integration costs				(19.3)	(16.0)		(0.10)	(0.08)
Workforce and lease termination				(14.4)	(2.6)		(0.07)	(0.01)
Acquisition related adjustments					(7.0)			0.03
Levelized foreign currency translation		1.7		(1.6)	0.4		(0.01)	
Brokerage, as reported	1,827.6	1,556.5		383.3	320.8		1.27	1.25
Risk Management, as adjusted	563.1	527.0	7%	90.3	81.4	11%	0.36	0.35
New Zealand earthquake claims administration	8.6	21.8		1.5	6.1		0.01	0.03
GAB Robins integration costs					(13.0)			(0.06)
South Australia ramp up costs				(2.1)			(0.01)	
Workforce and lease termination				(2.7)	(5.6)		(0.01)	(0.03)
Risk Management, as reported	571.7	548.8		87.0	68.9		0.35	0.29
Total Brokerage and Risk Management, as reported	2,399.3	2,105.3		470.3	389.7		1.62	1.54
Corporate, as reported	121.0	29.4		(38.2)	(32.1)		(0.03)	(0.26)
Total Company, as reported	$ 2,520.3	$ 2,134.7		$ 432.1	$ 357.6		$ 1.59	$ 1.28
Total Brokerage and Risk Management, as adjusted	$ 2,386.8	$ 2,076.3	15%	$ 505.0	$ 421.9	20%	$ 1.79	$ 1.62

We achieved these results by, among other things, demonstrating expense discipline and headcount control, continuing to pursue our acquisition strategy and generating organic growth in our core businesses. In 2012, we continued to expand our international operations through both acquisitions and organic growth. By the end of 2012, 20% of our revenues were generated internationally, compared with 19% in 2011. We expect this international revenue trend to continue in 2013.

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Insurance Market Overview

Fluctuations in premiums charged by property/casualty insurance 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 property/casualty premium rates (a soft market). A soft market tends to put downward pressure on commission revenues. Various countervailing factors, such as greater than anticipated loss experience and capital shortages, can result in increasing property/casualty 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, certain insureds, who are the buyers of insurance (our brokerage clients), have historically resisted paying increased premiums and the higher commissions these premiums generate. 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 us 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 50% of the total U.S. commercial property/casualty market. Our 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 us, 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, resulting in higher overall premiums and higher commissions. However, the impact of hard and soft market fluctuations has historically had a greater impact on changes in premium rates, and therefore on our revenues, than inflationary pressures.

Recent Events

In 2012, the insurance market began showing signs of firming (as opposed to traditional hardening) across many lines and geographic areas. In this environment, rates increased at a moderate pace, clients could still obtain coverage, businesses continued to stay in standard-line markets and there was adequate capacity in the insurance market. It is not clear whether this firming is sustainable given the uncertainty of the current economic environment. Despite the official end of the recession and recent signs of an economic recovery, the deterioration in the economy that began in the fall of 2008 continued to adversely impact us in 2012, and could continue to do so in future years as a result of potential reductions in the overall amount of insurance coverage that our clients may purchase due to reductions in, among other things, their headcount, payroll, properties and the market value of their assets. Such reductions could also adversely impact our commission revenues in future years if the property/casualty insurance carriers perform exposure audits that lead to subsequent downward premium adjustments. We record the income effects of subsequent premium adjustments when the adjustments become known and, as a result, any improvement in our results of operations and financial condition may lag an improvement in the economy.

In June 2012, the U.S. Supreme Court upheld the constitutionality of portions of the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act (which we refer to together as the 2010 Health Care Reform Legislation). The 2010 Health Care Reform Legislation, among other things, increases the level of regulatory complexity for companies that offer health and welfare benefits to their employees. Many clients of our brokerage segment purchase health and welfare products for their employees and, therefore, are impacted by the 2010 Health Care Reform Legislation. As a result, the potential exists for our employee benefits consultants to win new clients and generate additional revenue from existing clients by assisting them in navigating the increasingly complex regulations surrounding their benefits plans. In 2012, our employee benefits consulting operation generated approximately one quarter of the brokerage segment s revenues. Although we believe that the 2010 Health Care Reform Legislation could be beneficial to our brokerage segment s fee revenues, given the legislation s broad scope and the uncertainties that exist regarding the interpretation and implementation of many of the legislation s complex provisions, the potential impact of the legislation on us in the long run, beneficial or otherwise, is currently uncertain.

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Clean energy investments - In 2009 and 2011, we built a total of 29 commercial clean coal production plants to produce refined coal using Chem-Mod LLC s (see below) proprietary technologies. We believe these operations produce refined coal that qualifies for tax credits under IRC Section 45. The law that provides for IRC Section 45 tax credits expires in December 2019 for the fourteen plants we built and placed in service in 2009 (2009 Era Plants) and in December 2021 for the fifteen plants we built and placed in service in 2011 (2011 Era Plants).

Nineteen plants are under long-term production contracts with several utilities. The remaining ten plants are in various stages of engineering, negotiating, finalizing and signing long-term production contracts. Several of the remaining ten plants could be in production starting in mid-2013 with the balance expected to be in production in 2014. Our current estimate of the 2013 annual after-tax earnings that could be generated from production at the plants that operate in 2013 is $75.0 million to $91.0 million. If we continue to have success in entering additional long-term production contracts, we could generate more after-tax earnings in 2014 and beyond.

We also own a 46.54% controlling interest in Chem-Mod LLC, which has been marketing The Chem-Mod Solution proprietary technologies principally to refined fuel plants that sell refined fuel to coal-fired power plants owned by utility companies, including those plants in which we hold interests. Based on current production estimates provided by licensees, Chem-Mod could generate for us approximately $3.6 million of net after-tax earnings per quarter.

All estimates set forth above regarding the future results of our clean energy investments are subject to significant risks, including those set forth in the risk factors regarding our IRC Section 45 investments included in the Risk Factors section of this prospectus.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (which we refer to as GAAP), which require management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We believe the following significant accounting policies may involve a higher degree of judgment and complexity. See Note 1 to the 2012 Financials for other significant accounting policies.

Revenue Recognition - We recognize commission revenues at the later of the billing or the effective date of the related insurance policies, net of an allowance for estimated policy cancellations. We recognize commission revenues related to installment premiums as the installments are billed. We recognize supplemental commission revenues using internal data and information received from insurance carriers that allows us to reasonably estimate the supplemental commissions earned in the period. A supplemental commission is a commission paid by an insurance carrier that is above the base commission paid, is determined by the insurance carrier based on historical performance criteria and is established annually in advance of the contractual period. We recognize contingent commissions and commissions on premiums directly billed by insurance carriers as revenue when we have obtained the data necessary to reasonably determine such amounts. Typically, we cannot reasonably determine these types of commission revenues until we have received the cash or the related policy detail or other carrier specific information from the insurance carrier. A contingent commission is a commission paid by an insurance carrier based on the overall profit and/or volume of the business placed with that insurance carrier during a particular calendar year and is determined after the contractual period. Commissions on premiums billed directly by insurance carriers to the insureds generally relate to a large number of property/casualty insurance policy transactions, each with small premiums, and comprise a substantial portion of the revenues generated by our employee benefit brokerage operations. Under these direct bill arrangements, the insurance carrier controls the entire billing and policy issuance process. We record the income effects of subsequent premium adjustments when the adjustments become known. Fee revenues generated from the brokerage segment primarily relate to fees negotiated in lieu of commissions that we recognize 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, that we provide over a period of time, typically one year. We recognize these fee revenues ratably as the services are rendered and record the income effects of subsequent fee adjustments when the adjustments become known.

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Premiums and fees receivable in our consolidated balance sheet are net of allowances for estimated policy cancellations and doubtful accounts. We establish the allowance for estimated policy cancellations through a charge to revenues and the allowance for doubtful accounts through a charge to other operating expenses. Both of these allowances are based on estimates and assumptions using historical data to project future experience. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein. We periodically review the adequacy of these allowances and make adjustments as necessary.

Income Taxes - Our tax rate reflects the statutory tax rates applicable to our taxable earnings and tax planning in the various jurisdictions in which we operate. Significant judgment is required in determining the annual effective tax rate and in evaluating uncertain tax positions. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in our tax return. We evaluate our tax positions using a two-step process. The first step involves recognition. We determine whether it is more likely than not that a tax position will be sustained upon tax examination based solely on the technical merits of the position. The technical merits of a tax position are derived from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings and case law) and their applicability to the facts and circumstances of the position. If a tax position does not meet the more likely than not recognition threshold, we do not recognize the benefit of that position in the financial statements. The second step is measurement. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that has a likelihood of greater than 50% of being realized upon ultimate resolution with a taxing authority.

Uncertain tax positions are measured based upon the facts and circumstances that exist at each reporting period and involve significant management judgment. Subsequent changes in judgment based upon new information may lead to changes in recognition, derecognition and measurement. Adjustments may result, for example, upon resolution of an issue with the taxing authorities, or expiration of a statute of limitations barring an assessment for an issue. We recognize interest and penalties, if any, related to unrecognized tax benefits in our provision for income taxes. See Note 14 to the 2012 Financials for a discussion regarding the possibility that our gross unrecognized tax benefits balance may change within the next twelve months.

Tax law requires certain items to be included in our tax returns at different times than such items are reflected in the financial statements. As a result, the annual tax expense reflected in our consolidated statements of earnings is different than that reported in the tax returns. Some of these differences are permanent, such as expenses that are not deductible in the returns, and some differences are temporary and reverse over time, such as depreciation expense and amortization expense deductible for income tax purposes. Temporary differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which a tax payment has been deferred, or expense which has been deducted in the tax return but has not yet been recognized in the financial statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in tax returns in future years for which a benefit has already been recorded in the financial statements.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to fully use a deduction or credit in a specific jurisdiction. In assessing the need for the recognition of a valuation allowance for deferred tax assets, we consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized and adjust the valuation allowance accordingly. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income by jurisdiction, tax-planning strategies that would result in the realization of deferred tax assets and the presence of taxable income in prior carryback years. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable.

Intangible Assets/Earnout Obligations - Intangible assets represent the excess of cost over the estimated fair value of net tangible assets of acquired businesses. Our primary intangible assets are classified as either goodwill, expiration lists, non-compete agreements or trade names. Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (three to fifteen years for expiration lists, three to five years for non-compete agreements and ten to fifteen years for trade names), while goodwill is not subject to amortization. The establishment of goodwill, expiration lists, non-compete agreements and trade names and the determination of estimated useful lives are primarily based on valuations we receive 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. Different estimates or assumptions could produce different results. We carry intangible assets at cost, less accumulated amortization in our consolidated balance sheet.

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We review all of our intangible assets for impairment at least annually and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. We perform these impairment reviews at the reporting unit 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 2012, 2011 and 2010, we wrote off $3.5 million, $4.6 million and $2.3 million, respectively, of amortizable intangible assets related to prior year acquisitions of our brokerage segment. 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. Different estimates or assumptions could produce different results.

Effective January 1, 2009, we adopted, on a prospective basis, revised guidance to account for our acquisitions, including the estimation and recognition of the fair value of liabilities related to potential earnout obligations as of the acquisition dates for all of our acquisitions from 2009 and into the future, whose purchase agreements contain such provisions. Subsequent changes in these estimated earnout obligations are recorded in our consolidated statement of earnings when incurred. Potential earnout obligations are typically based upon the estimated future operating results of the acquired businesses. For acquisitions made prior to January 1, 2009, we did not include such obligations in the purchase price recorded for each applicable acquisition at the acquisition date because such obligations are not fixed and determinable. We generally record future payments made under these 2008 and prior arrangements, if any, as additional goodwill when the earnouts are settled, which will have no impact on the amounts reported in our consolidated statement of earnings. See Note 3 to the First Quarter 2013 Financials for additional discussion on our first quarter 2013 business combinations, and Note 3 to the 2012 Financials for additional discussion on our 2012 business combinations.

Business Combinations and Dispositions

See Note 3 to the First Quarter 2013 Financials for additional discussion on our first quarter 2013 business combinations, and Note 3 to the 2012 Financials for additional discussion on our 2012 business combinations. We did not have any material dispositions in 2012, 2011 or 2010. Historically, we have used acquisitions to grow our brokerage segment s commission and fee revenues. Acquisitions allow us to expand into desirable geographic locations and further extend our presence in the retail and wholesale insurance brokerage services industries. We expect that our brokerage segment s commission and fee revenues will continue to grow from acquisitions. We intend to continue to consider from time to time, additional acquisitions for our brokerage and risk management segments on terms that we deem advantageous. At any particular time, we are generally engaged in discussions with multiple acquisition candidates. However, we can make no assurances that any additional acquisitions will be consummated, or, if consummated, that they will be advantageous to us.

Results of Operations

Financial Results - Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012

Brokerage Segment

The brokerage segment accounted for 67% of our revenues during the three month period ended March 31, 2013. Our brokerage segment is primarily comprised of retail and wholesale brokerage operations. Our retail brokerage operations negotiate and place property/casualty, 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 our 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. Our wholesale brokerage operations assist our brokers and other unaffiliated brokers and agents in the placement of specialized, unique and hard to place insurance programs.

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Our primary sources of compensation for our 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 our clients. For wholesale brokerage services, we generally receive a share of the commission paid to 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 we act as a retail or wholesale broker. Advisory fees are dependent on the extent and value of services we provide. In addition, under certain circumstances, both retail brokerage and wholesale brokerage services receive supplemental and contingent commissions. A supplemental commission is a commission paid by an insurance carrier that is above the base commissions paid, is determined by the insurance carrier and is established annually in advance of the contractual period based on historical performance criteria. A contingent commission is a commission paid by an insurance carrier based on the overall profit and/or volume of the business placed with that insurance carrier during a particular calendar year and is determined after the contractual period.

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Financial information relating to our brokerage segment results for the three-month period ended March 31, 2013 as compared to the same period in 2012, is as follows: (in millions, except per share, percentages and workforce data):

Statement of Earnings	Three-month period ended March 31, 2013	2012	Change
Commissions	$ 326.8	$ 272.0	$ 54.8
Fees	86.7	75.1	11.6
Supplemental commissions	17.3	17.1	0.2
Contingent commissions	22.5	19.0	3.5
Investment income	0.7	1.4	(0.7)
Gains realized on books of business sales	0.4	0.7	(0.3)
Total revenues	454.4	385.3	69.1
Compensation	287.7	257.1	30.6
Operating	86.4	70.0	16.4
Depreciation	6.3	5.7	0.6
Amortization	29.0	20.5	8.5
Change in estimated acquisition earnout payables	4.4	2.5	1.9
Total expenses	413.8	355.8	58.0
Earnings before income taxes	40.6	29.5	11.1
Provision for income taxes	16.0	11.8	4.2
Net earnings	$ 24.6	$ 17.7	$ 6.9
Diluted net earnings per share	$ 0.19	$ 0.15	$ 0.04
Other Information			
Change in diluted net earnings per share	27%	(6%)	
Growth in revenues	18%	21%	
Organic change in commissions and fees	5%	3%	
Compensation expense ratio	63%	67%	
Operating expense ratio	19%	18%	
Effective income tax rate	39%	40%	
Workforce at end of period (includes acquisitions)	8,966	7,987	
Identifiable assets at March 31	$ 3,953.8	$ 3,445.5	
EBITDAC			
Net earnings	$ 24.6	$ 17.7	$ 6.9
Provision for income taxes	16.0	11.8	4.2
Depreciation	6.3	5.7	0.6
Amortization	29.0	20.5	8.5
Change in estimated acquisition earnout payables	4.4	2.5	1.9
EBITDAC	$ 80.3	$ 58.2	$ 22.1
EBITDAC margin	18%	15%	
EBITDAC growth	38%	15%	

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The following provides non-GAAP information that management believes is helpful when comparing first quarter 2013 EBITDAC and adjusted EBITDAC to the same period in 2012 (in millions):

	Three-month period ended March 31,	
	2013	**2012**
Total EBITDAC - see computation above	$ 80.3	$ 58.2
Net gains from books of business sales	(0.4)	(0.7)
Heath Lambert integration costs	3.0	4.0
Workforce and lease termination related charges		2.8
Levelized foreign currency translation		0.6
Adjusted EBITDAC	$ 82.9	$ 64.9
Adjusted EBITDAC change	27.7%	26.6%
Adjusted EBITDAC margin	18.3%	17.0%

Effective May 12, 2011, we acquired HLG Holdings, Ltd. (which we refer to as Heath Lambert) for cash, net of cash received, of approximately $164.0 million. As of the acquisition date, we expected that it could take up to two years to fully integrate the Heath Lambert operations into our existing operations.

