

**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, 2020

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.)

2850 Golf Road, Rolling Meadows, Illinois 60008

(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)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	AJG	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2020 was approximately 192,322,000.

Information Concerning Forward-Looking Statements

This report 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. Such statements 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,” “should,” “will” 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 including the expected size of our acquisition program; 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 size and outcome of cost-saving or restructuring initiatives; future capital expenditures; future debt levels and anticipated actions to be taken in connection with maturing debt; future debt to earnings ratios; the outcome of contingencies; dividend policy; pension obligations; cash flow and liquidity; capital structure and financial losses; future actions by regulators; the outcome of existing regulatory actions, investigations, reviews or litigation; the impact of changes in accounting rules; financial markets; interest rates; foreign exchange rates; matters relating to our operations; income taxes; expectations regarding our investments, including our clean energy investments; and integrating recent acquisitions. 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.

Potential factors that could impact results include:

- The current or a future economic downturn or unstable economic conditions, whatever the cause, including the effects of the coronavirus pandemic (which we refer to as COVID-19), or other factors like Brexit, worsening international relations, tariffs, trade wars, the November 2020 elections in the U.S., or climate change and other long-term social, environmental and global health risks;
- Volatility or declines in premiums or other adverse trends in the insurance industry;
- Competitive pressures, including as a result of innovation, in each of our businesses;
- Risks that could negatively affect the success of our acquisition strategy, including the impact of current economic uncertainty on our ability to source, review and price acquisitions, continuing consolidation in our industry and growing interest in acquiring insurance brokers on the part of private equity firms and newly public insurance brokers, which could make it more difficult to identify targets and could make them more expensive, the risk that we may not receive timely regulatory approval of desired transactions, 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 liabilities such as cybersecurity issues or those relating to violations of anti-corruption and sanctions laws;
- Failure to successfully and cost-effectively integrate recently acquired businesses and their operations or fully realize synergies from such acquisitions in the expected time frame;
- Cyber attacks or other cybersecurity incidents including the ransomware incident referred to elsewhere in this report; improper disclosure of confidential, personal or proprietary data; and changes to laws and regulations governing cybersecurity and data privacy;
- Risks arising from changes in U.S. or foreign tax laws, including our ability to effectively account for the U.S. Tax Cuts and Jobs Act (which we refer to as the Tax Act) and related regulations;
- Uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark;
- Our failure to attract and retain experienced and qualified talent, including our senior management team, and the risk of our CEO or another senior executive contracting COVID-19;
- Risks arising from our substantial international operations, including the risks posed by political and economic uncertainty in certain countries (such as the risks posed by Brexit), risks related to maintaining regulatory and legal compliance across multiple jurisdictions (such as those relating to violations of anti-corruption, sanctions and privacy laws), and risks arising from the complexity of managing businesses across different time zones, languages, geographies, cultures and legal regimes that conflict with one another at times;
- Risks particular to our risk management segment, including reduced economic activity due to COVID-19 further reducing claim activity, any slowing of the trend toward outsourcing claims administration, and of the concentration of large amounts of revenue with certain clients;

- The higher level of variability inherent in contingent and supplemental revenues versus standard commission revenues, particularly in light of the changed revenue recognition accounting standard;
- Sustained increases in the cost of employee benefits;
- A disaster or other significant disruption to business continuity, including natural disasters and political unrest related to the November 2020 elections;
- Damage to our reputation;
- Our 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;
- Our failure to comply with regulatory requirements, including those related to governance and control requirements in particular jurisdictions, international sanctions, or a change in regulations or enforcement policies that adversely affects our operations (for example, relating to insurance broker compensation methods or the failure of state and local governments to follow through on agreed-upon income tax credits or other tax related incentives, relating to our corporate headquarters);
- Violations or alleged violations of the U.S. Foreign Corrupt Practices Act (which we refer to as FCPA), the U.K. Bribery Act 2010 or other anti-corruption laws, and the Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act (which we refer to as FATCA);
- The outcome of any existing or future investigation, review, regulatory action or litigation;
- Unfavorable determinations related to contingencies and legal proceedings;
- Significant changes in foreign exchange rates;
- Changes to our financial presentation from new accounting estimates and assumptions;
- Changes in healthcare-related laws and regulations with the potential to negatively impact our employee benefits consulting business, including “Medicare-for-all” and other proposed laws expanding the role of public programs in healthcare;
- Risks related to our clean energy investments, including intellectual property claims, utilities switching from coal to natural gas or renewable energy sources, environmental and product liability claims, environmental compliance costs and the risk of disallowance by the Internal Revenue Service (which we refer to as the IRS) of previously claimed tax credits;
- The risk that our outstanding debt adversely affects our financial flexibility and restrictions and limitations in the agreements and instruments governing our debt;
- The risk we may not be able to receive dividends or other distributions from subsidiaries;
- The risk of share ownership dilution when we issue common stock as consideration for acquisitions and for other reasons; and
- Volatility of the price of our common stock.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including the risk factors referred to above, and are currently, or in the future could be, amplified by the COVID-19 pandemic. Our future performance and actual results may differ materially from those expressed in forward-looking statements. Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of, and are based on information available to us on, the date of the applicable document. Many of the factors that will determine these results are beyond our ability to control or predict. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Forward-looking statements speak only as of the date that they are made, and we do not undertake any obligation to update any such statements or release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect new information, future or unexpected events or otherwise, except as required by applicable law or regulation.

A detailed discussion of the factors that could cause actual results to differ materially from our published expectations is contained under the heading “Risk Factors” in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as well as Item 1A “Risk Factors” of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and any other reports we file with the SEC in the future.

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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,	
	2020	2019	2020	2019
Commissions	\$ 889.9	\$ 809.9	\$ 2,734.6	\$ 2,528.0
Fees	495.8	490.1	1,462.8	1,419.5
Supplemental revenues	54.7	49.8	164.0	153.4
Contingent revenues	34.5	30.4	117.0	107.9
Investment income	19.0	24.0	53.6	61.9
Net gains on divestitures	3.4	3.3	4.6	62.3
Revenues from clean coal activities	310.8	386.0	652.1	1,042.7
Other net losses	(0.6)	(3.0)	(0.4)	(2.9)
Revenues before reimbursements	1,807.5	1,790.5	5,188.3	5,372.8
Reimbursements	41.6	34.7	111.7	100.8
Total revenues	1,849.1	1,825.2	5,300.0	5,473.6
Compensation	873.5	838.7	2,585.3	2,482.1
Operating	203.2	268.0	675.7	788.2
Reimbursements	41.6	34.7	111.7	100.8
Cost of revenues from clean coal activities	319.2	397.4	665.8	1,071.9
Interest	48.1	46.6	148.6	131.7
Depreciation	36.5	35.1	107.7	104.4
Amortization	97.4	84.2	321.2	240.4
Change in estimated acquisition earnout payables	20.1	5.7	(53.2)	12.0
Total expenses	1,639.6	1,710.4	4,562.8	4,931.5
Earnings before income taxes	209.5	114.8	737.2	542.1
Provision (benefit) for income taxes	21.7	(22.3)	32.2	(68.1)
Net earnings	187.8	137.1	705.0	610.2
Net earnings attributable to noncontrolling interests	11.2	11.0	28.4	39.9
Net earnings attributable to controlling interests	\$ 176.6	\$ 126.1	\$ 676.6	\$ 570.3
Basic net earnings per share	\$ 0.92	\$ 0.68	\$ 3.55	\$ 3.07
Diluted net earnings per share	0.90	0.66	3.48	3.01
Dividends declared per common share	0.45	0.43	1.35	1.29

See notes to consolidated financial statements.

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Net earnings	\$ 187.8	\$ 137.1	\$ 705.0	\$ 610.2
Change in pension liability, net of taxes	0.4	1.0	1.6	3.4
Foreign currency translation, net of taxes	101.9	(98.7)	(28.7)	(84.9)
Change in fair value of derivative investments, net of taxes	9.5	(24.9)	(83.7)	(57.8)
Comprehensive earnings	299.6	14.5	594.2	470.9
Comprehensive earnings attributable to noncontrolling interests	11.7	7.9	29.3	37.2
Comprehensive earnings attributable to controlling interests	\$ 287.9	\$ 6.6	\$ 564.9	\$ 433.7

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Consolidated Balance Sheet
(Unaudited - in millions)

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 629.9	\$ 604.8
Restricted cash	2,844.9	2,019.1
Premiums and fees receivable	6,702.5	5,419.2
Other current assets	1,023.0	1,074.4
Total current assets	<u>11,200.3</u>	<u>9,117.5</u>
Fixed assets - net	458.7	467.4
Deferred income taxes	1,049.8	945.6
Other noncurrent assets	732.5	773.6
Right-of-use assets	346.4	393.5
Goodwill	5,832.2	5,618.5
Amortizable intangible assets - net	2,195.0	2,318.7
Total assets	<u>\$ 21,814.9</u>	<u>\$ 19,634.8</u>
Premiums payable to underwriting enterprises	\$ 7,952.9	\$ 6,348.5
Accrued compensation and other current liabilities	1,380.5	1,347.8
Deferred revenue - current	465.8	434.1
Premium financing debt	193.0	170.6
Corporate related borrowings - current	125.0	620.0
Total current liabilities	<u>10,117.2</u>	<u>8,921.0</u>
Corporate related borrowings - noncurrent	4,265.7	3,816.1
Deferred revenue - noncurrent	65.6	69.7
Lease liabilities - noncurrent	292.5	340.9
Other noncurrent liabilities	1,255.7	1,271.6
Total liabilities	<u>15,996.7</u>	<u>14,419.3</u>
Stockholders' equity:		
Common stock - issued and outstanding 192.3 shares in 2020 and 188.1 shares in 2019	192.3	188.1
Capital in excess of par value	4,132.5	3,825.7
Retained earnings	2,317.3	1,901.3
Accumulated other comprehensive loss	(870.4)	(759.6)
Stockholders' equity attributable to controlling interests	5,771.7	5,155.5
Stockholders' equity attributable to noncontrolling interests	46.5	60.0
Total stockholders' equity	<u>5,818.2</u>	<u>5,215.5</u>
Total liabilities and stockholders' equity	<u>\$ 21,814.9</u>	<u>\$ 19,634.8</u>

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Consolidated Statement of Cash Flows
(Unaudited - in millions)

	Nine-month period ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net earnings	\$ 705.0	\$ 610.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net gain on investments and other	(4.1)	(59.0)
Depreciation and amortization	428.9	344.8
Change in estimated acquisition earnout payables	(53.2)	12.0
Amortization of deferred compensation and restricted stock	45.1	34.8
Stock-based and other noncash compensation expense	10.1	10.5
Payments on acquisition earnouts in excess of original estimates	(14.5)	(14.7)
Effect of changes in foreign exchange rates	(3.0)	2.8
Net change in premiums and fees receivable	(1,297.9)	(832.1)
Net change in deferred revenue	24.9	17.1
Net change in premiums payable to underwriting enterprises	1,596.0	843.3
Net change in other current assets	(24.5)	(6.8)
Net change in accrued compensation and other current liabilities	(6.4)	(50.9)
Net change in income taxes payable	61.8	5.2
Net change in deferred income taxes	(129.9)	(138.0)
Net change in other noncurrent assets and liabilities	49.3	(10.1)
Net cash provided by operating activities	<u>1,387.6</u>	<u>769.1</u>
Cash flows from investing activities:		
Capital expenditures	(79.5)	(107.7)
Cash paid for acquisitions, net of cash and restricted cash acquired	(91.3)	(951.1)
Net proceeds from sales of operations/books of business	9.0	79.4
Net funding of investment transactions	(1.0)	(1.0)
Net cash used by investing activities	<u>(162.8)</u>	<u>(980.4)</u>
Cash flows from financing activities:		
Payments on acquisition earnouts	(32.6)	(37.4)
Proceeds from issuance of common stock	83.6	83.1
Payments to noncontrolling interests	(76.4)	(40.1)
Dividends paid	(260.1)	(239.8)
Net borrowings on premium financing debt facility	16.9	23.2
Borrowings on line of credit facility	2,630.0	2,735.0
Repayments on line of credit facility	(3,150.0)	(2,610.0)
Net borrowings of corporate related long-term debt	474.6	725.0
Debt acquisition costs	(1.3)	(3.9)
Settlements on terminated interest rate swaps	(65.9)	(6.4)
Net cash (used) provided by financing activities	<u>(381.2)</u>	<u>628.7</u>
Effect of changes in foreign exchange rates on cash and cash equivalents and restricted cash	7.3	(46.9)
Net increase in cash, cash equivalents and restricted cash	850.9	370.5
Cash, cash equivalents and restricted cash at beginning of period	2,623.9	2,236.8
Cash, cash equivalents and restricted cash at end of period	<u>\$ 3,474.8</u>	<u>\$ 2,607.3</u>

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Consolidated Statement of Stockholders' Equity
(Unaudited - in millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount					
Balance at December 31, 2019	188.1	\$ 188.1	\$ 3,825.7	\$ 1,901.3	\$ (759.6)	\$ 60.0	\$ 5,215.5
Net earnings	—	—	—	346.3	—	9.1	355.4
Net purchase of subsidiary shares from noncontrolling interests	—	—	—	—	—	(10.8)	(10.8)
Dividends paid to noncontrolling interests	—	—	—	—	—	(18.9)	(18.9)
Net change in pension asset/liability, net of taxes of \$0.3 million	—	—	—	—	1.2	—	1.2
Foreign currency translation	—	—	—	—	(381.3)	1.2	(380.1)
Change in fair value of derivative instruments, net of taxes of \$(28.9) million	—	—	—	—	(91.4)	—	(91.4)
Compensation expense related to stock option plan grants	—	—	3.4	—	—	—	3.4
Common stock issued in:							
Three purchase transactions	0.7	0.7	72.4	—	—	—	73.1
Stock option plans	0.4	0.4	17.5	—	—	—	17.9
Employee stock purchase plan	0.1	0.1	5.9	—	—	—	6.0
Deferred compensation and restricted stock	0.3	0.3	(15.3)	—	—	—	(15.0)
Cash dividends declared on common stock	—	—	—	(86.2)	—	—	(86.2)
Balance at March 31, 2020	189.6	189.6	3,909.6	2,161.4	(1,231.1)	40.6	5,070.1
Net earnings	—	—	—	153.7	—	8.1	161.8
Net purchase of subsidiary shares from noncontrolling interests	—	—	—	—	—	4.3	4.3
Dividends paid to noncontrolling interests	—	—	—	—	—	(6.3)	(6.3)
Foreign currency translation	—	—	—	—	250.7	(0.8)	249.9
Change in fair value of derivative instruments, net of taxes of \$0.0 million	—	—	—	—	(1.8)	—	(1.8)
Compensation expense related to stock option plan grants	—	—	3.3	—	—	—	3.3
Common stock issued in:							
Twenty-six purchase transactions	1.2	1.2	109.7	—	—	—	110.9
Stock option plans	0.5	0.5	21.4	—	—	—	21.9
Employee stock purchase plan	0.1	0.1	12.3	—	—	—	12.4
Deferred compensation and restricted stock	0.1	0.1	(5.3)	—	—	—	(5.2)
Cash dividends declared on common stock	—	—	—	(86.8)	—	—	(86.8)
Balance at June 30, 2020	191.5	\$ 191.5	\$ 4,051.0	\$ 2,228.3	\$ (982.2)	\$ 45.9	\$ 5,534.5

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Consolidated Statement of Stockholders' Equity
(Unaudited - in millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount					
Balance at June 30, 2020	191.5	\$ 191.5	\$ 4,051.0	\$ 2,228.3	\$ (982.2)	\$ 45.9	\$ 5,534.5
Net earnings	—	—	—	176.6	—	11.2	187.8
Net purchase of subsidiary shares from noncontrolling interests	—	—	—	—	—	(0.8)	(0.8)
Dividends paid to noncontrolling interests	—	—	—	—	—	(10.3)	(10.3)
Net change in pension asset/liability, net of taxes of \$0.1 million	—	—	—	—	0.4	—	0.4
Foreign currency translation	—	—	—	—	101.9	0.5	102.4
Change in fair value of derivative instruments, net of taxes of \$1.6 million	—	—	—	—	9.5	—	9.5
Compensation expense related to stock option plan grants	—	—	3.4	—	—	—	3.4
Common stock issued in:							
Fifteen purchase transactions	0.4	0.4	38.6	—	—	—	39.0
Stock option plans	0.3	0.3	16.9	—	—	—	17.2
Employee stock purchase plan	0.1	0.1	8.0	—	—	—	8.1
Deferred compensation and restricted stock	—	—	14.6	—	—	—	14.6
Cash dividends declared on common stock	—	—	—	(87.6)	—	—	(87.6)
Balance at September 30, 2020	<u>192.3</u>	<u>\$ 192.3</u>	<u>\$ 4,132.5</u>	<u>\$ 2,317.3</u>	<u>\$ (870.4)</u>	<u>\$ 46.5</u>	<u>\$ 5,818.2</u>

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Consolidated Statement of Stockholders' Equity
(Unaudited - in millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount					
Balance at December 31, 2018	184.0	\$ 184.0	\$ 3,541.9	\$ 1,558.6	\$ (785.6)	\$ 70.8	\$ 4,569.7
Cumulative effects of adoptions of lease and hedging accounting standards	—	—	—	(2.2)	(0.2)	—	(2.4)
Net earnings	—	—	—	334.1	—	17.6	351.7
Net purchase of subsidiary shares from noncontrolling interests	—	—	(0.2)	—	—	(0.1)	(0.3)
Dividends paid to noncontrolling interests	—	—	—	—	—	(11.0)	(11.0)
Net change in pension asset/liability, net of taxes of \$0.4 million	—	—	—	—	1.6	—	1.6
Foreign currency translation	—	—	—	—	74.5	0.6	75.1
Change in fair value of derivative instruments, net of taxes of \$(4.4) million	—	—	—	—	(11.8)	—	(11.8)
Compensation expense related to stock option plan grants	—	—	3.6	—	—	—	3.6
Common stock issued in:							
Two purchase transactions	0.5	0.5	36.5	—	—	—	37.0
Stock option plans	0.7	0.7	27.4	—	—	—	28.1
Employee stock purchase plan	0.1	0.1	4.6	—	—	—	4.7
Deferred compensation and restricted stock	—	—	(7.5)	—	—	—	(7.5)
Cash dividends declared on common stock	—	—	—	(80.3)	—	—	(80.3)
Balance at March 31, 2019	185.3	185.3	3,606.3	1,810.2	(721.5)	77.9	4,958.2
Net earnings	—	—	—	110.1	—	11.3	121.4
Net purchase of subsidiary shares from noncontrolling interests	—	—	—	—	—	(7.3)	(7.3)
Dividends paid to noncontrolling interests	—	—	—	—	—	(13.3)	(13.3)
Net change in pension asset/liability, net of taxes of \$0.2 million	—	—	—	—	0.8	—	0.8
Foreign currency translation	—	—	—	—	(60.7)	(0.2)	(60.9)
Change in fair value of derivative instruments, net of taxes of \$(7.1) million	—	—	—	—	(21.1)	—	(21.1)
Compensation expense related to stock option plan grants	—	—	3.5	—	—	—	3.5
Common stock issued in:							
Five purchase transactions	0.1	0.1	10.9	—	—	—	11.0
Stock option plans	0.5	0.5	21.3	—	—	—	21.8
Employee stock purchase plan	0.1	0.1	10.4	—	—	—	10.5
Deferred compensation and restricted stock	0.1	0.1	4.1	—	—	—	4.2
Cash dividends declared on common stock	—	—	—	(81.0)	—	—	(81.0)
Balance at June 30, 2019	186.1	\$ 186.1	\$ 3,656.5	\$ 1,839.3	\$ (802.5)	\$ 68.4	\$ 4,947.8

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.
Consolidated Statement of Stockholders' Equity
(Unaudited - in millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount					
Balance at June 30, 2019	186.1	\$ 186.1	\$ 3,656.5	\$ 1,839.3	\$ (802.5)	\$ 68.4	\$ 4,947.8
Net earnings	—	—	—	126.1	—	11.0	137.1
Net purchase of subsidiary shares from noncontrolling interests	—	—	—	—	—	0.9	0.9
Dividends paid to noncontrolling interests	—	—	—	—	—	(8.5)	(8.5)
Net change in pension asset/ liability, net of taxes of \$0.2 million	—	—	—	—	1.0	—	1.0
Foreign currency translation	—	—	—	—	(98.7)	(3.1)	(101.8)
Change in fair value of derivative instruments, net of taxes of \$(8.2) million	—	—	—	—	(24.9)	—	(24.9)
Compensation expense related to stock option plan grants	—	—	3.4	—	—	—	3.4
Common stock issued in:							
Four purchase transactions	0.1	0.1	8.9	—	—	—	9.0
Stock option plans	0.2	0.2	11.6	—	—	—	11.8
Employee stock purchase plan	0.1	0.1	6.1	—	—	—	6.2
Deferred compensation and restricted stock	—	—	11.2	—	—	—	11.2
Cash dividends declared on common stock	—	—	—	(81.2)	—	—	(81.2)
Balance at September 30, 2019	<u>186.5</u>	<u>\$ 186.5</u>	<u>\$ 3,697.7</u>	<u>\$ 1,884.2</u>	<u>\$ (925.1)</u>	<u>\$ 68.7</u>	<u>\$ 4,912.0</u>

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Terms Used in Notes to Consolidated Financial Statements

ASC - Accounting Standards Codification.

ASU - Accounting Standards Update.

FASB - The Financial Accounting Standards Board.

GAAP - U.S. generally accepted accounting principles.

IRC - Internal Revenue Code.

IRS - Internal Revenue Service.

Underwriting enterprises - Insurance companies, reinsurance companies and various other forms of risk-taking entities, including intermediaries of underwriting enterprises.

Nature of Operations and Basis of Presentation

Arthur J. Gallagher & Co. and its subsidiaries, collectively referred to herein as we, our, us or the company, provide insurance brokerage, consulting and third party claims settlement and administration services to both domestic and international entities. We have three reportable segments: brokerage, risk management and corporate. Our brokers, agents and administrators act as intermediaries between underwriting enterprises and our clients.

Our brokerage segment operations provide brokerage and consulting services to companies and entities of all types, including commercial, not-for-profit, public entities, and, to a lesser extent, individuals, in the areas of insurance placement, risk of loss management, and management of employer sponsored benefit programs. Our risk management segment operations provide contract claim settlement, claim administration, loss control services and risk management consulting for commercial, not-for-profit, captive and public entities, and various other organizations that choose to self-insure property/casualty coverages or choose to use a third-party claims management organization rather than the claim services provided by underwriting enterprises. The corporate segment reports the financial information related to our debt and other corporate costs, clean energy investments, external acquisition-related expenses and the impact of foreign currency translation. Clean energy investments consist of our investments in limited liability companies that own 35 commercial clean coal production facilities producing refined coal using Chem-Mod LLC's proprietary technologies. We believe these operations produce refined coal that qualifies for tax credits under IRC Section 45.

We do not assume underwriting risk on a net basis, other than with respect to de minimis amounts necessary to provide minimum or regulatory capital to organize captives, pools, specialized underwriters or risk-retention groups. Rather, capital for covering losses is provided by underwriting enterprises.

Investment income and other revenues are primarily generated from our premium financing operations, our invested cash and restricted cash we hold on behalf of our clients, as well as clean energy investments. In addition, our share of the net earnings related to partially owned entities that are accounted for using the equity method is included in investment income.

We are headquartered in Rolling Meadows, Illinois, have operations in 49 countries and offer client-service capabilities in more than 150 countries globally through a network of correspondent insurance brokers and consultants.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been omitted pursuant to such rules and regulations. The unaudited consolidated financial statements included herein are, in the opinion of management, prepared on a basis consistent with our audited consolidated financial statements for the year ended December 31, 2019, except as disclosed in Note 2, and include all normal recurring adjustments necessary for a fair presentation of the information set forth. The quarterly results of operations are not necessarily indicative of the results of operations to be reported for subsequent quarters or the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019. In the preparation of our unaudited consolidated financial statements as of September 30, 2020, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued, for potential recognition or disclosure therein.

Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses, and the disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We periodically evaluate our estimates and assumptions, including those relating to the valuation of goodwill and other intangible assets, right-of-use assets, investments (including our IRC Section 45 investments), income taxes, revenue recognition, deferred costs, 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. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Effect of New Accounting Pronouncements

Credit Impairment

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the new guidance an entity is required to measure all credit losses on certain financial instruments, including trade receivables and various off-balance sheet credit exposures, using an expected credit loss model. This model incorporates past experience, current conditions and reasonable and supportable forecasts affecting collectability of these instruments. An entity will apply the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The guidance was effective January 1, 2020. We adopted this new guidance effective January 1, 2020 and applied the guidance to measure credit losses on our financial instruments, which included premiums and fees receivable, premium finance advances and reinsurance recoverables. The adoption did not have a material impact on our consolidated financial statements.

Disclosure Framework

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This new guidance modifies various disclosure requirements for fair value measurements, including in certain part those related to Level 3 fair value measurements. The new guidance was effective January 1, 2020. Certain portions of the guidance needed to be adopted prospectively while other portions were required to be adopted retrospectively for all periods presented.

In August 2018, the FASB also issued ASU No. 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This new guidance modifies various disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The new guidance was effective January 1, 2020, with early adoption permitted. Retrospective adoption is required.

We adopted both of the standards effective January 1, 2020. The adoption did not have any impact on our consolidated financial statements.

Intangibles - Goodwill and Other

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates Step 2 of the goodwill impairment test. Instead, the updated guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit to its carrying value, and recognizing a non-cash impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value with the

loss not exceeding the total amount of goodwill allocated to that reporting unit. The new guidance was effective beginning January 1, 2020. We adopted this new guidance effective January 1, 2020. The adoption did not have any impact on our consolidated financial statements.

Internal-use Software

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This new accounting guidance requires deferral of certain implementation costs associated with a cloud computing arrangement, or hosting arrangement, thereby aligning deferral of such costs with implementation costs associated with developing internal-use software. Accounting for the service component of a hosting arrangement remains unchanged. An entity will defer these implementation costs over the term of the hosting arrangement, including optional renewal periods that are reasonably certain of exercise. Amounts expensed would be presented through operating expense, rather than depreciation or amortization. The new guidance was effective January 1, 2020. An entity may adopt the guidance either prospectively for all cloud computing arrangement implementation costs incurred on or after the effective date, or retrospectively, including comparative periods. We adopted this new guidance effective January 1, 2020 on a prospective basis. The adoption did not have a material impact on our consolidated financial statements.

3. Business Combinations

During the nine-month period ended September 30, 2020, we acquired substantially all of the net assets of the following firms in exchange for our common stock and/or cash. These acquisitions have been accounted for using the acquisition method for recording business combinations (in millions, except share data):

Name and Effective Date of Acquisition	Common Shares Issued	Common Share Value	Cash Paid	Accrued Liability	Escrow Deposited	Recorded Earnout Payable	Total Recorded Purchase Price	Maximum Potential Earnout Payable
	(000s)							
Capsicum Reinsurance Brokers LLP								
January 1, 2020 (CRB)	584	\$ 62.9	\$ 64.5	\$ —	\$ —	\$ 129.9	\$ 257.3	\$ 209.1
Hanover Excess & Surplus, Inc. and Hanover Premium Finance, Inc. (HES)								
January 1, 2020	—	—	30.1	—	3.0	—	33.1	9.3
CRES Insurance Services, LLC								
June 1, 2020 (CRES)	288	28.5	1.5	—	1.0	5.5	36.5	7.3
Fourteen other acquisitions completed in 2020	314	27.9	60.3	1.8	7.6	25.3	122.9	50.0
	<u>1,186</u>	<u>\$ 119.3</u>	<u>\$ 156.4</u>	<u>\$ 1.8</u>	<u>\$ 11.6</u>	<u>\$ 160.7</u>	<u>\$ 449.8</u>	<u>\$ 275.7</u>

Common shares issued in connection with acquisitions are valued at closing market prices as of the effective date of the applicable acquisition or on the days when the shares are issued, if purchase consideration is deferred. We record escrow deposits that are returned to us as a result of adjustments to net assets acquired as reductions of goodwill when the escrows are settled. The maximum potential earnout payables disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid pursuant to the terms of the purchase agreement for the applicable acquisition. The amounts recorded as earnout payables, which 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, are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration in the foregoing table. We will record subsequent changes in these estimated earnout obligations, including the accretion of discount, in our consolidated statement of earnings when incurred.

