

GALLAGHER ARTHUR J & CO
Form 10-Q
July 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

or

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 1-09761

ARTHUR J. GALLAGHER & CO.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2151613
(I.R.S. Employer
Identification No.)

Two Pierce Place, Itasca, Illinois 60143-3141
(Address of principal executive offices) (Zip code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of outstanding shares of the registrant's common stock, \$1.00 par value, as of June 30, 2016 was approximately 177,031,000.

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Table of Contents**Part I - Financial Information****Item 1. Financial Statements (Unaudited)****Arthur J. Gallagher & Co.****Consolidated Statement of Earnings****(Unaudited - in millions, except per share data)**

	Three-month period ended June 30,		Six-month period ended June 30,	
	2016	2015	2016	2015
Commissions	\$ 663.4	\$ 634.3	\$ 1,229.4	\$ 1,154.0
Fees	374.6	367.3	712.8	690.5
Supplemental commissions	38.6	34.8	71.5	61.7
Contingent commissions	25.1	22.8	80.3	67.3
Investment income	12.5	12.3	22.8	25.4
Gains on books of business sales	1.4	3.5	3.6	4.4
Revenues from clean coal activities	311.9	297.0	606.7	600.9
Other net revenues (losses)	(0.4)	(0.6)	0.4	(1.5)
Total revenues	1,427.1	1,371.4	2,727.5	2,602.7
Compensation	631.0	615.1	1,253.1	1,190.3
Operating	204.6	207.1	409.1	410.6
Cost of revenues from clean coal activities	325.0	306.8	629.4	616.1
Interest	27.2	26.0	53.0	51.6
Depreciation	26.0	22.8	50.7	44.3
Amortization	62.6	59.5	121.9	114.2
Change in estimated acquisition earnout payables	13.2	5.6	17.1	16.2
Total expenses	1,289.6	1,242.9	2,534.3	2,443.3
Earnings before income taxes	137.5	128.5	193.2	159.4
Benefit for income taxes	(18.2)	(19.1)	(20.4)	(20.6)
Net earnings	155.7	147.6	213.6	180.0
Net earnings attributable to noncontrolling interests	5.7	8.3	17.1	18.8
Net earnings attributable to controlling interests	\$ 150.0	\$ 139.3	\$ 196.5	\$ 161.2
Basic net earnings per share	\$ 0.85	\$ 0.82	\$ 1.11	\$ 0.96
Diluted net earnings per share	0.84	0.81	1.10	0.95
Dividends declared per common share	0.38	0.37	0.76	0.74

See notes to consolidated financial statements.

Table of Contents**Arthur J. Gallagher & Co.****Consolidated Statement of Comprehensive Earnings****(Unaudited - in millions)**

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net earnings	\$ 155.7	\$ 147.6	\$ 213.6	\$ 180.0
Change in pension liability, net of taxes	2.8		3.6	0.7
Foreign currency translation	(59.1)	49.6	(71.8)	(85.2)
Change in fair value of derivative investments, net of taxes	(11.8)	6.4	(12.8)	6.4
Comprehensive earnings	87.6	203.6	132.6	101.9
Comprehensive earnings attributable to noncontrolling interests	8.1	(1.4)	22.3	(5.4)
Comprehensive earnings attributable to controlling interests	\$ 79.5	\$ 205.0	\$ 110.3	\$ 107.3

See notes to consolidated financial statements.

Table of Contents**Arthur J. Gallagher & Co.****Consolidated Balance Sheet****(In millions)**

	June 30, 2016 (Unaudited)	December 31, 2015
Cash and cash equivalents	\$ 411.1	\$ 480.4
Restricted cash	1,430.9	1,412.1
Premiums and fees receivable	2,038.4	1,734.0
Other current assets	605.2	587.2
Total current assets	4,485.6	4,213.7
Fixed assets - net	213.9	202.7
Deferred income taxes	702.3	643.5
Other noncurrent assets	606.6	488.9
Goodwill - net	3,716.1	3,662.9
Amortizable intangible assets - net	1,659.8	1,698.8
Total assets	\$ 11,384.3	\$ 10,910.5
Premiums payable to insurance and reinsurance companies	\$ 3,216.5	\$ 2,877.1
Accrued compensation and other accrued liabilities	658.5	812.7
Unearned fees	72.8	61.3
Other current liabilities	49.7	54.0
Premium financing debt	101.2	137.0
Corporate related borrowings - current	285.0	245.0
Total current liabilities	4,383.7	4,187.1
Corporate related borrowings - noncurrent	2,344.4	2,071.7
Other noncurrent liabilities	1,000.4	963.5
Total liabilities	7,728.5	7,222.3
Stockholders' equity:		
Common stock - issued and outstanding 177.0 shares in 2016 and 176.9 shares in 2015	177.0	176.9
Capital in excess of par value	3,191.2	3,209.4
Retained earnings	835.2	774.5
Accumulated other comprehensive loss	(603.5)	(522.5)
Stockholders' equity attributable to controlling interests	3,599.9	3,638.3
Stockholders' equity attributable to noncontrolling interests	55.9	49.9
Total stockholders' equity	3,655.8	3,688.2
Total liabilities and stockholders' equity	\$ 11,384.3	\$ 10,910.5

See notes to consolidated financial statements.

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Arthur J. Gallagher & Co.

Consolidated Statement of Cash Flows

(Unaudited - in millions)