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Commissions and fees - The aggregate increase in commissions and fees for the three-month period ended March 31, 2013 compared to the same period in 2012, was principally due to revenues associated with acquisitions that were made in the twelve-month period ended March 31, 2013 ($51.5 million). Commissions and fees in the three-month period ended March 31, 2013 included new business production and renewal rate increases of $56.1 million, which was partially offset by lost business of $41.2 million. Commissions increased 20% and fees increased 15% in the three-month period ended March 31, 2013 compared to the same period in 2012. Organic growth in commissions and fee revenues for the three-month period ended March 31, 2013 was 5% compared to 3% for the same period in 2012, principally due to net new business production and premium rate increases. Items excluded from organic revenue computations yet impacting revenue comparisons for the three-month periods ended March 31, 2013 and 2012 include the following (in millions):

For the Three-Month Periods Ended March 31,	2013 Organic Revenue 2013	2013 Organic Revenue 2012	2012 Organic Revenue 2012	2012 Organic Revenue 2011
Base Commissions and Fees				
Commission revenues as reported	$ 326.8	$ 272.0	$ 272.0	$ 225.7
Fee revenues as reported	86.7	75.1	75.1	59.1
Less commission and fee revenues from acquisitions	(51.5)		(56.0)	
Less disposed of operations		(0.3)		(2.7)
Levelized foreign currency translation		(1.4)		(0.1)
Organic base commission and fee revenues	$ 362.0	$ 345.4	$ 291.1	$ 282.0
Organic change in base commission and fee revenues	4.8%		3.2%	
Supplemental Commissions				
Supplemental commissions as reported	$ 17.3	$ 17.1	$ 17.1	$ 13.5
Less supplemental commissions from acquisitions	(1.6)		(2.7)	
Less disposed of operations				(0.3)
Organic supplemental commissions	$ 15.7	$ 17.1	$ 14.4	$ 13.2
Organic change in supplemental commissions	(8.2%)		9.1%	
Contingent Commissions				
Contingent commissions as reported	$ 22.5	$ 19.0	$ 19.0	$ 16.8
Less contingent commissions from acquisitions	(3.5)		(2.4)	
Organic contingent commissions	$ 19.0	$ 19.0	$ 16.6	$ 16.8
Organic change in contingent commissions	0.0%		(1.2%)	

Supplemental and contingent commissions - Reported supplemental and contingent commission revenues recognized in 2013, 2012 and 2011 by quarter are as follows (in millions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2013					
Reported supplemental commissions	$ 17.3				$ 17.3
Reported contingent commissions	22.5				22.5
Reported supplemental and contingent commissions	$ 39.8				$ 39.8

2012					
Reported supplemental commissions	$ 17.1	$ 16.6	$ 16.6	$ 17.6	$ 67.9
Reported contingent commissions	19.0	10.3	7.7	5.9	42.9
Reported supplemental and contingent commissions	$ 36.1	$ 26.9	$ 24.3	$ 23.5	$ 110.8
2011					
Reported supplemental commissions	$ 13.5	$ 14.0	$ 14.5	$ 14.0	$ 56.0
Reported contingent commissions	16.8	7.9	9.9	3.5	38.1
Reported supplemental and contingent commissions	$ 30.3	$ 21.9	$ 24.4	$ 17.5	$ 94.1

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Investment income and net gains realized on books of business sales - This primarily represents interest income earned on cash, cash equivalents and restricted funds and one-time gains related to sales of books of business, which were $0.4 million and $0.7 million, respectively, for the three-month periods ended March 31, 2013 and 2012. Investment income in the three month period ended March 31, 2013 decreased slightly compared to the same period in 2012.

Compensation expense - The following provides non-GAAP information that management believes is helpful when comparing first quarter 2013 compensation expense with the same period in 2012 (in millions):

	Three-month period ended March 31,	
	2013	2012
Reported amounts	$ 287.7	$ 257.1
Heath Lambert integration costs	(1.3)	(2.8)
Workforce related charges		(2.8)
Levelized foreign currency translation		(1.6)
Adjusted amounts	$ 286.4	$ 249.9
Adjusted revenues - see page 31	$ 454.0	$ 383.0
Adjusted ratios	63.1%	65.3%

The increase in compensation expense for the three month period ended March 31, 2013 compared to the same period in 2012 was primarily due to increased headcount, salary increases, one time compensation payments and increases in incentive compensation linked to our overall operating results ($27.6 million in the aggregate), increases in employee benefits ($5.2 million), stock compensation expense ($0.4 million) and temporary staffing ($0.2 million) offset by a decrease in severance related costs ($2.8 million). The increase in employee headcount primarily relates to employees associated with the acquisitions completed in the twelve-month period ended March 31, 2013.

Operating expenses - The following provides non-GAAP information that management believes is helpful when comparing first quarter 2013 operating expense with the same period in 2012 (in millions):

	Three-month period ended March 31,	
	2013	2012
Reported amounts	$ 86.4	$ 70.0
Heath Lambert integration costs	(1.7)	(1.2)
Levelized foreign currency translation		(0.6)
Adjusted amounts	$ 84.7	$ 68.2
Adjusted revenues - see page 31	$ 454.0	$ 383.0
Adjusted ratios	18.7%	17.8%

The increase in operating expense for the three-month period ended March 31, 2013 compared to the same period in 2012 was primarily due to increases in professional fees ($4.1 million), office expense ($3.8 million), travel and entertainment expense ($3.4 million), net rent and utilities ($2.6 million), licenses and fees ($1.2 million), sales development expense ($0.6 million)), business insurance ($0.5 million), other expense ($0.4 million) and lease termination related charges ($0.3 million), slightly offset by a favorable foreign currency translation ($0.4 million) and a decrease in bad debt expense ($0.2 million). Also contributing to the increase in operating expenses in the three-month period ended March 31, 2013 were increased expenses associated with the acquisitions completed in the twelve-month period ended March 31, 2013.

Depreciation - Depreciation expense in the three-month periods ended March 31, 2013 increased slightly compared to the same periods in 2012 due to expenses associated with acquisitions completed in the twelve-month period ended March 31, 2013.

Amortization - The increase in amortization expense in the three month period ended March 31, 2013 compared to the same period in 2012 was due primarily to amortization expense of intangible assets associated with acquisitions completed in the completed in the twelve-month period ended March 31, 2013. Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (three to fifteen years for expiration lists, three to five years for non-compete agreements and ten years for trade names). Based on the results of impairment reviews during the three-month period ended March 31, 2013, we wrote off $1.8 million of amortizable intangible assets related to the brokerage segment. No indicators of impairment were noted in the three-month period ended March 31, 2012.

Change in estimated acquisition earnout payables - The increase in expense from the change in estimated acquisition earnout payables in the three month period ended March 31, 2013 compared to the same period in 2012, was due primarily to adjustments made to the estimated fair value of earnout obligations related to revised projections of future performance. During each of the three-month periods ended March 31, 2013 and 2012, we recognized $2.9 million and $2.4 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations related to our 2009 to 2013 acquisitions. In addition, during the three month periods ended March 31, 2013 and 2012, we recognized $1.5 million and $0.1 million of expense, respectively, related to net adjustments in the estimated fair value of earnout obligations related to revised projections of future performance for seventeen and six acquisitions, respectively.

The amounts initially recorded as earnout payables for our 2009 to 2013 acquisitions are measured at fair value as of the acquisition date and are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements. In determining fair value, we estimated the acquired entity s future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. We estimated future earnout payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. Subsequent changes in the underlying financial projections or assumptions will cause the estimated earnout obligations to change and such adjustments are recorded in our consolidated statement of earnings when incurred. Increases in the earnout payable obligations will result in the recognition of expense and decreases in the earnout payable obligations will result in the recognition of income.

Provision for income taxes - The brokerage segment s effective income tax rates for the three-month periods ended March 31, 2013 and 2012 were 39.4% and 40.0%, respectively. We anticipate reporting an effective tax rate of approximately 37.0% to 39.0% in our brokerage segment for the foreseeable future.

Risk Management Segment

The risk management segment accounted for 23% of our revenue during the three-month period ended March 31, 2013. The risk management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property/casualty coverages and for insurance companies that choose to outsource some or all of their property/casualty claims departments. In addition, this segment 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. Revenues for risk management services are substantially in the form of fees that 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.

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Financial information relating to our risk management segment results for the three-month period ended March 31, 2013 as compared to the same period in 2012, is as follows: (in millions, except per share, percentages and workforce data):

	Three-month period ended March 31, 2013	2012	Change
Statement of Earnings			
Fees	$ 153.0	$ 140.5	$ 12.5
Investment income	0.6	0.8	(0.2)
Total revenues	153.6	141.3	12.3
Compensation	91.6	85.4	6.2
Operating	35.5	32.3	3.2
Depreciation	4.4	3.9	0.5
Amortization	0.6	0.6	
Total expenses	132.1	122.2	9.9
Earnings before income taxes	21.5	19.1	2.4
Provision for income taxes	7.6	7.4	0.2
Net earnings	$ 13.9	$ 11.7	$ 2.2
Diluted net earnings per share	$ 0.11	$ 0.10	$ 0.01
Other information			
Change in diluted net earnings per share	10%	67%	
Growth in revenues	9%	8%	
Organic change in fees	8%	7%	
Compensation expense ratio	60%	60%	
Operating expense ratio	23%	23%	
Effective income tax rate	35%	39%	
Workforce at end of period (includes acquisitions)	4,500	4,256	
Identifiable assets at March 31	$ 503.9	$ 533.1	
EBITDAC			
Net earnings	$ 13.9	$ 11.7	$ 2.2
Provision for income taxes	7.6	7.4	0.2
Depreciation	4.4	3.9	0.5
Amortization	0.6	0.6	
EBITDAC	$ 26.5	$ 23.6	$ 2.9
EBITDAC margin	17%	17%	
EBITDAC growth	12%	55%	

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The following provides non-GAAP information that management believes is helpful when comparing first quarter 2013 EBITDAC and adjusted EBITDAC to the same period in 2012 (in millions):

	Three-month period ended March 31, 2013	2012
Total EBITDAC - see computation above	$ 26.5	$ 23.6
New Zealand earthquake claims administration		(1.2)
South Australia ramp up	(1.3)	
Adjusted EBITDAC	$ 25.2	$ 22.4
Adjusted EBITDAC change	12.5%	14.3%
Adjusted EBITDAC margin	16.6%	16.3%

Fees - The increase in fees for the three-month period ended March 31, 2013 compared to the same period in 2012 was due primarily to revenues associated with new business and the impact of increased claim counts (total of $22.1 million), which were partially offset by lost business of $9.6 million. Organic growth in fee revenues for the three-month period ended March 31, 2013 was 11% compared to 7% for the same period in 2012.

Items excluded from organic fee computations yet impacting revenue comparisons for the three-month periods ended March 31, 2013 and 2012 include the following (in millions):

For the Three-Month Periods Ended March 31	2013 Organic Revenue 2013	2012	2012 Organic Revenue 2012	2011
Fees	$ 147.3	$ 136.2	$ 136.2	$ 126.9
International performance bonus fees	5.7	4.3	4.3	3.0
Fees as reported	153.0	140.5	140.5	129.9
Less fees from acquisitions	(0.8)		(0.7)	
Less South Australia ramp up fees	(1.4)			
Less New Zealand earthquake claims administration	(0.1)	(3.8)	(3.8)	(3.3)
Levelized foreign currency translation		(0.7)		0.7
Organic fees	$ 150.7	$ 136.0	$ 136.0	$ 127.3
Organic change in fees	10.8%		6.8%	

Organic change in fees adjusted to exclude fees related to a new international client was 6.8% in first quarter 2013.

Investment income - Investment income primarily represents interest income earned on our cash and cash equivalents. Investment income in the three month period ended March 31, 2013 remained relatively unchanged compared to the same period in 2012.

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Compensation expense - The following provides non-GAAP information that management believes is helpful when comparing first quarter 2013 compensation expense with the same period in 2012 (in millions):

	Three-month period ended March 31, 2013	2012
Reported amounts	$ 91.6	$ 85.4
New Zealand earthquake claims administration		(2.2)
Adjusted amounts	$ 91.6	$ 83.2
Adjusted revenues - see page 29	$ 152.1	$ 137.5
Adjusted ratios	60.2%	60.5%

The increase in compensation expense for the three-month period ended March 31, 2013 compared to the same period in 2012 was primarily due to increased headcount, increases in salaries ($7.9 million) and employee benefits expense ($1.1 million) offset by a favorable foreign currency translation ($0.4 million) and decreases in New Zealand earthquake claims administration ($2.2 million) and temporary-staffing expense ($0.2 million).

Operating expenses - The following provides non-GAAP information that management believes is helpful when comparing first quarter 2013 operating expense with the same period in 2012 (in millions):

	Three-month period ended March 31, 2013	2012
Reported amounts	$ 35.5	$ 32.3
New Zealand earthquake claims administration	(0.1)	(0.4)
South Australia ramp up costs	(0.1)	
Adjusted amounts	$ 35.3	$ 31.9
Adjusted revenues - see page 29	$ 152.1	$ 137.5
Adjusted ratios	23.2%	23.2%

The increase in operating expense for the three-month period ended March 31, 2013 compared to the same period in 2012 was primarily due to increases in professional fees ($3.3 million), business insurance ($0.8 million), travel and entertainment ($0.5 million), licenses and fees ($0.3 million) and bad debt expense ($0.1 million), offset by decreases in office expenses ($0.5 million), New Zealand earthquake claims administration ($0.3 million), sales development expense ($0.3 million), other expense ($0.3 million) and net rent and utilities ($0.3 million). The increase in professional fees is primarily related to a new product introduced during third quarter 2012 that is primarily outsourced and the cost of which flows through operating expenses.

Depreciation - Depreciation expense increased slightly in the three-month period ended March 31, 2013 compared to the same period in 2012 and reflects the impact of purchases of furniture, equipment and leasehold improvements related to office expansions and relocations, and expenditures related to upgrading computer systems.

Amortization - Amortization expense remained the same in the three-month period ended March 31, 2013 compared to the same period in 2012. Historically, the risk management segment has made few acquisitions. We made no acquisitions in this segment during the three-month periods ended March 31, 2013 and 2012.

Provision for income taxes - The risk management segment s effective income tax rates for the three-month periods ended March 31, 2013 and 2012 were 35.3% and 38.7%, respectively. We anticipate reporting an effective tax rate of approximately 37.0% to 39.0% in our risk management segment for the foreseeable future.

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Corporate Segment

The corporate segment reports the financial information related to our clean energy and other investments, our debt, and certain corporate and acquisition-related activities. For a detailed discussion of the nature of these investments, see the First Quarter 2013 Financials for a summary of our investments as of March 31, 2013 (unaudited) (Note 11) and the 2012 Financials for a summary of our investments as of December 31, 2012 (Note 12). See the First Quarter 2013 Financials for a summary of our debt as of March 31, 2013 (unaudited) (Note 5) and the 2012 Financials for a discussion as of December 31, 2012 (Note 6).

Financial information relating to our corporate segment results for the three-month period ended March 31, 2013 as compared to the same period in 2012 is as follows: (in millions, except per share and percentages):

	Three-month period ended March 31,		
Statement of Earnings	**2013**	**2012**	**Change**
Revenues from consolidated clean coal production plants	$ 49.3	$ 15.7	$ 33.6
Royalty income from clean coal licenses	10.0	5.3	4.7
Loss from unconsolidated clean coal production plants	(2.3)	(0.9)	(1.4)
Other net revenues	9.1	0.1	9.0
Total revenues	66.1	20.2	45.9
Cost of revenues from consolidated clean coal production plants	58.1	17.7	40.4
Compensation	4.6	1.9	2.7
Operating	11.9	6.0	5.9
Interest	11.2	10.6	0.6
Depreciation	0.1	0.1	
Total expenses	85.9	36.3	49.6
Loss before income taxes	(19.8)	(16.1)	(3.7)
Benefit for income taxes	(21.8)	(14.8)	(7.0)
Net earnings (loss)	$ 2.0	$ (1.3)	$ 3.3
Diluted net earnings (loss) per share	$ 0.02	$ (0.01)	$ 0.03
Identifiable assets at March 31	$ 767.4	$ 624.1	
EBITDAC			
Net earnings (loss)	$ 2.0	$ (1.3)	$ 3.3
Benefit for income taxes	(21.8)	(14.8)	(7.0)
Interest	11.2	10.6	0.6
Depreciation	0.1	0.1	
EBITDAC	$ (8.5)	$ (5.4)	$ (3.1)

Revenues - Revenues in the corporate segment consist of the following:

Revenues from consolidated clean coal production plants represents revenues from the consolidated IRC Section 45 facilities that we operate and control under lease arrangements, and the investments in which we have a majority ownership position and maintain control over the operations of the related plants, including those that are not operating. When we relinquish control in connection with the sale of majority ownership interests in our investments, we deconsolidate these operations.

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The increase in the three-month period ended March 31, 2013, compared to the same period in 2012, is due primarily to increased production.

Royalty income from clean coal licenses represents revenues related to Chem-Mod LLC. As of March 31, 2013, we held a 46.54% controlling interest in Chem-Mod. As Chem-Mod s manager, we are required to consolidate its operations.

The increase in royalty income in 2013 was due to a substantial increase in the production of refined coal by Chem-Mod s licensees in the three-month period ended March 31, 2013.

Expenses related to royalty income of Chem-Mod in the three-month periods ended March 31, 2013 and 2012, were $5.9 million and $3.2 million, respectively, which include non-controlling interest of $5.6 million and $2.9 million, respectively.