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, which is a Level 3 fair value measurement. 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. Revenue growth rates generally ranged from 2.5% to 15.0% for our 2020 acquisitions. We estimated future payments using the earnout formula and performance targets specified in each purchase agreement and the financial projections just described. We then discounted these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that

reflect the ability of the acquired entity to achieve the targets. The discount rates generally ranged from 6.0% to 9.0% for all of our 2020 acquisitions. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations.

During the three-month periods ended September 30, 2020 and 2019, we recognized \$5.9 million and \$7.1 million, respectively, of expense in our consolidated statement of earnings related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. During the nine-month periods ended September 30, 2020 and 2019, we recognized \$24.3 million and \$18.5 million, respectively, of expense in our consolidated statement of earnings related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. In addition, during the three-month periods ended September 30, 2020 and 2019, we recognized \$14.2 million of expense and \$1.4 million of income, respectively, related to net adjustments in the estimated fair value of the liability for earnout obligations in connection with revised projections of future performance for 55 and 29 acquisitions, respectively. In addition, during the nine-month periods ended September 30, 2020 and 2019, we recognized \$77.4 million and \$6.5 million of income, respectively, related to net adjustments in the estimated fair value of the liability for earnout obligations in connection with revised projections of future performance for 126 and 86 acquisitions, respectively. The aggregate amount of maximum earnout obligations related to acquisitions was \$1,026.1 million as of September 30, 2020, of which \$502.5 million was recorded in the consolidated balance sheet as of September 30, 2020, based on the estimated fair value of the expected future payments to be made.

The following is a summary of the estimated fair values of the net assets acquired at the date of each acquisition made in the nine-month period ended September 30, 2020 (in millions):

	CRB	HES	CRES	Fourteen Other Acquisitions	Total
Cash	\$ —	\$ 0.3	\$ 1.5	\$ 2.5	\$ 4.3
Other current assets	—	4.0	15.2	26.5	45.7
Fixed assets	—	—	—	0.5	0.5
Noncurrent assets	7.6	0.8	—	2.8	11.2
Goodwill	108.4	19.1	21.3	51.9	200.7
Expiration lists	133.7	13.7	13.9	67.9	229.2
Non-compete agreements	2.9	0.1	—	0.6	3.6
Trade names	4.7	—	0.3	—	5.0
Total assets acquired	257.3	38.0	52.2	152.7	500.2
Current liabilities	—	4.4	15.7	23.5	43.6
Noncurrent liabilities	—	0.5	—	6.3	6.8
Total liabilities assumed	—	4.9	15.7	29.8	50.4
Total net assets acquired	\$ 257.3	\$ 33.1	\$ 36.5	\$ 122.9	\$ 449.8

Among other things, these acquisitions allow us to expand into desirable geographic locations, further extend our presence in the retail and wholesale insurance and reinsurance brokerage services markets and increase the volume of general services currently provided. The excess of the purchase price over the estimated fair value of the tangible net assets acquired at the acquisition date was allocated to goodwill, expiration lists, non-compete agreements and trade names in the amounts of \$200.7 million, \$229.2 million, \$3.6 million and \$5.0 million, respectively, within the brokerage and risk management segments.

Provisional estimates of fair value are established at the time of each acquisition and are subsequently reviewed within the first year of operations subsequent to the acquisition date to determine the necessity for adjustments. The fair value of the tangible assets and liabilities for each applicable acquisition at the acquisition date approximated their carrying values. The fair value of expiration lists was established using the excess earnings method, which is an income approach based on estimated financial projections developed by management for each acquired entity using market participant assumptions. Revenue growth and attrition rates generally ranged from 1.5% to 4.1% and 5.0% to 15.7%, respectively, for our 2019 acquisitions for which valuations were performed in 2020. We estimate the fair value as the present value of the benefits anticipated from ownership of the subject expiration list in excess of returns required on the investment in contributory assets necessary to realize those benefits. The rate used to discount the net benefits was based on a risk-adjusted rate that takes into consideration market-based rates of return and reflects the risk of the asset relative to the acquired business. These discount rates generally ranged from 9.0% to 13.5% for our 2019 acquisitions for which valuations were performed in 2020. The fair value of non-compete agreements was established using the profit differential method, which is an income approach based on estimated financial projections developed by management for the acquired company using market participant assumptions and various non-compete scenarios.

Expiration lists, non-compete agreements and trade names related to our acquisitions are amortized using the straight-line method over their estimated useful lives (two to fifteen years for expiration lists, two to six years for non-compete agreements and two to fifteen years for trade names), while goodwill is not subject to amortization. We use the straight-line method to amortize these intangible assets because the pattern of their economic benefits cannot be reasonably determined with any certainty. We review all of our intangible assets for impairment periodically (at least annually) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. In reviewing intangible assets, if the undiscounted future cash flows 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 as a component of amortization expense. Based on the results of impairment reviews during the three and nine-month periods ended September 30, 2020, we wrote off \$3.7 million and \$49.7 million, respectively, of amortizable assets related to the brokerage and risk management segments. No such impairments were noted in the three and nine-month periods ended September 30, 2019.

Of the \$229.2 million of expiration lists, \$3.6 million of non-compete agreements and \$5.0 million of trade names related to our acquisitions made during the nine-month period ended September 30, 2020, \$8.8 million, \$0.1 million and zero, respectively, is not expected to be deductible for income tax purposes. Accordingly, we recorded a deferred tax liability of \$2.5 million, and a corresponding amount of goodwill, in the nine-month period ended September 30, 2020, related to the nondeductible amortizable intangible assets.

Our consolidated financial statements for the nine-month period ended September 30, 2020 include the operations of the entities acquired in the nine-month period ended September 30, 2020 from their respective acquisition dates. The following is a summary of the unaudited pro forma historical results, as if these entities had been acquired at January 1, 2019 (in millions, except per share data):

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Total revenues	\$ 1,850.6	\$ 1,839.2	\$ 5,315.7	\$ 5,515.9
Net earnings attributable to controlling interests	176.6	126.0	677.6	575.9
Basic net earnings per share	0.92	0.67	3.55	3.08
Diluted net earnings per share	0.90	0.66	3.47	3.02

The unaudited pro forma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had these acquisitions occurred at January 1, 2019, nor are they necessarily indicative of future operating results. Annualized revenues of entities acquired during the nine-month period ended September 30, 2020 totaled approximately \$151.2 million. For the nine-month period ended September 30, 2020, total revenues and net earnings recorded in our unaudited consolidated statement of earnings related to our acquisitions made during the nine-month period ended September 30, 2020 in the aggregate, were \$30.4 million and \$4.3 million, respectively.

4. Contracts with Customers

Contract Assets and Liabilities/Contract Balances

Information about unbilled receivables, contract assets and contract liabilities from contracts with customers is as follows (in millions):

	September 30, 2020	December 31, 2019
Unbilled receivables	\$ 739.7	\$ 556.4
Deferred contract costs	69.6	98.3
Deferred revenue	531.4	503.8

The unbilled receivables, which are included in premiums and fees receivable in our consolidated balance sheet, primarily relate to our rights to consideration for work completed but not billed at the reporting date. These are transferred to the receivables when the client is billed. The deferred contract costs represent the costs we incur to fulfill a new or renewal contract with our clients prior to the effective date of the contract. These costs are expensed on the contract effective date. The deferred revenue in the consolidated balance sheet includes amounts that represent the remaining performance obligations under our contracts and amounts collected related to advanced billings and deposits received from customers that may or may not ultimately be recognized as revenues in the future. Deposits received from customers could be returned to the customers based on lesser actual transactional volume than originally billed volume.

Significant changes in the deferred revenue balances, which include foreign currency translation adjustments, during the period are as follows (in millions):

	Brokerage	Risk Management	Total
Deferred revenue at December 31, 2019	\$ 337.2	\$ 166.6	\$ 503.8
Incremental deferred revenue	244.5	68.0	312.5
Revenue recognized during the nine-month period ended September 30, 2020 included in deferred revenue at December 31, 2019	(237.1)	(76.6)	(313.7)
Net change in collected billings/deposits received from customers	(1.9)	28.2	26.3
Impact of change in foreign exchange rates	(1.7)	(0.2)	(1.9)
Deferred revenue recognized from business acquisitions	4.4	—	4.4
Deferred revenue at September 30, 2020	\$ 345.4	\$ 186.0	\$ 531.4

Revenue recognized during the nine-month period ended September 30, 2020 in the table above included revenue from 2019 acquisitions that would not be reflected in prior periods.

Remaining Performance Obligations

Remaining performance obligations represent the portion of the contract price for which work has not been performed. As of September 30, 2020, the aggregate amount of the contract price allocated to remaining performance obligations was \$531.4 million. The estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period is as follows (in millions):

	Brokerage	Risk Management	Total
2020 (remaining three months)	\$ 230.8	\$ 79.7	\$ 310.5
2021	95.6	51.5	147.1
2022	16.9	26.5	43.4
2023	1.1	11.9	13.0
2024	0.5	5.8	6.3
Thereafter	0.5	10.6	11.1
Total	\$ 345.4	\$ 186.0	\$ 531.4

Deferred Contract Costs

We capitalize costs incurred to fulfill contracts as deferred contract costs which are included in other current assets in our consolidated balance sheet. Deferred contract costs were \$69.6 million and \$98.3 million as of September 30, 2020 and December 31, 2019, respectively. Capitalized fulfillment costs are amortized on the contract effective date. The amount of amortization of the deferred contract costs was \$304.0 million and \$277.2 million for the nine-month periods ended September 30, 2020 and 2019, respectively.

We have applied the practical expedient to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less for our brokerage segment. These costs are included in compensation and operating expenses in our consolidated statement of earnings.

5. Other Financial Data

Other Current Assets

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

	September 30, 2020	December 31, 2019
Premium finance advances and loans	\$ 422.0	\$ 388.1
Accrued supplemental, direct bill and other receivables	340.4	369.1
Refined coal production related receivables	96.8	103.4
Deferred contract costs	69.6	98.3
Prepaid expenses	94.2	115.5
Total other current assets	<u>\$ 1,023.0</u>	<u>\$ 1,074.4</u>

The premium finance advances and loans represent short-term loans which we make to many of our brokerage related clients and other non-brokerage clients to finance their premiums paid to underwriting enterprises. These premium finance advances and loans are primarily generated by three Australian and New Zealand premium finance subsidiaries. Financing receivables are carried at amortized cost. Given that these receivables carry a fairly rapid delinquency period of only seven days post payment date, and that contractually the majority of the underlying insurance policies will be cancelled within one month of the payment due date in normal course, there historically has been a minimal risk of not receiving payment, and therefore we do not maintain any significant allowance for losses against this balance.

6. Intangible Assets

The carrying amount of goodwill at September 30, 2020 and December 31, 2019 allocated by domestic and foreign operations is as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
At September 30, 2020				
United States	\$ 3,267.0	\$ 33.2	\$ —	\$ 3,300.2
United Kingdom	1,260.4	13.9	—	1,274.3
Canada	450.3	—	—	450.3
Australia	433.8	10.8	—	444.6
New Zealand	206.7	10.0	—	216.7
Other foreign	143.2	—	2.9	146.1
Total goodwill	<u>\$ 5,761.4</u>	<u>\$ 67.9</u>	<u>\$ 2.9</u>	<u>\$ 5,832.2</u>
At December 31, 2019				
United States	\$ 3,163.8	\$ 33.1	\$ —	\$ 3,196.9
United Kingdom	1,177.8	12.9	—	1,190.7
Canada	454.4	—	—	454.4
Australia	416.5	10.5	—	427.0
New Zealand	208.0	10.1	—	218.1
Other foreign	128.4	—	3.0	131.4
Total goodwill	<u>\$ 5,548.9</u>	<u>\$ 66.6</u>	<u>\$ 3.0</u>	<u>\$ 5,618.5</u>

The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2020 are as follows (in millions):

	<u>Brokerage</u>	<u>Risk Management</u>	<u>Corporate</u>	<u>Total</u>
Balance as of December 31, 2019	\$ 5,548.9	\$ 66.6	\$ 3.0	\$ 5,618.5
Goodwill acquired during the period	200.7	—	—	200.7
Goodwill adjustments due to appraisals and other acquisition adjustments	29.2	1.3	—	30.5
Foreign currency translation adjustments during the period	(17.4)	—	(0.1)	(17.5)
Balance as of September 30, 2020	<u>\$ 5,761.4</u>	<u>\$ 67.9</u>	<u>\$ 2.9</u>	<u>\$ 5,832.2</u>

Major classes of amortizable intangible assets at September 30, 2020 and December 31, 2019 consist of the following (in millions):

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Expiration lists	\$ 4,434.7	\$ 4,246.0
Accumulated amortization - expiration lists	(2,310.2)	(2,004.3)
	<u>2,124.5</u>	<u>2,241.7</u>
Non-compete agreements	66.6	68.4
Accumulated amortization - non-compete agreements	(55.5)	(52.5)
	<u>11.1</u>	<u>15.9</u>
Trade names	98.9	91.8
Accumulated amortization - trade names	(39.5)	(30.7)
	<u>59.4</u>	<u>61.1</u>
Net amortizable assets	<u>\$ 2,195.0</u>	<u>\$ 2,318.7</u>

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

2020 (remaining three months)	\$ 90.9
2021	346.3
2022	320.6
2023	295.7
2024	260.6
Thereafter	880.9
Total	<u>\$ 2,195.0</u>

7. Credit and Other Debt Agreements

The following is a summary of our corporate and other debt (in millions):

	September 30, 2020	December 31, 2019
Note Purchase Agreements:		
Semi-annual payments of interest, fixed rate of 3.48%, balloon due June 24, 2020	\$ —	\$ 50.0
Semi-annual payments of interest, fixed rate of 3.99%, balloon due July 10, 2020	—	50.0
Quarterly payments of interest, floating rate of 90 day LIBOR plus 1.65%, balloon due November 3, 2020	50.0	50.0
Semi-annual payments of interest, fixed rate of 5.18%, balloon due February 10, 2021	75.0	75.0
Semi-annual payments of interest, fixed rate of 3.69%, balloon due June 14, 2022	200.0	200.0
Semi-annual payments of interest, fixed rate of 5.49%, balloon due February 10, 2023	50.0	50.0
Semi-annual payments of interest, fixed rate of 4.13%, balloon due June 24, 2023	200.0	200.0
Semi-annual payments of interest, fixed rate of 4.72%, balloon due February 13, 2024	100.0	100.0
Semi-annual payments of interest, fixed rate of 4.58%, balloon due February 27, 2024	325.0	325.0
Quarterly payments of interest, floating rate of 90 day LIBOR plus 1.40%, balloon due June 13, 2024	50.0	50.0
Semi-annual payments of interest, fixed rate of 4.31%, balloon due June 24, 2025	200.0	200.0
Semi-annual payments of interest, fixed rate of 4.85%, balloon due February 13, 2026	140.0	140.0
Semi-annual payments of interest, fixed rate of 4.73%, balloon due February 27, 2026	175.0	175.0
Semi-annual payments of interest, fixed rate of 4.40%, balloon due June 2, 2026	175.0	175.0
Semi-annual payments of interest, fixed rate of 4.36%, balloon due June 24, 2026	150.0	150.0
Semi-annual payments of interest, fixed rate of 3.75%, balloon due January 30, 2027	30.0	—
Semi-annual payments of interest, fixed rate of 4.09%, balloon due June 27, 2027	125.0	125.0
Semi-annual payments of interest, fixed rate of 4.09%, balloon due August 2, 2027	125.0	125.0
Semi-annual payments of interest, fixed rate of 4.14%, balloon due August 4, 2027	98.0	98.0
Semi-annual payments of interest, fixed rate of 3.46%, balloon due December 1, 2027	100.0	100.0
Semi-annual payments of interest, fixed rate of 4.55%, balloon due June 2, 2028	75.0	75.0
Semi-annual payments of interest, fixed rate of 4.34%, balloon due June 13, 2028	125.0	125.0
Semi-annual payments of interest, fixed rate of 5.04%, balloon due February 13, 2029	100.0	100.0
Semi-annual payments of interest, fixed rate of 4.98%, balloon due February 27, 2029	100.0	100.0
Semi-annual payments of interest, fixed rate of 4.19%, balloon due June 27, 2029	50.0	50.0
Semi-annual payments of interest, fixed rate of 4.19%, balloon due August 2, 2029	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.48%, balloon due December 2, 2029	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.99%, balloon due January 30, 2030	341.0	—
Semi-annual payments of interest, fixed rate of 4.44%, balloon due June 13, 2030	125.0	125.0
Semi-annual payments of interest, fixed rate of 5.14%, balloon due March 13, 2031	180.0	180.0
Semi-annual payments of interest, fixed rate of 4.70%, balloon due June 2, 2031	25.0	25.0
Semi-annual payments of interest, fixed rate of 4.09%, balloon due January 30, 2032	69.0	—
Semi-annual payments of interest, fixed rate of 4.34%, balloon due June 27, 2032	75.0	75.0
Semi-annual payments of interest, fixed rate of 4.34%, balloon due August 2, 2032	75.0	75.0
Semi-annual payments of interest, fixed rate of 4.59%, balloon due June 13, 2033	125.0	125.0
Semi-annual payments of interest, fixed rate of 5.29%, balloon due March 13, 2034	40.0	40.0
Semi-annual payments of interest, fixed rate of 4.48%, balloon due June 12, 2034	175.0	175.0
Semi-annual payments of interest, fixed rate of 4.24%, balloon due January 30, 2035	79.0	—
Semi-annual payments of interest, fixed rate of 4.69%, balloon due June 13, 2038	75.0	75.0
Semi-annual payments of interest, fixed rate of 5.45%, balloon due March 13, 2039	40.0	40.0
Semi-annual payments of interest, fixed rate of 4.49%, balloon due January 30, 2040	56.0	—
Total Note Purchase Agreements	4,398.0	3,923.0
Credit Agreement:		
Periodic payments of interest and principal, prime or LIBOR plus up to 1.45%, expires June 7, 2024	—	520.0
Premium Financing Debt Facility - expires September 15, 2022:		
Facility B		
AUD denominated tranche, interbank rates plus 1.400%	174.7	142.1
NZD denominated tranche, interbank rates plus 1.750%	—	—
Facility C and D		
AUD denominated tranche, interbank rates plus 0.730%	8.4	18.8
NZD denominated tranche, interbank rates plus 0.940%	9.9	9.7
Total Premium Financing Debt Facility	193.0	170.6
Total corporate and other debt	4,591.0	4,613.6
Less unamortized debt acquisition costs on Note Purchase Agreements	(7.3)	(6.9)
Net corporate and other debt	\$ 4,583.7	\$ 4,606.7

8. Earnings Per Share

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Net earnings attributable to controlling interests	\$ 176.6	\$ 126.1	\$ 676.6	\$ 570.3
Weighted average number of common shares outstanding	191.9	186.3	190.4	185.5
Dilutive effect of stock options using the treasury stock method	4.4	4.4	4.1	4.1
Weighted average number of common and common equivalent shares outstanding	196.3	190.7	194.5	189.6
Basic net earnings per share	\$ 0.92	\$ 0.68	\$ 3.55	\$ 3.07
Diluted net earnings per share	\$ 0.90	\$ 0.66	\$ 3.48	\$ 3.01

There were no anti-dilutive stock-based awards outstanding at September 30, 2020 and 2019 that were excluded in the computation of the dilutive effect of stock-based awards for the three-months ended. Anti-dilutive stock-based awards of 1.0 million and 0.9 million shares were outstanding at September 30, 2020 and 2019, respectively, but were excluded in the computation of the dilutive effect of stock-based awards for the nine-month periods then ended. These stock-based awards were excluded from the computation because the exercise prices on these stock-based awards were greater than the average market price of our common shares during the respective period, and therefore, would be anti-dilutive to earnings per share under the treasury stock method.

9. Stock Option Plans

On May 16, 2017, our stockholders approved the Arthur J. Gallagher & Co. 2017 Long-Term Incentive Plan (which we refer to as the LTIP), which replaced our previous stockholder-approved Arthur J. Gallagher & Co. 2014 Long-Term Incentive Plan (which we refer to as the 2014 LTIP). The LTIP term began May 16, 2017 and terminates on the date of the annual meeting of stockholders in 2027, unless terminated earlier by our board of directors. All of our officers, employees and non-employee directors are eligible to receive awards under the LTIP. The compensation committee of our board of directors determines the annual number of shares delivered under the LTIP. The LTIP provides for non-qualified and incentive stock options, stock appreciation rights, restricted stock and restricted stock units, any or all of which may be made contingent upon the achievement of performance criteria.

Shares of our common stock available for issuance under the LTIP include authorized and unissued shares of common stock or authorized and issued shares of common stock reacquired and held as treasury shares or otherwise, or a combination thereof. The number of available shares will be reduced by the aggregate number of shares that become subject to outstanding awards granted under the LTIP. To the extent that shares subject to an outstanding award granted under either the LTIP or prior equity plans are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or by reason of the settlement of such award in cash, then such shares will again be available for grant under the LTIP.

The maximum number of shares available under the LTIP for restricted stock, restricted stock unit awards and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 2.2 million at September 30, 2020.

The LTIP provides for the grant of stock options, which may be either tax-qualified incentive stock options or non-qualified options and stock appreciation rights. The compensation committee determines the period for the exercise of a non-qualified stock option, tax-qualified incentive stock option or stock appreciation right, provided that no option can be exercised later than seven years after its date of grant. The exercise price of a non-qualified stock option or tax-qualified incentive stock option and the base price of a stock appreciation right cannot be less than 100% of the fair market value of a share of our common stock on the date of grant, provided that the base price of a stock appreciation right granted in tandem with an option will be the exercise price of the related option.

Upon exercise, the option exercise price may be paid in cash, by the delivery of previously owned shares of our common stock, through a net-exercise arrangement, or through a broker-assisted cashless exercise arrangement. The compensation committee determines all of the terms relating to the exercise, cancellation or other disposition of an option or stock appreciation right upon a termination of employment, whether by reason of disability, retirement, death or any other reason. Stock option and stock appreciation right awards under the LTIP are non-transferable.

On March 12, 2020, the compensation committee granted 1,590,740 options under the LTIP to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2023, 2024 and 2025, respectively. On March 14, 2019, the compensation committee granted 1,283,300 options under the LTIP to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2022, 2023 and 2024, respectively. The 2020 and 2019 options expire seven years from the date of grant, or earlier in the event of certain terminations of employment. For our executive officers age 55 or older, stock options are not subject to forfeiture upon such officers' departure from the company after two years from the date of grant.

During the three-month periods ended September 30, 2020 and 2019, we recognized \$3.4 million and \$3.4 million, respectively, of compensation expense related to our stock option grants. During the nine-month periods ended September 30, 2020 and 2019, we recognized \$10.1 million and \$10.5 million, respectively, of compensation expense related to our stock option grants.

For purposes of expense recognition, the estimated fair values of the stock option grants are amortized to expense over the options' vesting period. We estimated the fair value of stock options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019
Expected dividend yield	2.1%	2.2%
Expected risk-free interest rate	0.7%	2.5%
Volatility	17.3%	15.6%
Expected life (in years)	5.4	5.5

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. The weighted average fair value per option for all options granted during the nine-month periods ended September 30, 2020 and 2019, as determined on the grant date using the Black-Scholes option pricing model, was \$9.99 and \$10.71, respectively.

The following is a summary of our stock option activity and related information for 2020 (in millions, except exercise price and year data):

	Nine-month period ended September 30, 2020			
	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Beginning balance	7.9	\$ 56.40		
Granted	1.6	86.17		
Exercised	(1.2)	45.47		
Forfeited or canceled	(0.3)	65.03		
Ending balance	<u>8.0</u>	<u>\$ 63.82</u>	<u>3.92</u>	<u>\$ 336.1</u>
Exercisable at end of period	<u>2.5</u>	<u>\$ 47.03</u>	<u>1.92</u>	<u>\$ 145.5</u>
Ending unvested and expected to vest	<u>5.2</u>	<u>\$ 70.72</u>	<u>4.76</u>	<u>\$ 182.5</u>

Options with respect to 11.4 million shares (less any shares of restricted stock issued under the LTIP - see Note 11 to these unaudited consolidated financial statements) were available for grant under the LTIP at September 30, 2020.

The total intrinsic value of options exercised during the nine-month periods ended September 30, 2020 and 2019 was \$68.7 million and \$60.9 million, respectively. As of September 30, 2020, we had approximately \$32.1 million of total unrecognized compensation expense related to nonvested options. We expect to recognize that cost over a weighted average period of approximately four years.

Other information regarding stock options outstanding and exercisable at September 30, 2020 is summarized as follows (in millions, except exercise price and year data):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 43.71 — \$ 43.71	1.5	2.46	\$ 43.71	0.8	\$ 43.71
46.17 — 46.87	1.3	1.10	46.41	1.3	46.41
49.55 — 56.86	1.3	3.46	56.83	0.4	56.81
70.74 — 70.74	1.1	4.46	70.74	—	70.74
79.59 — 79.59	1.2	5.45	79.59	—	—
86.17 — 86.17	1.6	6.45	86.17	—	—
<u>\$ 43.71 — \$ 86.17</u>	<u>8.0</u>	<u>3.92</u>	<u>\$ 63.82</u>	<u>2.5</u>	<u>\$ 47.03</u>

10. Deferred Compensation

We have a Deferred Equity Participation Plan (which we refer to as the DEPP), which is a non-qualified plan that generally provides for distributions to certain of our key executives when they reach age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) or upon or after their actual retirement if later. Under the provisions of the DEPP, we typically contribute cash in an amount approved by the compensation committee to a rabbi trust on behalf of the executives participating in the DEPP, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. Distributions under the DEPP may not normally be made until the participant reaches age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) and are subject to forfeiture in the event of voluntary termination of employment prior to then. DEPP awards are generally made annually in the first quarter. In addition, we annually make awards under sub-plans of the DEPP for certain production staff, which generally provide for vesting and/or distributions no sooner than five years from the date of awards, although certain awards vest and/or distribute after the earlier of fifteen years or the participant reaching age 65. All contributions to the plan (including sub-plans) deemed to be invested in shares of our common stock are distributed in the form of our common stock and all other distributions are paid in cash.

Our common stock that is issued to or purchased by the rabbi trust as a contribution under the DEPP is valued at historical cost, which equals its fair market value at the date of grant or date of purchase. When common stock is issued, we record an unearned deferred compensation obligation as a reduction of capital in excess of par value in the accompanying consolidated balance sheet, which is amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair market value of our common stock owed to the participants do not have any impact on the amounts recorded in our consolidated financial statements.

In the first quarters of 2020 and 2019, the compensation committee approved \$14.1 million and \$10.1 million, respectively, of awards in the aggregate to certain key executives under the DEPP that were contributed to the rabbi trust in the first quarters of 2020 and 2019, respectively. We contributed cash to the rabbi trust and instructed the trustee to acquire a specified number of shares of our common stock on the open market to fund these 2020 and 2019 awards. During the three-month periods ended September 30, 2020 and 2019, we charged \$3.0 million and \$2.6 million, respectively, to compensation expense related to these awards. During the nine-month periods ended September 30, 2020 and 2019, we charged \$9.0 million and \$7.2 million, respectively, to compensation expense related to these awards.

