

GALLAGHER ARTHUR J & CO
Form 10-Q
October 28, 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 September 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 **36-2151613**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **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

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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

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 September 30, 2016 was approximately 177,941,000.

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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 September 30,		Nine-month period ended September 30,	
	2016	2015	2016	2015
Commissions	\$ 612.9	\$ 594.6	\$ 1,842.3	\$ 1,748.6
Fees	375.0	360.7	1,087.8	1,051.2
Supplemental commissions	35.3	29.2	106.8	90.9
Contingent commissions	16.4	14.5	96.7	81.8
Investment income	13.6	13.1	36.4	38.5
Gains on books of business sales	1.1	2.6	4.7	7.0
Revenues from clean coal activities	429.3	408.1	1,036.0	1,009.0
Other net revenues (losses)	(1.3)	32.0	(0.9)	30.5
Total revenues	1,482.3	1,454.8	4,209.8	4,057.5
Compensation	626.6	604.9	1,879.7	1,795.2
Operating	189.6	208.1	598.7	618.7
Cost of revenues from clean coal activities	449.7	418.9	1,079.1	1,035.0
Interest	28.5	25.6	81.5	77.2
Depreciation	25.7	23.8	76.4	68.1
Amortization	63.2	58.1	185.1	172.3
Change in estimated acquisition earnout payables	4.1	9.7	21.2	25.9
Total expenses	1,387.4	1,349.1	3,921.7	3,792.4
Earnings before income taxes	94.9	105.7	288.1	265.1
Benefit for income taxes	(35.5)	(35.2)	(55.9)	(55.8)
Net earnings	130.4	140.9	344.0	320.9
Net earnings attributable to noncontrolling interests	7.6	7.6	24.7	26.4
Net earnings attributable to controlling interests	\$ 122.8	\$ 133.3	\$ 319.3	\$ 294.5
Basic net earnings per share	\$ 0.69	\$ 0.76	\$ 1.80	\$ 1.73
Diluted net earnings per share	0.69	0.75	1.79	1.71
Dividends declared per common share	0.38	0.37	1.14	1.11

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		Nine-month period ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net earnings	\$ 130.4	\$ 140.9	\$ 344.0	\$ 320.9
Change in pension liability, net of taxes	0.8	0.6	4.4	1.3
Foreign currency translation	(19.6)	(152.7)	(91.4)	(237.9)
Change in fair value of derivative investments, net of taxes	1.8	(5.5)	(11.0)	0.9
Comprehensive earnings (loss)	113.4	(16.7)	246.0	85.2
Comprehensive earnings attributable to noncontrolling interests	6.6	21.6	28.9	16.2
Comprehensive earnings (loss) attributable to controlling interests	\$ 106.8	\$ (38.3)	\$ 217.1	\$ 69.0

See notes to consolidated financial statements.

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

	September 30, 2016 (Unaudited)	December 31, 2015
Cash and cash equivalents	\$ 531.8	\$ 480.4
Restricted cash	1,397.1	1,412.1
Premiums and fees receivable	1,683.7	1,734.0
Other current assets	601.1	587.2
Total current assets	4,213.7	4,213.7
Fixed assets - net	213.9	202.7
Deferred income taxes	749.8	643.5
Other noncurrent assets	630.4	488.9
Goodwill - net	3,762.6	3,662.9
Amortizable intangible assets - net	1,629.9	1,698.8
Total assets	\$ 11,200.3	\$ 10,910.5
Premiums payable to insurance and reinsurance companies	\$ 2,866.9	\$ 2,877.1
Accrued compensation and other accrued liabilities	651.3	812.7
Unearned fees	83.7	61.3
Other current liabilities	55.9	54.0
Premium financing debt	133.1	137.0
Corporate related borrowings - current	608.0	245.0
Total current liabilities	4,398.9	4,187.1
Corporate related borrowings - noncurrent	2,044.6	2,071.7
Other noncurrent liabilities	1,015.6	963.5
Total liabilities	7,459.1	7,222.3
Stockholders' equity:		
Common stock - issued and outstanding 177.9 shares in 2016 and 176.9 shares in 2015	177.9	176.9
Capital in excess of par value	3,239.3	3,209.4
Retained earnings	889.8	774.5
Accumulated other comprehensive loss	(620.5)	(522.5)
Stockholders' equity attributable to controlling interests	3,686.5	3,638.3
Stockholders' equity attributable to noncontrolling interests	54.7	49.9
Total stockholders' equity	3,741.2	3,688.2
Total liabilities and stockholders' equity	\$ 11,200.3	\$ 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)