Loss from unconsolidated clean coal production plants represents our equity portion of the pretax operating results from the unconsolidated clean coal production plants, partially offset by the production based income from majority investors.

The increased pretax loss in the three-month period ended March 31, 2013 compared to the same period in 2012 was due primarily to increased production which generates increased pretax operating losses.

Other net revenues primarily consist of our equity portion of the operations of our venture capital fund investments. In addition in first quarter 2013, we recognized a gain of $9.6 million in connection with the acquisition of an additional ownership interest in twelve of the 2009 Era Plants from one of the co-investors. See Note 11 to the First Quarter 2013 Financials for additional discussion of this acquisition transaction. We have consolidated the operations of the limited liability company that owns these plants effective March 1, 2013.

Cost of revenues - Cost of revenues from consolidated clean coal production plants for the three-month periods ended March 31, 2013 and 2012, consists of the expenses incurred by the clean coal production plants to generate the consolidated revenues discussed above, including the costs to run the leased facilities. The increase in the three-month period ended March 31, 2013, compared to the same period in 2012, is due primarily to increased production.

Compensation expense - Compensation expense in the three-month periods ended March 31, 2013 and 2012, respectively, includes salary and benefit expenses of $1.9 million and $1.6 million and incentive compensation of $2.7 million and $0.3 million, respectively. The increase in salary and benefits expense for the three-month period ended March 31, 2013 compared to the same period in 2012 is due primarily to an increase in salaries. The increase in incentive compensation for the three-month period ended March 31, 2013 compared to the same period in 2012 is primarily due to the decrease in incentive compensation expenses for the three-month period ended March 31, 2012 resulting from a reduction in the level of effort devoted to corporate related activities and a change in estimate during first quarter 2012, of the prior year s discretionary bonus accrual.

Operating expenses - Operating expense in the three-month period ended March 31, 2013 includes banking and related fees of $0.7 million, external professional fees and other due diligence costs related to first quarter 2013 acquisitions of $0.5 million, operating expenses, professional fees and non-controlling interest related to royalty income of $5.0 million, other corporate and clean energy related expenses of $1.7 million and a biannual company wide meeting ($4.0 million).

Operating expense in the three-month period ended March 31, 2012 includes banking and related fees of $0.8 million, external professional fees and other due diligence costs related to 2012 acquisitions of $0.6 million, operating expenses, professional fees and non-controlling interest related to royalty income of $3.2 million and other corporate operating and clean energy related expenses of $1.4 million.

Interest expense - The increase in interest expense for the three-month period ended March 31, 2013, compared to the same period in 2012, is due to interest on the $50.0 million note purchase agreements entered into on July 10, 2012 ($0.4 million) and an increase of $0.2 million in interest on borrowings from our Credit Agreement.

Depreciation - The depreciation expense in the three-month period ended March 31, 2013 was unchanged compared to the same period in 2012 and primarily relates to corporate-related office build outs and expenditures related to upgrading computer systems.

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Benefit for income taxes - Our consolidated effective tax rate for the three-month period ended March 31, 2013 was 4.3% compared to 13.5% for the same period in 2012. The effective tax rates for the three-month periods ended March 31, 2013 and 2012 were lower than the statutory rate primarily due to the amount of IRC Section 45 tax credits recognized during the respective periods. GAAP accounting requires us to estimate at each quarter end, an expected annual effective tax rate based on, among other factors, the estimated annual amount of tax credits we will generate in the current year, and recognize these estimated tax credits each quarter based on estimated company-wide quarterly earnings before income taxes. This accounting will cause a difference in the amount of tax credits recognized in the financial statements compared to the amount of tax credits actually generated. There were $13.7 million and $8.5 million of tax credits recognized in the three-month periods ended March 31, 2013 and 2012, respectively. There were $16.0 million and $10.9 million of tax credits generated in the three-month periods ended March 31, 2013 and 2012, respectively.

The following provides non-GAAP information that we believe is helpful when comparing our first quarter 2013 and 2012 operating results for the corporate segment (in millions):

Three-Month Periods Ended March 31,		**2013**			**2012**	
	Pretax Earnings (Loss)	**Income Tax Benefit**	**Net Earnings (Loss)**	**Pretax Earnings (Loss)**	**Income Tax Benefit**	**Net Earnings (Loss)**
Interest and banking costs	$ (11.9)	$ 4.8	$ (7.1)	$ (11.3)	$ 4.5	$ (6.8)
Clean energy investments	(0.9)	14.1	13.2	(2.2)	9.4	7.2
Acquisition costs	(1.0)	0.2	(0.8)	(0.6)	0.1	(0.5)
Corporate	(6.0)	2.7	(3.3)	(2.0)	0.8	(1.2)
Total	$ (19.8)	$ 21.8	$ 2.0	$ (16.1)	$ 14.8	$ (1.3)

Interest and banking primarily includes expenses related to our debt. Clean energy investments include the operating results related to our investments in clean coal operations and Chem-Mod. Acquisition costs include professional fees, due diligence and other costs incurred related to our acquisitions. Corporate consists of overhead allocations mostly related to corporate staff compensation and, in the first quarter of 2013, costs related to a biannual company-wide award, cross-selling and motivational meeting for our production staff and field management.

Clean energy investments - We have investments in limited liability companies that own 29 clean coal production plants which produce refined coal using propriety technologies owned by Chem-Mod. We believe that the production and sale of refined coal at these plants is qualified to receive refined coal tax credits under IRC Section 45. The fourteen plants which were placed in service prior to December 31, 2009 (which we refer to as the 2009 Era Plants) can receive tax credits through 2019 and the fifteen plants which were placed in service prior to December 31, 2011 (which we refer to as the 2011 Era Plants) can receive tax credits through 2021.

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The following table provides a summary of our refined fuel plant investments as of March 31, 2013 (in millions):

	Our Tax-Effected Book Value At Mar 31, 2013	Our Portion of Estimated Additional Required Tax-Effected Capital Investment	Ultimate Annual After-tax Earnings
Investments that own 2009 Era Plants			
9 Under long-term production contracts	$ 7.0	$	$ 25.0
3 In process of being moved to higher volume locations by late 2013	0.9	3.0	5.0
2 In early stages of negotiations for long-term production contracts	0.8	Not Estimable	Not Estimable
Investments that own 2011 Era Plants			
7 Under long-term production contracts	14.9		48.0
2 Under long-term production contracts, estimated to resume production by August 2013	2.4	4.0	14.0
2 In late stages of negotiations for long-term production contracts, estimated to resume production by November 2013	0.7	2.0	6.0
4 In early stages of negotiations for long-term production contracts	1.5	Not Estimable	Not Estimable

The information in the table above under the caption Our Portion of Estimated Ultimate Annual After-Tax Earnings reflects management s current best estimate of the ultimate future annual after-tax earnings based on production estimates from the host utilities. However, host utilities do not consistently operate the refined fuel plants at ultimate production levels due to seasonal electricity demand, as well as many operational, regulatory and environmental compliance reasons. Please refer to Risk Factors, beginning on page 5 of this prospectus, for a more detailed discussion of these and other factors could impact the information above.

Our investment in Chem-Mod generates royalty income from the plants owned by those limited liability companies in which we invest as well as refined fuel plants owned by other unrelated parties. Based on current production estimates provided by licensees, Chem-Mod could generate for us approximately $3.6 million of net after-tax earnings per quarter.

Financial Results - Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011, and Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Brokerage Segment

The brokerage segment accounted for 73% of our revenue from continuing operations in 2012. For additional discussion of this segment, see Financial Results - Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012 Brokerage Segment on page 34 of this prospectus.

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Financial information relating to our brokerage segment results for 2012, 2011 and 2010 (in millions, except per share, percentages and workforce data):

	2012	2011	Change	2011	2010	Change
Statement of Earnings						
Commissions	$ 1,302.5	$ 1,127.4	$ 175.1	$ 1,127.4	$ 957.3	$ 170.1
Fees	403.2	324.1	79.1	324.1	274.9	49.2
Supplemental commissions	67.9	56.0	11.9	56.0	46.1	9.9
Net supplemental commission timing					14.7	(14.7)
Contingent commissions	42.9	38.1	4.8	38.1	36.8	1.3
Investment income	7.2	5.4	1.8	5.4	4.9	0.5
Gains realized on books of business sales	3.9	5.5	(1.6)	5.5	5.9	(0.4)
Total revenues	1,827.6	1,556.5	271.1	1,556.5	1,340.6	215.9
Compensation	1,131.6	968.4	163.2	968.4	817.1	151.3
Operating	312.7	267.3	45.4	267.3	223.6	43.7
Depreciation	24.7	21.2	3.5	21.2	19.5	1.7
Amortization	96.2	77.0	19.2	77.0	59.8	17.2
Change in estimated acquisition earnout payables	3.6	(6.2)	9.8	(6.2)	(2.6)	(3.6)
Total expenses	1,568.8	1,327.7	241.1	1,327.7	1,117.4	210.3
Earnings from continuing operations before income taxes	258.8	228.8	30.0	228.8	223.2	5.6
Provision for income taxes	103.0	88.6	14.4	88.6	87.7	0.9
Earnings from continuing operations	$ 155.8	$ 140.2	$ 15.6	$ 140.2	$ 135.5	$ 4.7
Diluted earnings from continuing operations per share	$ 1.27	$ 1.25	$ 0.02	$ 1.25	$ 1.29	$ (0.04)
Other Information						
Change in diluted earnings from continuing operations per share	2%	(3%)		(3%)	5%	
Growth in revenues	17%	16%		16%	5%	
Organic change in commissions and fees	4%	3%		3%	(2%)	
Compensation expense ratio	62%	62%		62%	61%	
Operating expense ratio	17%	17%		17%	17%	
Effective income tax rate	40%	39%		39%	39%	
Workforce at end of period (includes acquisitions)	9,002	7,868		7,868	6,275	
Identifiable assets at December 31	$ 4,196.8	$ 3,346.6		$ 3,346.6	$ 2,560.7	
EBITDAC						
Earnings from continuing operations	$ 155.8	$ 140.2	$ 15.6	$ 140.2	$ 135.5	$ 4.7
Provision for income taxes	103.0	88.6	14.4	88.6	87.7	0.9
Depreciation	24.7	21.2	3.5	21.2	19.5	1.7
Amortization	96.2	77.0	19.2	77.0	59.8	17.2
Change in estimated acquisition earnout payables	3.6	(6.2)	9.8	(6.2)	(2.6)	(3.6)
EBITDAC	$ 383.3	$ 320.8	$ 62.5	$ 320.8	$ 299.9	$ 20.9
EBITDAC margin	21%	21%		21%	22%	
EBITDAC growth	19%	7%		7%	7%	

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The following provides non-GAAP information that management believes is helpful when comparing 2012 EBITDAC and adjusted EBITDAC to the same periods in 2011, and 2011 EBITDAC and adjusted EBITDAC to the same periods in 2010 (in millions):

	2012	2011	2010
Total EBITDAC - see computation above	$ 383.3	$ 320.8	$ 299.9
Gains from books of business sales	(3.9)	(5.5)	(5.9)
Net supplemental commission timing			(14.7)
Heath Lambert integration costs	19.3	16.0	
Earnout related compensation charge		7.0	
Workforce and lease termination related charges	14.4	2.6	6.9
Litigation settlement			3.5
Levelized foreign currency translation	1.6	(0.4)	0.7
Adjusted EBITDAC	$ 414.7	$ 340.5	$ 290.4
Adjusted EBITDAC change	21.8%	17.3%	4.3%
Adjusted EBITDAC margin	22.7%	22.0%	21.9%
Adjusted EBITDAC margin excluding Heath Lambert	22.9%	22.4%	21.9%

Effective May 12, 2011, we acquired Heath Lambert for cash, net of cash received, of £99.7 million ($164.0 million as of the acquisition date). Prior to our acquisition of Heath Lambert, it sold nearly all lines of property/casualty and employee benefit insurance products through 1,200 professionals in 16 offices throughout the U.K. Subsequent to the acquisition date, we have been integrating the Heath Lambert operations into our existing operations, which has reduced the number of employees and offices involved with these acquired operations.

The following provides non-GAAP information that management believes is helpful when analyzing the impact of the Heath Lambert acquisition on our 2012 results. We expect that it could take up to two years to fully integrate the Heath Lambert operations into our existing operations (in millions):

	Q1	Q2	Q3	Q4	Full Year
Total revenues	$ 32.0	$ 35.7	$ 36.2	$ 32.5	$ 136.4
Compensation	(20.7)	(20.7)	(21.4)	(16.1)	(78.9)
Compensation - integration costs	(2.8)	(2.0)	(2.3)	(6.1)	(13.2)
Operating	(6.8)	(7.7)	(8.0)	(8.2)	(30.7)
Operating - integration costs	(1.2)	(2.1)	(1.9)	(0.9)	(6.1)
EBITDAC	$ 0.5	$ 3.2	$ 2.6	$ 1.2	$ 7.5
Adjusted EBITDAC (excludes integration costs)	$ 4.5	$ 7.3	$ 6.8	$ 8.2	$ 26.8
Adjusted EBITDAC margin (excludes integration costs)	14.1%	20.4%	18.8%	25.2%	19.6%
Amortization	$ 1.6	$ 1.1	$ 1.4	$ 1.4	$ 5.5

As expected, until the integration process is completed in 2013, the Heath Lambert operations will reduce the overall Brokerage Segment adjusted EBITDAC margins. Heath Lambert s current operating structure tends to produce lower compensation expense ratios and higher operating expense ratios in comparison to our other non-Heath Lambert related brokerage operations.

Our adjusted EBITDAC margin excluding Heath Lambert was 22.9% and 22.4% for 2012 and 2011, respectively. Our adjusted EBITDAC margin was 22.7% for 2012 and 22.0% for 2011, respectively.

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Commissions and fees - The aggregate increase in commissions and fees for 2012 was principally due to revenues associated with acquisitions that were made during 2012 ($200.1 million). Commissions and fees in 2012 included new business production and renewal rate increases of $205.7 million, which was offset by lost business of $151.6 million. The aggregate increase in commissions and fees for 2011 was principally due to revenues associated with acquisitions that were made during 2011 ($184.4 million). Commissions and fees in 2011 included new business production of $168.9 million, which was offset by renewal decreases and lost business of $134.0 million. The organic change in commission and fee revenues was 4% in 2012, 3% in 2011 and (2%) in 2010. The organic change in commission, fee and supplemental commission revenues was 4% in 2012, 3% in 2011 and (2%) in 2010. Commission revenues increased 16% and fee revenues increased 24% in 2012 compared to 2011. Commission revenues increased 18% and fee revenues increased 18% in 2011 compared to 2010.

Items excluded from organic revenue computations yet impacting revenue comparisons for 2012, 2011 and 2010 include the following (in millions):

	2012 Organic Revenue		2011 Organic Revenue		2010 Organic Revenue	
	2012	2011	2011	2010	2010	2009
Commissions and Fees						
Commission revenues as reported	$ 1,302.5	$ 1,127.4	$ 1,127.4	$ 957.3	$ 957.3	$ 912.9
Fee revenues as reported	403.2	324.1	324.1	274.9	274.9	282.1
Less commission and fee revenues from acquisitions	(200.1)		(184.4)		(57.9)	
Less disposed of operations		(8.1)		(4.6)		
Levelized foreign currency translation		(1.5)		5.5		2.4
Organic base commission and fee revenues	$ 1,505.6	$ 1,441.9	$ 1,267.1	$ 1,233.1	$ 1,174.3	$ 1,197.4
Organic change in base commission and fee revenues	4.4%		2.8%		(1.9%)	
Supplemental Commissions						
Supplemental commissions as reported	$ 67.9	$ 56.0	$ 56.0	$ 60.8	$ 60.8	$ 37.4
Less supplemental commissions from acquisitions	(10.7)		(4.0)		(5.7)	
Net supplemental commission timing		(0.6)		(14.7)	(14.7)	1.4
Organic supplemental commissions	$ 57.2	$ 55.4	$ 52.0	$ 46.1	$ 40.4	$ 38.8
Organic change in supplemental commissions	3.3%		12.8%		4.1%	
Contingent Commissions						
Contingent commissions as reported	$ 42.9	$ 38.1	$ 38.1	$ 36.8	$ 36.8	$ 27.6
Less contingent commissions from acquisitions	(5.2)		(3.6)		(6.0)	
Organic contingent commissions	$ 37.7	$ 38.1	$ 34.5	$ 36.8	$ 30.8	$ 27.6
Organic change in contingent commissions	(1.1%)		(6.3%)		11.6%	
Combination Calculations						
Organic change in commissions and fees and supplemental commissions	4.4%		3.1%		(1.7%)	
Organic change in commissions and fees, supplemental commissions and contingent commissions	4.2%		2.9%		(1.5%)	

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Supplemental and contingent commissions - Reported supplemental and contingent commission revenues recognized in 2012, 2011, 2010 and 2009 by quarter are shown in the table below. As previously disclosed, many insurance carriers have provided sufficient information for us to recognize supplemental commission revenues on a quarterly basis for a majority of our 2012, 2011 and 2010 supplemental commission arrangements. However, in 2009 and prior years, most carriers only provided this information on an annual basis after the end of the contract period. Accordingly, the 2010 amounts reported in the table below include both a full year of 2009 supplemental commission revenues and 2010 supplemental commission revenues that were recognized by us on a quarterly basis. This situation did not occur in 2011 and should not occur in 2013 or later years, as we anticipate that most of the carriers will continue to provide information on a quarterly basis sufficient to allow recognition of revenues in a similar manner in future quarters.