In the first quarters of 2020 and 2019, the compensation committee approved \$1.8 million and \$2.6 million, respectively, of awards under the sub-plans referred to above, which were contributed to the rabbi trust in the first quarters of 2020 and 2019, respectively. During the three-month periods ended September 30, 2020 and 2019, we charged \$0.7 million and \$0.6 million, respectively, to compensation expense related to these awards. During the nine-month periods ended September 30, 2020 and 2019, we charged \$2.1 million and \$1.8 million, respectively, to compensation expense related to these awards. There were no distributions from the sub-plans during the nine-month periods ended September 30, 2020 and 2019.

At September 30, 2020 and December 31, 2019, we recorded \$65.3 million (related to 2.9 million shares) and \$64.5 million (related to 2.9 million shares), respectively, of unearned deferred compensation as a reduction of capital in excess of par value in the accompanying consolidated balance sheet. The total intrinsic value of our unvested equity-based awards under the plan at September 30, 2020 and December 31, 2019 was \$308.0 million and \$276.3 million, respectively. During the nine-month period ended September 30, 2020, cash and equity awards with an aggregate fair value of \$9.8 million was vested and distributed to executives under the DEPP. During the nine-month period ended September 30, 2019, cash and equity awards with an aggregate fair value of \$3.1 million was vested and distributed to executives under the DEPP.

We have a Deferred Cash Participation Plan (which we refer to as the DCPP), which is a non-qualified deferred compensation plan for certain key employees, other than executive officers, that generally provides for vesting and/or distributions no sooner than five years from the date of awards. Under the provisions of the DCPP, we typically contribute cash in an amount approved by the compensation committee to the rabbi trust on behalf of the executives participating in the DCPP, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. In the first quarters of 2020 and 2019, the compensation committee approved \$3.0 million and \$2.4 million, respectively, of awards in the aggregate to certain key executives under the DCPP that were contributed to the rabbi trust in the second quarters of 2020 and 2019, respectively. During the three-month periods ended September 30, 2020 and 2019, we charged \$1.6 million and \$1.2 million, respectively, to compensation expense related to these awards. During the nine-month periods ended September 30, 2020 and 2019, we charged \$5.0 million and \$3.5 million, respectively, to compensation expense related to these awards. There were \$7.3 million of distributions from the DCPP during the nine-month period ended September 30, 2020. There were \$2.5 million of distributions from the DCPP during the nine-month period ended September 30, 2019.

11. Restricted Stock, Performance Share and Cash Awards

Restricted Stock Awards

As discussed in Note 9 to these unaudited consolidated financial statements, on May 16, 2017, our stockholders approved the LTIP, which replaced our previous stockholder-approved 2014 LTIP. The LTIP provides for the grant of a stock award either as restricted stock or as restricted stock units to officers, employees and non-employee directors. In either case, the compensation committee may determine that the award will be subject to the attainment of performance measures over an established performance period. Stock awards and the related dividend equivalents are non-transferable and subject to forfeiture if the holder does not remain continuously employed with us during the applicable restriction period or, in the case of a performance-based award, if applicable performance measures are not attained. The compensation committee will determine all of the terms relating to the satisfaction of performance measures and the termination of a restriction period, or the forfeiture and cancellation of a restricted stock award upon a termination of employment, whether by reason of disability, retirement, death or any other reason.

The agreements awarding restricted stock units under the LTIP will specify whether such awards may be settled in shares of our common stock, cash or a combination of shares and cash and whether the holder will be entitled to receive dividend equivalents, on a current or deferred basis, with respect to such award. Prior to the settlement of a restricted stock unit, the holder of a restricted stock unit will have no rights as a stockholder of the company. The maximum number of shares available under the LTIP for restricted stock, restricted stock units and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 4.0 million. At September 30, 2020, 2.2 million shares were available for grant under the LTIP for such awards.

In the first quarters of 2020 and 2019, we granted 405,900 and 399,900 restricted stock units, respectively, to employees under the LTIP, with an aggregate fair value of \$34.9 million and \$31.8 million, respectively, at the date of grant. These 2020 and 2019 awards of restricted stock units vest as follows: 405,900 units granted in the first quarter of 2020 and 399,900 units granted in the first quarter of 2019, vest in full based on continued employment through March 12, 2025 and March 14, 2024, respectively. For our executive officers age 55 or older, restricted stock units are not subject to forfeiture upon such officers' departure from the company after two years from the date of grant.

We account for restricted stock awards at historical cost, which equals its fair market value at the date of grant, which is amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair value of our common stock that is owed to the participants do not have any impact on the amounts recorded in our consolidated financial statements. During the three-month periods ended September 30, 2020 and 2019, we recognized \$8.9 million and \$7.7 million, respectively, to compensation expense related to restricted stock unit awards granted in 2012 through 2020. During the nine-month periods ended September 30, 2020 and 2019, we recognized \$29.0 million and \$22.5 million, respectively, to compensation expense related to restricted stock unit awards granted in 2012 through 2020. The total intrinsic value of unvested restricted stock units at September 30, 2020 and 2019 was \$246.4 million and \$201.9 million, respectively. During the nine-month period ended September 30, 2020, equity awards (including accrued dividends) with an aggregate value of \$30.6 million, were vested and distributed to employees under this plan. During the nine-month period ended September 30, 2019 equity awards with an aggregate fair value of \$2.0 million, were vested and distributed to employees under this plan.

Performance Share Awards

On March 12, 2020 and March 14, 2019, pursuant to the LTIP, the compensation committee approved 82,500 and 73,600, respectively, of provisional performance share awards, with an aggregate fair value of \$7.1 million and \$5.8 million, respectively, for future grants to our officers and key employees. Each performance share award was equivalent to the value of one share of our common stock on the date such provisional award was approved. At the end of the performance period, eligible participants will receive a number of earned shares based on the growth in adjusted EBITDAC per share (as defined in our 2020 Proxy Statement). Earned shares for the 2020 and 2019 provisional awards will fully vest based on continuous employment through March 12, 2023 and March 14, 2022, respectively, and will be settled in unrestricted shares of our common stock on a one-for-one basis as soon as practicable thereafter. The 2020 and 2019 awards are subject to a three-year performance period that began on January 1, 2020 and 2019, respectively, and vest on the three-year anniversary of the date of grant (March 12, 2023 and March 14, 2022). For certain of our executive officers age 55 or older, awards are no longer subject to forfeiture upon such officers' departure from the company after two years from the date of grant. During the nine-month periods ended September 30, 2020 and 2019, equity awards (including accrued dividends) with an aggregate fair value of \$12.5 million and \$5.7 million, were vested and distributed to employees under this plan.

Cash Awards

On March 12, 2020, pursuant to our Performance Unit Program (which we refer to as the Program), the compensation committee approved provisional cash awards of \$18.4 million in the aggregate for future grants to our officers and key employees that are denominated in units (213,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. The Program consists of a one-year performance period based on our financial performance and a three-year vesting period measured from January 1 of the year of grant. At the discretion of the compensation committee and determined based on our performance, the eligible officer or key employee will be granted a percentage of the provisional cash award units that equates to the EBITAC growth achieved (as defined in the Program). At the end of the performance period, eligible participants will be granted a number of units based on achievement of the performance goal and subject to approval by the compensation committee. Granted units for the 2020 provisional award will fully vest based on continuous employment through January 1, 2023. The ultimate award value will be equal to the trailing twelve-month price of our common stock on December 31, 2022, multiplied by the number of units subject to the award, but limited to between 0.5 and 1.5 times the original value of the units determined as of the grant date. The fair value of the awarded units will be paid out in cash as soon as practicable in 2023. If an eligible employee leaves us prior to the vesting date, the entire award will be forfeited. We did not recognize any compensation expense during the nine-month period ended September 30, 2020 related to the 2020 provisional award under the Program.

On March 14, 2019, pursuant to the Program, the compensation committee approved provisional cash awards of \$16.5 million in the aggregate for future grants to our officers and key employees that are denominated in units (206,800 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. Terms of the 2019 provisional awards were similar to the terms of the 2020 provisional awards. Based on our performance for 2019, we granted 200,000 units under the Program in the first quarter of 2020 that will fully vest on January 1, 2022. During the three-month periods ended September 30, 2020 and 2019, we recognized \$2.9 million to compensation expense related to these awards. During the nine-month periods ended September 30, 2020 and 2019, we recognized \$7.2 million to compensation expense related to these awards. We did not recognize any compensation expense during the nine-month period ended September 30, 2019 related to the 2019 provisional award under the Program.

On March 15, 2018, pursuant to the Program, the compensation committee approved provisional cash awards of \$15.0 million in the aggregate for future grants to our officers and key employees denominated in units (219,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. Terms of the 2018 provisional awards were similar to the terms of the 2019 provisional awards. Based on our performance, we granted 190,000 units under the Program in the first quarter of 2019 that will fully vest on January 1, 2021. During the three-month periods ended September 30, 2020 and 2019, we recognized \$2.7 million and \$2.5 million to compensation expense related to these 2018 awards, respectively. During the nine-month periods ended September 30, 2020 and 2019, we recognized \$6.8 million and \$6.6 million, respectively, to compensation expense related to restricted stock unit awards granted in 2012 through 2020.

On March 16, 2017, pursuant to the Program, the compensation committee approved provisional cash awards of \$14.3 million in the aggregate for future grant to our officers and key employees denominated in units (255,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2017 provisional awards were similar to the terms of the 2018 provisional awards. Based on our performance for 2017, we granted 242,000 units under the Program in the first quarter of 2018 that fully vested on January 1, 2020. During the three-month period ended September 30, 2019, we recognized \$2.7 million to compensation expense related to these 2017 awards. During the nine-month period ended September 30, 2019, we recognized \$7.7 million to compensation expense related to these 2017 awards.

During the nine-month period ended September 30, 2020, cash awards related to the 2017 provisional award with an aggregate fair value of \$18.9 million (221,600 units in the aggregate) were vested and distributed to employees under the Program. During the nine-month period ended September 30, 2019, cash awards related to the 2016 provisional award with an aggregate fair value of \$22.4 million (341,000 units in the aggregate) were vested and distributed to employees under the Program.

12. Investments

The following is a summary of our investments included in other noncurrent assets in the consolidated balance sheet and the related funding commitments (in millions):

	September 30, 2020		December 31, 2019
	Assets	Funding Commitments	Assets
Chem-Mod LLC	\$ 4.0	\$ —	\$ 4.0
Chem-Mod International LLC	2.0	—	2.0
Clean-coal investments:			
Controlling interest in limited liability companies that own fourteen 2009 Era Clean Coal Plants	—	—	—
Non-controlling interest in a limited liability company that owns one 2011 Era Clean Coal Plant	0.2	—	0.3
Controlling interest in limited liability companies that own twenty 2011 Era Clean Coal Plants	15.9	0.2	29.2
Other investments	3.8	—	4.5
Total investments	<u>\$ 25.9</u>	<u>\$ 0.2</u>	<u>\$ 40.0</u>

13. Derivatives and Hedging Activity

We are exposed to market risks, including changes in foreign currency exchange rates and interest rates. To manage the risk related to these exposures, we enter into various derivative instruments that reduce these risks by creating offsetting exposures. We generally do not enter into derivative transactions for trading or speculative purposes.

Foreign Exchange Risk Management

We are exposed to foreign exchange risk when we earn revenues, pay expenses, or enter into monetary intercompany transfers denominated in a currency that differs from our functional currency, or other transactions that are denominated in a currency other than our functional currency. We use foreign exchange derivatives, typically forward contracts and options, to reduce our overall exposure to the effects of currency fluctuations on cash flows. These exposures are hedged, on average, for less than three years.

Interest Rate Risk Management

We enter into various long-term debt agreements. We use interest rate derivatives, typically swaps, to reduce our exposure to the effects of interest rate fluctuations on the forecasted interest rates for up to three years into the future.

We have not received or pledged any collateral related to derivative arrangements at September 30, 2020.

The notional and fair values of derivatives designated as hedging instruments are as follows at September 30, 2020 and December 31, 2019 (in millions):

Instrument	Notional Amount	Derivative Assets		Derivative Liabilities	
		Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At September 30, 2020					
Interest rate contracts	\$ 550.0	Other current assets	\$ —	Accrued compensation and other current liabilities	\$ 30.3
		Other noncurrent assets	—	Other noncurrent liabilities	47.5
Foreign exchange contracts (1)	56.3	Other current assets	2.8	Accrued compensation and other current liabilities	2.3
		Other noncurrent assets	3.9	Other noncurrent liabilities	2.6
Total	<u>\$ 606.3</u>		<u>\$ 6.7</u>		<u>\$ 82.7</u>
At December 31, 2019					
Interest rate contracts	\$ 800.0	Other current assets	\$ 2.8	Accrued compensation and other current liabilities	\$ 25.0
		Other noncurrent assets	5.4	Other noncurrent liabilities	23.0
Foreign exchange contracts (1)	31.7	Other current assets	4.5	Accrued compensation and other current liabilities	1.8
		Other noncurrent assets	8.5	Other noncurrent liabilities	2.6
Total	<u>\$ 831.7</u>		<u>\$ 21.2</u>		<u>\$ 52.4</u>

(1) Included within foreign exchange contracts at September 30, 2020 were \$220.2 million of call options offset with \$220.2 million of put options, and \$10.4 million of buy forwards offset with \$66.7 million of sell forwards. Included within foreign exchange contracts at December 31, 2019 were \$342.0 million of call options offset with \$342.0 million of put options, and \$12.1 million of buy forwards offset with \$43.8 million of sell forwards.

The effect of cash flow hedge accounting on accumulated other comprehensive loss for the three and nine-month periods ended September 30, 2020 and 2019 were as follows (in millions):

Instrument	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (1)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Earnings	Amount of Gain (Loss) Recognized in Earnings Related to Amount Excluded from Effectiveness Testing	Statement of Earnings Classification
Three-month period ended September 30, 2020				
Interest rate contracts	\$ 3.4	\$ (0.3)	\$ —	Interest expense
Foreign exchange contracts	7.0	(0.4)	(0.1)	Commission revenue
		(0.4)	0.4	Compensation expense
		(0.3)	0.4	Operating expense
Total	<u>\$ 10.4</u>	<u>\$ (1.4)</u>	<u>\$ 0.7</u>	
Three-month period ended September 30, 2019				
Interest rate contracts	\$ (28.0)	\$ (0.3)	\$ —	Interest expense
Foreign exchange contracts	(6.0)	(0.2)	(0.2)	Commission revenue
		(0.4)	0.3	Compensation expense
		(0.2)	0.2	Operating expense
Total	<u>\$ (34.0)</u>	<u>\$ (1.1)</u>	<u>\$ 0.3</u>	
Nine-month period ended September 30, 2020				
Interest rate contracts	\$ (104.7)	\$ (0.9)	\$ —	Interest expense
Foreign exchange contracts	(10.3)	(0.9)	(0.4)	Commission revenue
		(1.2)	1.0	Compensation expense
		(0.9)	0.8	Operating expense
Total	<u>\$ (115.0)</u>	<u>\$ (3.9)</u>	<u>\$ 1.4</u>	
Nine-month period ended September 30, 2019				
Interest rate contracts	\$ (74.7)	\$ (0.9)	\$ —	Interest expense
Foreign exchange contracts	(5.9)	(0.4)	(0.6)	Commission revenue
		(1.0)	1.0	Compensation expense
		(0.7)	0.7	Operating expense
Total	<u>\$ (80.6)</u>	<u>\$ (3.0)</u>	<u>\$ 1.1</u>	

- (1) For the three and nine-month periods ended September 30, 2020 and 2019, the amount excluded from the assessment of hedge effectiveness for our foreign exchange contracts recognized in accumulated other comprehensive loss was a loss of \$0.4 million and \$0.8 million, respectively.

We estimate that approximately \$5.5 million of pretax loss currently included within accumulated other comprehensive loss will be reclassified into earnings in the next twelve months. During the nine months ended September 30, 2020, we settled approximately \$66.0 million (\$49.4 million net of tax) of interest rate contracts hedges with a notional value of \$350.0 million that will be amortized into interest expense in future periods.

14. Commitments, Contingencies and Off-Balance Sheet Arrangements

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. Our future minimum cash payments, including interest, associated with our contractual obligations pursuant to the note purchase agreements, Credit Agreement, Premium Financing Debt Facility and purchase commitments at September 30, 2020 were as follows (in millions):

Contractual Obligations	Payments Due by Period							Total
	2020	2021	2022	2023	2024	Thereafter		
Note purchase agreements	\$ 50.0	\$ 75.0	\$ 200.0	\$ 250.0	\$ 475.0	\$ 3,348.0	\$ 4,398.0	
Credit Agreement	—	—	—	—	—	—	—	
Premium Financing Debt Facility	193.0	—	—	—	—	—	193.0	
Interest on debt	40.8	189.3	183.6	174.7	158.0	745.3	1,491.7	
Total debt obligations	283.8	264.3	383.6	424.7	633.0	4,093.3	6,082.7	
Operating lease obligations	29.7	107.7	85.2	66.7	47.4	90.2	426.9	
Less sublease arrangements	(0.1)	(0.3)	(0.3)	(0.2)	(0.2)	(0.7)	(1.8)	
Outstanding purchase obligations	15.5	44.9	30.4	13.7	8.7	31.0	144.2	
Total contractual obligations	\$ 328.9	\$ 416.6	\$ 498.9	\$ 504.9	\$ 688.9	\$ 4,213.8	\$ 6,652.0	

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.

Note Purchase Agreements, Credit Agreement and Premium Financing Debt Facility - See Note 7 to these unaudited consolidated financial statements for a summary of the amounts outstanding under the note purchase agreements, the Credit Agreement and Premium Financing Debt Facility.

Operating Lease Obligations - Our corporate segment's executive offices and certain subsidiary and branch facilities of our brokerage and risk management segments are located in a building we own at 2850 Golf Road, Rolling Meadows, Illinois, where we have approximately 360,000 square feet of space and will accommodate approximately 2,000 employees at peak pre-pandemic capacity.

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 certain of these 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.

Outstanding Purchase Obligations - The amount disclosed in the contractual obligations table above represents the aggregate amount of unrecorded purchase obligations that we had outstanding at September 30, 2020. 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, and financial guarantees as of September 30, 2020 were as follows (in millions):

Off-Balance Sheet Commitments	Amount of Commitment Expiration by Period						Total Amounts Committed
	2020	2021	2022	2023	2024	Thereafter	
Letters of credit	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 18.4	\$ 18.4
Financial guarantees	—	0.2	0.2	0.2	0.2	0.4	1.2
Funding commitments	0.2	—	—	—	—	—	0.2
Total commitments	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 18.8	\$ 19.8

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements. See the Off-Balance Sheet Debt section below for a discussion of our 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 573 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 acquisitions made in the period from 2016 to 2020 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 potential 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 \$1,026.1 million, of which \$502.5 million was recorded in our consolidated balance sheet as of September 30, 2020 based on the estimated fair value of the expected future payments to be made.

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 under the equity method. None of these unconsolidated investments had any outstanding debt at September 30, 2020 or December 31, 2019, that was recourse to us.

At September 30, 2020, we had posted two letters of credit totaling \$9.4 million, in the aggregate, related to our self-insurance deductibles, for which we had a recorded liability of \$17.3 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 September 30, 2020, we had posted seven letters of credit totaling \$7.5 million to allow certain of our captive operations to meet minimum statutory surplus requirements plus additional collateral related to premium and claim funds held in a fiduciary capacity, one letter of credit totaling \$1.0 million for collateral related to claim funds held in a fiduciary capacity by a recent acquisition, and one letter of credit totaling \$0.5 million as a security deposit for a 2015 acquisition's lease. These letters of credit have never been drawn upon.

Litigation, Regulatory and Taxation Matters - We are a defendant in various legal actions incidental to the nature of our business including but not limited to matters related to employment practices, alleged breaches of non-compete or other restrictive covenants, theft of trade secrets, breaches of fiduciary duties and related causes of action. We are also periodically the subject of inquiries, investigations and reviews by regulatory and taxing authorities into various matters related to our business, including our operational, compliance and finance functions. Neither the outcomes of these matters nor their effect upon our business, financial condition or results of operations can be determined at this time.

On July 17, 2019, Midwest Energy Emissions Corp. and MES Inc. (which we refer to together as Midwest Energy) filed a patent infringement lawsuit in the United States District Court for the District of Delaware against us, Chem-Mod LLC and numerous other related and unrelated parties. The complaint alleges that the named defendants infringe two patents held exclusively by Midwest Energy and seeks unspecified damages and injunctive relief. On July 15, 2020, the district court dismissed Midwest Energy's complaint without prejudice. On the same day Midwest Energy filed an amended complaint. We filed a motion to dismiss the amended complaint, and Midwest Energy subsequently filed a motion for leave to file a second amended complaint. We continue to defend this matter vigorously. Litigation is inherently uncertain and it is not possible for us to predict the ultimate outcome of this matter and the financial impact to us. We believe the probability of a material loss is remote.

As previously disclosed, our IRC 831(b) (or "micro-captive") advisory services business has been under investigation by the IRS since 2013. Among other matters, the IRS is investigating whether we have been acting as a tax shelter promoter in connection with these operations. Additionally, the IRS has initiated audits for the 2012 tax year, and subsequent years, or over 100 of the micro-captive underwriting enterprises organized and/or managed by us.

In May 2020 we learned that the Department of Justice is conducting a criminal investigation related to IRC 831(b) micro-captive underwriting enterprises. We have been advised that we are not currently a target of the investigation. In June 2020 our subsidiary Artex Risk Solutions, Inc. (which we refer to as Artex) received a grand jury subpoena requesting documents relating to its micro-captive advisory business. We have produced documents in response to the subpoena.

We are fully cooperating with both the IRS investigation and the Department of Justice investigation. We are not able to reasonably estimate the amount of any potential loss in connection with these investigations.

On December 7, 2018, a class action lawsuit was filed against us, Artex and other defendants, in the United States District Court for the District of Arizona. The named plaintiffs are micro-captives and related entities and owners who had IRC Section 831(b) tax benefits disallowed by the IRS. On August 5, 2019, the trial court granted the defendants' motion to compel arbitration and dismissed the class action lawsuit. Plaintiffs appealed this ruling to the United States Court of Appeals for the Ninth Circuit. On September 9, 2020, the Ninth Circuit Court affirmed the ruling of the trial court dismissing the class action lawsuit. We will continue to defend against the lawsuit vigorously. Litigation is inherently uncertain, however, and it is not possible for us to predict the ultimate outcome of this matter and the financial impact to us, nor are we able to reasonably estimate the amount of any potential loss in connection with this lawsuit.

Contingent Liabilities - We purchase insurance to provide protection from errors and omissions (which we refer to as E&O) claims that may arise during the ordinary course of business. We currently retain the first \$10.0 million of every E&O claim. Our E&O insurance provides aggregate coverage for E&O losses up to \$350.0 million in excess of our retained amounts. We have historically maintained self-insurance reserves for the portion of our E&O exposure that is not insured. We periodically determine a range of possible reserve levels using actuarial techniques that rely heavily on projecting historical claim data into the future. Our E&O reserve in the September 30, 2020 consolidated balance sheet is above the lower end of the most recently determined actuarial range by \$3.7 million and below the upper end of the actuarial range by \$5.1 million. In addition to this E&O reserve, in the nine-month period ended September 30, 2020, we established provisions for potential unusual pandemic related claim defense and other costs. We can make no assurances that the historical claim data used to project the current reserve levels will be indicative of future claim activity. Thus, the E&O reserve level and corresponding actuarial range could change in the future as more information becomes known, which could materially impact the amounts reported and disclosed herein.

Tax-advantaged Investments No Longer Held - Between 1996 and 2007, we developed and then sold portions of our ownership in various energy related investments, many of which qualified for tax credits under IRC Section 29. We recorded tax benefits in connection with our ownership in these investments. At September 30, 2020, we had exposure on \$108.0 million of previously earned tax credits. Under the Tax Act, a portion of these previously earned tax credits were refunded in 2019 for tax year 2018, according to a specific formula. Under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which was passed on March 27, 2020, we accelerated the refund of all remaining credits on April 17, 2020, and the remaining credits were refunded to us in the second quarter of 2020. In 2004, 2007 and 2009, the IRS examined several of these investments and all examinations were closed without any changes being proposed by the IRS. However, any future adverse tax audits, administrative rulings or judicial decisions could disallow previously claimed tax credits.

Due to the contingent nature of this exposure and our related assessment of its likelihood, no reserve has been recorded in our September 30, 2020 consolidated balance sheet related to this exposure.

15. Supplemental Disclosures of Cash Flow Information

Supplemental disclosures of cash flow information (in millions):	Nine-month period ended September 30,			
	2020		2019	
Interest paid	\$	144.8	\$	119.5
Income taxes paid, net		65.6		49.8

The following is a reconciliation of our end of period cash, cash equivalents and restricted cash balances as presented in the consolidated statement of cash flows for the nine-month periods ended September 30, 2020 and 2019 (in millions):

	September 30,			
	2020		2019	
Cash and cash equivalents	\$	629.9	\$	578.9
Restricted cash		2,844.9		2,028.4
Total cash, cash equivalents and restricted cash	\$	3,474.8	\$	2,607.3

We have a qualified contributory savings and thrift (401(k)) plan covering the majority of our domestic employees. For eligible employees who have met the plan's age and service requirements to receive matching contributions, we match 100% of pre-tax and Roth elective deferrals up to a maximum of 5.0% of eligible compensation, subject to federal limits on plan contributions and not in excess of the maximum amount deductible for federal income tax purposes. Employees must be employed and eligible for the plan on the last day of the plan year to receive a matching contribution, subject to certain exceptions enumerated in the plan document. Matching contributions are subject to a five-year graduated vesting schedule and can be funded in cash or company stock. We expensed (net of plan forfeitures) \$45.9 million and \$43.8 million related to the plan in the nine-month periods ended

September 30, 2020 and 2019, respectively. Our board of directors has authorized use of common stock to fund our 2020 employer matching contributions to the 401(k) plan, which we plan to do in February 2021.

16. Accumulated Other Comprehensive Loss

The after-tax components of our accumulated other comprehensive loss attributable to controlling interests consist of the following:

	Pension Liability	Foreign Currency Translation	Fair Value of Derivative Investments	Accumulated Comprehensive Loss
Balance as of December 31, 2019	\$ (56.5)	\$ (674.8)	\$ (28.3)	\$ (759.6)
Net change in period	1.6	(28.7)	(83.7)	(110.8)
Balance as of September 30, 2020	<u>\$ (54.9)</u>	<u>\$ (703.5)</u>	<u>\$ (112.0)</u>	<u>\$ (870.4)</u>

The foreign currency translation during the nine-month period ended September 30, 2020 primarily relates to the net impact of changes in the value of the local currencies relative to the U.S. dollar for our operations in Australia, Canada, the Caribbean, India, New Zealand and the U.K.

During the nine-month periods ended September 30, 2020 and 2019, \$4.6 million and \$5.4 million, respectively, of expense related to the pension liability was reclassified from accumulated other comprehensive loss to compensation expense in the statement of earnings. During the nine-month periods ended September 30, 2020 and 2019, \$3.9 million and \$3.0 million of losses, respectively, related to the fair value of derivative investments, was reclassified from accumulated other comprehensive loss to the statement of earnings. During the nine-month periods ended September 30, 2020 and 2019, no amounts related to foreign currency translation were reclassified from accumulated other comprehensive loss to the statement of earnings.

17. Segment Information

We have three reportable segments: brokerage, risk management and corporate.

The brokerage segment is primarily comprised of our retail and wholesale insurance brokerage operations. The brokerage segment generates revenues through commissions paid by underwriting enterprises and through fees charged to our clients. Our brokers, agents and administrators act as intermediaries between underwriting enterprises and our clients and we do not assume net underwriting risks.

The risk management segment provides contract claim settlement and administration services for enterprises and public entities that choose to self-insure some or all of their property/casualty coverages and for underwriting enterprises that choose to outsource some or all of their property/casualty claims departments. These operations also provide claims management, loss control consulting and insurance property appraisal services. Revenues are principally generated on a negotiated per-claim or per-service fee basis. Our risk management segment also provides risk management consulting services that are recognized as the services are delivered.