To assist in comparing 2010 to 2009, the supplemental commission timing line in the organic revenue tables above adjusts the 2009 revenue as if we had been receiving the information from the carriers and recognizing the quarterly supplemental commissions in 2009 on the same basis as in 2010.

An analysis of supplemental and contingent commission revenues recognized in 2012, 2011, 2010 and 2009 by quarter is as follows (in millions):

	Q1	Q2	Q3	Q4	Full Year
2012					
Reported supplemental commissions	$ 17.1	$ 16.6	$ 16.6	$ 17.6	$ 67.9
Reported contingent commissions	19.0	10.3	7.7	5.9	42.9
Reported supplemental and contingent commissions	$ 36.1	$ 26.9	$ 24.3	$ 23.5	$ 110.8
2011					
Reported supplemental commissions	$ 13.5	$ 14.0	$ 14.5	$ 14.0	$ 56.0
Reported contingent commissions	16.8	7.9	9.9	3.5	38.1
Reported supplemental and contingent commissions	$ 30.3	$ 21.9	$ 24.4	$ 17.5	$ 94.1
2010					
Reported supplemental commissions	$ 27.9	$ 10.6	$ 10.2	$ 12.1	$ 60.8
Adjustments as if supplemental commission information was provided on a quarterly basis	(14.7)				(14.7)
Adjusted supplemental commissions	13.2	10.6	10.2	12.1	46.1
Reported contingent commissions	15.5	8.7	9.5	3.1	36.8
Adjusted supplemental and reported contingent commissions	$ 28.7	$ 19.3	$ 19.7	$ 15.2	$ 82.9
2009					
Reported supplemental commissions	$ 15.7	$ 5.8	$ 4.5	$ 11.4	$ 37.4
Adjustments as if supplemental commission information was provided on a quarterly basis	(8.2)	4.4	5.3	(0.1)	1.4
Adjusted supplemental commissions	7.5	10.2	9.8	11.3	38.8
Reported contingent commissions	13.8	6.0	5.8	2.0	27.6
Adjusted supplemental and reported contingent commissions	$ 21.3	$ 16.2	$ 15.6	$ 13.3	$ 66.4

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Investment income and gains realized on books of business sales - This primarily represents interest income earned on cash, cash equivalents and restricted funds and one-time gains related to sales of books of business, which were $3.9 million, $5.5 million and $5.9 million in 2012, 2011 and 2010, respectively. Offsetting the one-time gains related to sales of books of business in 2012 was a non-cash loss of $3.5 million we recognized related to our acquisition of an additional 41.5% equity interest in CGM Gallagher Group Limited (which we refer to as CGM), which increased our ownership in CGM to 80%. The loss represents the decrease in fair value of our initial 38.5% equity interest in CGM based on the purchase price paid to acquire the additional 41.5% equity interest in CGM. In 2010, we recognized a $2.7 million gain related to our acquisition of the remaining 60% equity interest in Specialised Broking Associates Pty Ltd (which we refer to as SBA). We previously had a 40% equity interest in SBA with the option to increase our ownership to 100%. The gain represented the increase in fair value of our original 40% equity interest in SBA based on the purchase price paid for the remaining 60% equity interest. Investment income in 2012 remained relatively unchanged compared to 2011 and 2010.

Compensation expense - The following provides non-GAAP information that management believes is helpful when comparing 2012 compensation expense with the same periods in 2011 and 2011 compensation expense with the same periods in 2010 (in millions):

	2012	2011	2010
Reported compensation expense	$ 1,131.6	$ 968.4	$ 817.1
Heath Lambert integration costs	(13.2)	(9.2)	
Earnout related compensation charge		(7.0)	
Workforce and lease termination related charges	(13.7)	(2.5)	(6.3)
Levelized foreign currency translation		(0.8)	4.9
Adjusted compensation expense	$ 1,104.7	$ 948.9	$ 815.7
Adjusted revenues - see page 30	$ 1,823.7	$ 1,549.3	$ 1,326.0
Adjusted compensation expense ratio	60.6%	61.3%	61.5%

The increase in compensation expense in 2012 compared to 2011 was primarily due to an increase in the average number of employees, salary increases, one-time compensation payments and increases in incentive compensation linked to our overall operating results ($124.2 million in the aggregate), increases in employee benefits expense ($24.9 million), severance related costs ($11.1 million), stock compensation expense ($8.8 million) and temporary staffing ($1.2 million).

These increases were partially offset by a decrease in the earnout compensation charge of $7.0 million discussed below. The increase in employee headcount in 2012 compared to 2011 primarily relates to the addition of employees associated with the acquisitions that we completed in 2012 and new production hires.

The increase in compensation expense in 2011 compared to 2010 was primarily due to an increase in the average number of employees, salary increases, one-time compensation payments and increases in incentive compensation linked to our overall operating results ($138.1 million in the aggregate), increases in employee benefits expense ($17.3 million) and the $7.0 million earnout compensation charge discussed below.

These increases were partially offset by decreases in stock compensation expense ($8.4 million) and severance related costs ($2.7 million). The increase in employee headcount in 2011 compared to 2010 primarily relates to the addition of employees associated with the acquisitions that we completed in 2011 and new production hires.

During 2011, we recognized $7.0 million of compensation expense for an earnout obligation related to a prior year acquisition. Pursuant to ASC Subtopic 805-10-55-25 (formerly EITF 95-8), the portion of the earnout obligation that will be paid to our existing employees by the sellers once the earnout is settled, must be recorded as compensation expense in our statement of earnings.

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Operating expense - The following provides non-GAAP information that management believes is helpful when comparing 2012 operating expense with the same periods in 2011 and 2011 operating expense with the same periods in 2010 (in millions):

	2012	2011	2010
Reported operating expense	$ 312.7	$ 267.3	$ 223.6
Heath Lambert integration costs	(6.1)	(6.8)	
Workforce and lease termination related charges	(0.7)	(0.1)	(4.1)
Levelized foreign currency translation	(1.6)	(0.5)	0.4
Adjusted operating expense	$ 304.3	$ 259.9	$ 219.9
Adjusted revenues - see page 30	$ 1,823.7	$ 1,549.3	$ 1,326.0
Adjusted operating expense ratio	16.7%	16.8%	16.6%

The increase in operating expense in 2012 compared to 2011 was due primarily to an unfavorable foreign currency translation ($1.6 million) and increases in professional fees ($17.1 million), office expense ($11.0 million), sales development expense ($4.6 million), travel and entertainment expense ($4.4 million), net rent and utilities ($4.3 million), licenses and fees ($3.2 million), other expense ($1.2 million), bad debt expense ($0.8 million) and lease termination charges of ($0.6 million). Also contributing to the increase in operating expense in 2012 were increased expenses associated with the acquisitions completed in 2012. These increases were partially offset by a decrease in business insurance ($3.3 million).

The increase in operating expense in 2011 compared to 2010 was due primarily to increases in office expense ($11.8 million), professional fees ($10.1 million), net rent and utilities ($8.7 million), travel and entertainment expense ($6.7 million), business insurance ($4.2 million), licenses and fees ($4.2 million), sales development expense ($2.5 million) and other expense ($0.5 million). Also contributing to the increase in operating expense in 2011 were increased expenses associated with the acquisitions completed in 2011. These increases were partially offset by a favorable foreign currency translation ($0.9 million) and decreases in litigation settlement expense ($3.5 million), bad debt expense ($0.6 million) and lease termination charges ($0.5 million).

Depreciation - The increases in depreciation expense in 2012 compared to 2011 and in 2011 compared to 2010 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. Also contributing to the increases in depreciation expense in 2012, 2011 and 2010 were the depreciation expenses associated with acquisitions completed during these years.

Amortization - The increases in amortization in 2012 compared to 2011 and in 2011 compared to 2010 were due primarily to amortization expense of intangible assets associated with acquisitions completed during these years. Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (three to fifteen years for expiration lists and three to five years for non-compete agreements and ten years for trade names). Based on the results of impairment reviews in 2012, 2011 and 2010, we wrote off $3.4 million, $4.6 million and $2.3 million of amortizable intangible assets related to the brokerage segment acquisitions.

Change in estimated acquisition earnout payables - The increase in expense from the change in estimated acquisition earnout payables in 2012 compared to 2011 and the increase in income from the change in estimated acquisition earnout payables in 2011 compared to 2010 was due primarily to adjustments made to the estimated fair value of earnout obligations related to revised projections of future performance. During 2012, 2011 and 2010, we recognized $9.3 million, $8.3 million and $6.2 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our 2012, 2011 and 2010 acquisitions. During 2012, 2011 and 2010, we recognized $5.7 million, $14.5 million and $8.8 million of income, respectively, related to net adjustments in the estimated fair market values of earnout obligations in connection with revised projections of future performance for 45, 22 and 11 acquisitions, respectively.

The amounts initially recorded as earnout payables for our 2012, 2011 and 2010 acquisitions are measured at fair value as of the acquisition date and are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements. In determining fair value, we estimate the acquired entity s future performance using financial projections developed by management for the acquired entity and market participant assumptions that are derived for revenue growth and/or profitability. Revenue growth rates generally ranged from 10.0% to 12.0% for our 2012 acquisitions. We estimate future earnout payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. Subsequent changes in the underlying financial projections or assumptions will cause the estimated earnout obligations to change and such adjustments are recorded in our consolidated statement of earnings when incurred. Increases in the earnout payable obligations will result in the recognition of expense and decreases in the earnout payable obligations will result in the recognition of income.

The income generated from the net adjustments in the estimated fair value of earnout obligations in 2011 and 2010, was primarily related to our acquisition of the policy renewal rights from Liberty Mutual and the Wausau Signature Agency (which we refer to as Liberty Mutual) in February 2009. As part of this transaction we acquired over 250 producers, account managers and service staff from Liberty Mutual. Due to the underlying market conditions existing in early 2009 at the date of the transaction (a deteriorating economy and uncertainty of when it would recover) and the significant uncertainties related to this transaction that could affect the performance of the Liberty Mutual business (we purchased the policy renewal rights related to Liberty Mutual s middle-market commercial P/C business located in their Midwest and Southeast regions as opposed to buying a stand-alone brokerage agency; a portion of the Liberty business was co-brokered, the extent of which was not known by Liberty Mutual at the time of the acquisition; and the risks associated with moving captive agents to an open brokerage environment), we structured this acquisition such that approximately 70% of the maximum purchase price was based on a three year earn-out period. We paid approximately $45.0 million as of the acquisition date, with a potential maximum earnout payable of up to $120.0 million, to be paid in second quarter 2012. As of the acquisition date, we initially estimated and recorded an earnout payable of approximately $64.0 million based on financial projections that incorporated assumptions to address the risks noted above. We monitored and updated the financial projections for this business using actual results during the earnout period and made adjustments to the recorded earnout payable, when applicable. During 2011 and 2012, we had seen some deterioration in client retention related to this business (primarily due to co-brokered business) and had been rationalizing staffing levels, which resulted in downward adjustments to our estimated financial projections and a decrease in the recorded earnout payable in both 2011 and 2012. In August 2012, we paid out $32.4 million ($24.8 million in our common stock and $7.6 million in cash) to Liberty Mutual related to this earnout obligation.

Provision for income taxes - The brokerage segment s effective tax rate in 2012, 2011 and 2010 was 39.8%, 38.7% and 39.3%, respectively. We anticipate reporting an effective tax rate of approximately 37.0% to 40.0% in our brokerage segment for the foreseeable future.

Risk Management Segment

The risk management segment accounted for 22% of our revenue from continuing operations in 2012. The risk management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property/casualty coverages and for insurance companies that choose to outsource some or all of their property/casualty claims departments. In addition, this segment 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. Revenues for risk management services are substantially in the form of fees that 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.

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Financial information relating to our risk management segment results for 2012, 2011 and 2010 (in millions, except per share, percentages and workforce data):

	2012	2011	Change	2011	2010	Change
Statement of Earnings						
Fees	$ 568.5	$ 546.1	$ 22.4	$ 546.1	$ 460.1	$ 86.0
Investment income	3.2	2.7	0.5	2.7	2.0	0.7
Total revenues	571.7	548.8	22.9	548.8	462.1	86.7
Compensation	347.0	344.1	2.9	344.1	288.0	56.1
Operating	137.7	135.8	1.9	135.8	109.1	26.7
Depreciation	16.0	14.2	1.8	14.2	12.4	1.8
Amortization	2.8	2.3	0.5	2.3	1.0	1.3
Change in estimated acquisition earnout payables	(0.2)		(0.2)			
Total expenses	503.3	496.4	6.9	496.4	410.5	85.9
Earnings from continuing operations before income taxes	68.4	52.4	16.0	52.4	51.6	0.8
Provision for income taxes	25.9	19.1	6.8	19.1	20.3	(1.2)
Earnings from continuing operations	$ 42.5	$ 33.3	$ 9.2	$ 33.3	$ 31.3	$ 2.0
Diluted earnings from continuing operations per share	$ 0.35	$ 0.29	$ 0.06	$ 0.29	$ 0.30	$ (0.01)
Other information						
Change in diluted earnings from continuing operations per share	21%	(3%)		(3%)	(3%)	
Growth in revenues	4%	19%		19%	2%	
Organic change in fees	4%	9%		9%	(3%)	
Compensation expense ratio	61%	63%		63%	62%	
Operating expense ratio	24%	25%		25%	24%	
Effective income tax rate	38%	36%		36%	39%	
Workforce at end of period (includes acquisitions)	4,390	4,264		4,264	4,227	
Identifiable assets at December 31	$ 498.6	$ 529.1		$ 529.1	$ 521.3	
EBITDAC						
Earnings from continuing operations	$ 42.5	$ 33.3	$ 9.2	$ 33.3	$ 31.3	$ 2.0
Provision for income taxes	25.9	19.1	6.8	19.1	20.3	(1.2)
Depreciation	16.0	14.2	1.8	14.2	12.4	1.8
Amortization	2.8	2.3	0.5	2.3	1.0	1.3
Change in estimated acquisition estimated payables	(0.2)		(0.2)			
EBITDAC	$ 87.0	$ 68.9	$ 18.1	$ 68.9	$ 65.0	$ 3.9
EBITDAC margin	15%	13%		13%	14%	
EBITDAC growth	26%	6%		6%	7%	

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The following provides non-GAAP information that management believes is helpful when comparing 2012 EBITDAC and adjusted EBITDAC to the same periods in 2011, and 2011 EBITDAC and adjusted EBITDAC to the same periods in 2010 (in millions):

	2012	2011	2010
Total EBITDAC - see computation above	$ 87.0	$ 68.9	$ 65.0
New Zealand earthquake claims administration	(1.5)	(6.1)	(1.4)
GAB Robins integration		13.0	3.6
South Australia ramp up costs	2.1		
Workforce and lease termination related charges	2.7	5.6	0.6
Litigation settlement			2.8
Adjusted EBITDAC	$ 90.3	$ 81.4	$ 70.6
Adjusted EBITDAC change	10.9%	15.3%	2.6%
Adjusted EBITDAC margin	16.0%	15.4%	15.4%

Effective October 1, 2010, we acquired substantially all of the third-party administrator assets and managed care service operations of GAB Robins North America, Inc. (GAB Robins) for cash of $16.0 million, notes payable of $4.0 million and the assumption of certain claims handling run-off liabilities. Reported revenues related to GAB Robins were $45.9 million and $13.2 million in 2011 and 2010, respectively.

Fees - The increase in fees for 2012 compared to 2011 was primarily due to new business and the impact of increased claim counts (total of $38.8 million), which were partially offset by lost business of $16.4 million in 2012. The increase in fees for 2011 compared to 2010 was primarily due to revenues associated with our acquisition of GAB Robins and new business and the impact of increased claim counts (total of $68.4 million), which were partially offset by lost business of $14.7 million in 2011. Organic change in fee revenues was 4% in 2012, 9% in 2011 and (3%) in 2010.

Items excluded from organic fee computations yet impacting revenue comparisons in 2012, 2011 and 2010 include the following (in millions):

	2012 Organic Revenue		2011 Organic Revenue		2010 Organic Revenue	
	2012	2011	2011	2010	2010	2009
Base domestic and international fees	$ 541.7	$ 510.7	$ 510.7	$ 446.7	$ 446.7	$ 437.5
Less fees from acquisitions	(2.2)		(34.1)		(13.2)	
Levelized foreign currency translation		(0.1)		7.8		7.4
Organic base domestic and international fees	539.5	510.6	476.6	454.5	433.5	444.9
International performance bonus fees	18.2	13.6	13.6	9.9	9.9	14.2
New Zealand earthquake claims administration	8.6	21.8	21.8	3.6	3.6	
Organic fees	$ 566.3	$ 546.0	$ 512.0	$ 468.0	$ 447.0	$ 459.1
Organic change in fees	3.7%		9.4%		(2.6%)	
Organic change in base domestic and international fees only	5.7%		4.9%		(2.6%)	

Investment income - Investment income primarily represents interest income earned on our cash and cash equivalents. Investment income in 2012 remained relatively unchanged compared to 2011 and 2010.