The corporate segment manages our clean energy and other investments. In addition, the corporate segment reports the financial information related to our debt and other corporate costs, external acquisition-related expenses and the impact of foreign currency translation.

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 using the local country statutory rates. Reported operating results by segment would change if different methods were applied.

Financial information relating to our segments for the three and nine-month periods ended September 30, 2020 and 2019 is as follows (in millions):

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Brokerage				
Total revenues	\$ 1,294.6	\$ 1,195.9	\$ 3,931.3	\$ 3,709.0
Earnings before income taxes	\$ 276.4	\$ 199.9	\$ 935.0	\$ 794.6
Identifiable assets at September 30, 2020 and 2019			\$ 18,641.2	\$ 16,261.6
Risk Management				
Total revenues	\$ 244.3	\$ 246.3	\$ 717.0	\$ 724.8
Earnings before income taxes	\$ 25.3	\$ 21.7	\$ 64.1	\$ 64.7
Identifiable assets at September 30, 2020 and 2019			\$ 964.5	\$ 920.8
Corporate				
Total revenues	\$ 310.2	\$ 383.0	\$ 651.7	\$ 1,039.8
Loss before income taxes	\$ (92.2)	\$ (106.8)	\$ (261.9)	\$ (317.2)
Identifiable assets at September 30, 2020 and 2019			\$ 2,209.2	\$ 1,991.4
Total				
Total revenues	\$ 1,849.1	\$ 1,825.2	\$ 5,300.0	\$ 5,473.6
Earnings before income taxes	\$ 209.5	\$ 114.8	\$ 737.2	\$ 542.1
Identifiable assets at September 30, 2020 and 2019			\$ 21,814.9	\$ 19,173.8

Disaggregation of Revenue

We disaggregate our revenue from contracts with clients by type and geographic location for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Revenues by type and segment for the three-month periods ended September 30, 2020 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Revenues:				
Commissions	\$ 889.9	\$ —	\$ —	\$ 889.9
Fees	293.2	202.6	—	495.8
Supplemental revenues	54.7	—	—	54.7
Contingent revenues	34.5	—	—	34.5
Investment income	18.9	0.1	—	19.0
Net gains on divestitures	3.4	—	—	3.4
Revenues from clean coal activities	—	—	310.8	310.8
Other net losses	—	—	(0.6)	(0.6)
Revenues before reimbursements	1,294.6	202.7	310.2	1,807.5
Reimbursements	—	41.6	—	41.6
Total revenues	\$ 1,294.6	\$ 244.3	\$ 310.2	\$ 1,849.1

Revenues by type and segment for the nine-month period ended September 30, 2020 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Revenues:				
Commissions	\$ 2,734.6	\$ —	\$ —	\$ 2,734.6
Fees	858.1	604.7	—	1,462.8
Supplemental revenues	164.0	—	—	164.0
Contingent revenues	117.0	—	—	117.0
Investment income	53.0	0.6	—	53.6
Net gains on divestitures	4.6	—	—	4.6
Revenues from clean coal activities	—	—	652.1	652.1
Other net losses	—	—	(0.4)	(0.4)
Revenues before reimbursements	3,931.3	605.3	651.7	5,188.3
Reimbursements	—	111.7	—	111.7
Total revenues	<u>\$ 3,931.3</u>	<u>\$ 717.0</u>	<u>\$ 651.7</u>	<u>\$ 5,300.0</u>

Revenues by geographical location and segment for the three-month periods ended September 30, 2020 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Revenues:				
United States	\$ 866.6	\$ 203.9	\$ 310.2	\$ 1,380.7
United Kingdom	230.8	9.8	—	240.6
Australia	56.6	26.2	—	82.8
Canada	57.1	1.4	—	58.5
New Zealand	37.0	3.0	—	40.0
Other foreign	46.5	—	—	46.5
Total revenues	<u>\$ 1,294.6</u>	<u>\$ 244.3</u>	<u>\$ 310.2</u>	<u>\$ 1,849.1</u>

Revenues by geographical location and segment for the nine-month period ended September 30, 2020 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Revenues:				
United States	\$ 2,613.3	\$ 602.2	\$ 651.7	\$ 3,867.2
United Kingdom	746.2	29.4	—	775.6
Australia	156.6	72.5	—	229.1
Canada	171.5	3.9	—	175.4
New Zealand	103.0	9.0	—	112.0
Other foreign	140.7	—	—	140.7
Total revenues	<u>\$ 3,931.3</u>	<u>\$ 717.0</u>	<u>\$ 651.7</u>	<u>\$ 5,300.0</u>

Revenues by type and segment for the three-month periods ended September 30, 2019 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Revenues:				
Commissions	\$ 809.9	\$ —	\$ —	\$ 809.9
Fees	278.9	211.2	—	490.1
Supplemental revenues	49.8	—	—	49.8
Contingent revenues	30.4	—	—	30.4
Investment income	23.6	0.4	—	24.0
Net gains on divestitures	3.3	—	—	3.3
Revenues from clean coal activities	—	—	386.0	386.0
Other net losses	—	—	(3.0)	(3.0)
Revenues before reimbursements	1,195.9	211.6	383.0	1,790.5
Reimbursements	—	34.7	—	34.7
Total revenues	\$ 1,195.9	\$ 246.3	\$ 383.0	\$ 1,825.2

Revenues by type and segment for the nine-month period ended September 30, 2019 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Revenues:				
Commissions	\$ 2,528.0	\$ —	\$ —	\$ 2,528.0
Fees	796.8	622.7	—	1,419.5
Supplemental revenues	153.4	—	—	153.4
Contingent revenues	107.9	—	—	107.9
Investment income	60.6	1.3	—	61.9
Net gains on divestitures	62.3	—	—	62.3
Revenues from clean coal activities	—	—	1,042.7	1,042.7
Other net losses	—	—	(2.9)	(2.9)
Revenues before reimbursements	3,709.0	624.0	1,039.8	5,372.8
Reimbursements	—	100.8	—	100.8
Total revenues	\$ 3,709.0	\$ 724.8	\$ 1,039.8	\$ 5,473.6

Revenues by geographical location and segment for the three-month periods ended September 30, 2019 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Revenues:				
United States	\$ 795.9	\$ 208.6	\$ 383.0	\$ 1,387.5
United Kingdom	221.8	10.4	—	232.2
Australia	52.9	22.5	—	75.4
Canada	52.6	1.0	—	53.6
New Zealand	36.1	3.8	—	39.9
Other foreign	36.6	—	—	36.6
Total revenues	\$ 1,195.9	\$ 246.3	\$ 383.0	\$ 1,825.2

Revenues by geographical location and segment for the nine-month period ended September 30, 2019 are as follows (in millions):

	<u>Brokerage</u>	<u>Risk Management</u>	<u>Corporate</u>	<u>Total</u>
Revenues:				
United States	\$ 2,487.6	\$ 614.0	\$ 1,039.8	\$ 4,141.4
United Kingdom	674.2	30.6	—	704.8
Australia	157.7	65.0	—	222.7
Canada	168.2	3.3	—	171.5
New Zealand	107.7	11.9	—	119.6
Other foreign	113.6	—	—	113.6
Total revenues	<u>\$ 3,709.0</u>	<u>\$ 724.8</u>	<u>\$ 1,039.8</u>	<u>\$ 5,473.6</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis that follows relates to our financial condition and results of operations for the three and nine-month periods ended September 30, 2020 and 2019. Readers should review this information in conjunction with the September 30, 2020 unaudited consolidated financial statements and notes included in Item 1 of Part I of this quarterly report on Form 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our annual report on Form 10-K for the year ending December 31, 2019.

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 (adjusted EPS), adjusted revenues, adjusted compensation and operating expenses, adjusted compensation expense ratio, adjusted operating expense ratio and organic revenue. These measures are not in accordance with, or an alternative to, the GAAP information provided in this quarterly report on Form 10-Q. 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 because they provide investors with measures that our chief operating decision maker uses when reviewing the company's performance, and for the other reasons described below. Our industry peers may provide similar supplemental non-GAAP information with respect to one or more of these measures, 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. We make determinations regarding certain elements of executive officer incentive compensation, performance share awards and annual cash incentive awards, partly on the basis of measures related to adjusted EBITDAC.

Adjusted Non-GAAP presentation - We believe that the adjusted non-GAAP presentation of the current and prior period information presented on the following pages provides stockholders and other interested persons with useful information regarding certain financial metrics that may 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 measures** - We define these measures as revenues (for the brokerage segment), revenues before reimbursements (for the risk management segment), net earnings, compensation expense and operating expense, respectively, each adjusted to exclude the following, as applicable:
 - Net gains on divestitures, which are primarily net proceeds received related to sales of books of business and other divestiture transactions, such as the disposal of a business unit through sale or closure.
 - Costs related to divestitures, which include legal and other costs related to certain operations that are being exited by us.
 - Acquisition integration costs, which include costs related to certain of our large acquisitions, outside the scope of our usual tuck-in strategy, 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 with our IT related systems.
 - Workforce related charges, which primarily include severance costs (either accrued or paid) related to employee terminations and other costs associated with redundant workforce.
 - Lease termination related charges, which primarily include costs related to terminations of real estate leases and abandonment of leased space.
 - Acquisition related adjustments, which include change in estimated acquisition earnout payables adjustments, impairment charges and acquisition related compensation charges. Prior to first quarter 2019, this adjustment also reflected impacts of acquisition valuation true-ups.

- The impact of foreign currency translation, as applicable. The amounts excluded with respect to foreign currency translation are calculated by applying current year foreign exchange rates to the same period in the prior year.
- Effective income tax rate impact, which represents the impact in third quarter 2020 of one-time taxes associated with the realignment of our operations to continue to conduct certain business in the European Union after Brexit and the change in the U.K. effective income tax rate from 17.5% to 19%. In addition, it also includes the impact in third quarter 2019 related to prior quarters in 2019 for the decrease in the U.S. effective income tax rate used to compute the provision for income taxes in fourth quarter 2019.
- **Adjusted ratios** - Adjusted compensation expense and adjusted operating expense, respectively, each divided by adjusted revenues.

Non-GAAP Earnings Measures

We believe that the presentation of EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin and adjusted EPS for the brokerage and risk management segment, each as defined below, provides a meaningful representation of our operating performance. Adjusted EPS is a performance measure and should not be used as a measure of our liquidity. We also consider EBITDAC and EBITDAC margin as ways to measure financial performance on an ongoing basis. In addition, adjusted EBITDAC, adjusted EBITDAC margin and adjusted EPS for the brokerage and risk management segments are presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.

- **EBITDAC and EBITDAC Margin** - EBITDAC is net earnings before interest, income taxes, depreciation, amortization and the change in estimated acquisition earnout payables and EBITDAC margin is EBITDAC divided by total revenues (for the brokerage segment) and revenues before reimbursements (for the risk management segment). These measures for the brokerage and risk management segments provide a meaningful representation of our operating performance for the overall business and provide a meaningful way to measure its financial performance on an ongoing basis.
- **Adjusted EBITDAC and Adjusted EBITDAC Margin** - Adjusted EBITDAC is EBITDAC adjusted to exclude net gains on divestitures, acquisition integration costs, workforce related charges, lease termination related charges, acquisition related adjustments, and the period-over-period impact of foreign currency translation, as applicable, and Adjusted EBITDAC margin is Adjusted EBITDAC divided by total adjusted revenues (defined above). These measures for the brokerage and risk management segments provide a meaningful representation of our operating performance and, are also presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.
- **Adjusted EPS and Adjusted Net Earnings** - Adjusted net earnings have been adjusted to exclude the after-tax impact of net gains on divestitures, acquisition integration costs, workforce related charges, lease termination related charges and acquisition related adjustments and the period-over-period impact of foreign currency translation and effective income tax rate impact, as applicable. Adjusted EPS is Adjusted Net Earnings divided by diluted weighted average shares outstanding. This measure provides a meaningful representation of our operating performance (and as such should not be used as a measure of our liquidity), and for the overall business is also presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.

Organic Revenues (a non-GAAP measure) - For the brokerage segment, organic change in base commission and fee revenues, supplemental revenues and contingent revenues excludes the first twelve months of such revenues generated from acquisitions and such revenues related to divested operations in each year presented. These revenues 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 period. In addition, organic change in base commission and fee revenues, supplemental revenues and contingent revenues exclude the period-over-period impact of foreign currency translation. For the risk management segment, organic change in fee revenues excludes the first twelve months of fee revenues generated from acquisitions and the fee revenues related to operations disposed of in each year presented. In addition, change in organic growth excludes 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, but non-GAAP, measurement of revenue growth that is associated with the revenue sources that are expected to continue in the current year 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 non-GAAP 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.

Reconciliation of Non-GAAP Information Presented to GAAP Measures - This quarterly report on Form 10-Q 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 (before acquisitions), 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 using local statutory rates. As a result, the provision for income taxes for the corporate segment reflects the entire benefit to us of the IRC Section 45 credits produced, because that is the segment which generated the credits. The law that provides for IRC Section 45 credits expired in December 2019 for our fourteen 2009 Era Plants and will expire in December 2021 for our twenty-one 2011 Era Plants. We anticipate reporting an effective tax rate of approximately 23.0% to 25.0% in the brokerage segment and 24.0% to 26.0% in the risk management segment for the foreseeable future. Reported operating results by segment would change if different allocation methods were applied. When the law governing IRC Section 45 credits expires, reported GAAP revenues and net earnings will decrease, yet our net cash flow will increase as a result of not having to pay expenses to operate the clean coal facilities and also from an increase in the use of credits against our U.S. federal income tax obligations.

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 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 Third Quarter 2020 Highlights

We are engaged in providing insurance brokerage and consulting services, and third-party property/casualty claims settlement and administration services to entities in the U.S. and abroad. In the nine-month period ended September 30, 2020, we generated approximately 69% of our revenues for the combined brokerage and risk management segments domestically and 31% internationally, primarily in Australia, Bermuda, Canada, the Caribbean, New Zealand and the U.K. We have three reportable segments: brokerage, risk management and corporate, which contributed approximately 74%, 14% and 12%, respectively, to revenues during the nine-month period ended September 30, 2020. Our major sources of operating revenues are commissions, fees and supplemental and contingent revenues from brokerage operations and fees from risk management operations. Investment income is generated from invested cash and fiduciary funds, clean energy and other investments, and interest income from premium financing.

We typically cite the Council of Insurance Agents and Brokers (which we refer to as CIAB) insurance pricing quarterly survey at this time as an indicator of the current insurance rate environment. The second quarter 2020 survey indicated that commercial property/casualty rates increased by 10.8% on average. The third quarter 2020 survey had not been published as of the filing date of this report. The CIAB represents the leading domestic and international insurance brokers, who write approximately 85% of the commercial property/casualty premiums in the U.S.

We believe increases in property/casualty rates will continue for the remainder of 2020; however, loss trends could deteriorate over the next year, leading to a more difficult rate and conditions environment in certain lines. The economies of the U.S. and other countries around the world have rapidly contracted as a result of COVID-19. The decreased level of economic activity is leading to, and is likely to continue to lead to, a decline in exposure units and elevated unemployment. However, we expect that our history of strong new business generation, solid retentions and enhanced value-added services for our carrier partners should help offset, to a degree, softer economic conditions around the world. Overall, we believe that in a positive rate environment with declining exposure units, our professionals can demonstrate their expertise and high-quality, value-added capabilities by strengthening our clients' insurance portfolios and delivering insurance and risk management solutions within our clients' budget. Based on our experience, there is adequate capacity in the insurance market for most lines of coverage, terms and conditions are tightening, most insurance carriers appear to be making rational pricing decisions and clients can broadly still obtain coverage. Please also refer to the section entitled "COVID-19 Impact" below see pages 45 and 46.

Summary of Financial Results - Three-Month Periods Ended September 30, 2020 and 2019

See the reconciliations of non-GAAP measures on page 42.

(Dollars in millions, except per share data)

	3rd Quarter 2020		3rd Quarter 2019		Change	
	Reported GAAP	Adjusted Non-GAAP	Reported GAAP	Adjusted Non-GAAP	Reported GAAP	Adjusted Non-GAAP
Brokerage Segment						
Revenues	\$ 1,294.6	\$ 1,291.2	\$ 1,195.9	\$ 1,203.8	8%	7%
Organic revenues		\$ 1,222.0		\$ 1,172.9		4.2%
Net earnings	\$ 206.7		\$ 151.1		37%	
Net earnings margin	16.0%		12.6%		+ 334 bpts	
Adjusted EBITDAC		\$ 431.6		\$ 326.4		32%
Adjusted EBITDAC margin		33.4%		27.1%		+ 632 bpts
Diluted net earnings per share	\$ 1.05	\$ 1.20	\$ 0.77	\$ 0.84	36%	43%
Risk Management Segment						
Revenues before reimbursements	\$ 202.7	\$ 202.7	\$ 211.6	\$ 213.4	(4)%	(5)%
Organic revenues		\$ 201.7		\$ 213.0		(5.3)%
Net earnings	\$ 18.8		\$ 16.2		16%	
Net earnings margin (before reimbursements)	9.3%		7.7%		+ 161 bpts	
Adjusted EBITDAC		\$ 39.3		\$ 38.3		3%
Adjusted EBITDAC margin (before reimbursements)		19.4%		18.0%		+ 143 bpts
Diluted net earnings per share	\$ 0.09	\$ 0.10	\$ 0.09	\$ 0.10	(—)%	(—)%
Corporate Segment						
Diluted net loss per share	\$ (0.24)	\$ (0.22)	\$ (0.20)	\$ (0.15)		
Total Company						
Diluted net earnings per share	\$ 0.90	\$ 1.08	\$ 0.66	\$ 0.79	36%	37%
Total Brokerage and Risk Management Segment						
Diluted net earnings per share	\$ 1.14	\$ 1.30	\$ 0.86	\$ 0.94	33%	38%

Summary of Financial Results - Nine-Month Periods Ended September 30, 2020 and 2019

See the reconciliations of non-GAAP measures on page 43.

(Dollars in millions, except per share data)

	Nine Months 2020		Nine Months 2019		Change	
	Reported GAAP	Adjusted Non-GAAP	Reported GAAP	Adjusted Non-GAAP	Reported GAAP	Adjusted Non-GAAP
Brokerage Segment						
Revenues	\$ 3,931.3	\$ 3,926.7	\$ 3,709.0	\$ 3,628.3	6%	8%
Organic revenues		\$ 3,656.1		\$ 3,543.8		3.2%
Net earnings	\$ 708.3		\$ 598.6		18%	
Net earnings margin	18.0%		16.1%		+ 188 bpts	
Adjusted EBITDAC		\$ 1,318.4		\$ 1,087.2		21%
Adjusted EBITDAC margin		33.6%		30.0%		+ 362 bpts
Diluted net earnings per share	\$ 3.62	\$ 3.94	\$ 3.06	\$ 3.04	18%	30%
Risk Management Segment						
Revenues before reimbursements	\$ 605.3	\$ 605.3	\$ 624.0	\$ 621.4	(3)%	(3)%
Organic revenues		\$ 597.3		\$ 620.1		(3.7)%
Net earnings	\$ 47.8		\$ 47.9		(0)%	
Net earnings margin (before reimbursements)	7.9%		7.7%		+ 22 bpts	
Adjusted EBITDAC		\$ 108.1		\$ 108.8		(1)%
Adjusted EBITDAC margin (before reimbursements)		17.9%		17.5%		+ 35 bpts
Diluted net earnings per share	\$ 0.25	\$ 0.27	\$ 0.25	\$ 0.28	(—)%	(4)%
Corporate Segment						
Diluted net loss per share	\$ (0.39)	\$ (0.36)	\$ (0.30)	\$ (0.27)		
Total Company						
Diluted net earnings per share	\$ 3.48	\$ 3.85	\$ 3.01	\$ 3.05	16%	26%
Total Brokerage and Risk Management Segment						
Diluted net earnings per share	\$ 3.87	\$ 4.21	\$ 3.31	\$ 3.32	17%	27%

In our corporate segment, net after-tax earnings from our clean energy investments were \$4.4 million and \$17.8 million, as adjusted, in the three-month periods ended September 30, 2020 and 2019, respectively. In our corporate segment, net after-tax earnings from our clean energy investments were \$61.9 million and \$87.5 million, as adjusted, in the nine-month periods ended September 30, 2020 and 2019, respectively. We anticipate our clean energy investments to generate between \$65.0 million and \$70.0 million in adjusted net earnings in 2020. See “COVID-19 Impact” on pages 45 and 46. We expect to use the additional cash flow generated by these earnings to continue our mergers and acquisition strategy in our core brokerage and risk management operations.

The following provides information that management believes is helpful when comparing revenues before reimbursements, net earnings, EBITDAC and diluted net earnings per share for the three-month and nine-month periods ended September 30, 2020 with the same periods in 2019. In addition, these tables provide reconciliations to the most comparable GAAP measures for adjusted revenues, adjusted EBITDAC and adjusted diluted net earnings per share. Reconciliations of EBITDAC for the brokerage and risk management segments are provided on pages 49 and 55, respectively, of this filing.

For the Three-Month Periods Ended September 30 Reported GAAP to Adjusted Non-GAAP Reconciliation:

Segment	Revenues Before Reimbursements		Net Earnings		EBITDAC		Diluted Net Earnings Per Share		Chg
	2020	2019	2020	2019	2020	2019	2020	2019	
	(in millions)		(in millions)		(in millions)				
Brokerage, as reported	\$ 1,294.6	\$ 1,195.9	\$ 206.7	\$ 151.1	\$ 411.2	\$ 304.6	\$ 1.05	\$ 0.77	36%
Net gains on divestitures	(3.4)	(3.3)	(2.6)	(2.7)	(3.4)	(3.3)	(0.01)	(0.01)	
Acquisition integration	—	—	4.6	5.8	6.1	7.1	0.02	0.03	
Workforce and lease termination	—	—	9.2	10.9	12.0	13.4	0.05	0.06	
Acquisition related adjustments	—	—	18.5	0.8	5.7	2.5	0.09	—	
Levelized foreign currency translation	—	11.2	—	0.7	—	2.1	—	—	
Effective income tax rate impact	—	—	—	(2.4)	—	—	—	(0.01)	
Brokerage, as adjusted *	<u>1,291.2</u>	<u>1,203.8</u>	<u>236.4</u>	<u>164.2</u>	<u>431.6</u>	<u>326.4</u>	<u>1.20</u>	<u>0.84</u>	43%
Risk Management, as reported	202.7	211.6	18.8	16.2	38.2	35.0	0.09	0.09	(—)%
Workforce and lease termination	—	—	0.9	2.1	1.1	3.0	0.01	0.01	
Acquisition related adjustments	—	—	(0.5)	0.1	—	—	—	—	
Levelized foreign currency translation	—	1.8	—	0.1	—	0.3	—	—	
Effective income tax rate impact	—	—	—	0.2	—	—	—	—	
Risk Management, as adjusted *	<u>202.7</u>	<u>213.4</u>	<u>19.2</u>	<u>18.7</u>	<u>39.3</u>	<u>38.3</u>	<u>0.10</u>	<u>0.10</u>	(—)%
Corporate, as reported	310.2	383.0	(37.7)	(30.2)	(37.8)	(53.2)	(0.24)	(0.20)	
Clean energy related adjustments	—	3.0	—	11.7	—	14.9	—	0.05	
Income tax related impact	—	—	5.5	(1.1)	—	—	0.02	—	
Corporate, as adjusted *	<u>310.2</u>	<u>386.0</u>	<u>(32.2)</u>	<u>(19.6)</u>	<u>(37.8)</u>	<u>(38.3)</u>	<u>(0.22)</u>	<u>(0.15)</u>	
Total Company, as reported	<u>\$ 1,807.5</u>	<u>\$ 1,790.5</u>	<u>\$ 187.8</u>	<u>\$ 137.1</u>	<u>\$ 411.6</u>	<u>\$ 286.4</u>	<u>\$ 0.90</u>	<u>\$ 0.66</u>	36%
Total Company, as adjusted *	<u>\$ 1,804.1</u>	<u>\$ 1,803.2</u>	<u>\$ 223.4</u>	<u>\$ 163.3</u>	<u>\$ 433.1</u>	<u>\$ 326.4</u>	<u>\$ 1.08</u>	<u>\$ 0.79</u>	37%
Total Brokerage & Risk Management, as reported	<u>\$ 1,497.3</u>	<u>\$ 1,407.5</u>	<u>\$ 225.5</u>	<u>\$ 167.3</u>	<u>\$ 449.4</u>	<u>\$ 339.6</u>	<u>\$ 1.14</u>	<u>\$ 0.86</u>	33%
Total Brokerage & Risk Management, as adjusted *	<u>\$ 1,493.9</u>	<u>\$ 1,417.2</u>	<u>\$ 255.6</u>	<u>\$ 182.9</u>	<u>\$ 470.9</u>	<u>\$ 364.7</u>	<u>\$ 1.30</u>	<u>\$ 0.94</u>	38%

* For three-month periods ended September 30, 2020, the pretax impact of the brokerage segment adjustments totals \$38.9 million, with a corresponding adjustment to the provision for income taxes of \$9.2 million relating to these items. For the three-month periods ended September 30, 2020, the pretax impact of the risk management segment adjustments totals \$0.5 million, with a corresponding adjustment to the provision for income taxes of \$0.1 million relating to these items. There is no pretax impact of the corporate segment adjustments, but there is an adjustment to the provision for income taxes of \$(5.5) million relating to the tax item noted on page 61 (see note 2). A detailed reconciliation of the 2020 provision (benefit) for income taxes is shown on page 44.

* For the three-month periods ended September 30, 2019, the pretax impact of the brokerage segment adjustments totals \$19.1 million, with a corresponding adjustment to the provision for income taxes of \$6.0 million relating to these items. For the three-month periods ended September 30, 2019, the pretax impact of the risk management segment adjustments totals \$3.3 million, with a corresponding adjustment to the provision for income taxes of \$0.8 million relating to these items. The

pretax impact of the corporate segment adjustments totals \$14.9 million, with a corresponding adjustment to the provision for income taxes of \$4.3 million relating to these items. A detailed reconciliation of the 2019 provision for income taxes is shown on page 44.