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Compensation expense - The following provides non-GAAP information that management believes is helpful when comparing 2012 compensation expense with the same periods in 2011 and comparing 2011 compensation expense with the same periods in 2010 (in millions):

	2012	2011	2010
Reported compensation expense	$ 347.0	$ 344.1	$ 288.0
New Zealand earthquake claims administration	(5.5)	(13.1)	(1.9)
GAB Robins integration		(9.2)	(2.6)
South Australia ramp up costs	(1.5)		
Workforce and lease termination related charges	(2.5)	(3.9)	(4.1)
Adjusted compensation expense	$ 337.5	$ 317.9	$ 279.4
Adjusted revenues - see page 30	$ 563.1	$ 527.0	$ 458.5
Adjusted compensation expense ratio	59.9%	60.3%	60.9%

The increase in compensation expense in 2012 compared to 2011 was primarily due to increased headcount, unfavorable foreign currency translation ($0.3 million) and increases in salaries ($18.8 million), employee benefits ($3.7 million), South Australia ramp up costs ($1.5 million) and stock compensation ($0.3 million) offset by decreases in GAB Robins integration costs ($9.2 million), New Zealand earthquake claims administration ($7.6 million), temporary-staffing expense ($3.5 million) and severance related costs ($1.4 million). The increase in compensation expense in 2011 compared to 2010 was primarily due to increased headcount associated with the GAB Robins acquisition, unfavorable foreign currency translation ($4.7 million) and increases in salaries ($33.2 million), GAB Robins integration costs ($6.6 million), temporary-staffing expense ($6.3 million), employee benefits ($4.9 million) and severance related costs ($3.4 million), offset by decreases in litigation expense ($2.8 million) and stock compensation ($0.2 million).

Operating expense - The following provides non-GAAP information that management believes is helpful when comparing 2012 operating expense with the same periods in 2011 and comparing 2011 operating expense with the same periods in 2010 (in millions):

	2012	2011	2010
Reported operating expense	$ 137.7	$ 135.8	$ 109.1
New Zealand earthquake claims administration	(1.6)	(2.6)	(0.3)
GAB Robins integration		(3.8)	(1.0)
South Australia ramp up costs	(0.6)		
Workforce and lease termination related charges	(0.2)	(1.7)	0.7
Adjusted operating expense	$ 135.3	$ 127.7	$ 108.5
Adjusted revenues - see page 30	$ 563.1	$ 527.0	$ 458.5
Adjusted operating expense ratio	24.0%	24.2%	23.7%

The increase in operating expense in 2012 compared to 2011 was primarily due to increases in professional fees ($8.3 million), net rent and utilities ($2.1 million), sales development expense ($1.2 million) and bad debt expense ($0.3 million) offset by decreases in GAB Robins integration costs ($3.8 million), office expense ($2.6 million), lease termination charges ($1.5 million), business insurance ($1.0 million), New Zealand earthquake claims administration ($1.0 million), licenses and fees ($0.3 million) and other expense ($0.2 million). The increase in operating expense in 2011 compared to 2010 was primarily due to increases in professional fees ($13.7 million), office expense ($3.3 million), GAB Robins integration costs ($2.8 million), business insurance ($2.2 million), sales development expense ($1.1 million), travel and entertainment ($1.0 million), net rent and utilities ($0.9 million) and other expenses ($0.8 million).

Depreciation - Depreciation expense increased in 2012 compared to 2011 and reflects the impact of purchases of furniture, equipment and leasehold improvements related to office expansions and moves and expenditures related to upgrading computer systems. Depreciation expense increased in 2011 compared to 2010 and reflects the impact of purchases of furniture, equipment and leasehold improvements related to office expansions and moves and expenditures related to upgrading computer systems.

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Amortization - Amortization expense remained relatively the same 2012 compared to 2011 and increased in 2011 compared to 2010 due to the GAB Robins acquisition, which was effective on October 1, 2010. Historically, the risk management segment has made few acquisitions. We made no material acquisitions in this segment in 2012 and 2011. Based on the results of impairment reviews in 2012, we wrote off $0.1 million of amortizable intangible assets related to the risk management segment acquisitions. No indicators of impairment were noted in 2011 or 2010.

Change in estimated acquisition earnout payables - The increase in income from the change in estimated acquisition earnout payables in 2012 compared to 2011 was due primarily to an adjustment made in 2012 to the estimated fair value of an earnout obligation related to a revised projection of future performance for one acquisition.

Provision for income taxes - The risk management segment s effective tax rate in 2012, 2011 and 2010 was 37.9%, 36.5 % and 39.3%, respectively. We anticipate reporting an effective tax rate of approximately 37.0% to 40.0% in our risk management segment for the foreseeable future.

Corporate Segment

The corporate segment reports the financial information related to our clean energy and other investments, our debt, and certain corporate and acquisition-related activities. See Note 12 to the 2012 Financials for a summary of our investments at December 31, 2012 and 2011 and a detailed discussion of the nature of these investments. See Note 6 to the 2012 Financials for a summary of our debt at December 31, 2012 and 2011. See Note 11 to the First Quarter 2013 Financials for a summary of our investments at March 31, 2013 and a detailed discussion of the nature of these investments. See Note 5 to the First Quarter 2013 Financials for a summary of our debt at March 31, 2013 and 2012.

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Financial information relating to our corporate segment results for 2012, 2011 and 2010 (in millions, except per share and percentages):

	2012	2011	Change	2011	2010	Change
Statement of Earnings						
Revenues from consolidated clean coal production plants	$ 98.0	$ 27.3	$ 70.7	$ 27.3	$ 62.7	$ (35.4)
Royalty income from clean coal licenses	27.6	4.5	23.1	4.5	3.2	1.3
Loss from unconsolidated clean coal production plants	(6.0)	(2.6)	(3.4)	(2.6)	(0.3)	(2.3)
Other net revenues (loss)	1.4	0.2	1.2	0.2	(4.1)	4.3
Total revenues	121.0	29.4	91.6	29.4	61.5	(32.1)
Cost of revenues from consolidated clean coal production plants	111.6	32.0	79.6	32.0	64.0	(32.0)
Compensation	14.8	13.6	1.2	13.6	12.4	1.2
Operating	32.8	15.9	16.9	15.9	21.9	(6.0)
Interest	43.0	40.8	2.2	40.8	34.6	6.2
Depreciation	0.7	0.5	0.2	0.5	0.4	0.1
Total expenses	202.9	102.8	100.1	102.8	133.3	(30.5)
Loss from continuing operations before income taxes	(81.9)	(73.4)	(8.5)	(73.4)	(71.8)	(1.6)
Benefit for income taxes	(78.6)	(44.0)	(34.6)	(44.0)	(68.3)	24.3
Loss from continuing operations	$ (3.3)	$ (29.4)	$ 26.1	$ (29.4)	$ (3.5)	$ (25.9)
Diluted loss from continuing operations per share	$ (0.03)	$ (0.26)	$ 0.23	$ (0.26)	$ (0.03)	$ (0.23)
Identifiable assets at December 31	$ 656.9	$ 607.8		$ 607.8	$ 514.0	
EBITDAC						
Loss from continuing operations	$ (3.3)	$ (29.4)	$ 26.1	$ (29.4)	$ (3.5)	$ (25.9)
Benefit for income taxes	(78.6)	(44.0)	(34.6)	(44.0)	(68.3)	24.3
Interest	43.0	40.8	2.2	40.8	34.6	6.2
Depreciation	0.7	0.5	0.2	0.5	0.4	0.1
EBITDAC	$ (38.2)	$ (32.1)	$ (6.1)	$ (32.1)	$ (36.8)	$ 4.7

Revenues - Revenues in the corporate segment consist of the following:

Revenues from consolidated clean coal production plants - This represents revenues from the consolidated IRC Section 45 facilities that we operate and control under lease arrangements, and the facilities in which we have a majority ownership position and maintain control of the operations, including those that are not operating. When we relinquish control in connection with the sale of majority ownership interests in our investments, we deconsolidate these operations.

The increase in 2012 is due primarily to increased production from the leased facilities. The decrease in 2011 is due to our consolidation of the 2009 Era Plants in 2010, until we sold portions of our ownership in twelve of these plants as of March 1, 2010. At that time we became non-controlling, minority investors and now account for these investments using equity method accounting.

Royalty income from clean coal licenses - This represents revenues related to Chem-Mod LLC. We had a 42% controlling interest in Chem-Mod through October 31, 2012. On November 1, 2012, we purchased an additional 4.54% ownership interest, and now own 46.54%, and as its manager, are required to consolidate its operations.

The increase in royalty income in 2012 was due to a substantial increase in the production of refined coal by Chem-Mod s licensees. There was a lesser amount of production of refined coal by Chem-Mod s licensees in 2011 and 2010.

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Expenses related to royalty income of Chem-Mod were $16.5 million, $3.2 million and $2.2 million in 2012, 2011 and 2010, respectively, which include non-controlling interest of $14.6 million, $1.7 million and $1.2 million, respectively.

Loss from unconsolidated clean coal production plants - This is our equity portion of the pretax operating results from the unconsolidated clean coal production plants, partially offset by the production based income from majority investors.

The increased pretax loss in 2012 compared to 2011 was due primarily to increased production which generates increased pretax operating losses. The increased pretax loss in 2011 compared to 2010 was due to the nine high volume production plants incurring fixed expenses during the period that they were not producing refined coal in 2011, and as a result, we were not earning production based income during that same time period. Only three low volume plants were in production during the first seven months of 2011. Production at the nine high volume plants did not start until August 5, 2011, after they received permanent operating permits.

Other net revenues (loss) - In 2012, other net revenues of $1.4 million consisted of equity income from our venture capital fund investments. In 2011, $0.5 million of equity income from our venture capital fund investments was offset by the net $0.3 million impairment write-down of our investment in a biomass energy venture. In 2010, other net revenues consisted primarily of a $4.8 million net pretax gain from the sales of portions of our ownership in the 2009 Era Plants, $1.2 million of equity earnings from one of our venture capital fund investments, offset by an $8.0 million impairment charge on our investment in a biomass energy venture, a $1.5 million loss, under equity method accounting, of an additional 3% investment in the global operations of C-Quest Technology LLC, and a $0.5 million write-down of our investment in an investment management company.

Cost of revenues - Cost of revenues from consolidated clean coal production plants in 2012, 2011 and 2010 consists of the expenses incurred by the clean coal production plants to generate the consolidated revenues discussed above including the costs to run the leased facilities.

Compensation expense - Compensation expense for 2012, 2011 and 2010, respectively, includes salary and benefit expenses of $9.8 million, $6.2 million and $5.6 million and incentive compensation of $5.0 million, $7.4 million and $6.8 million, respectively.

The increase in salary and benefit expenses in 2012 compared to 2011 was primarily due to a $2.4 million increase in pension expense and additional headcount and salary and benefits expense increases. The increase in salary and benefit expenses in 2011 compared to 2010 was primarily due to additional headcount and salary and benefits expense increases.

The decrease in incentive compensation in 2012 compared to 2011 was due to the increased compensation in 2011 related to the sales and operations of the facilities that qualify for tax credits under IRC Section 45. The increase in incentive compensation in 2011 compared to 2010 was due to the increased incentive compensation in 2011 related to the sales and operations of the facilities that qualify for tax credits under IRC Section 45.

Operating expense - Operating expense for 2012 includes banking and related fees of $3.1 million, external professional fees and other due diligence costs related to 2012 acquisitions of $7.1 million, operating expenses, professional fees and non-controlling interest related to royalty income of $16.5 million and other corporate and clean energy related expenses of $6.1 million.

Operating expense for 2011 includes banking and related fees of $3.1 million, company-wide award and sales meeting expense of $0.7 million, external professional fees and other due diligence costs related to 2011 acquisitions of $4.6 million, operating expenses, professional fees and non-controlling interest related to royalty income of $3.2 million and other corporate and clean energy related expenses of $4.3 million.

Operating expense for 2010 includes banking and related fees of $1.8 million, external professional fees and other due diligence costs related to 2010 acquisitions of $2.8 million, operating expenses, professional fees and non-controlling interest related to royalty income of $2.2 million, an $8.1 million donation to the Arthur J. Gallagher charitable foundation, $2.7 million of costs incurred for a company-wide award and sales meeting and other corporate and clean energy related expenses of $4.4 million.

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Interest expense - The increase in interest expense in 2012 compared to 2011 is primarily due to interest on the $125.0 million and $50.0 million note purchase agreements entered into on February 10, 2011 and July 10, 2012 ($1.7 million), respectively, and increased interest on borrowings from our Credit Agreement ($0.5 million). The increase in interest expense in 2011 compared to 2010 is primarily due to interest on the $125.0 million note purchase agreement entered into on February 10, 2011 ($5.9 million).

Depreciation - The depreciation expense in 2012, 2011 and 2010 were relatively unchanged and primarily relates to corporate-related office build outs and expenditures related to upgrading computer systems.

Benefit for income taxes - Our consolidated effective tax rate was 20.5%, 30.6% and 19.5% for 2012, 2011 and 2010, respectively. The tax rates for 2012 and 2011 were lower than the statutory rate primarily due to the amount of IRC Section 45 tax credits earned during the year. The tax rate for 2010 primarily reflects the impact of the resolution and/or the expiration of various statutes of limitations related to certain income tax matters and revisions to estimates of uncertain tax positions in 2010, which resulted in a net decrease in our tax provision of $30.7 million. In fourth quarter, 2010, the IRS completed its examination of our 2007 and 2008 tax years and we recognized $29.3 million of net earnings related to income tax positions taken in prior years. The IRS is currently conducting an examination of calendar years 2009 and 2010.

The following provides non-GAAP information that we believe is helpful when comparing 2012 operating results for the corporate segment with 2011 and 2010 (in millions):

Description	2012 Pretax Loss	2012 Income Tax Benefit	2012 Net Earnings (Loss)	2011 Pretax Loss	2011 Income Tax Benefit	2011 Net Earnings (Loss)	2010 Pretax Loss	2010 Income Tax Benefit	2010 Net Earnings (Loss)
Interest and banking costs	$ (46.1)	$ 18.4	$ (27.7)	$ (43.8)	$ 17.5	$ (26.3)	$ (36.4)	$ 14.6	$ (21.8)
Clean energy investments	(17.3)	50.0	32.7	(14.8)	18.7	3.9	(6.9)	14.4	7.5
Acquisition costs	(7.1)	0.7	(6.4)	(4.7)	0.6	(4.1)	(2.9)	1.0	(1.9)
Corporate	(11.4)	9.5	(1.9)	(9.8)	5.5	(4.3)	(9.2)	2.7	(6.5)
Legacy investments				(0.3)	1.7	1.4	(16.4)	35.6	19.2
Total	$ (81.9)	$ 78.6	$ (3.3)	$ (73.4)	$ 44.0	$ (29.4)	$ (71.8)	$ 68.3	$ (3.5)

Interest and banking primarily includes expenses related to our debt. Clean energy investments include the operating results related to our investments in clean coal operations and Chem-Mod. Acquisition costs include professional fees and other due diligence costs incurred related to our acquisitions. Corporate consists of overhead allocations mostly related to corporate staff compensation and, in 2011 and 2010, costs related to a company-wide award, cross-selling and motivational meeting for our production staff and field management. Legacy investments include the operating results related to the wind-down of our legacy investment portfolio.

Discontinued Operations

In 2008, we signed definitive agreements to sell substantially all of our reinsurance brokerage business. In 2009, we signed and closed a definitive agreement to sell all of the remaining run-off obligations of our U.S. reinsurance brokerage operations. Under the agreement, we transferred restricted cash of $10.7 million, receivables of $128.7 million and liabilities of $139.4 million to the buyer. Also in 2009, we recorded $3.5 million in lease termination and other real estate costs while winding down the remaining leased facilities of the reinsurance brokerage operations. In addition, we wrote off $4.5 million in receivables in 2009 related to the potential additional contingent proceeds from the initial sale transactions that were recognized in 2008.

In 2010, as part of integrating the operations of a London-based insurance brokerage firm acquired by us on April 1, 2010 and other real estate consolidation initiatives, we restored into service certain leased real estate space that was abandoned in 2008 as part of the wind-down of certain of our discontinued operations. We recognized $3.2 million of pretax earnings from discontinued operations in 2010 primarily related to the reversal of a portion of the lease abandonment charges incurred in 2008. Due to the IRS completing its examination of our 2007 and 2008 tax years in fourth quarter 2010, we also recognized $8.5 million of previously unrecognized tax benefits in our 2010 provision for income taxes related to discontinued operations.