For the Nine-Month Periods Ended September 30 Reported GAAP to Adjusted Non-GAAP Reconciliation:

Segment	Revenues Before Reimbursements		Net Earnings		EBITDAC		Diluted Net Earnings Per Share		Chg
	2020	2019	2020	2019	2020	2019	2020	2019	
	(in millions)		(in millions)		(in millions)				
Brokerage, as reported	\$ 3,931.3	\$ 3,709.0	\$ 708.3	\$ 598.6	\$ 1,255.6	\$ 1,092.2	\$ 3.62	\$ 3.06	18%
Net gains on divestitures	(4.6)	(62.3)	(3.6)	(37.2)	(4.6)	(49.3)	(0.02)	(0.20)	
Acquisition integration	—	—	14.8	8.6	19.5	10.9	0.08	0.05	
Workforce and lease termination	—	—	25.7	22.8	33.5	29.2	0.13	0.12	
Acquisition related adjustments	—	—	24.7	3.7	14.4	11.2	0.13	0.02	
Levelized foreign currency translation	—	(18.4)	—	(4.0)	—	(7.0)	—	(0.02)	
Effective income tax rate impact	—	—	—	2.7	—	—	—	0.01	
Brokerage, as adjusted *	3,926.7	3,628.3	769.9	595.2	1,318.4	1,087.2	3.94	3.04	30%
Risk Management, as reported	605.3	624.0	47.8	47.9	101.7	102.9	0.25	0.25	(—)%
Workforce and lease termination	—	—	4.8	4.5	6.4	6.2	0.02	0.03	
Acquisition related adjustments	—	—	0.4	(0.1)	—	—	—	—	
Levelized foreign currency translation	—	(2.6)	—	(0.2)	—	(0.3)	—	—	
Effective income tax rate impact	—	—	—	0.6	—	—	—	—	
Risk Management, as adjusted *	605.3	621.4	53.0	52.7	108.1	108.8	0.27	0.28	(4)%
Corporate, as reported	651.7	1,039.8	(51.1)	(36.3)	(95.8)	(164.5)	(0.39)	(0.30)	
Clean energy related adjustments	—	3.0	—	11.7	—	14.9	—	0.04	
Income tax related impact	—	—	5.5	(3.1)	—	—	0.03	(0.01)	
Corporate, as adjusted *	651.7	1,042.8	(45.6)	(27.7)	(95.8)	(149.6)	(0.36)	(0.27)	
Total Company, as reported	\$ 5,188.3	\$ 5,372.8	\$ 705.0	\$ 610.2	\$ 1,261.5	\$ 1,030.6	\$ 3.48	\$ 3.01	16%
Total Company, as adjusted *	\$ 5,183.7	\$ 5,292.5	\$ 777.3	\$ 620.2	\$ 1,330.7	\$ 1,046.4	\$ 3.85	\$ 3.05	26%
Total Brokerage & Risk Management, as reported	\$ 4,536.6	\$ 4,333.0	\$ 756.1	\$ 646.5	\$ 1,357.3	\$ 1,195.1	\$ 3.87	\$ 3.31	17%
Total Brokerage & Risk Management, as adjusted *	\$ 4,532.0	\$ 4,249.7	\$ 822.9	\$ 647.9	\$ 1,426.5	\$ 1,196.0	\$ 4.21	\$ 3.32	27%

* For the nine-month period ended September 30, 2020, the pretax impact of the brokerage segment adjustments totals \$80.6 million, with a corresponding adjustment to the provision for income taxes of \$19.0 million relating to these items. For the nine-month period ended September 30, 2020, the pretax impact of the risk management segment adjustments totals \$7.0 million, with a corresponding adjustment to the provision for income taxes of \$1.8 million relating to these items. There is no pretax impact of the corporate segment adjustments, but there is an adjustment to the provision for income taxes of \$(5.5) million related to the tax item noted on page 61 (see note 2). A detailed reconciliation of the 2020 provision (benefit) for income taxes is shown on page 45.

For the nine-month period ended September 30, 2019, the pretax impact of the brokerage segment adjustments totals \$(9.6) million, with a corresponding adjustment to the benefit for income taxes of \$(6.2) million relating to these items. The pretax impact of the risk management segment adjustments totals \$5.8 million, with a corresponding adjustment to the provision for income taxes of \$1.0 million relating to these items. The pretax impact of the corporate segment adjustments totals \$14.9 million, with a corresponding adjustment to the provision for income taxes of \$6.3 million relating to these items. A detailed reconciliation of the 2019 provision (benefit) for income taxes is shown on page 45.

Reconciliation of Non-GAAP Measures - Pre-tax Earnings and Diluted Net Earnings per Share

(In millions except share and per share data)

	Earnings Before Income Taxes	Provision (Benefit) for Income Taxes	Net Earnings	Net Earnings Attributable to Noncontrolling Interests	Net Earnings Attributable to Controlling Interests	Diluted Net Earnings per Share
Quarter Ended September 30, 2020						
Brokerage, as reported	\$ 276.4	\$ 69.7	\$ 206.7	\$ 0.9	\$ 205.8	\$ 1.05
Net gains on divestitures	(3.4)	(0.8)	(2.6)	—	(2.6)	(0.01)
Acquisition integration	6.1	1.5	4.6	—	4.6	0.02
Workforce and lease termination	12.0	2.8	9.2	—	9.2	0.05
Acquisition related adjustments	24.2	5.7	18.5	—	18.5	0.09
Brokerage, as adjusted	\$ 315.3	\$ 78.9	\$ 236.4	\$ 0.9	\$ 235.5	\$ 1.20
Risk Management, as reported	\$ 25.3	\$ 6.5	\$ 18.8	\$ —	\$ 18.8	\$ 0.09
Workforce and lease termination	1.1	0.2	0.9	—	0.9	0.01
Acquisition related adjustments	(0.6)	(0.1)	(0.5)	—	(0.5)	—
Risk Management, as adjusted	\$ 25.8	\$ 6.6	\$ 19.2	\$ —	\$ 19.2	\$ 0.10
Corporate, as reported	\$ (92.2)	\$ (54.5)	\$ (37.7)	\$ 10.3	\$ (48.0)	\$ (0.24)
Income tax related impact	—	(5.5)	5.5	—	5.5	0.02
Corporate, as adjusted	\$ (92.2)	\$ (60.0)	\$ (32.2)	\$ 10.3	\$ (42.5)	\$ (0.22)
Quarter Ended September 30, 2019						
Brokerage, as reported	\$ 199.9	\$ 48.8	\$ 151.1	\$ 3.4	\$ 147.7	\$ 0.77
Net gains on divestitures	(3.3)	(0.6)	(2.7)	—	(2.7)	(0.01)
Acquisition integration	7.1	1.3	5.8	—	5.8	0.03
Workforce and lease termination	13.4	2.5	10.9	—	10.9	0.06
Acquisition related adjustments	1.0	0.2	0.8	—	0.8	—
Effective income tax rate impact	—	2.4	(2.4)	—	(2.4)	(0.01)
Levelized foreign currency translation	0.9	0.2	0.7	—	0.7	—
Brokerage, as adjusted	\$ 219.0	\$ 54.8	\$ 164.2	\$ 3.4	\$ 160.8	\$ 0.84
Risk Management, as reported	\$ 21.7	\$ 5.5	\$ 16.2	\$ —	\$ 16.2	\$ 0.09
Workforce and lease termination	3.0	0.9	2.1	—	2.1	0.01
Acquisition related adjustments	0.1	—	0.1	—	0.1	—
Effective income tax rate impact	—	(0.2)	0.2	—	0.2	—
Levelized foreign currency translation	0.2	0.1	0.1	—	0.1	—
Risk Management, as adjusted	\$ 25.0	\$ 6.3	\$ 18.7	\$ —	\$ 18.7	\$ 0.10
Corporate, as reported	\$ (106.8)	\$ (76.6)	\$ (30.2)	\$ 7.6	\$ (37.8)	\$ (0.20)
Clean energy related adjustments	14.9	3.2	11.7	2.5	9.2	0.05
Income tax related impact	—	1.1	(1.1)	—	(1.1)	—
Corporate, as adjusted	\$ (91.9)	\$ (72.3)	\$ (19.6)	\$ 10.1	\$ (29.7)	\$ (0.15)

Reconciliation of Non-GAAP Measures - Pre-tax Earnings and Diluted Net Earnings per Share

(In millions except share and per share data)

	Earnings Before Income Taxes	Provision (Benefit) for Income Taxes	Net Earnings	Net Earnings Attributable to Noncontrolling Interests	Net Earnings Attributable to Controlling Interests	Diluted Net Earnings per Share
<u>Nine-Months Ended September 30, 2020</u>						
Brokerage, as reported	\$ 935.0	\$ 226.7	\$ 708.3	\$ 3.1	\$ 705.2	\$ 3.62
Net gains on divestitures	(4.6)	(1.0)	(3.6)	—	(3.6)	(0.02)
Acquisition integration	19.5	4.7	14.8	—	14.8	0.08
Workforce and lease termination	33.5	7.8	25.7	—	25.7	0.13
Acquisition related adjustments	32.2	7.5	24.7	—	24.7	0.13
Brokerage, as adjusted	\$ 1,015.6	\$ 245.7	\$ 769.9	\$ 3.1	\$ 766.8	\$ 3.94
Risk Management, as reported	\$ 64.1	\$ 16.3	\$ 47.8	\$ —	\$ 47.8	\$ 0.25
Workforce and lease termination	6.4	1.6	4.8	—	4.8	0.02
Acquisition related adjustments	0.6	0.2	0.4	—	0.4	—
Risk Management, as adjusted	\$ 71.1	\$ 18.1	\$ 53.0	\$ —	\$ 53.0	\$ 0.27
Corporate, as reported	\$ (261.9)	\$ (210.8)	\$ (51.1)	\$ 25.3	\$ (76.4)	\$ (0.39)
Income tax related impact	—	(5.5)	5.5	—	5.5	0.03
Corporate, as adjusted	\$ (261.9)	\$ (216.3)	\$ (45.6)	\$ 25.3	\$ (70.9)	\$ (0.36)
<u>Nine-Months Ended September 30, 2019</u>						
Brokerage, as reported	\$ 794.6	\$ 196.0	\$ 598.6	\$ 18.3	\$ 580.3	\$ 3.06
Net gains on divestitures	(49.3)	(12.1)	(37.2)	—	(37.2)	(0.20)
Acquisition integration	10.9	2.3	8.6	—	8.6	0.05
Workforce and lease termination	29.2	6.4	22.8	—	22.8	0.12
Acquisition related adjustments	4.9	1.2	3.7	—	3.7	0.02
Effective income tax rate impact	—	(2.7)	2.7	—	2.7	0.01
Levelized foreign currency translation	(5.3)	(1.3)	(4.0)	—	(4.0)	(0.02)
Brokerage, as adjusted	\$ 785.0	\$ 189.8	\$ 595.2	\$ 18.3	\$ 576.9	\$ 3.04
Risk Management, as reported	\$ 64.7	\$ 16.8	\$ 47.9	\$ —	\$ 47.9	\$ 0.25
Workforce and lease termination	6.2	1.7	4.5	—	4.5	0.03
Acquisition related adjustments	(0.2)	(0.1)	(0.1)	—	(0.1)	—
Effective income tax rate impact	—	(0.6)	0.6	—	0.6	—
Levelized foreign currency translation	(0.2)	—	(0.2)	—	(0.2)	—
Risk Management, as adjusted	\$ 70.5	\$ 17.8	\$ 52.7	\$ —	\$ 52.7	\$ 0.28
Corporate, as reported	\$ (317.2)	\$ (280.9)	\$ (36.3)	\$ 21.6	\$ (57.9)	\$ (0.30)
Clean energy related adjustments	14.9	3.2	11.7	2.5	9.2	0.04
Income tax related impact	—	3.1	(3.1)	—	(3.1)	(0.01)
Corporate, as adjusted	\$ (302.3)	\$ (274.6)	\$ (27.7)	\$ 24.1	\$ (51.8)	\$ (0.27)

COVID-19 Impact

In our property/casualty brokerage operations, during the third quarter 2020, our customer (a) retention and new business generation both remained at pre-pandemic levels, (b) non-recurring business was lower than pre-pandemic levels, (c) renewal exposure units (i.e., insured values, payrolls, employees, miles driven, etc.) showed some decline; however, premium rates across most geographies and lines of coverage have continued to increase, effectively mitigating the decline, and (d) net positive mid-term policy modifications were also lower.

Thus far in the fourth quarter, property/casualty customer exposure unit renewals showed improvement compared to lows seen in April and May and slightly improved over August and September, as our customers' businesses continue to recover. Full policy cancellations have remained similar to pre-pandemic levels, and we continue to see property/casualty premium rates move higher overall which may partially, or fully, offset future declines in exposure units, if any.

In our employee benefits brokerage operations, during third quarter 2020, and thus far in the fourth quarter, we saw a decrease in new consulting and frequency of special project work (although we did sell a large life insurance pension funding product – see page 50 for

additional details) and a decrease in covered lives on renewal business, although not to the same extent as headline unemployment levels. We believe the decline in covered lives and lower frequency of special project work could persist over the next few quarters, and even deteriorate further, if the economy is slow to recover.

In our risk management operations, we began seeing a meaningful decline in new claims arising during the last two weeks of March, which persisted into April. From May to September, and thus far in the fourth quarter, we are seeing an improving trend in new claims arising; yet the current level of weekly new claims are still well below pre-pandemic levels. A slower recovery or reversal in the number of workers employed could cause fewer claims arising in future quarters.

When compared to the same periods in 2019, since mid-to-late March 2020, our clean energy investments experienced the impact of lower electricity consumption in the U.S. due to reduced economic activity (as well as, unrelated to COVID-19, milder temperatures, other than some brief periods of unusually warm weather, and falling natural gas prices). We expect this reduced level of production for at least the remainder of 2020.

Of our nearly 1,000 office locations approximately 350 are open, but most at reduced capacity. Accordingly the vast majority of our employees continue to work remotely some or all of their work week. We believe our service levels are unchanged from pre-pandemic levels. We have not had any office-wide outbreaks of COVID-19, and fewer than 200 confirmed cases amongst our 32,000 employees - all of which we believe contracted the virus outside of our office locations.

Given the deterioration in economic conditions, we are actively managing costs by limiting discretionary spending such as travel, entertainment and advertising expenses, adjusting our real estate footprint, reducing capital expenditures, limiting use of outside labor and consultants, increasing utilization of our centers of excellence, and we have adjusted portions of our workforce where volumes have declined significantly and normal attrition is not sufficient.

The cost saving impact of these actions in the third quarter of 2020 was substantial; with estimated savings of approximately \$70 million pretax compared to third quarter 2019, as adjusted for pro forma full-quarter costs related to acquisitions closed after June 30, 2019. Offsetting these savings were severance and lease termination costs of approximately \$12 million pretax related to these actions. We believe savings in the fourth quarter compared to the same quarter in 2019 could total approximately \$65 million to \$70 million pretax after adjusting for pro forma full-quarter costs related to acquisitions. Offsetting possible future savings would be additional implementation and execution costs, which we estimate could total approximately \$5 million to \$10 million pretax. Future net savings may be lower if the economy recovers faster than we are forecasting or our costs to implement changes exceed our estimates.

We have not seen any meaningful decline in cash receipts from our clients to date and we have more than \$1.6 billion of available liquidity. A prolonged economic downturn may cause a deterioration of future cash collections but we believe our cost savings, reduced non-client facing capital expenditures and working capital improvements could mitigate a potential decline in our cash flows over the near-term.

For a discussion of risk and uncertainties relating to COVID-19 for our business, results of operations and financial condition, see Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the three-months March 31, 2020.

Update on Ransomware Incident

As previously disclosed, on September 26, 2020, we detected a ransomware incident impacting our internal systems. We implemented our incident response plan, took our global systems offline, isolated impacted systems, retained cyber security counsel and forensic experts and reported the event to the FBI. The incident has been contained, and all critical systems are back in service.

While we are unaware of any actual or attempted misuse of information, our investigation into the incident is ongoing. We are working to conclude our forensic investigation and determine the nature and extent of unauthorized access to information on our systems. We intend to comply with all applicable laws and regulations. Based on the results of the forensic investigation to date, we do not believe this incident will have a material adverse effect on our business, operations or financial condition.

We maintain cyber liability insurance coverage, but disputes over the extent of insurance coverage for claims are not uncommon. Furthermore, while we have not been the subject of any legal proceedings involving this incident, it is possible we could be the subject of claims from persons alleging they suffered damages from the incident, or actions by governmental authorities.

Results of Operations

Brokerage

The brokerage segment accounted for 74% of our revenues during the nine-month period ended September 30, 2020. Our brokerage segment is primarily comprised of retail and wholesale brokerage operations. Our brokerage segment generates revenues by:

- (i) Identifying, negotiating and placing all forms of insurance or reinsurance coverage, as well as providing risk-shifting, risk-sharing and risk-mitigation consulting services, principally related to property/casualty, life, health, welfare and disability insurance. We also provide these services through, or in conjunction with, other unrelated agents and brokers, consultants and management advisors.
- (ii) Acting as an agent or broker for multiple underwriting enterprises by providing services such as sales, marketing, selecting, negotiating, underwriting, servicing and placing insurance coverage on their behalf.
- (iii) Providing consulting services related to health and welfare benefits, voluntary benefits, executive benefits, compensation, retirement planning, institutional investment and fiduciary, actuarial, compliance, private insurance exchange, human resource technology, communications and benefits administration.
- (iv) Providing management and administrative services to captives, pools, risk-retention groups, healthcare exchanges, small underwriting enterprises, such as accounting, claims and loss processing assistance, feasibility studies, actuarial studies, data analytics and other administrative services.

The primary source of revenues for our brokerage services is commissions from underwriting enterprises, based on a percentage of premiums paid by our clients, or fees received from clients based on an agreed level of service usually in lieu of commissions. Commissions are fixed at the contract effective date and generally are based on a percentage of premiums for insurance coverage or employee headcount for employer sponsored benefit plans. Commissions depend upon a large number of factors, including the type of risk being placed, the particular underwriting enterprise's demand, the expected loss experience of the particular risk of coverage, and historical benchmarks surrounding the level of effort necessary for us to place and service the insurance contract. Rather than being tied to the amount of premiums, fees are most often based on an expected level of effort to provide our services. In addition, under certain circumstances, both retail brokerage and wholesale brokerage services receive supplemental and contingent revenues. Supplemental revenue is revenue paid by an underwriting enterprise that is above the base commission paid, is determined by the underwriting enterprise and is established annually in advance of the contractual period based on historical performance criteria. Contingent revenue is revenue paid by an underwriting enterprise based on the overall profit and/or volume of the business placed with that underwriting enterprise during a particular calendar year and is determined after the contractual period.

Litigation, Regulatory and Taxation Matters

IRS and DOJ investigations - As previously disclosed, our IRC 831(b) (or "micro-captive") advisory services business has been under investigation by the IRS since 2013. Among other matters, the IRS is investigating whether we have been acting as a tax shelter promoter in connection with these operations. Additionally, the IRS has initiated audits for the 2012 tax year, and subsequent tax years, of over 100 of the micro-captive underwriting enterprises organized and/or managed by us. In May 2020 we learned that the Department of Justice is conducting a criminal investigation related to IRC 831(b) micro-captive underwriting enterprises. We have been advised that we are not currently a target of the investigation. In June 2020 our subsidiary Artex Risk Solutions, Inc. (which we refer to as Artex) received a grand jury subpoena requesting documents relating to its micro-captive advisory business. We have produced documents in response to the subpoena. We are fully cooperating with both the IRS investigation and the Department of Justice investigation. We are not able to reasonably estimate the amount of any potential loss in connection with these investigations.

Class action lawsuit - On December 7, 2018, a class action lawsuit was filed against us, Artex and other defendants, in the United States District Court for the District of Arizona. The named plaintiffs are micro-captives and their related entities and owners who had IRC Section 831(b) tax benefits disallowed by the IRS. On August 5, 2019, the trial court granted the defendants' motion to compel arbitration and dismissed the class action lawsuit. Plaintiffs appealed this ruling to the United States Court of Appeals for the Ninth Circuit. On September 9, 2020, the Ninth Circuit affirmed the ruling of the trial court dismissing the class action lawsuit. We will continue to defend against the lawsuit vigorously. Litigation is inherently uncertain, however, and it is not possible for us to predict the ultimate outcome of this matter and the financial impact to us, nor are we able to reasonably estimate the amount of any potential loss in connection with this lawsuit.

Financial information relating to our brokerage segment results for the three and nine-month periods ended September 30, 2020 as compared to the same periods in 2019, is as follows (in millions, except per share, percentages and workforce data):

Statement of Earnings	Three-month period ended September 30,			Nine-month period ended September 30,		
	2020	2019	Change	2020	2019	Change
Commissions	\$ 889.9	\$ 809.9	\$ 80.0	\$ 2,734.6	\$ 2,528.0	\$ 206.6
Fees	293.2	278.9	14.3	858.1	796.8	61.3
Supplemental revenues	54.7	49.8	4.9	164.0	153.4	10.6
Contingent revenues	34.5	30.4	4.1	117.0	107.9	9.1
Investment income	18.9	23.6	(4.7)	53.0	60.6	(7.6)
Net gains on divestitures	3.4	3.3	0.1	4.6	62.3	(57.7)
Total revenues	<u>1,294.6</u>	<u>1,195.9</u>	<u>98.7</u>	<u>3,931.3</u>	<u>3,709.0</u>	<u>222.3</u>
Compensation	729.5	694.1	35.4	2,154.7	2,030.6	124.1
Operating	153.9	197.2	(43.3)	521.0	586.2	(65.2)
Depreciation	18.3	16.4	1.9	53.7	49.0	4.7
Amortization	96.0	82.8	13.2	316.8	237.0	79.8
Change in estimated acquisition earnout payables	20.5	5.5	15.0	(49.9)	11.6	(61.5)
Total expenses	<u>1,018.2</u>	<u>996.0</u>	<u>22.2</u>	<u>2,996.3</u>	<u>2,914.4</u>	<u>81.9</u>
Earnings before income taxes	276.4	199.9	76.5	935.0	794.6	140.4
Provision for income taxes	69.7	48.8	20.9	226.7	196.0	30.7
Net earnings	206.7	151.1	55.6	708.3	598.6	109.7
Net earnings attributable to noncontrolling interests	0.9	3.4	(2.5)	3.1	18.3	(15.2)
Net earnings attributable to controlling interests	<u>\$ 205.8</u>	<u>\$ 147.7</u>	<u>\$ 58.1</u>	<u>\$ 705.2</u>	<u>\$ 580.3</u>	<u>\$ 124.9</u>
Diluted net earnings per share	<u>\$ 1.05</u>	<u>\$ 0.77</u>	<u>\$ 0.28</u>	<u>\$ 3.62</u>	<u>\$ 3.06</u>	<u>\$ 0.56</u>
Other Information						
Change in diluted net earnings per share	36%	18%		18%	19%	
Growth in revenues	8%	14%		6%	14%	
Organic change in commissions and fees	4%	6%		3%	6%	
Compensation expense ratio	56%	58%		55%	55%	
Operating expense ratio	12%	16%		13%	16%	
Effective income tax rate	25%	24%		24%	25%	
Workforce at end of period (includes acquisitions)				24,384	24,722	
Identifiable assets at September 30				\$ 18,641.2	\$ 16,261.6	
EBITDAC						
Net earnings	\$ 206.7	\$ 151.1	\$ 55.6	\$ 708.3	\$ 598.6	\$ 109.7
Provision for income taxes	69.7	48.8	20.9	226.7	196.0	30.7
Depreciation	18.3	16.4	1.9	53.7	49.0	4.7
Amortization	96.0	82.8	13.2	316.8	237.0	79.8
Change in estimated acquisition earnout payables	20.5	5.5	15.0	(49.9)	11.6	(61.5)
EBITDAC	<u>\$ 411.2</u>	<u>\$ 304.6</u>	<u>\$ 106.6</u>	<u>\$ 1,255.6</u>	<u>\$ 1,092.2</u>	<u>\$ 163.4</u>

The following provides information that management believes is helpful when comparing EBITDAC and adjusted EBITDAC for the three and nine-month periods ended September 30, 2020 to the same periods in 2019 (in millions):

	Three-month period ended September 30,			Nine-month period ended September 30,		
	2020	2019	Change	2020	2019	Change
Net earnings, as reported	\$ 206.7	\$ 151.1	37%	\$ 708.3	\$ 598.6	18%
Provision for income taxes	69.7	48.8		226.7	196.0	
Depreciation	18.3	16.4		53.7	49.0	
Amortization	96.0	82.8		316.8	237.0	
Change in estimated acquisition earnout payables	20.5	5.5		(49.9)	11.6	
EBITDAC	411.2	304.6	35%	1,255.6	1,092.2	15%
Net gains on divestitures	(3.4)	(3.3)		(4.6)	(49.3)	
Acquisition integration	6.1	7.1		19.5	10.9	
Acquisition related adjustments	5.7	2.5		14.4	11.2	
Workforce and lease termination related charges	12.0	13.4		33.5	29.2	
Levelized foreign currency translation	—	2.1		—	(7.0)	
EBITDAC, as adjusted	\$ 431.6	\$ 326.4	32%	\$ 1,318.4	\$ 1,087.2	21%
Net earnings margin, as reported	16.0%	12.6%	+ 334 bpts	18.0%	16.1%	+ 188 bpts
EBITDAC margin, as adjusted	33.4%	27.1%	+ 632 bpts	33.6%	30.0%	+ 362 bpts
Reported revenues	\$ 1,294.6	\$ 1,195.9		\$ 3,931.3	\$ 3,709.0	
Adjusted revenues - see pages 42 and 43	\$ 1,291.2	\$ 1,203.8		\$ 3,926.7	\$ 3,628.3	

Commissions and fees - The aggregate increase in base commissions and fees for the three-month period ended September 30, 2020, compared to the same period in 2019, was due to revenues associated with acquisitions that were made in the twelve-month period ended September 30, 2020 (\$48.2 million), and to the organic change in base commissions and fee revenues. The organic change in base commissions and fee revenues was 3.9% and 5.7% for the three-month periods ended September 30, 2020 and 2019, respectively.

The aggregate increase in base commissions and fees for the nine-month period ended September 30, 2020, compared to the same period in 2019, was due to revenues associated with acquisitions that were made in the twelve-month period ended September 30, 2020 (\$209.9 million), and to the organic change in base commissions and fee revenues. The organic change in base commissions and fee revenues was 3.0% and 5.5% for the nine-month periods ended September 30, 2020 and 2019, respectively.

In our property/casualty brokerage operations, during the three-month period ended September 30, 2020, relative to same period in 2019, our customer (a) retention and new business generation both remained at pre-pandemic levels, (b) non-recurring business was lower than pre-pandemic levels, (c) renewal exposure units (i.e., insured values, payrolls, employees, miles driven, etc.) showed some decline; however, premium rates across most geographies and lines of coverage have continued to increase, effectively mitigating exposure unit decline, and (d) net positive mid-term policy modifications were also lower. Thus far in the fourth quarter, property/casualty renewal customer exposure units and showed improvement compared to lows seen in April and May as our customers' businesses continue to recover. Full policy cancellations have remained similar to pre-pandemic levels, and we continue to see property/casualty premium rates move higher overall which may partially, or fully, offset future declines in exposure units, if any. In our employee benefits brokerage operations, during the three-month period ended September 30, 2020 relative to same period in 2019, and thus far in the fourth quarter, we saw a decrease in new consulting and frequency of special project work (although we did sell a large life insurance pension funding product - see page 4 for additional details) and a decrease in covered lives on renewal business, although not to the same extent as headline unemployment levels. We believe the decline in covered lives and lower frequency of special project work could persist over the next few quarters, and even deteriorate further, if the economy is slow to recover.

Items excluded from organic revenue computations yet impacting revenue comparisons for the three and nine-month periods ended September 30, 2020 and 2019 include the following (in millions):

Organic Revenues (Non-GAAP)	Three-Month Period Ended September 30,			Nine-Month Period Ended September 30,		
	2020	2019	Change	2020	2019	Change
Base Commissions and Fees						
Commission and fees, as reported	\$ 1,183.1	\$ 1,088.8	8.7%	\$ 3,592.7	\$ 3,324.8	8.1%
Less commission and fee revenues from acquisitions	(48.2)	—		(209.9)	—	
Less divested operations and program repricing	—	(6.9)		—	(25.2)	
Levelized foreign currency translation	—	10.0		—	(16.2)	
Organic base commission and fees	<u>\$ 1,134.9</u>	<u>\$ 1,091.9</u>	3.9%	<u>\$ 3,382.8</u>	<u>\$ 3,283.4</u>	3.0%
Supplemental revenues						
Supplemental revenues, as reported	\$ 54.7	\$ 49.8	9.8%	\$ 164.0	\$ 153.4	6.9%
Less supplemental revenues from acquisitions	(0.3)	—		(3.3)	—	
Levelized foreign currency translation	—	0.6		—	(0.6)	
Organic supplemental revenues	<u>\$ 54.4</u>	<u>\$ 50.4</u>	7.9%	<u>\$ 160.7</u>	<u>\$ 152.8</u>	5.2%
Contingent revenues						
Contingent revenues, as reported	\$ 34.5	\$ 30.4	13.5%	\$ 117.0	\$ 107.9	8.4%
Less contingent revenues from acquisitions	(1.8)	—		(4.4)	—	
Levelized foreign currency translation	—	0.2		—	(0.3)	
Organic contingent revenues	<u>\$ 32.7</u>	<u>\$ 30.6</u>	6.9%	<u>\$ 112.6</u>	<u>\$ 107.6</u>	4.6%
Total reported commissions, fees, supplemental revenues and contingent revenues	\$ 1,272.3	\$ 1,169.0	8.8%	\$ 3,873.7	\$ 3,586.1	8.0%
Less commissions, fees, supplemental revenues and contingent revenues from acquisitions	(50.3)	—		(217.6)	—	
Less divested operations and program repricing	—	(6.9)		—	(25.2)	
Levelized foreign currency translation	—	10.8		—	(17.1)	
Total organic commissions, fees, supplemental revenues and contingent revenues	<u>\$ 1,222.0</u>	<u>\$ 1,172.9</u> *	4.2%	<u>\$ 3,656.1</u>	<u>\$ 3,543.8</u>	3.2%

* The third quarter 2020 total organic change was favorably impacted by the sale of a large life insurance pension funding product. Without this particular sale, total organic change would have been nearly 3%.

The following is a summary of brokerage segment acquisition activity for 2020 and 2019:

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Number of acquisitions closed	5	11	17	35
Estimated annualized revenues acquired (in millions)	<u>\$ 13.1</u>	<u>\$ 69.2</u>	<u>\$ 151.2</u>	<u>\$ 334.9</u>

We issued 225,000 shares and 100,000 shares of our common stock at the request of sellers and/or in connection with tax-free exchange acquisitions in the third quarter of 2020 and 2019, respectively. We issued 1,199,000 shares and 696,000 shares of our common stock at the request of sellers and/or in connection with tax-free exchange acquisitions in the nine-month periods ended September 30, 2020 and 2019, respectively.

Supplemental and contingent revenues - Reported supplemental and contingent revenues recognized in 2020, 2019 and 2018 by quarter are as follows (in millions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
2020					
Reported supplemental revenues	\$ 59.0	\$ 50.3	\$ 54.7		\$ 164.0
Reported contingent revenues	45.1	37.4	34.5		117.0
Reported supplemental and contingent revenues	<u>\$ 104.1</u>	<u>\$ 87.7</u>	<u>\$ 89.2</u>		<u>\$ 281.0</u>
2019					
Reported supplemental revenues	\$ 56.7	\$ 46.9	\$ 49.8	\$ 57.1	\$ 210.5
Reported contingent revenues	48.0	29.5	30.4	27.7	135.6
Reported supplemental and contingent revenues	<u>\$ 104.7</u>	<u>\$ 76.4</u>	<u>\$ 80.2</u>	<u>\$ 84.8</u>	<u>\$ 346.1</u>
2018					
Reported supplemental revenues	\$ 52.0	\$ 48.1	\$ 43.9	\$ 45.9	\$ 189.9
Reported contingent revenues	34.9	21.8	25.7	15.6	98.0
Reported supplemental and contingent revenues	<u>\$ 86.9</u>	<u>\$ 69.9</u>	<u>\$ 69.6</u>	<u>\$ 61.5</u>	<u>\$ 287.9</u>

Investment income and net gains on divestitures - This primarily represents (1) interest income earned on cash, cash equivalents and restricted funds and interest income from premium financing and (2) net gains related to divestitures and sales of books of business, which were \$3.4 million and \$3.3 million for the three-month periods ended September 30, 2020 and 2019, respectively, and \$4.6 million and \$62.3 million for the nine-month periods ended September 30, 2020 and 2019, respectively. During the nine-month period ended September 30, 2019, we recognized a one-time, net gain of \$0.17 of diluted net earnings per share related to the divestiture of a travel insurance brokerage and four other smaller brokerage operations. Investment income in the three and nine-month periods ended September 30, 2020 decreased compared to the same periods in 2019, primarily due to decreases in interest income from our U.S. operations due to decreases in interest rates earned on client held funds.

Compensation expense - The following provides non-GAAP information that management believes is helpful when comparing compensation expense for the three and nine-month periods ended September 30, 2020 with the same periods in 2019 (in millions):

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Compensation expense, as reported	\$ 729.5	\$ 694.1	\$ 2,154.7	\$ 2,030.6
Acquisition integration	(3.7)	(3.7)	(11.3)	(5.8)
Workforce and lease termination related charges	(10.7)	(11.2)	(29.6)	(21.9)
Acquisition related adjustments	(5.7)	(2.5)	(14.4)	(11.2)
Levelized foreign currency translation	—	6.3	—	(9.9)
Compensation expense, as adjusted	<u>\$ 709.4</u>	<u>\$ 683.0</u>	<u>\$ 2,099.4</u>	<u>\$ 1,981.8</u>
Reported compensation expense ratios	<u>56.4%</u>	<u>58.0%</u>	<u>54.8%</u>	<u>54.8%</u>
Adjusted compensation expense ratios	<u>54.9%</u>	<u>56.7%</u>	<u>53.5%</u>	<u>54.6%</u>
Reported revenues	<u>\$ 1,294.6</u>	<u>\$ 1,195.9</u>	<u>\$ 3,931.3</u>	<u>\$ 3,709.0</u>
Adjusted revenues - see pages 42 and 43	<u>\$ 1,291.2</u>	<u>\$ 1,203.8</u>	<u>\$ 3,926.7</u>	<u>\$ 3,628.3</u>

The increase in compensation expense for the three-month period ended September 30, 2020, compared to the same period in 2019, was primarily due to compensation associated with the acquisitions completed in the twelve month period ended September 30, 2020. In total, compensation expense was impacted by increases in salaries, employee benefits, producer compensation and other incentive compensation linked to operating results - \$33.4 million in the aggregate, acquisition related earnout compensation - \$3.2 million and stock and other deferred compensation expense - \$1.2 million, partially offset by decreases in temporary-staffing expense - \$1.9 million and severance related costs - \$0.5 million.

The increase in compensation expense for the nine-month period ended September 30, 2020, compared to the same period in 2019, was primarily due to compensation associated with the acquisitions completed in the twelve month period ended September 30, 2020. In total, compensation expense was impacted by increases in salaries, employee benefits, producer compensation and other incentive compensation linked to operating results - \$103.7 million in the aggregate, severance related costs - \$7.7 million, acquisition

integration - \$5.5 million, stock and other deferred compensation expense - \$6.0 million and acquisition related earnout compensation - \$3.2 million, partially offset by a decrease in temporary-staffing expense - \$2.0 million.

Operating expense - The following provides non-GAAP information that management believes is helpful when comparing operating expense for the three and nine-month periods ended September 30, 2020 with the same periods in 2019 (in millions):

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Operating expense, as reported	\$ 153.9	\$ 197.2	\$ 521.0	\$ 586.2
Acquisition integration	(2.4)	(3.4)	(8.2)	(5.1)
Workforce and lease termination related charges	(1.3)	(2.2)	(3.9)	(7.3)
Costs related to divestitures	—	—	—	(13.0)
Levelized foreign currency translation	—	2.8	—	(1.5)
Operating expense, as adjusted	\$ 150.2	\$ 194.4	\$ 508.9	\$ 559.3
Reported operating expense ratios	11.9%	16.5%	13.3%	15.8%
Adjusted operating expense ratios	11.6%	16.2%	13.0%	15.4%
Reported revenues	\$ 1,294.6	\$ 1,195.9	\$ 3,931.3	\$ 3,709.0
Adjusted revenues - see pages 42 and 43	\$ 1,291.2	\$ 1,203.8	\$ 3,926.7	\$ 3,628.3

The decrease in operating expense for the three-month period ended September 30, 2020 compared to the same period in 2019, was primarily due to decreases in meeting and client entertainment expense - \$26.6 million, employee related expense - \$9.0 million, office supplies - \$4.0 million, professional and banking fees - \$2.5 million, real estate expenses - \$1.6 million, marketing expense - \$1.3 million, outside consulting fees - \$1.0 million, acquisition integration - \$1.0 million, bad debt expense - \$1.0 million, lease termination charges - \$0.9 million, other expense \$0.4 million and premium finance interest expense - \$0.2 million, partially offset by an unfavorable foreign currency translation - \$0.7 million and increases in business insurance - \$3.0 million, licenses and fees \$1.2 million and outside services expense - \$0.2 million. Also impacting operating expense in the three-month period ended September 30, 2020, were expenses associated with the acquisitions completed in the twelve-month period ended September 30, 2020.

The decrease in operating expense for the nine-month period ended September 30, 2020 compared to the same period in 2019, was primarily due to decreases in meeting and client entertainment expense - \$52.4 million, employee related expense - \$17.9 million, costs related to divestitures \$13.0 million, office supplies - \$8.5 million, outside consulting fees - \$4.5 million, other expense - \$3.4 million, lease termination charges - \$3.4 million, marketing expense - \$1.5 million, professional and banking fees - \$1.4 million, premium finance interest expense - \$0.8 million, partially offset by an unfavorable foreign currency translation - \$1.0 million and increases in business insurance - \$17.6 million, licenses and fees \$6.7 million, bad debt expense - \$6.2 million, real estate expenses - \$4.0 million, acquisition integration - \$3.1 million, outside services expense - \$1.6 million and technology expenses - \$1.3 million. Also impacting operating expense in the nine-month period ended September 30, 2020, were expenses associated with the acquisitions completed in the twelve-month period ended September 30, 2020.

Depreciation - Depreciation expense increased in the three and nine-month periods ended September 30, 2020 compared to the same periods in 2019 by \$1.9 million and \$4.7 million, respectively. The increase in depreciation expense in 2020 compared to 2019 was 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 increase in depreciation expense was the depreciation expenses associated with acquisitions completed in the twelve-month period ended September 30, 2020.

Amortization - The increase in amortization expense in the three and nine-month periods ended September 30, 2020 compared to the same periods in 2019 was primarily due to write-off of amortizable intangible assets and amortization expense of intangible assets associated with acquisitions completed in the twelve-month period ended September 30, 2020. Based on the results of impairment reviews during the nine-month period ended September 30, 2020, we wrote off \$49.4 million of amortizable assets. No such impairments were noted in the nine-month period ended September 30, 2019. We review all of our intangible assets for impairment periodically (at least annually for goodwill) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. We perform such impairment reviews at the division (i.e., reporting unit) level with respect to goodwill and at the business unit level for amortizable intangible assets. In reviewing intangible assets, if the undiscounted future cash flows 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 as a component of amortization expense. In consideration of the potential impacts of COVID-19 on our reporting units, we performed a

qualitative impairment review on carrying value of our goodwill for all of our reporting units as of September 30, 2020 and no indicators of impairment were noted.

Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (two to fifteen years for expiration lists, two to six years for non-compete agreements and two to fifteen years for trade names).

Change in estimated acquisition earnout payables - The change in the expense from the change in estimated acquisition earnout payables in the three-month period ended September 30, 2020, compared to the same period in 2019, was primarily due to adjustments made to the estimated fair value of earnout obligations related to revised projections of future performance. During the three-month periods ended September 30, 2020 and 2019, we recognized \$5.7 million and \$7.0 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions made in the period from 2016 to 2020. During the nine-month periods ended September 30, 2020 and 2019, we recognized \$23.9 million and \$17.9 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions made in the period from 2016 to 2020. In addition, during the three-month periods ended September 30, 2020 and 2019, we recognized \$14.8 million of expense and \$1.5 million of income, respectively, related to net adjustments in the estimated fair value of earnout obligations in connection with revised projections of future performance for 53 and 28 acquisitions, respectively. In addition, during the nine-month periods ended September 30, 2020 and 2019, we recognized \$73.8 million and \$6.3 million of income, respectively, related to net adjustments in the estimated fair value of earnout obligations in connection with revised projections of future performance for 122 and 85 acquisitions, respectively.

The amounts initially recorded as earnout payables for our 2016 to 2020 acquisitions were 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 were derived for revenue growth and/or profitability. 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.

Provision for income taxes - The brokerage segment's effective income tax rates for the three-month periods ended September 30, 2020 and 2019, were 25.2% and 24.4%, respectively. The brokerage segment's effective income tax rates for the nine-month periods ended September 30, 2020 and 2019, were 24.2% and 24.7%, respectively. We anticipate reporting an effective tax rate of approximately 23.0% to 25.0% in our brokerage segment for the foreseeable future.

Net earnings attributable to noncontrolling interests - The amounts reported in this line for the three-month periods ended September 30, 2020 and 2019, include noncontrolling interest earnings of \$0.9 million and \$3.4 million, respectively, and \$3.1 million and \$18.3 million for the nine-month periods ended September 30, 2020 and 2019, respectively, of which for 2019 primarily related to our investment in Capsicum Reinsurance Brokers LLP (which we refer to as Capsicum Re). Prior to December 31, 2019, we were partners in this venture with Grahame Chilton, the former CEO of our International Brokerage Division (who stepped down from the role effective July 1, 2018). We were the controlling partner, participating in 33% of Capsicum Re's net operating results and Mr. Chilton owned approximately 50% of Capsicum Re. In January 2020, we increased our ownership interest in Capsicum Re from 33% to 100%. Founded in December 2013 through a strategic partnership with Gallagher, Capsicum Re has since grown to become the world's fifth largest reinsurance broker with offices in the U.K., U.S., Bermuda and South America.

Risk Management

The risk management segment accounted for 14% of our revenue during the nine-month period ended September 30, 2020. Our risk management segment operations provide contract claim settlement, claim administration, loss control services and risk management consulting for commercial, not for profit, captive and public entities, and various other organizations that choose to self-insure property/casualty coverages or choose to use a third-party claims management organization rather than the claim services provided by underwriting enterprises. Revenues for our risk management segment are comprised of fees generally negotiated (i) on a per-claim or per-service basis, (ii) on a cost-plus basis, or (iii) as performance-based fees. We also provide risk management consulting services that are recognized as the services are delivered.

Financial information relating to our risk management segment results for the three and nine-month periods ended September 30, 2020 as compared to the same periods in 2019, is as follows (in millions, except per share, percentages and workforce data):

Statement of Earnings	Three-month period ended September 30,			Nine-month period ended September 30,		
	2020	2019	Change	2020	2019	Change
Fees	\$ 202.6	\$ 211.2	\$ (8.6)	\$ 604.7	\$ 622.7	\$ (18.0)
Investment income	0.1	0.4	(0.3)	0.6	1.3	(0.7)
Revenues before reimbursements	202.7	211.6	(8.9)	605.3	624.0	(18.7)
Reimbursements	41.6	34.7	6.9	111.7	100.8	10.9
Total revenues	244.3	246.3	(2.0)	717.0	724.8	(7.8)
Compensation	128.6	129.1	(0.5)	385.6	382.7	2.9
Operating	35.9	47.5	(11.6)	118.0	138.4	(20.4)
Reimbursements	41.6	34.7	6.9	111.7	100.8	10.9
Depreciation	11.9	11.7	0.2	36.5	34.4	2.1
Amortization	1.4	1.4	—	4.4	3.4	1.0
Change in estimated acquisition earnout payables	(0.4)	0.2	(0.6)	(3.3)	0.4	(3.7)
Total expenses	219.0	224.6	(5.6)	652.9	660.1	(7.2)
Earnings before income taxes	25.3	21.7	3.6	64.1	64.7	(0.6)
Provision for income taxes	6.5	5.5	1.0	16.3	16.8	(0.5)
Net earnings	18.8	16.2	2.6	47.8	47.9	(0.1)
Net earnings attributable to noncontrolling interests	—	—	—	—	—	—
Net earnings attributable to controlling interests	\$ 18.8	\$ 16.2	\$ 2.6	\$ 47.8	\$ 47.9	\$ (0.1)
Diluted net earnings per share	\$ 0.09	\$ 0.09	\$ —	\$ 0.25	\$ 0.25	\$ —
Other information						
Change in diluted net earnings per share	0%	0%		0%	-7%	
Growth in revenues (before reimbursements)	-4%	6%		-3%	5%	
Organic change in fees (before reimbursements)	-5%	6%		-4%	4%	
Compensation expense ratio (before reimbursements)	63%	61%		64%	61%	
Operating expense ratio (before reimbursements)	18%	22%		19%	22%	
Effective income tax rate	26%	25%		25%	26%	
Workforce at end of period (includes acquisitions)				6,308	6,616	
Identifiable assets at September 30				\$ 964.5	\$ 920.8	
EBITDAC						
Net earnings	\$ 18.8	\$ 16.2	\$ 2.6	\$ 47.8	\$ 47.9	\$ (0.1)
Provision for income taxes	6.5	5.5	1.0	16.3	16.8	(0.5)
Depreciation	11.9	11.7	0.2	36.5	34.4	2.1
Amortization	1.4	1.4	—	4.4	3.4	1.0
Change in estimated acquisition earnout payables	(0.4)	0.2	(0.6)	(3.3)	0.4	(3.7)
EBITDAC	\$ 38.2	\$ 35.0	\$ 3.2	\$ 101.7	\$ 102.9	\$ (1.2)

The following provides non-GAAP information that management believes is helpful when comparing EBITDAC and adjusted EBITDAC for the three and nine-month periods ended September 30, 2020 to the same periods in 2019 (in millions):

	Three-month period ended September 30,			Nine-month period ended September 30,		
	2020	2019	Change	2020	2019	Change
Net earnings, as reported	\$ 18.8	\$ 16.2	16.0%	\$ 47.8	\$ 47.9	(0.2)%
Provision for income taxes	6.5	5.5		16.3	16.8	
Depreciation	11.9	11.7		36.5	34.4	
Amortization	1.4	1.4		4.4	3.4	
Change in estimated acquisition earnout payables	(0.4)	0.2		(3.3)	0.4	
Total EBITDAC	38.2	35.0	9.1%	101.7	102.9	(1.2)%
Workforce and lease termination related charges	1.1	3.0		6.4	6.2	
Levelized foreign currency translation	—	0.3		—	(0.3)	
EBITDAC, as adjusted	\$ 39.3	\$ 38.3	2.6%	\$ 108.1	\$ 108.8	(0.6)%
Net earnings margin (before reimbursements), as reported	9.3%	7.7%	+ 161 bpts	7.9%	7.7%	+ 22 bpts
EBITDAC margin (before reimbursements), as adjusted	19.4%	18.0%	+ 143 bpts	17.9%	17.5%	+ 35 bpts
Reported revenues (before reimbursements)	\$ 202.7	\$ 211.6		\$ 605.3	\$ 624.0	
Adjusted revenues (before reimbursements) - see pages 42 and 43	\$ 202.7	\$ 213.4		\$ 605.3	\$ 621.4	

Fees - The decrease in fees for the three and nine-month periods ended September 30, 2020 compared to the same periods in 2019 was due primarily to the impact of COVID-19. In our risk management operations, we began seeing a meaningful decline in new claims arising during the last two weeks of March 2020, which persisted into April. From May to September, and thus far in the fourth quarter, we are seeing an improving trend in new claims arising; yet the current level of weekly new claims are still well below pre-pandemic levels. A slower recovery or reversal in the number of workers employed could cause fewer claims to arise in future quarters. Organic change in fee revenues for the three-month period ended September 30, 2020 was -5.3% compared to 5.7% for the same period in 2019. Organic change in fee revenues for the nine-month period ended September 30, 2020 was -3.7% compared to 4.3% for the same period in 2019.

Items excluded from organic fee computations yet impacting revenue comparisons for the three and nine-month periods ended September 30, 2020 include the following (in millions):

Organic Revenues (Non-GAAP)	Three-Month Period Ended September 30, 2020			Nine-Month Period Ended September 30, 2020		
	2020	2019	Change	2020	2019	Change
Fees	\$ 200.8	\$ 209.9	-4.3%	\$ 600.5	\$ 619.7	-3.1%
International performance bonus fees	1.8	1.3		4.2	3.0	
Fees as reported	202.6	211.2	-4.1%	604.7	622.7	-2.9%
Less fees from acquisitions	(0.9)	—		(7.4)	—	
Levelized foreign currency translation	—	1.8		—	(2.6)	
Organic fees	\$ 201.7	\$ 213.0	-5.3%	\$ 597.3	\$ 620.1	-3.7%

Reimbursements - Reimbursements represent amounts received from clients reimbursing us for certain third-party costs associated with providing our claims management services. In certain service partner relationships, we are considered a principal because we direct the third party, control the specified service and combine the services provided into an integrated solution. Given this principal relationship, we are required to recognize revenue on a gross basis and service partner vendor fees in the operating expense line in our consolidated statement of earnings.

Investment income - Investment income primarily represents interest income earned on our cash and cash equivalents. Investment income in the three and nine-month periods ended September 30, 2020 decreased compared to the same periods in 2019 primarily due to decreases in interest income from our U.S. operations due to decreases in interest rates earned on our funds.

Compensation expense - The following provides non-GAAP information that management believes is helpful when comparing compensation expense for the three and nine-month periods ended September 30, 2020 with the same periods in 2019 (in millions):

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Compensation expense, as reported	\$ 128.6	\$ 129.1	\$ 385.6	\$ 382.7
Workforce and lease termination related charges	(1.0)	(1.1)	(6.2)	(4.3)
Levelized foreign currency translation	—	1.2	—	(1.7)
Compensation expense, as adjusted	\$ 127.6	\$ 129.2	\$ 379.4	\$ 376.7
Reported compensation expense ratios (before reimbursements)	63.4%	61.0%	63.7%	61.3%
Adjusted compensation expense ratios (before reimbursements)	63.0%	60.5%	62.7%	60.6%
Reported revenues (before reimbursements)	\$ 202.7	\$ 211.6	\$ 605.3	\$ 624.0
Adjusted revenues (before reimbursements) - see pages 42 and 43	\$ 202.7	\$ 213.4	\$ 605.3	\$ 621.4

The decrease in compensation expense for the three-month period ended September 30, 2020 compared to the same period in 2019, was primarily due to a favorable foreign currency translation - \$1.2 million and decreased headcount and decreases in temporary-staffing expense - \$1.9 million, employee benefits expense - \$0.6 million and severance related costs - \$0.1 million, partially offset by increases in salaries and incentive compensation - \$2.5 million in the aggregate, stock compensation expense - \$0.5 million and deferred compensation - \$0.3 million. Contributing to the decrease in employee headcount is terminated and/or furloughed employees, partially offset by headcount associated with the acquisitions completed in the twelve-month period ended September 30, 2020.

The increase in compensation expense for the nine-month period ended September 30, 2020 compared to the same period in 2019, was primarily due to a unfavorable foreign currency translation - \$1.7 million and increased headcount and increases in salaries and incentive compensation - \$3.0 million in the aggregate, severance related costs - \$1.9 million, stock compensation expense - \$1.4 million and deferred compensation - \$0.6 million, partially offset by decreases in temporary-staffing expense - \$4.6 million and employee benefits expense - \$1.1 million. Contributing to the decrease in employee headcount is terminated and/or furloughed employees, partially offset by headcount associated with the acquisitions completed in the twelve-month period ended September 30, 2020.

Operating expense - The following provides non-GAAP information that management believes is helpful when comparing operating expense for the three and nine-month periods ended September 30, 2020 with the same periods in 2019 (in millions):

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2020	2019	2020	2019
Operating expense, as reported	\$ 35.9	\$ 47.5	\$ 118.0	\$ 138.4
Workforce and lease termination related charges	(0.1)	(1.9)	(0.2)	(1.9)
Levelized foreign currency translation	—	0.3	—	(0.6)
Operating expense, as adjusted	\$ 35.8	\$ 45.9	\$ 117.8	\$ 135.9
Reported operating expense ratios (before reimbursements)	17.7%	22.5%	19.5%	22.2%
Adjusted operating expense ratios (before reimbursements)	17.7%	21.5%	19.5%	21.9%
Reported revenues (before reimbursements)	\$ 202.7	\$ 211.6	\$ 605.3	\$ 624.0
Adjusted revenues (before reimbursements) - see pages 42 and 43	\$ 202.7	\$ 213.4	\$ 605.3	\$ 621.4

The decrease in operating expense for the three-month period ended September 30, 2020 compared to the same period in 2019, was primarily due to decreases in meeting and client entertainment expenses - \$3.3 million, lease termination charges - \$1.8 million, business insurance - \$1.7 million, office supplies - \$1.0 million, outside consulting fees - \$0.7 million, employee related expense - \$0.5 million, bad debt expense - \$0.5 million, licenses and fees - \$0.5 million, marketing expense - \$0.5 million, technology expenses - \$0.5 million, other expense - \$0.4 million and professional and banking fees - \$0.3 million.

The decrease in operating expense for the nine-month period ended September 30, 2020 compared to the same period in 2019, was primarily due to decreases in meeting and client entertainment expenses - \$8.4 million, outside consulting fees - \$2.6 million, business insurance - \$2.2 million, lease termination charges - \$1.7 million, employee related expense - \$1.4 million, office supplies - \$1.3 million, professional and banking fees - \$0.8 million, real estate expense - \$0.5 million, marketing expense - \$0.5 million and licenses and fees - \$0.4 million, partially offset by an increase in technology expenses - \$1.4 million and bad debt expense - \$0.2 million.

Depreciation - Depreciation expense increased in the three and nine-month periods ended September 30, 2020 compared to the same periods in 2019 by \$0.2 million and \$2.1 million, respectively. These increases reflect the impact of purchases of furniture, equipment and leasehold improvements related to office expansions and relocations, and expenditures related to upgrading computer systems.

Amortization - The increase in amortization expense in the nine-month period ended September 30, 2020 compared to the same period in 2019 was primarily due to amortization expense of intangible assets associated with acquisitions completed in the twelve-month period ended September 30, 2020. Based on the results of impairment reviews during the nine-month period ended September 30, 2020, we wrote off \$0.2 million of amortizable assets

Change in estimated acquisition earnout payables - The change in expense from the change in estimated acquisition earnout payables in the three-month period ended September 30, 2020 compared to the same period in 2019, was primarily due to acquisition activity in 2019. During the three-month periods ended September 30, 2020 and 2019, we recognized \$0.2 million and \$0.1 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. During the nine-month periods ended September 30, 2020 and 2019, we recognized \$0.4 million and \$0.6 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. In addition, during the three-month periods ended September 30, 2020 and 2019, we recognized \$0.6 million of income and \$0.1 million of expense, respectively, related to net adjustments in the estimated fair value of earnout obligations in connection with revised projections of future performance for two and one acquisitions, respectively. In addition, during the nine-month periods ended September 30, 2020 and 2019, we recognized \$3.7 million and \$0.2 million of income, respectively, related to net adjustments in the estimated fair value of earnout obligations in connection with revised projections of future performance for four and one acquisitions, respectively.

Provision for income taxes - The risk management segment's effective income tax rates for the three-month periods ended September 30, 2020 and 2019 were 25.7% and 25.3%, respectively. The risk management segment's effective income tax rates for the nine-month periods ended September 30, 2020 and 2019 were 25.4% and 26.0%, respectively. We anticipate reporting an effective tax rate on adjusted results of approximately 24.0% to 26.0% in our risk management segment for the foreseeable future.

Corporate

The corporate segment reports the financial information related to our clean energy and other investments, our debt, certain corporate and acquisition-related activities and the impact of foreign currency translation. For a detailed discussion of the nature of these investments, see Note 12 to our consolidated financial statements included herein for a summary of our investments as of September 30, 2020 and in Note 14 to our most recent Annual Report on Form 10-K as of December 31, 2019. For a detailed discussion of the nature of our debt, see Note 7 to our consolidated financial statements included herein as of September 30, 2020 and in Note 8 to our most recent Annual Report on Form 10-K as of December 31, 2019.