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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, our capital requirements have primarily included dividend payments on our common stock, repurchases of our common stock, funding of our investments, acquisitions of brokerage and risk management operations and capital expenditures.

Cash Flows From Operating Activities

First Quarter 2013

Historically, we have depended on our ability to generate positive cash flows from operations to meet our cash requirements. We believe that our cash flows from operations and borrowings under our Credit Agreement will provide us with adequate resources to meet our liquidity needs in the foreseeable future. To fund acquisitions made during 2012 and the first quarter of 2013, we relied to a large extent on proceeds from borrowings under our Credit Agreement and the $50.0 million note purchase agreement we entered into on July 10, 2012.

Cash provided by operating activities was $51.2 million for the three-month period ended March 31, 2013 and cash used by operating activities was $49.6 million for the three month period ended March 31, 2012. The increase in cash provided by operating activities during the three month period ended March 31, 2013 compared to the same period in 2012 was primarily due to favorable timing differences in the payment of accrued compensation and other accrued liabilities and favorable timing differences in the receipts and disbursements of fiduciary funds in 2013 compared to 2012. Our cash flows from operating activities are primarily derived from our earnings from operations, as adjusted for realized gains and losses, and our non-cash expenses, which include depreciation, amortization, change in estimated acquisition earnout payables, deferred compensation, restricted stock and stock-based and stock-based and other non-cash compensation expenses.

When assessing our overall liquidity, we believe that the focus should be on net earnings as reported in our consolidated statement of earnings, adjusted for non-cash items (i.e., EBITDAC), and cash provided by operating activities in our consolidated statement of cash flows. Consolidated EBITDAC was $98.3 million and $76.4 million for the three month periods ended March 31, 2013 and 2012 respectively. Consolidated net earnings were $40.5 million and $28.1 million for the three month periods ended March 31, 2013 and 2012 respectively. We believe that the EBITDAC items are indicators of trends in liquidity. From a balance sheet perspective, the focus should not be on premiums and fees receivable, premiums payable or restricted cash for trends in liquidity. Net cash flows provided by operations will vary substantially from quarter to quarter and year to year because of the variability in the timing of premiums and fees receivable and premiums payable. We believe that in order to consider these items in assessing our trends in liquidity, they should be looked at in a combined manner, because changes in these balances are interrelated and are based on the timing of premium payments, both to and from us. In addition, funds legally restricted as to our use relating to premiums and clients claim funds held by us in a fiduciary capacity are presented in our consolidated balance sheet as Restricted Cash and have not been included in determining our overall liquidity.

Our policy for funding our defined benefit pension plan is to contribute amounts at least sufficient to meet the minimum funding requirements under the IRC. The Employee Retirement Security Act of 1974, as amended (which we refer to as ERISA), could impose a minimum funding requirement for our plan. We are not required to make any minimum contributions to the plan for the 2013 plan year. We were not required to make any minimum contributions to the plan for the 2012 plan year. This level of required funding is based on the plan being frozen and the aggregate amount of our historical funding. The plan s actuaries determine contribution rates based on our funding practices and requirements. Funding amounts may be influenced by future asset performance, the level of discount rates and other variables impacting the assets and/or liabilities of the plan. In addition, amounts funded in the future, to the extent not due under regulatory requirements, may be affected by alternative uses of our cash flows, including dividends, acquisitions and common stock repurchases. During each of the three-month periods ended March 31, 2013 and 2012, we made discretionary contributions of $2.1 million and $1.8 million, respectively, to the plan. We are considering making additional discretionary contributions to the plan in 2013 and may be required to make significantly larger minimum contributions to the plan in future periods.

Years Ended December 31, 2012, 2011 and 2010

Historically, we have depended on our ability to generate positive cash flow from operations to meet our cash requirements. We believe that our cash flows from operations and borrowings under our Credit Agreement will provide us with adequate resources to meet our liquidity needs in the foreseeable future. To fund acquisitions made during 2012 and 2011, we relied to a large extent on proceeds from borrowings under our Credit Agreement. In addition, for acquisitions made in 2012, we used proceeds from the $50.0 million note purchase agreement we entered into on July 10, 2012 and for acquisitions made in 2011, we used proceeds from the $125.0 million note purchase agreement we entered into on February 10, 2011.

Cash provided by operating activities was $343.0 million, $284.0 million and $229.5 million for 2012, 2011 and 2010, respectively. The increase in cash provided by operating activities in 2012 compared to 2011 was primarily due to favorable timing differences in the payment of accrued liabilities and the realization of other current assets, and an increased amount of non-cash charges in 2012 compared to 2011. The increase in cash provided by operating activities in 2011 compared to 2010 was primarily due to favorable timing differences in the receipts and disbursements of fiduciary funds and in the payment of accrued liabilities and to an increased amount of non-cash charges in 2011 compared to 2010. Our cash flows from operating activities are primarily derived from our earnings from operations, as adjusted for realized gains and losses, and our non-cash expenses, which include depreciation, amortization, change in estimated acquisition earnout payables, deferred compensation, restricted stock, and stock-based and other non-cash compensation expenses.

When assessing our overall liquidity, we believe that the focus should be on net earnings from continuing operations as reported in our consolidated statement of earnings, adjusted for non-cash items (i.e., EBITDAC), and cash provided by operating activities in our consolidated statement of cash flows. Consolidated EBITDAC was $432.1 million and $357.6 million for 2012 and 2011. We believe that these items are 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. Net cash flows provided by operations will vary substantially from quarter to quarter and year to year because of the variability in the timing of premiums and fees receivable and premiums payable. We believe that in order to consider these items in assessing our trends in liquidity, they should be looked at in a combined manner, because changes in these balances are interrelated and are based on the timing of premium payments, both to and from us. In addition, funds legally restricted as to our use relating to premiums and clients claim funds held by us in a fiduciary capacity are presented in our consolidated balance sheet as Restricted Cash and have not been included in determining our overall liquidity.

Our policy for funding our defined benefit pension plan is to contribute amounts at least sufficient to meet the minimum funding requirements under the IRC. ERISA currently imposes a minimum funding requirements for our plan. We were not required to make any minimum contributions to the plan for the 2012 plan year. The minimum funding requirement under the IRC was $0.3 million in both 2011 and 2010. This level of required funding is based on the plan being frozen and the aggregate amount of our historical funding. The plan s actuaries determine contribution rates based on our funding practices and requirements. Funding amounts may be influenced by future asset performance, the level of discount rates and other variables impacting the assets and/or liabilities of the plan. In addition, amounts funded in the future, to the extent not due under regulatory requirements, may be affected by alternative uses of our cash flows, including dividends, acquisitions and common stock repurchases. During 2012, 2011 and 2010, we made discretionary contributions to the plan of $7.2 million, $7.2 million and $6.5 million, respectively. We are considering making additional discretionary contributions to the plan in 2013 and may be required to make significantly larger minimum contributions to the plan in future periods. See Note 11 to the 2012 Financials for additional information required to be disclosed relating to our defined benefit postretirement plans. We are required to recognize an accrued benefit plan liability for our underfunded defined benefit pension and unfunded retiree medical plans (which we refer to together as the Plans). The offsetting adjustment to the liabilities required to be recognized for the Plans is recorded in Accumulated Other Comprehensive Earnings (Loss), net of tax, in our consolidated balance sheet. We will recognize subsequent changes in the funded status of the Plans through the income statement and as a component of comprehensive earnings, as appropriate, in the year in which they occur. Numerous items may lead to a change in funded status of the Plans, including actual results differing from prior estimates and assumptions, as well as changes in assumptions to reflect information available at the respective measurement dates. In 2012, the funded status of the Plans was significantly impacted by a decrease in the discount rates used in the measurement of the pension liabilities at December 31, 2012 (resulted in a $24.9 million increase in the benefit obligation at December 31, 2012). However, almost fully offsetting this impact was favorable returns on the plan s assets in 2012, which, combined with the $7.2 million of discretionary contributions made to the plan in 2012, resulted in an increase in the plan s invested assets of $24.5 million at December 31, 2012. The net change in the funded status of the Plan in 2012 resulted in virtually no change in noncurrent liabilities in 2012. While the change in funded status of the Plans had no direct impact on our cash flows from operations in 2012, 2011 or 2010, potential changes in the pension regulatory environment and investment losses in our pension plan have an effect on our capital position and could require us to make significant contributions to our defined benefit pension plan and increase our pension expense in future periods.

Cash Flows From Investing Activities

First Quarter 2013

Capital Expenditures - Net capital expenditures were $9.3 million and $13.0 million for the three month periods ended March 31, 2013 and 2012, respectively. In 2013, we expect total expenditures for capital improvements to be approximately $80.0 million, primarily related to office moves and expansions and updating computer systems and equipment.

Acquisitions - Cash paid for acquisitions, net of cash acquired, was $18.6 million and $17.2 million in the three month periods ended March 31, 2013 and 2012, respectively. In addition, during the three-month period ended March 31, 2012 we issued 1.7 million shares ($56.3 million) of our common stock as consideration paid for 2012 acquisitions. We completed four acquisitions and twelve acquisitions in the three-month periods ended March 31, 2013 and 2012, respectively. Annualized revenues of businesses acquired in the three-month periods ended March 31, 2013 and 2012 totaled approximately $5.0 million and $30.6 million, respectively.

During the three month period ended March 31, 2012, we issued 425,000 shares of our common stock, paid $2.8 million in cash and accrued $0.6 million in liabilities related to earnout obligations for three acquisitions made prior to 2009.

Dispositions - During the three-month periods ended March 31, 2013 and 2012, we sold several small books of business and recognized one-time gains of $0.4 million and $0.7 million, respectively. We received cash proceeds of $0.4 million and $4.7 million related to the 2013 and 2012 transactions, respectively.

Clean Energy Investments - During the period 2009 through 2012, we made significant investments in clean energy operations capable of producing refined coal that we believe qualifies for tax credits under IRC Section 45. These IRC Section 45 tax credits produce positive cash flow by reducing the amount of Federal income taxes we pay. During the period from 2009 through 2012, these investments in clean energy operations have produced only modest positive cash flow for us due to the capital expenditures we incurred during that period. In 2013, and possibly continuing into 2014, we expect to incur additional capital expenditures related to the redeployment, and in some cases movement, of some of the refined coal plants. We anticipate that the net cash flow generated by the tax credits we can use in 2013, which will be partially offset by the related capital expenditures (and in 2014 as well if capital expenditures continue into 2014), will be positive. Our current estimate of the 2013 annual after-tax earnings that could be generated from production at the plants that operate in 2013 is $70.0 million to $80.0 million. With the expected increased earnings from the IRC Section 45 investments in 2015 through 2021 and the minimal capital expenditures during that same period, we anticipate that the annual positive net cash flow during such years will continue to increase. We anticipate that this favorable impact on the amount we will pay the IRS in 2013 and in future years from IRC Section 45 investments will allow us to use these positive cash flows to fund acquisitions. Please see Financial Results - Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012 Corporate Segment Clean energy investments, on page 46 of this prospectus, for a more detailed description of these investments (including the reference therein to risks and uncertainties).

Years Ended December 31, 2012, 2011 and 2010

Capital Expenditures - Net capital expenditures were $51.0 million, $45.9 million and $25.1 million for 2012, 2011 and 2010, respectively. In 2013, we expect total expenditures for capital improvements to be approximately $80.0 million, primarily related to office moves and expansions and updating computer systems and equipment. The increase in net capital expenditures in 2012 from 2011 primarily related to capitalized costs associated with the implementation of new accounting and financial reporting systems and several other system initiatives that occurred in 2012.

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Acquisitions - Cash paid for acquisitions, net of cash acquired, was $344.1 million, $264.8 million and $80.1 million in 2012, 2011 and 2010, respectively. The increase use of cash for acquisitions made in 2012 compared to 2011 was primarily due to the increase in the number of acquisition that occurred in 2012. The increased use of cash for acquisitions made in 2011 compared to 2010 was primarily due to the increase in the number of acquisitions made and the $164.0 million of net cash paid for the Heath Lambert acquisition. In addition, during 2012, 2011 and 2010 we issued 6.0 million shares ($203.6 million), 3.2 million shares ($90.6 million) and 3.0 million shares ($79.4 million), respectively, of our common stock as consideration paid for acquisitions. We completed 60, 32 and 19 acquisitions in 2012, 2011 and 2010, respectively. Annualized revenues of entities acquired in 2012, 2011 and 2010 totaled approximately $231.7 million, $277.0 million and $145.1 million, respectively. In 2013, we expect to fund our acquisitions primarily using debt and cash from operations, although we may still use our common stock on occasion (for example, to effect a tax-free exchange, or if our overall acquisition activity warrants it).

During 2012, we issued 425,000 shares of our common stock and paid $3.5 million in cash related to earnout obligations of five acquisitions made prior to 2009 and recorded additional goodwill of $0.1 million. During 2011, we issued 245,000 shares of our common stock, paid $8.2 million in cash and accrued $18.3 million in liabilities related to earnout obligations of 19 acquisitions made prior to 2009 and recorded additional goodwill of $30.0 million. During 2010, we issued 1.2 million shares of our common stock, paid $5.9 million in cash and accrued $4.0 million in liabilities related to earnout obligations of 25 acquisitions made prior to 2009 and recorded additional goodwill of $26.7 million.

Dispositions - During 2008, we signed definitive agreements to sell substantially all of our reinsurance brokerage business. Under the agreements, we received initial proceeds of $33.1 million and potential additional proceeds of up to $14.6 million. In first quarter 2009, we signed and closed a definitive agreement to sell all of the remaining run-off obligations of our U.S. reinsurance brokerage operations. Under the agreement, we transferred restricted cash of $10.7 million, receivables of $128.7 million and liabilities of $139.4 million to the buyer.

During 2012, 2011 and 2010, we sold several books of business and recognized one-time gains of $3.9 million, $5.5 million and $5.9 million, respectively. We received cash proceeds of $11.4 million, $14.0 million and $3.2 million related to these transactions. Offsetting the one-time gains related to sales of books of business in 2012, was a non-cash loss of $3.5 million recognized in second quarter 2012 related to our acquisition of an additional 41.5% equity interest in CGM Gallagher Group Limited (which we refer to as CGM), which increased our ownership in CGM to 80%. The loss represents the decrease in fair value of our initial 38.5% equity interest in CGM based on the purchase price paid to acquire the additional 41.5% equity interest in CGM.

Cash Flows From Financing Activities

First Quarter 2013

On July 15, 2010, we entered into an unsecured multicurrency credit agreement (which we refer to as the Credit Agreement), which expires on July 14, 2014, with a group of twelve financial institutions.

Our Credit Agreement provides for a revolving credit commitment of up to $500.0 million, of which up to $75.0 million may be used for issuances of standby or commercial letters of credit and up to $50.0 million may be used for the making of swing loans, as defined in the Credit Agreement. We 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 $600.0 million. At March 31, 2013, $50.0 million of borrowings were outstanding under the Credit Agreement. Due to outstanding letters of credit, $434.1 million remained available for potential borrowings under the Credit Agreement at March 31, 2013.

We use our Credit Agreement from time to time to borrow funds to supplement operating cash flows. In the three-month period ended March 31, 2013, we borrowed $18.0 million and repaid $97.0 million under our Credit Agreement. In the three-month period ended March 31, 2012, we borrowed $157.0 million and repaid $75.0 million under our Credit Agreement. Principal uses of the 2013 and 2012 borrowings were to fund acquisitions, make earnout payments related to acquisitions and for general corporate purposes.

At March 31, 2013, we had $725.0 million of corporate related borrowings outstanding under separate note purchase agreements entered into in 2012, 2011, 2009 and 2007 and a cash and cash equivalent balance of $224.0 million. See Note 5 to the First Quarter 2013 Financials for a discussion of the terms of the note purchase agreements and the Credit Agreement.

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The note purchase agreements and the Credit Agreement contain various financial covenants that require us to maintain specified levels of net worth and financial leverage ratios. We were in compliance with these covenants at March 31, 2013.

On March 27, 2013, we committed to borrowing an additional $200.0 million of private placement debt, which will have a maturity of nine years and an interest rate of 3.69%. We anticipate that this transaction will close in June 2013 and will be used to fund acquisitions.

Years Ended December 31, 2012, 2011 and 2010.

In 2007, 2009, 2011 and 2012, we entered into separate note purchase agreements, with certain accredited institutional investors, pursuant to which we issued and sold to the investors $400.0 million, $150.0 million, $125.0 million and $50.0 million in aggregate debt, respectively, totaling $725.0 million which was outstanding at December 31, 2012, and a cash and cash equivalent balance of $302.1 million. We also use our Credit Agreement from time to time to borrow funds to supplement operating cash flows. See Note 6 to the 2012 Financials for a discussion of the terms of the note purchase agreements and the Credit Agreement. There were $129.0 million of borrowings outstanding under the Credit Agreement at December 31, 2012. Due to the outstanding borrowing and letters of credit, $355.1 million remained available for potential borrowings under the Credit Agreement at December 31, 2012.