Financial information relating to our corporate segment results for the three and nine-month periods ended September 30, 2020 compared to the same periods in 2019 is as follows (in millions, except per share and percentages):

Statement of Earnings	Three-month period ended September 30,			Nine-month period ended September 30,		
	2020	2019	Change	2020	2019	Change
Revenues from consolidated clean coal production plants	\$ 292.5	\$ 368.2	\$ (75.7)	\$ 607.1	\$ 994.6	\$ (387.5)
Royalty income from clean coal licenses	18.7	18.3	0.4	45.6	50.2	(4.6)
Loss from unconsolidated clean coal production plants	(0.4)	(0.5)	0.1	(0.6)	(2.1)	1.5
Other net losses	(0.6)	(3.0)	2.4	(0.4)	(2.9)	2.5
Total revenues	310.2	383.0	(72.8)	651.7	1,039.8	(388.1)
Cost of revenues from consolidated clean coal production plants	319.2	397.4	(78.2)	665.8	1,071.9	(406.1)
Compensation	15.4	15.5	(0.1)	45.0	68.8	(23.8)
Operating	13.4	23.3	(9.9)	36.7	63.6	(26.9)
Interest	48.1	46.6	1.5	148.6	131.7	16.9
Depreciation	6.3	7.0	(0.7)	17.5	21.0	(3.5)
Total expenses	402.4	489.8	(87.4)	913.6	1,357.0	(443.4)
Loss before income taxes	(92.2)	(106.8)	14.6	(261.9)	(317.2)	55.3
Benefit for income taxes	(54.5)	(76.6)	22.1	(210.8)	(280.9)	70.1
Net loss	(37.7)	(30.2)	(7.5)	(51.1)	(36.3)	(14.8)
Net earnings attributable to noncontrolling interests	10.3	7.6	2.7	25.3	21.6	3.7
Net loss attributable to controlling interests	\$ (48.0)	\$ (37.8)	\$ (10.2)	\$ (76.4)	\$ (57.9)	\$ (18.5)
Diluted net loss per share	\$ (0.24)	\$ (0.20)	\$ (0.04)	\$ (0.39)	\$ (0.30)	\$ (0.09)
Identifiable assets at September 30				\$ 2,209.2	\$ 1,991.4	
EBITDAC						
Net loss	\$ (37.7)	\$ (30.2)	\$ (7.5)	\$ (51.1)	\$ (36.3)	\$ (14.8)
Benefit for income taxes	(54.5)	(76.6)	22.1	(210.8)	(280.9)	70.1
Interest	48.1	46.6	1.5	148.6	131.7	16.9
Depreciation	6.3	7.0	(0.7)	17.5	21.0	(3.5)
EBITDAC	\$ (37.8)	\$ (53.2)	\$ 15.4	\$ (95.8)	\$ (164.5)	\$ 68.7

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 in which we have a majority ownership position and maintain control over the operations at the related facilities.
- The decrease in revenue from consolidated clean coal production plants for the three and nine-month periods ended September 30, 2020, compared to the same periods in 2019, was due primarily to decreased production of refined coal.
- Royalty income from clean coal licenses represents revenues related to Chem-Mod LLC. As of September 30, 2020, we hold a 46.5% controlling interest in Chem-Mod LLC. As Chem-Mod LLC's manager, we are required to consolidate its operations.
- The increase in royalty income in the three-month period ended September 30, 2020 compared to the same period in 2019, was due to increased production of refined coal by Chem-Mod LLC's licensees. The decrease in royalty income in the nine-month period ended September 30, 2020, compared to the same period in 2019, was due to decreased production of refined coal by Chem-Mod LLC's licensees.

Loss from unconsolidated clean coal production plants represents our equity portion of the pretax operating results from the unconsolidated IRC Section 45 facilities. The production of the refined coal generates pretax operating losses.

The low level of losses in the three and nine-month periods ended September 30, 2020 and 2019 is due to the vast majority of our operations being consolidated.

Cost of revenues - Cost of revenues from consolidated clean coal production plants consists of the cost of coal, labor, equipment maintenance, chemicals, supplies, management fees and depreciation incurred by the clean coal production plants to generate the consolidated revenues discussed above. The decrease in the three-month and nine-month periods ended September 30, 2020, compared to the same periods in 2019, was primarily due to decreased production of refined coal.

Compensation expense - Compensation expense in the three-month periods ended September 30, 2020 and 2019 was \$15.4 million and \$15.5 million, respectively. All items were consistent in both three-month periods. Compensation expense in the nine-month periods ended September 30, 2020 and 2019 was \$45.0 million and \$68.8 million, respectively. The decrease in compensation expense for the nine-month period ended September 30, 2020 compared to the same period in 2019 was due primarily to headcount controls, benefit expense savings and a decrease in incentive compensation due to the clean energy results in 2020.

Operating expense - Operating expense in the three-month period ended September 30, 2020 includes banking and related fees of \$1.1 million, external professional fees and other due diligence costs related to acquisitions of \$2.0 million, other corporate and clean energy related expenses, including legal fees, and costs related to corporate data and branding initiatives, of \$7.7 million, and a net unrealized foreign exchange remeasurement loss of \$2.6 million.

Operating expense in the nine-month period ended September 30, 2020 includes banking and related fees of \$3.9 million, external professional fees and other due diligence costs related to acquisitions of \$5.9 million, other corporate and clean energy related expenses, including legal fees, and costs related to corporate data and branding initiatives, of \$31.6 million, and a net unrealized foreign exchange remeasurement gain of \$4.7 million.

Operating expense in the three-month period ended September 30, 2019 includes banking and related fees of \$1.2 million, external professional fees and other due diligence costs related to acquisitions of \$3.4 million, other corporate and clean energy related expenses, including legal fees, and costs related to corporate data and branding initiatives, of \$8.4 million, \$11.9 million of clean energy related costs as discussed on page 61 (see note 4) and unrealized foreign exchange remeasurement gain of \$1.6 million.

Operating expense in the nine-month period ended September 30, 2019 includes banking and related fees of \$3.5 million, external professional fees and other due diligence costs related to acquisitions of \$11.5 million, other corporate and clean energy related expenses, including legal fees, and costs related to corporate data and branding initiatives, of \$34.7 million, \$11.9 million of clean energy related costs as discussed on page 61 (see note 4) and a net realized loss related to foreign exchange hedge contracts of \$3.3 million and unrealized foreign exchange remeasurement gain of \$1.3 million.

Interest expense - The increase in interest expense for the three and nine-month periods ended September 30, 2020, compared to the same periods in 2019, was due to the following:

Change in interest expense related to:	Three-month period ended September 30, 2020	Nine-month period ended September 30, 2020
Interest on borrowings from our Credit Agreement	\$ (3.2)	\$ (4.4)
Interest on the maturity of the Series C notes	(0.8)	(2.3)
Interest on the maturity of the Series K and L notes	(0.4)	(1.2)
Interest on the \$398.0 million notes funded on August 2 and 4, 2017	(0.3)	(0.6)
Interest on the \$500.0 million notes funded on June 13, 2018	(0.3)	(0.6)
Interest on the \$340.0 million notes funded on February 13, 2019	—	2.0
Interest on the \$260.0 million notes funded on March 13, 2019	—	2.7
Interest on the \$175.0 million notes funded on June 12, 2019	—	3.5
Interest on the \$50.0 million notes funded on December 2, 2019	0.5	1.3
Interest on the \$575.0 million notes funded on January 30, 2020	5.8	15.7
Amortization of hedge gains/losses	0.2	0.8
Net change in interest expense	<u>\$ 1.5</u>	<u>\$ 16.9</u>

Depreciation - Depreciation expense in the three and nine-month periods ended September 30, 2020 decreased compared to the same period in 2019.

Benefit for income taxes - We allocate the provision for income taxes to the brokerage and risk management segments using local statutory rates. 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 credits expired in December 2019 for our fourteen 2009 Era Plants and will expire in December 2021 for our twenty-one 2011 Era Plants. Our consolidated effective tax rate for the three-month period ended September 30, 2020 was 10.4% compared to (19.4)% for the same period in 2019. Our consolidated effective tax rate for the nine-month period ended September 30, 2020 was 4.4% compared to (12.6)% for the same period in 2019. The tax rates for September 30, 2020 and 2019 were lower than the statutory rate primarily due to the amount of IRC Section 45 tax credits recognized during the period. There were \$123.4 million and \$176.0 million of Section 45 tax credits recognized in the nine-month periods ended September 30, 2020 and 2019, respectively. There were \$114.7 million and \$159.2 million of tax credits produced in the nine-month periods ended September 30, 2020 and 2019, respectively. In the three-month period September 30, 2020, we increased our U.K. effective income tax rate from 17.5% to 19% and incurred one-time taxes associated with realignment of our operations to continue to conduct certain business in the European Union after Brexit. In the three-month period ended December 31, 2019, we lowered our effective income tax rate from 26% to 25%.

Net earnings attributable to noncontrolling interests - The amounts reported in this line for the three-month periods ended September 30, 2020 and 2019 include non-controlling interest earnings of \$10.6 million and \$8.8 million, respectively related to our investment in Chem-Mod LLC. The amounts reported in this line for the nine-month periods ended September 30, 2020 and 2019 include noncontrolling interest earnings of \$24.6 million and \$25.5 million, respectively related to our investment in Chem-Mod LLC. As of September 30, 2020 and 2019, we hold a 46.5% controlling interest in Chem-Mod LLC. Also included in net earnings attributable to noncontrolling interests are offsetting amounts related to non-Gallagher owned interests in several clean energy investments.

The following provides non-GAAP information that we believe is helpful when comparing our operating results for the three-month and nine-month periods ended September 30, 2020 and 2019 for the corporate segment (in millions):

	2020			2019		
	Pretax Loss	Income Tax Benefit	Net Earnings (Loss) Attributable to Controlling Interests	Pretax Earnings (Loss)	Income Tax (Provision) Benefit	Net Earnings (Loss) Attributable to Controlling Interests
Three-Month Periods Ended September 30, Components of Corporate Segment, as reported						
Interest and banking costs	\$ (49.2)	\$ 12.3	\$ (36.9)	\$ (47.8)	\$ 12.4	\$ (35.4)
Clean energy related (1)	(35.1)	39.5	4.4	(42.0)	50.6	8.6
Acquisition costs	(2.1)	0.2	(1.9)	(3.5)	0.4	(3.1)
Corporate (2) (3)	(16.1)	2.5	(13.6)	(21.1)	13.2	(7.9)
Reported Three Months	(102.5)	54.5	(48.0)	(114.4)	76.6	(37.8)
Adjustments						
Clean energy related (4)	—	—	—	12.4	(3.2)	9.2
Income tax related (2)	—	5.5	5.5	—	(1.1)	(1.1)
Components of Corporate Segment, as adjusted						
Interest and banking costs	(49.2)	12.3	(36.9)	(47.8)	12.4	(35.4)
Clean energy related (1)	(35.1)	39.5	4.4	(29.6)	47.4	17.8
Acquisition costs	(2.1)	0.2	(1.9)	(3.5)	0.4	(3.1)
Corporate (2) (3)	(16.1)	8.0	(8.1)	(21.1)	12.1	(9.0)
Adjusted Three Months	\$ (102.5)	\$ 60.0	\$ (42.5)	\$ (102.0)	\$ 72.3	\$ (29.7)

Nine-Month Periods Ended September 30,	2020			2019		
	Pretax Loss	Income Tax (Provision) Benefit	Net Earnings (Loss) Attributable to Controlling Interests	Pretax Loss	Income Tax (Provision) Benefit	Net Earnings (Loss) Attributable to Controlling Interests
Components of Corporate Segment, as reported						
Interest and banking costs	\$ (152.5)	\$ 38.2	\$ (114.3)	\$ (134.9)	\$ 35.1	\$ (99.8)
Clean energy related (1)	(81.9)	143.8	61.9	(132.1)	210.4	78.3
Acquisition costs	(6.2)	0.6	(5.6)	(15.2)	2.3	(12.9)
Corporate (2) (3)	(46.6)	28.2	(18.4)	(56.6)	33.1	(23.5)
Reported Nine Months	(287.2)	210.8	(76.4)	(338.8)	280.9	(57.9)
Adjustments						
Clean energy related (4)	—	—	—	12.4	(3.2)	9.2
Income tax related (2)	—	5.5	5.5	—	(3.1)	(3.1)
Components of Corporate Segment, as adjusted						
Interest and banking costs	(152.5)	38.2	(114.3)	(134.9)	35.1	(99.8)
Clean energy related (1)	(81.9)	143.8	61.9	(119.7)	207.2	87.5
Acquisition costs	(6.2)	0.6	(5.6)	(15.2)	2.3	(12.9)
Corporate (2) (3)	(46.6)	33.7	(12.9)	(56.6)	30.0	(26.6)
Adjusted Nine Months	\$ (287.2)	\$ 216.3	\$ (70.9)	\$ (326.4)	\$ 274.6	\$ (51.8)

- (1) Pretax loss for the third quarter is presented net of amounts attributable to noncontrolling interests of \$10.3 million in 2020 and \$7.6 million in 2019. Pretax loss for the nine-month periods are presented net of amounts attributable to noncontrolling interests of \$25.3 million in 2020 and \$21.6 million in 2019.
- (2) Corporate includes the impact in third quarter 2020 of one-time taxes associated with realignment of our operations to continue to conduct certain business in the European Union after Brexit. The third quarter 2019 impact relates to the prior period tax impact for the decrease in the annual U.S. effective income tax rate used to compute the provision for income taxes for full year 2019 from 26% to 25% that occurred in fourth quarter 2019.
- (3) Corporate pretax loss includes a net unrealized foreign exchange remeasurement loss of \$2.6 million in third quarter 2020 and a net unrealized foreign exchange remeasurement gain of \$1.6 million in third quarter 2019. Corporate pretax loss includes a net unrealized foreign exchange remeasurement gain of \$4.7 million in the nine months ended September 30, 2020 and a net realized loss related to foreign exchange hedge contracts of \$3.3 million, partially offset by a net unrealized foreign exchange remeasurement gain of \$1.2 million in the nine months ended September 30, 2019.
- (4) During third quarter of 2019, we and/or our 46.5% owned affiliate, Chem-Mod LLC, incurred costs related to (a) settling certain patent infringement litigation, (b) prevailing in a tax court matter, (c) defending a new patent matter, and (d) moving three 2011 Era plants into different locations that could generate more after-tax earnings in 2020 than in 2019.

Interest and banking costs - Interest and banking costs includes expenses related to our debt.

Clean energy related - Includes the operating results related to our investments in clean coal production plants and Chem-Mod LLC.

Acquisition costs - Consists of external professional fees, due diligence and other costs incurred related to our acquisitions.

Corporate - Consists of overhead allocations mostly related to corporate staff compensation and other corporate level activities, cross-selling and motivational meetings for our production staff and field management, expenses related to our new corporate headquarters and the impact of foreign currency translation. The income tax benefit of stock based awards that vested or were settled in the nine-month periods ended September 30, 2020 and 2019 was \$20.6 million and \$13.2 million, respectively, and is included in the table above in the Corporate line.

Clean energy investments - We have investments in limited liability companies that own 29 clean coal production plants developed by us and five clean coal production plants we purchased from a third party on September 1, 2013 and one that we purchased from a third party on May 28, 2020. The ability to generate tax credits on 14 of the 35 plants we own expired as of December 31, 2019. The

21 remaining plants produce refined coal using propriety technologies owned by Chem-Mod LLC. We believe that the production and sale of refined coal at these plants are qualified to receive refined coal tax credits under IRC Section 45. The 14 2009 Era Plants received tax credits through 2019 and the 21 2011 Era Plants can receive tax credits through 2021.

The following table provides a summary of our clean coal plant investments as of September 30, 2020 (in millions):

	Our Portion of Estimated	
	Low Range 2020 Adjusted After-tax Earnings	High Range 2020 Adjusted After-tax Earnings
Investments that own 2009 Era Plants		
14 2009 Not in active production during 2020	\$ —	\$ —
Investments that own 2011 Era Plants		
17 2011 Under long-term production contracts	34.0	37.0
4 2011 Restarted under long-term contracts Q4 2019 and Q3 2020	11.0	12.0
Chem-Mod royalty income, net of noncontrolling interests	20.0	21.0

The estimated earnings information in the table reflects management's current best estimate of the 2020 low and high ranges of after-tax earnings based on early production estimates from the host utilities, other operating assumptions, including current U.S. federal income tax laws. However, coal-fired power plants may not ultimately produce refined fuel at estimated levels due to seasonal electricity demand, production costs, natural gas prices, weather conditions, as well as many other operational, regulatory and environmental compliance reasons. Future changes in EPA regulations or U.S. federal income tax laws might materially impact these estimates. Please refer to our filings with the SEC, including Item 1A, "Risk Factors," on pages 19, 20 and 21 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, for a more detailed discussion of these and other factors that could impact the information above.

Our investment in Chem-Mod LLC generates royalty income from refined coal production plants owned by those limited liability companies in which we invest as well as refined coal production plants owned by other unrelated parties. Future changes in EPA regulations or U.S. federal income tax laws might materially impact the earnings estimates.

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.

In light of the economic uncertainty caused by COVID-19, we are preserving liquidity by reducing capital expenditures for the remainder of the year and making working capital process changes such as moving more cash into the U.S. from our international operations, pursuing collections on receivables from our customers and partners and renegotiating longer payment terms on vendor payables. We have also slowed down our acquisition program. We believe we have sufficient liquidity on hand to continue business operations during this volatile period. If we experience a significant reduction in revenue, we have additional alternatives to maintain liquidity, including issuing common stock to fund future acquisitions.

Cash Flows From Operating Activities

Historically, we have depended on our ability to generate positive cash flows from operations to meet a substantial portion of our cash requirements. We believe that our cash flows from operations and borrowings under our Credit Agreement (defined below) will provide us with adequate resources to meet our liquidity needs in the foreseeable future. To fund acquisitions made during 2019 and for the nine-month period ended September 30, 2020, we relied on a combination of net cash flows from operations, proceeds from borrowings under our Credit Agreement, proceeds from issuances of senior unsecured notes and issuances of our common stock.

Cash provided by operating activities was \$1,387.6 million and \$769.1 million for the nine-month periods ended September 30, 2020 and 2019, respectively. The increase in cash provided by operating activities during the nine-month period ended September 30, 2020 compared to the same period in 2019 was primarily due to timing differences between periods in the collection of other current receivables and payments on current liabilities. During the three-month period ended September 30, 2020, we managed our working capital in terms of receivables and payables as a cautionary step to protect liquidity during this uncertain period. In addition, during the nine-month period ended September 30, 2020, the company filed a refund claim under a CARES Act provision that accelerates the

ability of companies to recover Alternative Minimum Tax (which we refer to as AMT) credits and we received a \$28.5 million refund related to our AMT credit carryovers, which was the remaining amount owed to us. Under the CARES Act we also elected to defer the payment of \$33.2 million of employer payroll tax obligations incurred in the nine-month period ended September 30, 2020 into 2021 and 2022. This also defers our income tax deduction related to these employer payroll taxes, which results in an unfavorable temporary income tax adjustment of \$8.3 million that will reverse in the year that the payroll taxes are paid. We also deferred \$18.0 million of estimated federal income tax payments from second quarter 2020 that were made to third quarter 2020.

Cash provided by operating activities for the nine-month period ended September 30, 2020 was favorably impacted by timing differences in the receipts and disbursements of client fiduciary related balances in 2020 compared to 2019. The following table summarizes two lines from our consolidated statement of cash flows and provides information that management believes is helpful when comparing changes in client fiduciary related balances for the nine-month period ended September 30, 2020 with the same period in 2019 (in millions):

	Nine-month period ended September 30,	
	2020	2019
Net change in premiums and fees receivable	\$ (1,297.9)	\$ (832.1)
Net change in premiums payable to underwriting enterprises	1,596.0	843.3
Net cash provided by the above	<u>\$ 298.1</u>	<u>\$ 11.2</u>

Our cash flows from operating activities are primarily derived from our earnings from operations, as adjusted for 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. Cash provided by operating activities can be unfavorably impacted if the amount of IRC Section 45 tax credits generated (which is the amount we recognize for financial reporting purposes) is greater than the amount of tax credits utilized to reduce our tax cash obligations. Excess tax credits produced during the period result in an increase to our deferred tax assets, which is a net use of cash related to operating activities. Please see “Clean Energy Investments” below for more information on their potential future impact on cash provided by operating activities.

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 \$1261.5 million and \$1,030.6 million for the nine-month periods ended September 30, 2020 and 2019, respectively. Net earnings attributable to controlling interests were \$676.6 million and \$570.3 million for the nine-month periods ended September 30, 2020 and 2019, respectively. We believe that EBITDAC items are indicators of trends in liquidity. From a balance sheet perspective, we believe 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 2020 plan year, nor were we required to make any minimum contributions to the plan for the 2019 plan year. Funding requirements are 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. We did not make any discretionary contributions to the plan during the nine-month periods ended September 30, 2020 and 2019. We are not considering making any discretionary contributions to the plan in 2020, but may be required to make significantly larger minimum contributions to the plan in future periods.

Cash Flows From Investing Activities

Capital Expenditures - Capital expenditures were \$79.5 million and \$107.7 million for the nine-month periods ended September 30, 2020 and 2019, respectively. In 2020, we expect total expenditures for capital improvements to be approximately \$100.0 million, part of which is related to expenditures on office moves and updating computer systems and equipment.

Acquisitions - Cash paid for acquisitions, net of cash and restricted cash acquired, were \$91.3 million and \$951.1 million in the nine-month periods ended September 30, 2020 and 2019, respectively. In addition, during the nine-month period ended September 30, 2020, we issued 2.3 million shares (\$220.7 million) of our common stock as payment for a portion of the total consideration paid for 2020 acquisitions and earnout payments made in 2020. During the nine-month period ended September 30, 2019, we issued 0.7 million shares (\$56.3 million) of our common stock as payment for consideration paid for 2019 acquisitions and earnout payments made in 2019. We completed 17 acquisitions and 38 acquisitions in the nine-month periods ended September 30, 2020 and 2019, respectively. Annualized revenues of businesses acquired in the nine-month periods ended September 30, 2020 and 2019 totaled approximately \$151.2 million and \$350.8 million, respectively. During the nine-month period ended September 30, 2020, the company made the decision to fund the majority of the consideration paid for acquisitions and earnout payments made in the quarter using company stock to preserve cash. For the remainder of 2020, we expect to use cash from operations, our Credit Agreement, new debt and our common stock, or a combination thereof to fund all of the acquisitions we complete.

We have significantly reduced our acquisition activity because of the economic uncertainty brought on by COVID-19, and if liquidity concerns arise, we may be more likely to issue common stock to fund acquisitions.

Dispositions - During the nine-month periods ended September 30, 2020 and 2019, we sold several books of business and recognized net gains of \$4.6 million and \$62.3 million, respectively. We received net cash proceeds of \$9.0 million and \$79.4 million related to the 2020 and 2019 transactions, respectively. During the nine-month period ended September 30, 2019, we recognized a one-time, net gain of \$0.17 of diluted net earnings per share related to the divestiture of a travel insurance brokerage and four other smaller brokerage operations.

Clean Energy Investments - During the period from 2009 through 2020, we have made significant investments in clean energy operations capable of producing refined coal that we believe qualifies for tax credits under IRC Section 45. Our current estimate of the 2020 annual adjusted net after-tax earnings, including IRC Section 45 tax credits, which will be produced from all of our clean energy investments in 2020, is \$65.0 million to \$70.0 million. The IRC Section 45 tax credits generate positive cash flow by reducing the amount of federal income taxes we pay, which is offset by the operating expenses of the plants, by capital expenditures related to the redeployment, and in some cases the relocation of refined coal plants. We anticipate positive net cash flow related to IRC Section 45 activity in 2020. However, there are several variables that can impact net cash flow from clean energy investments in any given year. Therefore, accurately predicting positive or negative cash flow in particular future periods is not possible at this time. Nonetheless, if current ownership interests remain the same, if capital expenditures related to redeployment and relocation of refined coal plants remain as currently anticipated, and if we continue to generate sufficient taxable income to use the tax credits produced by our IRC Section 45 investments, we anticipate that these investments will continue to generate positive net cash flows through at least 2025. While we cannot precisely forecast the cash flow impact in any particular period, we anticipate that the net cash flow impact of these investments will be positive overall. Please see “Clean energy investments” on page 62 for a more detailed description of these investments and their risks and uncertainties. Please see “Other Information” on page 40 for the cash flow impact of the expiration of laws governing tax credits.

Cash Flows From Financing Activities

On June 7, 2019, we entered into an amendment and restatement to our multicurrency credit agreement dated April 8, 2016 (which we refer to as the Credit Agreement) with a group of fifteen financial institutions. The amendment and restatement, among other things, extended the expiration date of the Credit Agreement from April 8, 2021 to June 7, 2024 and increased the revolving credit commitment from \$800.0 million to \$1,200.0 million, of which \$75.0 million may be used for issuances of standby or commercial letters of credit and up to \$75.0 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 under the Credit Agreement up to a maximum aggregate revolving credit commitment of \$1,700.0 million. On August 27, 2020, we entered into an amendment to the Credit Agreement providing that the obligations of each subsidiary of Gallagher that was a borrower, guarantor and/or obligor under the Credit Agreement, ceased to apply and that each such subsidiary was released from all of its obligations under the Credit Agreement. The amendment also replaced the minimum asset covenant with a priority indebtedness covenant, substantially similar to other priority indebtedness covenants applicable to Gallagher under its private placement note purchase agreements.

At September 30, 2020, no borrowings were outstanding under the Credit Agreement. Due to the outstanding loans and letters of credit, \$1,182.6 million remained available for potential borrowings under the Credit Agreement at September 30, 2020.

We use the Credit Agreement to post letters of credit and to borrow funds to supplement our operating cash flows from time to time. In the nine-month period ended September 30, 2020, we borrowed \$2,630.0 million and repaid \$3,150.0 million under our Credit Agreement. In the nine-month period ended September 30, 2019, we borrowed \$2,735.0 million and repaid \$2,610.0 million under our Credit Agreement. Principal uses of the 2020 and 2019 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes.

On September 16, 2020, we entered into an amendment to our revolving loan facility (which we refer to as the Premium Financing Debt Facility), that provides funding for the three Australian (AU) and New Zealand (NZ) premium finance subsidiaries. The amendment, among other things, extended the expiration date of the Premium Financing Debt Facility from July 18, 2021 to September 15, 2022, added six-months variable limits to Facility B NZ\$ beginning in 2021 and increased the total commitment for the AU\$ denominated tranche from AU\$245.0 million to AU\$310.0 million. The Premium Financing Debt Facility is comprised of: (i) Facility B, which is separated into AU\$260.0 million and NZ\$25.0 million tranches, (ii) Facility C, an AU\$50.0 million equivalent multi-currency overdraft tranche and (iii) Facility D, a NZ\$15.0 million equivalent multi-currency overdraft tranche. At September 30, 2020, AU\$245.0 million and NZ\$0.0 million of borrowings were outstanding under Facility B, AU\$11.8 million of borrowings outstanding under Facility C and NZ\$14.9 million of borrowings were outstanding under Facility D, which in aggregate amount to US\$193.0 million of borrowings outstanding under the Premium Financing Debt Facility.

On January 30, 2020, we closed and funded an offering of \$575.0 million aggregate principal amount of fixed rate private placement unsecured senior notes. The weighted average maturity of these notes is 11.7 years and the weighted average interest rate is 4.23% per annum after giving effect to underwriting costs and the net hedge loss. In 2017 and 2018, we entered into pre-issuance interest rate hedging transactions related to these private placements. We realized a net cash loss of approximately \$8.9 million on the hedging transactions that will be recognized on a pro rata basis as an increase to our reported interest expense over a ten year period.

The notes consist of the following tranches:

- \$30.0 million of 3.75% senior notes due in 2027;
- \$341.0 million of 3.99% senior notes due in 2030;
- \$69.0 million of 4.09% senior notes due in 2032;
- \$79.0 million of 4.24% senior notes due in 2035; and
- \$56.0 million of 4.49% senior notes due in 2040

We used these offerings to repay certain existing indebtedness and for general corporate purposes, including to fund acquisitions.

At September 30, 2020, we had \$4,398.0 million of corporate-related borrowings outstanding under separate note purchase agreements entered into during the period from 2009 to 2020, and our credit facility, and a cash and cash equivalent balance of \$629.9 million. See Note 7 to our September 30, 2020 unaudited consolidated financial statements for a discussion of the terms of the note purchase agreements, the Credit Agreement and the Premium Financing Debt Facility.