During 2012, we borrowed $303.0 million and repaid $184.0 million under our Credit Agreement. Principal uses of the 2012 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes. During 2011, we borrowed $151.0 million and repaid $141.0 million under the Credit Agreement. Principal uses of the 2011 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes. During 2010, we borrowed and repaid $48.0 million under the Credit Agreement. Principal uses of the 2010 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes.

Dividends

Our board of directors determines our dividend policy. Our board of directors declares dividends on a quarterly basis after considering our available cash from earnings, our anticipated cash needs and current conditions in the economy and financial markets.

In the three-month period ended March 31, 2013, we declared $44.5 million in cash dividends on our common stock, or $0.35 per common share, a 3% increase over fourth quarter 2012. On April 26, 2013, we announced a quarterly dividend for second quarter 2013 of $.35 per common share. It is anticipated this dividend level will result in annualized net cash used by financing activities in 2013 of approximately $176.9 million (based on the number of outstanding shares as of March 31, 2013) or an anticipated decrease in cash used of approximately $27.5 million compared to 2012. This decrease in cash used is the result of five dividend payments being made in 2012 compared to four payments that will be made in 2013. We can make no assurances regarding the amount of any future dividend payments.

In 2012, we declared $167.5 million in cash dividends on our common stock, or $1.36 per common share. On December 20, 2012, we paid a fourth quarter dividend of $.34 per common share to shareholders of record as of December 3, 2012. This fourth quarter 2012 dividend schedule, which was a change from our historical schedule to stockholder of record and payable dates, resulted in five dividends being paid in 2012, for total dividend payments of $204.4 million. We anticipate that our stockholder of record and payable dates in future quarters will follow a similar schedule as the new fourth quarter 2012 payment dividend schedule, which would result in four quarterly dividends in 2013. On January 24, 2013, we announced a quarterly dividend for first quarter 2013 of $.35 per common share. If the dividend is maintained at $.35 per common share throughout 2013, this dividend level would result in an annualized net cash used by financing activities in 2013 of approximately $175.2 million (based on the outstanding shares as of December 31, 2012), or a decrease in cash used of approximately $29.2 million. This decrease in cash used is primarily the result of five dividend payments being made in 2012 compared to four payments that will be made in 2013. We can make no assurances regarding the amount of any future dividend payments.

Common Stock Repurchases

We have in place a common stock repurchase plan approved by our board of directors. We did not repurchase any shares in 2012, 2011 and 2010. We generally hold repurchased shares for reissuance in connection with our equity compensation and stock option plans. Under the provisions of the repurchase plan, we were authorized to repurchase approximately 6,000,000 additional shares at December 31, 2012. The plan authorizes the repurchase of our common stock at such times and prices as we may deem advantageous, in transactions on the open market or in privately negotiated transactions. We are 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 our discretion.

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Funding for share repurchases may come from a variety of sources, including cash from operations, short-term or long-term borrowings under our Credit Agreement or other sources. The common stock repurchases reported in our consolidated statement of cash flows for 2012, 2011 and 2010 include 82,000 shares (at a cost of $1.5 million), 41,000 shares (at a cost of $1.2 million) and 32,000 shares (at a cost of $0.8 million), respectively, that we repurchased from our employees to cover their income tax withholding obligations in connection with restricted stock distributions in each of those years. Under these circumstances, we withhold the proceeds from the repurchases and remit them to the taxing authorities on the employees behalf to cover their income tax withholding obligations.

Common Stock Issuances

Another source of liquidity to us is the issuance of our common stock pursuant to our stock option and employee stock purchase plans. Proceeds from the issuance of common stock under these plans for the three-month periods ended March 31, 2013 and 2012 were $27.0 million and $26.7 million, respectively, and $82.3 million in 2012, $73.9 million in 2011 and $36.7 million in 2010 Prior to 2009, we issued stock options under four stock option-based employee compensation plans. The options were primarily granted at the fair value of the underlying shares at the date of grant and generally became exercisable at the rate of 10% per year beginning the calendar year after the date of grant. In May 2008, all of these plans expired. On May 10, 2011, our stockholders approved the 2011 Long-Term Incentive Plan (which we refer to as the LTIP), which replaced our previous stockholder-approved 2009 Long-Term Incentive Plan. All of our officers, employees and non-employee directors are eligible to receive awards under the LTIP. Awards which may be granted under the LTIP include non-qualified and incentive stock options, stock appreciation rights, restricted stock units and performance units any or all of which may be made contingent upon the achievement of performance criteria. Stock options with respect to 8.0 million shares (less any shares of restricted stock issued under the LTIP - 0.5 million shares of our common stock were available for this purpose as of March 31, 2013) were available for grant under the LTIP at March 31, 2013. In addition, we have an employee stock purchase plan which allows our employees to purchase our common stock at 95% of its fair market value. Proceeds from the issuance of our common stock related to these plans have contributed favorably to net cash provided by financing activities in the three-month periods ended March 31, 2013 and 2012 and we believe this favorable trend will continue in the foreseeable future.

Outlook

We believe that we have sufficient capital to meet our short- and long-term cash flow needs. Except for 2008 and 2005, our earnings before income taxes, adjusted for non-cash items, have increased year over year since 1991. In 2008, earnings before income taxes were adversely impacted by charges related to real estate lease terminations, severance, litigation, impairments of intangible assets and the adverse impact of foreign currency translation. In 2005, earnings before income taxes were adversely impacted by charges incurred for litigation and retail contingent commission related matters and claims handling obligations. We expect the historically favorable trend in earnings before income taxes, adjusted for non-cash items, to continue in the foreseeable future because we intend to continue to expand our business through organic growth from existing operations and through acquisitions. Additionally, we anticipate a favorable impact on the amount we will pay the IRS in 2013 and in future years based on anticipated tax credits from IRC Section 45 investments. We also anticipate that we will continue to use cash flows from operations and, if needed, borrowings under the Credit Agreement and private placement debt (described above under Cash Flows From Financing Activities) and our common stock to fund acquisitions. In addition, we 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 offerings, equity markets, or restructuring our operations in the event that cash flows from operations are reduced dramatically due to lost business or if our acquisition program continues at, or increases from the same level we had in 2012.

Contractual Obligations and Commitments

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Note 12 to the First Quarter 2013 Financials and Note 13 to the 2012 Financials for a discussion of these obligations and commitments. In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Notes 6, 12 and 13 to the 2012 Financials for additional discussion of these obligations and commitments. Our future minimum cash payments, including interest, associated with our contractual obligations pursuant to our note purchase agreements and Credit Agreement, operating leases and purchase commitments as of December 31, 2012 are as follows (in millions):

	Payments Due by Period						
Contractual Obligations	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Note Purchase Agreements	$	$ 100.0	$	$ 50.0	$ 300.0	$ 275.0	$ 725.0
Credit Agreement	129.0						129.0
Interest expense on debt	43.1	43.0	36.7	36.7	33.8	43.3	236.6

Total debt obligations	172.1	143.0	36.7	86.7	333.8	318.3	1,090.6
Operating lease obligations	69.1	51.5	43.3	32.4	23.4	31.4	251.1
Less sublease arrangements	(2.0)	(1.6)	(0.6)				(4.2)
Outstanding purchase obligations	17.6	12.0	7.0	1.3	0.3		38.2
Total contractual obligations	$ 256.8	$ 204.9	$ 86.4	$ 120.4	$ 357.5	$ 349.7	$ 1,375.7

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The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, 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 our unrecognized tax benefits at December 31, 2012, we are unable to make reasonably reliable estimates of the period in which cash settlements may be made with the respective taxing authorities. Therefore, $6.7 million of unrecognized tax benefits have been excluded from the contractual obligations table above. See Note 14 to the 2012 Financials for a discussion on income taxes.

Note Purchase Agreements - On August 3, 2007, we entered into a note purchase agreement, as amended and restated on December 19, 2007, with certain accredited institutional investors, pursuant to which we issued and sold $100.0 million in aggregate principal amount of our 6.26% Senior Notes, Series A, due August 3, 2014 and $300.0 million in aggregate principal amount of our 6.44% Senior Notes, Series B, due August 3, 2017, in a private placement.

On November 30, 2009, we entered into a note purchase agreement, with certain accredited institutional investors, pursuant to which we issued and sold $150.0 million in aggregate principal amount of our 5.85% Senior Notes, Series C, due in three equal installments on November 30, 2016, November 30, 2018 and November 30, 2019, in a private placement.

On February 10, 2011, we entered into a note purchase agreement, with certain accredited institutional investors, pursuant to which we issued and sold $75.0 million in aggregate principal amount of our 5.18% Senior Notes, Series D, due February 10, 2021 and $50.0 million in aggregate principal amount of our 5.49% Senior Notes, Series E, due February 10, 2023, in a private placement.

On July 10, 2012, we entered into a note purchase agreement, with certain accredited institutional investors, pursuant to which we issued and sold $50.0 million in aggregate principal amount of our 3.99% Senior Notes, Series F, due July 10, 2020, in a private placement. See Note 6 to the 2012 Financials for a discussion of the terms of the note purchase agreements.

Credit Agreement - We have a $500.0 million Credit Agreement, which expires on July 14, 2014, with a group of twelve financial institutions. We use the Credit Agreement to post letters of credit and to borrow funds to supplement our operating cash flows from time to time. At December 31, 2012, $15.9 million of letters of credit (for which we have $8.5 million of liabilities recorded at December 31, 2012) were outstanding under the Credit Agreement. There were $129.0 million of borrowings outstanding under the Credit Agreement at December 31, 2012. Accordingly, at December 31, 2012, $355.1 million remained available for potential borrowings, of which $59.1 million may be in the form of additional letters of credit. We are under no obligation to use the Credit Agreement in performing our normal business operations. See Note 6 to the 2012 Financials for a discussion of the terms of the Credit Agreement.

Operating Lease Obligations - We generally operate in leased premises at our other locations. Certain of these 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.

We have leased certain office space to several non-affiliated tenants under operating sublease arrangements. In the normal course of business, we expect that the leases will not be renewed or replaced. We adjust charges for real estate taxes and common area maintenance annually based on actual expenses, and we recognize the related revenues 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.

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Outstanding Purchase Obligations - As a service company, we typically do 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 we have outstanding as of December 31, 2012. These obligations represent agreements to purchase goods or services that were executed in the normal course of business.

Off-Balance Sheet Commitments - Our total unrecorded commitments associated with outstanding letters of credit, financial guarantees and funding commitments as of December 31, 2012 are as follows (in millions):

Off-Balance Sheet Commitments	Amount of Commitment Expiration by Period 2013	2014	2015	2016	2017	Thereafter	Total Amounts Committed
Letters of credit	$	$	$	$	$	$ 15.9	$ 15.9
Financial guarantees						9.3	9.3
Funding commitments	4.3					2.9	7.2
Total commitments	$ 4.3	$	$	$	$	$ 28.1	$ 32.4

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements. See Note 13 to the 2012 Financials for a discussion of our funding commitments related to our corporate segment and the Off-Balance Sheet Debt section below for a discussion of other letters of credit. All of the letters of credit represent multiple year commitments that have annual, automatic renewing provisions and are classified by the latest commitment date.

Since January 1, 2002, we have acquired 252 companies, all of which were accounted for using the acquisition method for recording business combinations. Substantially all of the purchase agreements related to these acquisitions contain provisions for potential earnout obligations. For all of our 2009 to 2013 acquisitions that contain potential earnout obligations, such obligations are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration for the respective acquisition. The amounts recorded as earnout payables are primarily based upon estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The aggregate amount of the maximum earnout obligations related to these acquisitions was $383.3 million, of which $139.9 million was recorded in our consolidated balance sheet as of March 31, 2013 based on the estimated fair value of the expected future payments to be made.

See Notes 6, 12 and 13 to the 2012 Financials for a discussion of our off-balance sheet arrangements.

Off-Balance Sheet Debt - Our unconsolidated investment portfolio includes investments in enterprises where our ownership interest is between 1% and 50%, in which management has determined that our level of influence and economic interest is not sufficient to require consolidation. As a result, these investments are accounted for using the equity method. None of these unconsolidated investments had any outstanding debt at December 31, 2012 and 2011 that was recourse to us.

At December 31, 2012, we had posted two letters of credit totaling $10.2 million, in the aggregate, related to our self-insurance deductibles, for which we have recorded a liability of $8.5 million. We have an equity investment in a rent-a-captive facility, which we use as a placement facility for certain of our insurance brokerage operations. At December 31, 2012, we had posted $5.7 million of letters of credit to allow the rent-a-captive facility to meet minimum statutory surplus requirements and for additional collateral related to premium and claim funds held in a fiduciary capacity. These letters of credit have never been drawn upon.

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CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

At March 31, 2013, there were no changes in or disagreements with our accountants on matters related to accounting and financial disclosure.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Set forth below is a description of the background of each member of our Board of Directors, including public and investment company directorships each member held during the past five years and the experience, qualifications, attributes or skills that led the Board to conclude that each such individual should be elected to serve as one of our directors at the Annual Meeting.

William L. Bax, 69, has been a member of the Board since 2006 and currently serves as Chair of the Audit Committee. Mr. Bax was Managing Partner of the Chicago office of PricewaterhouseCoopers (PwC), an international accounting, auditing and consulting firm, from 1997 to 2003, and a partner in the firm for 26 years. He currently serves as a director and audit committee chair of several affiliated mutual fund companies (Northern Funds and Northern Institutional Funds since 2005, and Northern Multi-Manager Funds since 2006). Mr. Bax previously served as a director of Sears Roebuck & Co., a publicly traded retail company, from 2003 to 2005, and Andrew Corporation, a publicly traded communications products company, from 2006 to 2007. During his 26 years as a partner and 6 years as head of PwC s Chicago office, Mr. Bax gained extensive experience advising public companies regarding accounting and strategic issues. This experience, along with his tenure on the boards of public companies such as Sears and Andrew, strengthen the Board s decision making. Mr. Bax s long history advising public companies on accounting and disclosure issues enhances the Board s ability to oversee our assessment and management of material risks. Additionally, Mr. Bax s experience as a director of various mutual funds provides us with valuable insight into the perspectives and concerns of our institutional stockholders.

Frank E. English, Jr., 67, has been a member of the Board since 2009 and currently serves on the Audit Committee. Mr. English also serves on the board of directors and audit committee of Tower International, Inc., a publicly traded global automotive components manufacturer, of which he has been a board member or board advisor since August 2010. Since June 2012, Mr. English has also served on the board of directors and the finance and strategy committee of CBOE Holdings, Inc., a publicly traded holding company for various securities exchanges, including the largest U.S. options exchange. Since April 2011, Mr. English has been a Senior Advisor to W.W. Grainger, a publicly traded broad-based distributor of industrial maintenance, repair and operations supplies. From 1976 to 2009, Mr. English served in various senior roles at Morgan Stanley, most recently as Managing Director and Vice Chairman of Investment Banking. Following his retirement in 2009, Mr. English served as a Senior Advisor at Morgan Stanley & Co. until April 2011. The Board greatly benefits from Mr. English s 33 years of investment banking expertise, particularly in the areas of capital planning, strategy development, financing and liquidity management.

J. Patrick Gallagher, Jr., 61, has been a member of the Board since 1986 and has served as Chairman of the Board since 2006. Mr. Gallagher has spent his entire career with Arthur J. Gallagher & Co. in a variety of management positions, starting as a Production Account Executive in 1974, then serving as Vice President Operations from 1985 to 1990, as President and Chief Operating Officer from 1990 to 1995, and as President and CEO since 1995. In August 2011, Mr. Gallagher joined the board of directors of InnerWorkings, Inc., a publicly traded global provider of managed print, packaging and promotional solutions, and was appointed to its compensation and nominating/governance committees. He also serves on the Board of Trustees of the American Institute for Chartered Property Casualty Underwriters and on the Board of Founding Directors of the International Insurance Foundation. Mr. Gallagher s 40 years of experience with our company and 28 years of service on the Board provide him with a deep knowledge of our company and the insurance and insurance brokerage industries, as well as a depth of leadership experience. This depth of knowledge and experience greatly enhances the Board s decision making and enables Mr. Gallagher to serve as a highly effective Chairman of the Board.

Elbert O. Hand, 74, has been a member of the Board since 2002 and currently serves as Chair of the Compensation Committee and as a member of the Nominating/Governance Committee. Mr. Hand was Chairman of the Board of Hartmarx Corporation, an apparel marketing and manufacturing company, from 1992 to 2004, and served as a member of Hartmarx s board from 1984 to 2010. He served as Chief Executive Officer of Hartmarx from 1992 to 2002 and as President and Chief Operating Officer from 1987 to 1992. From 1982 to 1989, Mr. Hand also served as President and Chief Executive Officer of Hartmarx s

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Men s Apparel Group. Mr. Hand was a director of Austin Reed Group PLC, a U.K.-based apparel company, from 1995 to 2002, and served as an advisor to the board for a number of years after 2002. From January 2010 to February 2011, Mr. Hand served as a member of the board and non-executive Chairman of Environmental Solutions Worldwide, Inc., a publicly traded manufacturer and marketer of environmental control technologies. He has also served as a member of Northwestern University s Kellogg Advisory Board. The Board benefits from Mr. Hand s business acumen gleaned from nearly three decades of leadership roles in the apparel marketing and manufacturing industry, including significant experience in sales and marketing. Mr. Hand s long association with U.K. apparel company Austin Reed is valuable to the Board as we continue to expand our U.K. and other international operations.

David S. Johnson, 56, has been a member of the Board since 2003 and currently serves as Chair of the Nominating/Governance Committee and as a member of the Compensation Committee. In 2009, Mr. Johnson was appointed President and Chief Executive Officer of the Americas for Barry Callebaut AG, the world s largest manufacturer of cocoa and chocolate products. He is also a member of Barry Callebaut AG s global executive committee. Mr. Johnson served as President and Chief Executive Officer, and as a member of the board, of Michael Foods, Inc., a food processor and distributor, from 2008 to 2009, and as Michael Foods President and Chief Operating Officer from 2007 to 2008. From 1986 to 2006, Mr. Johnson served in a variety of senior management roles at Kraft Foods Global, Inc., a global food and beverage company, most recently as President of Kraft Foods North America, and as a member of Kraft Foods Management Committee. Prior to that, he held senior positions in marketing, strategy, operations, procurement and general management at Kraft Foods. The Board benefits from Mr. Johnson s business acumen gleaned from nearly three decades of leadership roles in the food and beverage industry. In particular, Mr. Johnson s experience as an executive at global, multi-national businesses such as Barry Callebaut and Kraft is valuable to the Board as we continue to expand our international operations. Mr. Johnson s association with corporate governance and executive compensation best practices as a member of Kraft s Management Committee, as a board member of Michael Foods and as a member of Barry Callebaut AG s global executive committee, also enables him to make valuable contributions to the Board.

Kay W. McCurdy, 62, has been a member of the Board since 2005 and currently serves on the Compensation and Nominating/Governance Committees. Ms. McCurdy is Of Counsel at the law firm of Locke Lord LLP, where she was a Partner from 1983 to 2012, and practiced corporate and finance law since 1975. She served on the firm s Executive Committee from 2004 to 2006. During her nearly four decades as a corporate and finance attorney, Ms. McCurdy represented numerous companies on a wide range of matters including financing transactions, mergers and acquisitions, securities offerings, executive compensation and corporate governance. Ms. McCurdy served as a director of Trek Bicycle Corporation, a leading bicycle manufacturer, from 1998 to 2007. In recognition of her ongoing commitment to director education and boardroom excellence, the National Association of Corporate Directors (NACD) named Ms. McCurdy a 2012 NACD Governance Fellow. Ms. McCurdy s experience advising companies regarding legal, public disclosure, corporate governance, mergers and acquisitions and executive compensation issues provide her with a depth and breadth of expertise that enhances our ability to navigate legal and strategic issues. Ms. McCurdy s experience with corporate governance and executive compensation best practices as an expert advising a wide variety of companies across different industries enables her to make valuable contributions to the Board with respect to these and related matters.

Norman L. Rosenthal, Ph.D., 61, has been a member of the Board since 2008 and currently serves on the Audit Committee. Since 1996, he has been President of Norman L. Rosenthal & Associates, Inc., a management consulting firm that specializes in the property and casualty insurance industry. Prior to 1996, Dr. Rosenthal spent 15 years practicing in the property and casualty insurance industry at Morgan Stanley & Co., a global financial services firm, most recently as Managing Director. Dr. Rosenthal served on the boards of Aspen Insurance Holdings, Ltd., a publicly traded global property and casualty insurance and reinsurance company, from 2002 to 2009, Mutual Risk Management Ltd., a publicly traded off-shore provider of alternative commercial insurance and financial services, from 1997 to 2002, Vesta Insurance Group, Inc., a publicly traded group of insurance companies, from 1996 to 1999, and Alliant Insurance Group Inc., a private insurance brokerage and financial services company, from 2005 to 2007. He currently serves on the private company board of The Plymouth Rock Company, a group of auto and homeowners insurance companies. Dr. Rosenthal holds a Ph.D. in Business and Applied Economics, with an insurance focus, from the Wharton School of the University of Pennsylvania. Dr. Rosenthal s vast experience in the insurance and finance industries is a valuable resource to us and greatly enriches the Board s decision making. In addition, Dr. Rosenthal s academic expertise in applied economics, combined with his decades of experience as a management consultant and director in the insurance sector, greatly enhances the Board s ability to oversee our assessment and management of material risks.

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James R. Wimmer, 84, has been a member of the Board since 1985 and currently serves on the Audit and Nominating/Governance Committees. Mr. Wimmer is a retired attorney from the law firm of Lord, Bissell & Brook, where he was Partner from 1959 to 1992 and Of Counsel from 1992 to 1999. Mr. Wimmer represented public and private companies, including Arthur J. Gallagher & Co., on a wide range of corporate, securities and insurance-related matters. He served as Chairman of Lord, Bissell & Brook for one year and as a member of its executive committee for 12 years. Mr. Wimmer joined the Board the year after our initial public offering and over the years has been a key advisor on many complex legal and strategic issues. His 28 years of service on the Board and even longer association as our former attorney give Mr. Wimmer a deep understanding of our business, which greatly enriches the Board s decision making.

Legal Proceedings Involving Directors and Executive Officers

As of the date of this prospectus, there is no material proceeding to which any of our directors or executive officers, or any associate of any such director or executive officer, is a party or has a material interest adverse to us or any of our subsidiaries. To our knowledge, none of our directors or executive officers have been subject to any of the events described in Item 401(f) of Regulation S-K, as promulgated by the SEC, during the past ten years.

Corporate Governance

We are committed to sound and effective corporate governance. To that end, the Board of Directors has adopted Governance Guidelines that set forth principles to assist the Board in determining director independence and other important corporate governance matters. Over the years we have taken steps to strengthen our corporate governance in various areas, including the following: all Board members other than our Chairman are independent; our directors are elected annually to a one-year term; we have majority voting for director elections; we do not have supermajority voting requirements in our certificate of incorporation; we do not have a poison pill; and we prohibit hedging and restrict pledging of company stock by directors and executive officers. The Board has also adopted Global Standards of Business Conduct (the Global Standards) that apply to all directors, executive officers and employees. The Global Standards, along with our Governance Guidelines and the charters of the Audit, Compensation and Nominating/Governance Committees, are available at www.ajg.com/ir, under the heading Corporate Governance. We will provide a copy of the Global Standards or Governance Guidelines without charge to any person who requests a copy by writing to our Secretary at The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141. We intend to satisfy the disclosure requirements of Item 5.05 of Form 8-K regarding any amendment to, or waiver from, the Global Standards by posting such information on our website.

Board Committees

The Board currently has Audit, Compensation and Nominating/Governance Committees, all of the members of which are independent. The following table sets forth the members of, and the number of meetings held by, each committee during 2012:

Director	**Audit**	**Compensation**	**Nominating/ Governance**
William L. Bax	**Chair**		
Frank E. English, Jr.	X		
J. Patrick Gallagher, Jr.			
Ilene S. Gordon		X	
Elbert O. Hand		**Chair**	X
David S. Johnson		X	**Chair**
Kay W. McCurdy		X	X
Norman L. Rosenthal	X		
James R. Wimmer	X		X
Meetings Held in 2012	**4**	**5**	**3**

Audit Committee. The Audit Committee is responsible for, among other things, general oversight of the integrity of our financial statements, risk assessment and risk management, our compliance with legal and regulatory requirements, our independent registered public accounting firm s qualifications and independence, and the performance of our internal audit function and independent registered public accounting firm. The Audit Committee manages our relationship with our independent registered public accounting firm and is responsible for the appointment, retention, termination and compensation of the independent auditor. Each member of the Audit Committee meets the additional heightened independence and other requirements of the NYSE. The Board has determined that Mr. Bax qualifies as an audit committee financial expert under SEC rules.

Compensation Committee. The Compensation Committee is responsible for, among other things, reviewing compensation arrangements for our executive officers, including our CEO, for administering our equity compensation and other benefit plans, and for reviewing our overall compensation structure to avoid incentives that promote excessive risk-taking by executive officers and other employees. The Compensation Committee is permitted to delegate its authority under its charter to subcommittees when it deems appropriate. The Compensation Committee may, and in 2012 did, engage a compensation consultant to assist it in carrying out its duties and responsibilities, and has the sole authority to retain and terminate any compensation consultant, including sole authority to approve any consultant s fees and other retention terms. For more information regarding the roles of our CEO and compensation consultant in setting compensation, please see page 80.

Nominating/Governance Committee. The Nominating/Governance Committee is responsible for, among other things, identifying qualified Board and Board committee candidates, recommending changes to the Board s size and composition, determining director compensation, recommending director independence standards and governance guidelines, and reviewing and approving related party transactions.

Director Qualifications. When identifying director candidates, in addition to applicable SEC and NYSE requirements, the Nominating/Governance Committee considers other factors as it deems appropriate, including the candidate s judgment, skill, integrity, diversity, and business or other experience. Directors should have experience in positions with a high degree of responsibility, be leaders in the organizations with which they are affiliated, be selected based on contributions they can make to the Board and management and be free from relationships or conflicts of interest that could interfere with the director s duties to us and our stockholders. The Nominating/Governance Committee may consider candidates suggested by stockholders, management or members of the Board and may hire consultants or search firms to help identify and evaluate potential nominees for director.

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Under our bylaws, notice of any matter that is not submitted to be included in our proxy statement and proxy card for the 2014 Annual Meeting, but that a stockholder instead wishes to present directly at the Annual Meeting, including director nominations and other items of business, must be delivered to our Secretary, at Arthur J. Gallagher & Co., The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141, not later than the close of business on February 14, 2014 and not earlier than the close of business on January 15, 2014. We will not entertain any nominations or other items of business at the Annual Meeting that do not meet the requirements in our bylaws. If we do not receive notice of a matter by February 14, 2014, SEC rules permit the people named as proxy holders on the proxy card to vote proxies in their discretion when and if the matter is raised at the Annual Meeting. Any stockholder proposal relating to a director nomination should set forth all information relating to such person required to be disclosed in solicitations of proxies for contested director elections under Regulation 14A of the Exchange Act, including, among other things, the particular experience, qualifications, attributes or skills of the nominee that, in light of our business and structure, led to the stockholder s conclusion that the nominee should serve on the Board. The proposal should also include the director nominee s written consent to be named in our proxy statement as a nominee and to serve as a director if elected. Stockholders are also advised to review our bylaws, which contain additional requirements regarding the information to be included in, and advance notice of, stockholder proposals and director nominations.

Any stockholder who wishes to propose director nominees for consideration by the Board s Nominating/Governance Committee, but does not wish to present such proposal at an annual meeting, may do so at any time by directing a description of each nominee s name and qualifications for Board membership to the Chair of the Nominating/Governance Committee, c/o our Secretary at Arthur J. Gallagher & Co., The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141. The recommendation should contain all of the information regarding the nominee described in the question and answer above and in our bylaws relating to director nominations brought before the Annual Meeting. The Nominating/Governance Committee evaluates nominee proposals submitted by stockholders in the same manner in which it evaluates other nominees.

Board Diversity. The Nominating/Governance Committee seeks Board members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. The Nominating/Governance Committee implements this policy through discussions among committee members and assesses its effectiveness annually as part of the self-evaluation process of the Nominating/Governance Committee and the Board.

Board Leadership Structure

J. Patrick Gallagher, Jr. currently serves as Chairman of the Board and CEO. With the exception of the Chairman, all Board members are independent and actively oversee the activities of the Chairman and other members of the senior management team. At the end of each regularly scheduled meeting of the Board, the independent directors select an independent Lead Director who serves until the end of the next regularly scheduled meeting of the Board. The responsibilities of the Lead Director include acting as a liaison between the Chairman and the independent directors, coordinating with the Chairman regarding information sent to the Board, coordinating with the Chairman regarding Board meeting agendas and schedules, and being available for consultation and communication with stockholders as appropriate. In addition, the Lead Director is authorized to call and preside over executive sessions of the independent directors without the Chairman or other management present. The independent directors also meet regularly in executive sessions. An executive session is held in conjunction with each regularly scheduled Board meeting, and other executive sessions may be called by the Lead Director at his or her discretion or at the request of the Board. The committees of the Board also meet regularly in executive sessions without management. We believe that our Board leadership structure provides us with important advantages. Mr. Gallagher s extensive experience and knowledge of our business enriches the Board s decision making. Mr. Gallagher s role as Chairman and CEO also enhances communication and coordination between management and the Board on critical issues.

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Board s Role in Risk Oversight

The Board exercises its responsibility for oversight and monitoring of management s risk assessment and risk management functions primarily through the Audit Committee. The Audit Committee fulfills its oversight role by discussing, among other things, guidelines and policies regarding risk assessment and risk management, our major financial risk exposures and steps taken by management to monitor and control such exposures. To fulfill its risk oversight and monitoring roles, the Audit Committee oversees an internal audit department, the head of which reports directly to the Audit Committee (other than with respect to the department s day-to-day operations). The internal audit department is independent from management and its responsibilities are defined by the Audit Committee. At least annually, the head of the internal audit department is required to confirm to the full Board the department s organizational independence. Among other things, the purpose of the department is to bring a systematic and disciplined approach to evaluating and improving the effectiveness of our risk management, control and governance processes. The internal audit department evaluates the effectiveness of our risk management processes, performs consulting and advisory services for us related to risk management, and reports significant risk exposures, including fraud risks, to the Audit Committee. The Audit Committee periodically reports to the full Board a summary of its activities and any key findings that arise from its risk oversight and monitoring functions.

In addition, the Compensation Committee reviews our overall compensation policies and practices to determine whether our program provides incentives for executive officers and other employees to take excessive risks. Based upon an analysis conducted by management and discussions between management and our Compensation Committee, the Compensation Committee has determined that our overall compensation policies and practices do not present risks that are likely to have a material adverse effect on us or our business. In reaching this determination, our Compensation Committee and management noted the following: (i) no single business unit bears a disproportionate share of our overall risk profile; (ii) no single business unit is significantly more profitable than the other business units; (iii) our compensation practices are substantially consistent across all business units both in the amount and types of compensation awarded; and (iv) substantially all of our revenue-producing employees are sales professionals whose compensation is tied to the amount of revenue received by the company. In addition, our annual cash incentive program targets payouts for our CEO at 125% of base salary, and for other executive officers at 100% of base salary, and caps payouts at 150% of target. We believe that our compensation practices help ensure that no single year s results and no single corporate action has a disproportionate effect on executive officers annual compensation, and encourage steady and consistent long-term performance by our executive officers. In addition, our equity plans permit the use of a variety of equity and equity-based compensation awards including stock options, restricted stock units, performance units and deferred cash and equity awards, with multi-year vesting and overlapping maturity. Together with our executive stock ownership guidelines and our conservative approach to annual cash incentives, the Compensation Committee believes this mix of incentives encourages executive officers to achieve both short-term operating and long-term strategic objectives, including the long-term performance of our stock.

Other Board Matters

Independence. The Board has conducted its annual review of the independence of each director nominee under NYSE standards and the independence standards set forth in Appendix A of our Governance Guidelines (available on our website located at www.ajg.com/ir, under the heading Corporate Governance). Based upon its review, the Board has concluded in its business judgment that, with the exception of J. Patrick Gallagher, Jr., our Chairman and CEO, all of the director nominees are independent.

Attendance. The Board expects each director to attend and participate in all Board and applicable committee meetings. Each director is expected to prepare for meetings in advance and to dedicate the time necessary to discharge properly his or her responsibilities at each meeting and to ensure other commitments do not materially interfere with his or her service on the Board. During 2012, the Board met six times. All of the nominees attended 75% or more of the aggregate meetings of the Board and the committees on which they served during 2012. We expect all Board members to attend our Annual Meeting. All of our Board members attended our Annual Meeting held on May 8, 2012.

Stockholder Communications with the Board. A stockholder or other party interested in communicating with the Board, any of its committees, the Chairman, the Lead Director, the non-management directors as a group or any director individually may do so by writing to their attention at our principal executive offices, Arthur J. Gallagher & Co., c/o Secretary, The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141. These communications are distributed to the Board, Committee Chair, Chairman, Lead Director, non-management directors as a group, or individual director, as applicable.

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Executive Officers

Our executive officers are as follows:

Name	Age	Position and Year First Elected
J. Patrick Gallagher, Jr.	61	Chairman since 2006, President since 1990, Chief Executive Officer since 1995
Walter D. Bay	50	Corporate Vice President, General Counsel, Secretary since 2007
Richard C. Cary	50	Controller since 1997, Chief Accounting Officer since 2001
James W. Durkin, Jr.	64	Corporate Vice President, President of our Employee Benefit Brokerage Operation since 1985
James S. Gault	61	Corporate Vice President since 1992, President of our Retail Property/Casualty Brokerage Operation since 2002
Douglas K. Howell	51	Corporate Vice President, Chief Financial Officer since 2003
Scott R. Hudson	51	Corporate Vice President and President of our Risk Management Operation since 2010