Consistent with past practice, as of September 30, 2020, we had entered into pre-issuance hedging transactions of \$350.0 million for 2020, \$350.0 million for 2021 and \$200.0 million for 2022. During the nine-month period ended September 30, 2020, we settled approximately \$66.0 million (\$49.4 million net of tax) of interest rate contract hedges with a notional value of \$350.0 million that will be amortized into interest expense in future periods.

The note purchase agreements, the Credit Agreement and the Premium Financing Debt Facility contain various financial covenants that require us to maintain specified financial ratios. We were in compliance with these covenants at September 30, 2020.

Dividends - Our board of directors determines our dividend policy. Our board of directors determines dividends on our common stock 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 nine-month period ended September 30, 2020, we declared \$260.6 million in cash dividends on our common stock, or \$1.35 per common share, a 5% increase over the nine-month period ended September 30, 2019. On October 29, 2020, we announced a quarterly dividend for fourth quarter 2020 of \$0.45 per common share. This dividend level in 2020 will result in annualized net cash used by financing activities in 2020 of approximately \$321.1 million (based on the number of outstanding shares as of September 30, 2020) or an anticipated increase in cash used of approximately \$24.7 million compared to 2019. We make no assurances regarding the amount of any future dividend payments.

Shelf Registration Statement - On November 15, 2019, we filed a shelf registration statement on Form S-3 with the SEC, registering the offer and sale from time to time, of an indeterminate amount of our common stock. The availability of the potential liquidity under this shelf registration statement depends on investor demand, market conditions and other factors. We make no assurances regarding when, or if, we will issue any shares under this registration statement. On November 15, 2016, we also filed a shelf registration statement on Form S-4 with the SEC, registering 10.0 million shares of our common stock that we may offer and issue

from time to time in connection with the future acquisitions of other businesses, assets or securities. At September 30, 2020, 5.0 million shares remained available for issuance under this registration statement.

Common Stock Repurchases - We have in place a common stock repurchase plan, last amended by our board of directors in 2008, for up to 10.0 million shares (7.3 shares remain available). During the nine-month periods ended September 30, 2020 and 2019, we did not repurchase shares of our common stock. 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 number of shares, and the plan may be suspended at any time at our discretion. 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. See “Issuer Purchases of Equity Securities” below for more information regarding shares repurchased during the quarter.

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 nine-month periods ended September 30, 2020 and 2019, were \$83.5 million and \$83.1 million, respectively. On May 16, 2017, our stockholders approved the 2017 Long-Term Incentive Plan (which we refer to as the LTIP), which replaced our previous stockholder-approved 2014 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 11.3 million shares (less any shares of restricted stock issued under the LTIP – 2.2 million shares of our common stock were available for this purpose as of September 30, 2020) were available for grant under the LTIP at September 30, 2020. Our employee stock purchase plan 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 nine-month periods ended September 30, 2020 and 2019, and we believe this favorable trend will continue in the foreseeable future.

We have a qualified contributory savings and thrift (401(k)) plan covering the majority of our domestic employees. For eligible employees who have met the plan’s age and service requirements to receive matching contributions, we match 100% of pre-tax and Roth elective deferrals up to a maximum of 5.0% of eligible compensation, subject to federal limits on plan contributions and not in excess of the maximum amount deductible for federal income tax purposes. Employees must be employed and eligible for the plan on the last day of the plan year to receive a matching contribution, subject to certain exceptions enumerated in the plan document. Matching contributions are subject to a five-year graduated vesting schedule and can be funded in cash or company stock. We expensed (net of plan forfeitures) \$45.9 million and \$43.8 million related to the plan in the nine-month periods ended September 30, 2020 and 2019, respectively. Our board of directors has authorized the use of common stock to fund our 2020 employer matching contributions to the 401(k) plan, which we plan to do in February 2021.

Outlook - We believe that we have sufficient capital and access to additional capital to meet our short- and long-term cash flow needs.

Contractual Obligations and Commitments

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Note 14 to the September 30, 2020 unaudited consolidated financial statements for a discussion of these obligations and commitments. In addition, see Note 17 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional discussion of these obligations and commitments.

Off-Balance Sheet Arrangements

See Note 14 to the September 30, 2020 unaudited consolidated financial statements for a discussion of our off-balance sheet arrangements. In addition, see Notes 8, 14 and 17 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional discussion of these off-balance sheet arrangements.

Critical Accounting Policies

There have been no changes in our critical accounting policies, which include revenue recognition, income taxes and intangible assets/earnout obligations, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Business Combinations and Dispositions

See Note 3 to the unaudited consolidated financial statements for a discussion of our business combinations during the nine-month period ended September 30, 2020. During the nine-month period ended September 30, 2019, we recognized a one-time, net gain of

\$0.17 of diluted net earnings per share related to the divestiture of a travel insurance brokerage and four other smaller brokerage operations. We did not have any material dispositions during the nine-month period ended September 30, 2020.

Item 3. 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 September 30, 2020 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 September 30, 2020 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 their carrying values at September 30, 2020.

At September 30, 2020, we had \$4,398.0 million of borrowings outstanding under our various note purchase agreements. The aggregate estimated fair value of these borrowings at September 30, 2020 was \$4,991.4 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 the income valuation approach, which is a valuation technique that converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. Because our debt issuances generate a measurable income stream for each lender, the income approach was deemed to be an appropriate methodology for valuing the private placement long-term debt. The methodology used calculated the original deal spread at the time of each debt issuance, which was equal to the difference between the yield of each issuance (the coupon rate) and the equivalent benchmark treasury yield at that time. The market spread as of the valuation date was calculated, which is equal to the difference between an index for investment grade insurers and the equivalent benchmark treasury yield today. An implied premium or discount to the par value of each debt issuance based on the difference between the origination deal spread and market as of the valuation date was then calculated. The index we relied on to represent investment graded insurers was the Bloomberg Valuation Services (BVAL) U.S. Insurers BBB index. This index is comprised primarily of insurance brokerage firms and was representative of the industry in which we operate. For the purpose of our analysis, the average BBB rate was assumed to be the appropriate borrowing rate for us.

We estimated market risk as the potential impact on the value of the debt recorded in our consolidated balance sheet based on a hypothetical one-percentage point decrease in our weighted average borrowing rate at September 30, 2020 and the resulting fair values would have been \$922.2 million higher than their carrying value (or \$5,320.2 million). 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 increase in our weighted average borrowing rate at September 30, 2020 and the resulting fair values would have been \$293.1 million higher than their carrying value (or \$4,691.1 million).

At September 30, 2020, we had \$193.0 million of borrowings outstanding under our Premium Financing Debt Facility. The fair value of these borrowings approximate their carrying value due to their short-term duration and variable interest rates associated with these debt obligations. 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 September 30, 2020, and the resulting fair value is not 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 incurs expenses denominated primarily in British pounds while receiving a substantial portion of its revenues in U.S. dollars. Please see Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding potential foreign exchange rate risks arising from Brexit. In addition, we are subject to foreign currency exchange rate risk from our Australian, Canadian, Indian, Jamaican, New Zealand, Norwegian, Singaporean and various Caribbean and Latin American 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 the nine-month period ended September 30, 2020 (a weakening of the U.S. dollar), earnings before income taxes would have increased by approximately \$20.1 million. Assuming a hypothetical favorable change of 10% in the average foreign currency exchange rate for the nine-month period ended September 30, 2020 (a strengthening of the U.S. dollar), earnings before income taxes would have decreased by approximately \$17.8 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. 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. However, our consolidated financial position is exposed to foreign currency exchange risk related to intra-entity loans between our U.S. based subsidiaries and our non-U.S. based subsidiaries that are denominated in the respective local foreign currency. A transaction that is in a foreign currency is first remeasured at the entity’s functional (local) currency, where applicable, (which is an adjustment to consolidated earnings) and then translated to the reporting (U.S. dollar) currency (which is an adjustment to consolidated stockholders’ equity) for consolidated reporting purposes. If the transaction is already denominated in the foreign entity’s functional currency, only the translation to U.S. dollar reporting is necessary. The remeasurement process required by U.S. GAAP for such foreign currency loan transactions will give rise to a consolidated unrealized foreign exchange gain or loss, which could be material, that is recorded in accumulated other comprehensive loss.

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 India, Norway and the U.K., we have periodically purchased financial instruments to minimize our exposure to this risk. During the three-month periods ended September 30, 2020 and 2019, 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 through various future payment dates. In addition, during the nine-month periods ended September 30, 2020 and 2019, we had several monthly put/call options in place with an external financial institution that were designed to hedge a significant portion of our Indian currency disbursements through various future payment dates. Although these hedging strategies were designed to protect us against significant U.K. and Indian currency exchange rate movements, we are still exposed to some foreign currency exchange rate risk for the portion of the payments and currency exchange rate that are unhedged. All of these hedges are accounted for in accordance with ASC Topic 815, “Derivatives and Hedging”, and periodically are tested for effectiveness in accordance with such guidance. In the scenario where such hedge does not pass the effectiveness test, the hedge will be re-measured at the stated point and the appropriate loss, if applicable, would be recognized. In the nine-month period ended September 30, 2020 there has been no such effect on our financial presentation. The impact of these hedging strategies was not material to our unaudited consolidated financial statements for the nine-month period ended September 30, 2020. See Note 13 to our unaudited consolidated financial statements for the changes in fair value of these derivative instruments reflected in comprehensive earnings at September 30, 2020.

Item 4. Controls and Procedures

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our Company have been detected.

Part II - Other Information

Item 1. Legal Proceedings

Please see the information set forth in Note 14 to our unaudited consolidated financial statements, included herein, under “Litigation, Regulatory and Taxation Matters.”

Item 1A. Risk Factors

The risk factors described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (which we incorporate by reference in this report) should be considered alongside the information contained in this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table shows the purchases of our common stock made by or on behalf of us or any “affiliated purchaser” (as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Gallagher for each fiscal month in the nine-month period ended September 30, 2020:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (3)
July 1 through July 31, 2020	2,124	\$ 102.73	—	7,287,019
August 1 through August 31, 2020	688	105.39	—	7,287,019
September 1 through September 30, 2020	17,465	105.08	—	7,287,019
Total	20,277	\$ 104.90	—	

- (1) Amounts in this column include shares of our common stock purchased by the trustees of trusts established under our Deferred Equity Participation Plan, including sub-plans (which we refer to as the DEPP), our Deferred Cash Participation Plan (which we refer to as the DCP) and our Supplemental Savings and Thrift Plan (which we refer to as the Supplemental Plan), respectively. These plans are considered to be unfunded for purposes of federal tax law since the assets of these trusts are available to our creditors in the event of our financial insolvency. The DEPP is an unfunded, non-qualified deferred compensation plan that generally provides for distributions to certain of our key executives when they reach age 62 or upon or after their actual retirement. Under sub-plans of the DEPP for certain production staff, the plan generally provides for vesting and/or distributions no sooner than five years from the date of awards, although certain awards vest and/or distribute after the earlier of fifteen years or the participant reaching age 65. See Note 10 to the September 30, 2020 unaudited consolidated financial statements in this report for more information regarding the DEPP. The DCP is an unfunded, non-qualified deferred compensation plan for certain key employees, other than executive officers, that generally provides for vesting and/or distributions no sooner than five years from the date of awards. Under the terms of the DEPP and the DCP, we may contribute cash to the rabbi trust and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions. In the third quarter of 2020, we instructed the trustee for the DEPP and the DCP to reinvest dividends on shares of our common stock held by these trusts and to purchase our common stock using cash that we contributed to the DCP related to 2020 awards under the DCP. The Supplemental Plan is an unfunded, non-qualified deferred compensation plan that allows certain highly compensated employees to defer compensation, including company match amounts, on a before-tax basis or after-tax basis. Under the terms of the Supplemental Plan, all amounts credited to an employee’s account may be deemed invested, at the employee’s election, in a number of investment options that include various mutual funds, an annuity product and a fund representing our common stock. When an employee elects to have some or all of the amounts credited to the employee’s account under the Supplemental Plan deemed to be invested in the fund representing our common stock, the trustee of the trust for the Supplemental Plan purchases shares of our common stock in a number sufficient to ensure that the trust holds a number of shares of our common stock with a value equal to all equivalent to the amounts deemed invested in the fund representing our common stock. We want to ensure that at the time when an employee becomes entitled to a distribution under the terms of the Supplemental Plan, any amounts deemed to be invested in the fund representing our common stock are distributed in the form of shares of our common stock held by the trust. We established the trusts for the DEPP, the DCP and the Supplemental Plan to assist us in discharging our deferred compensation obligations under these plans. All assets of these trusts, including any shares of our common stock purchased by the trustees, remain, at all times, assets of the Company, subject to the claims of our creditors in the event of our financial insolvency. The terms of the DEPP, the DCP and

the Supplemental Plan do not provide for a specified limit on the number of shares of common stock that may be purchased by the respective trustees of the trusts.

- (2) The average price paid per share is calculated on a settlement basis and does not include commissions.
- (3) We have a common stock repurchase plan that the board of directors adopted on May 10, 1988 and has periodically amended since that date to authorize additional shares for repurchase (the last amendment was on January 24, 2008 and approved the repurchase of 10,000,000 shares). The repurchase plan has no expiration date and we are under no commitment or obligation to repurchase any particular amount of our common stock under the plan. At our discretion, we may suspend the repurchase plan at any time.

Item 5. Other Information

On October 28, 2020, our Board of Directors approved an amendment and restatement of our by-laws (the Amended By-Laws), effective as of such date. The Amended By-Laws amend the existing forum selection provisions set forth in Article X to provide that the sole and exclusive forum for any complaint asserting a cause of action arising under the Securities Act of 1933, to the fullest extent permitted by law, shall be the federal district courts of the United States of America. The Amended By-Laws also reflect certain other conforming or clarifying updates to the exclusive forum provisions in Article X.

The foregoing description of the Amended By-Laws is qualified in its entirety by reference to the full text of the Amended By-Laws, a complete copy of which is attached to this report as Exhibit 3.2 and is hereby incorporated by reference.

Item 6. Exhibits

Filed with this Form 10-Q

3.2	Amended and Restated By-Laws of Arthur J. Gallagher & Co.
4.1	Amendment No. 1, dated August 27, 2020, to the Second Amended and Restated Multicurrency Credit Agreement dated June 7, 2019, between Arthur J. Gallagher & Co., Bank of Montreal, as administrative agent, and the other lenders signatory thereto.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101.INS	Inline XBRL Instance Document. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File formatted in Inline XBRL (included as Exhibit 101).

**AMENDED AND RESTATED BY-LAWS
OF
ARTHUR J. GALLAGHER & CO.**

(Amended and Restated October 28, 2020)

ARTICLE I

Offices

Section 1.1 The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 1.2 The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

Meetings of Stockholders

Section 2.1 All meetings of the stockholders shall be held on such date and at such time as specified in Section 2.2 or as otherwise designated by the board of directors and at such place, within or without the State of Delaware, as designated by the board of directors, all as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof. The board of directors may, in its sole discretion, determine that a meeting shall not be held at any place, but shall be held solely by means of remote communication, subject to such guidelines and procedures as the board of directors may adopt, as permitted by Section 2.15 of these by-laws and applicable law.

Section 2.2 The annual meeting of stockholders shall be held on such date and at such time as shall be designated from time to time by the board of directors and stated in the notice of the meeting, at which the stockholders shall vote on the election of directors and transact such other business as may properly be brought before the meeting. Unless otherwise restricted by applicable law, the board of directors shall have power to postpone, reschedule or cancel the annual meeting of stockholders, without notice other than announcement immediately prior to the annual meeting.

Section 2.3 Written notice of the annual meeting stating the place, if any, date and hour of the meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 2.4 (a) Meetings of stockholders shall be presided over by the chairman of the board of directors, if any, or in the absence of the chairman of the board of directors, by a person designated by the board of directors, or in the absence of a person so designated by the board of directors, by a chairman chosen at the meeting by the holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy. The secretary, or in the absence of the secretary, a person whom the chairman of the meeting shall appoint, shall act as secretary of the meeting and keep a record of the proceedings thereof.

(b) The board of directors shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the board of directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting and matters which are to be voted on by ballot. Subject to any rules and regulations adopted by the board of directors, the chairman of the meeting may convene and, for any reason, from time to time, adjourn and/or recess any meeting of stockholders pursuant to Section 2.11.

Section 2.5 The corporation shall prepare, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; provided, however, that if the record date for determining the stockholders entitled to vote is less than ten days before the date of the meeting, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date. Such list shall be arranged in alphabetical order and shall show the address of each stockholder and the number of shares registered in the name of each stockholder. Nothing in this Section 2.5 shall require the corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting at least ten days prior to the meeting (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of meeting or (b) during ordinary business hours at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then a list of stockholders entitled to vote at the meeting shall be produced and kept at the time and place of the meeting during the whole time thereof and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Except as otherwise required by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to examine the list of stockholders required by this Section 2.5 or to vote in person or by proxy at any meeting of stockholders.

Section 2.6 Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by applicable law or by the certificate of incorporation, may be called by the chairman of the board of directors or the president and shall be called by the president or secretary at the request in writing of a majority of the board of directors. Such request shall state the purpose or purposes of the proposed meeting. The board of directors may, in its sole discretion, determine that a special meeting shall not be held at any place, but shall be held solely by means of remote communication, subject to such guidelines and procedures as the board of directors may adopt, as permitted by Section 2.15 of these by-laws and applicable law.

Section 2.7 Written notice of a special meeting stating the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 2.8 Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice of meeting.

Section 2.9 (a) To be eligible to be a nominee for election or re-election as a director of the corporation, a person must deliver to the secretary of the corporation at the principal executive offices of the corporation the following information:

(i) a written representation and agreement, which shall be signed by such person and pursuant to which such person shall represent and agree that such person: (1) consents to serving as a director if elected and (if applicable) to being named in the corporation's proxy statement and form of proxy as a nominee, and currently intends to serve as a director for the full term for which such person is standing for election; (2) is not and will not become a party to any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity: (A) as to how the person, if elected as a director, will act or vote on any issue or question that has not been disclosed to the corporation; or (B) that could limit or interfere with the person's ability to comply, if elected as a director, with such person's fiduciary duties under applicable law; (3) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director or nominee that has not been disclosed to the corporation; and (4) if elected as a director, will comply with all of the corporation's corporate governance, conflict of interest, confidentiality, and stock ownership and trading policies and guidelines, and any other corporation policies and guidelines applicable to directors (which will be provided to such person promptly following a request therefor); and

(ii) all completed and signed questionnaires required of the corporation's directors (which will be provided to such person promptly following a request therefor).

(b) A nominee for election or re-election as a director of the corporation shall also provide to the corporation such other information as it may reasonably request. The corporation may request such additional information as necessary to permit the corporation to

determine the eligibility of such person to serve as a director of the corporation, including information relevant to a determination whether such person can be considered an independent director.

Notwithstanding any other provision of these by-laws, if a stockholder has submitted notice of an intent to nominate a candidate for election or re-election as a director pursuant to Section 2.10, all written and signed representations and agreements and all completed and signed questionnaires required pursuant to Section 2.9(a) above, and the additional information described in Section 2.9(b) above, shall be considered timely if provided to the corporation promptly upon request by the corporation, but in any event within five business days after such request, and all information provided pursuant to this Section 2.9 shall be deemed part of the stockholder's notice submitted pursuant to Section 2.10.

Section 2.10 (a) (i) Nominations of persons for election to the board of directors and the proposal of business other than nominations to be considered by the stockholders may be made at an annual meeting of stockholders only (1) by or at the direction of the board of directors or a committee thereof or (2) by any stockholder of the corporation who is a stockholder of record at the time the notice provided for in this Section 2.10(a) is delivered to the secretary of the corporation, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.10(a). For the avoidance of doubt, the foregoing clause (2) should be the exclusive means for a stockholder to make nominations or propose other business (other than a proposal included in the corporation's proxy statement pursuant to and in compliance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) at an annual meeting of stockholders.

(ii) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (2) of Section 2.10(a), the stockholder must have given timely notice thereof in writing, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation and such business must be a proper subject for stockholder action. To be timely, a stockholder's notice must be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the ninetieth day nor earlier than the close of business on the one hundred twentieth day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than thirty days before or after such anniversary date, or if no annual meeting was held in the preceding year, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the date on which public announcement (as defined below) of the date of such meeting is first made by the corporation. In no event shall an adjournment or recess of an annual meeting, or a postponement of an annual meeting for which notice of the meeting has already been given to stockholders or with respect to which there has been a public announcement of the date of the meeting, commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. As used in this section, "close of business" shall mean 5:00 p.m. local time at the principal executive offices of the corporation on any calendar day, whether or not the day is a business day. Such stockholder's notice shall set forth:

(1) as to each person whom the stockholder proposes to nominate for election or re-election as a director: (A) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Exchange Act and (B) the information required to be submitted by nominees pursuant to Section 2.9(a)(i) above;

(2) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the by-laws of the corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any substantial interest (within the meaning of Item 5 of Schedule 14A under the Exchange Act) in such business of such stockholder and the beneficial owner (within the meaning of Section 13(d) of the Exchange Act), if any, on whose behalf the proposal is made;

(3) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made or the other business is proposed: (A) the name and address of such stockholder, as they appear on the corporation's books, and the name and address of such beneficial owner, (B) the class and number of shares of capital stock of the corporation which are owned of record by such stockholder and such beneficial owner as of the date of the notice, and the stockholder's agreement or representation agreeing to notify the corporation in writing within five business days after the record date for such meeting of the class and number of shares of capital stock of the corporation owned of record by the stockholder and such beneficial owner as of the record date for the meeting, and (C) a representation that the stockholder (or a qualified representative of the stockholder) intends to appear at the meeting to make such nomination or propose such other business;

(4) as to the stockholder giving the notice or, if the notice is given on behalf of a beneficial owner on whose behalf the nomination is made or the other business is proposed, as to such beneficial owner, and if such stockholder or beneficial owner is an entity, as to each director, executive, managing member or control person of such entity (any such individual or control person, a "control person"): (A) the class and number of shares of capital stock of the corporation which are beneficially owned (as defined below) by such stockholder or beneficial owner and by any control person as of the date of the notice, and the stockholder's agreement or representation agreeing to notify the corporation in writing within five business days after the record date for such meeting of the class and number of shares of capital stock of the corporation beneficially owned by such stockholder or beneficial owner and by any control person as of the record date for the meeting, (B) a description of any agreement, arrangement or understanding with respect to the nomination or other business between or among such stockholder, beneficial owner or control person and any other person or persons (naming such person or persons), including without limitation any agreements that would be required to be described or reported pursuant to Item 5 or Item 6 of Exchange Act Schedule 13D (regardless of whether the requirement to file a Schedule 13D is applicable) and the stockholder's agreement or representation agreeing to notify the corporation in writing within five business days after the record date for such meeting of any such agreement, arrangement or understanding in effect as of the record date for the meeting, (C) a description of any agreement,

arrangement or understanding (including, without limitation, any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the stockholder's notice by, or on behalf of, such stockholder, beneficial owner or control person, the effect or intent of which is to mitigate loss, manage risk or benefit from changes in the share price of any class of the corporation's capital stock, or maintain, increase or decrease the voting power of the stockholder, beneficial owner or control person with respect to shares of stock of the corporation, and the stockholder's agreement or representation agreeing to notify the corporation in writing within five business days after the record date for such meeting of any such agreement, arrangement or understanding in effect as of the record date for the meeting, and (D) a representation whether the stockholder or the beneficial owner, if any, will engage in a solicitation (within the meaning of Rule 14a-1(l) under the Exchange Act) with respect to the nomination or other business and, if so, the name of each participant (as defined in Item 4 of Schedule 14A under the Exchange Act) and whether such person intends or is part of a group which intends to deliver a proxy statement and/or form of proxy to holders of shares representing at least 50% of the voting power of the stock entitled to vote generally in the election of directors in the case of a nomination, or holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the business to be proposed in the case of other business.

The foregoing notice requirements of this Section 2.10(a)(ii) shall not apply to a proposal by a stockholder if the stockholder has notified the corporation of such stockholder's intention to present a stockholder proposal at an annual or special meeting only pursuant to and in compliance with Rule 14a-8 under the Exchange Act and such proposal has been included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting.

(b) Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting only (i) by or at the direction of the board of directors or a committee thereof or (ii) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record at the time the notice provided for in this Section 2.10(b) is delivered to the secretary of the corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 2.10, including setting forth the information required by Section 2.10(a) above and providing the additional information required by Section 2.9 above. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the corporation's notice of meeting, if the notice required by Section 2.10(a)(ii) shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the ninetieth day prior to such special meeting and not later than the close of business on the later of the sixtieth day prior to such special meeting or the 10th day following the day on which public announcement is first made by the corporation of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall an adjournment, recess or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(c) (i) Only such persons who are nominated in accordance with the procedures set forth in this Section 2.10 shall be eligible to be elected at an annual or special meeting of stockholders of the corporation to serve as directors and only such other business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.10. Except as otherwise provided by applicable law, the chairman of the board of directors shall have the power and duty to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 2.10 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in compliance with such stockholder's representation as required by clause (D) of Section 2.10(a)(ii)(4). If any proposed nomination or other business was not made or proposed in compliance with this Section 2.10, the chairman of the meeting shall have the power and duty to declare that such nomination shall be disregarded or that such other proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 2.10, unless otherwise required by applicable law, if the stockholder does not provide the information required under Section 2.10(a)(ii)(3) and Section 2.10(a)(ii)(4) to the corporation within the time frames specified therein or if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the corporation to present a nomination or other proposed business, such nomination shall be disregarded and such other proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation. For purposes of this Section 2.10, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or authorized by a writing executed by such stockholder (or a reliable reproduction or electronic transmission of the writing) delivered to the corporation prior to the making of such nomination or proposal at such meeting by such stockholder stating that such person is authorized to act for such stockholder as proxy at the meeting of stockholders.

(ii) For purposes of this Section 2.10, a "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act. For purposes of Section 2.10(a)(ii)(4), shares shall be treated as "beneficially owned" by a person if the person beneficially owns such shares, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Regulations 13D and 13G thereunder or has or shares pursuant to any agreement, arrangement or understanding (whether or not in writing): (i) the right to acquire such shares (whether such right is exercisable immediately or only after the passage of time or the fulfillment of a condition or both), (ii) the right to vote such shares, alone or in concert with others or (iii) investment power with respect to such shares, including the power to dispose of, or to direct the disposition of, such shares.

Section 2.11 (a) Subject to the terms and conditions of these by-laws, in connection with an annual meeting of stockholders at which directors are to be elected, the corporation (i) shall include in its proxy statement and on its form of proxy the names of, and (ii) shall include in its proxy statement the "Additional Information" (as defined below) relating to, a number of nominees specified pursuant to Section 2.11(b) (the "Authorized Number") for election to the board of directors submitted pursuant to this Section 2.11 (each, a "Stockholder Nominee"), if:

- requirements in this Section 2.11;
- (1) the Stockholder Nominee satisfies the eligibility
- (2) the Stockholder Nominee is identified in a timely notice (the “Stockholder Notice”) that satisfies this Section 2.11 and is delivered by a stockholder that qualifies as, or is acting on behalf of, an Eligible Stockholder (as defined below);
- (3) the Eligible Stockholder satisfies the requirements in this Section 2.11 and expressly elects at the time of the delivery of the Stockholder Notice to have the Stockholder Nominee included in the corporation’s proxy materials; and
- (4) the additional requirements of these by-laws are met.

(b) The maximum number of Stockholder Nominees appearing in the corporation’s proxy materials with respect to an annual meeting of stockholders (the “Authorized Number”) shall not exceed the greater of two or twenty percent (20%) of the number of directors in office as of the last day on which a Stockholder Notice may be delivered pursuant to this Section 2.11 with respect to the annual meeting, or if such amount is not a whole number, the closest whole number (rounding down) below twenty percent (20%); provided that the Authorized Number shall be reduced (i) by any Stockholder Nominee whose name was submitted for inclusion in the corporation’s proxy materials pursuant to this Section 2.11 but whom the board of directors decides to nominate as a board nominee, (ii) by any directors in office or director nominees that in either case shall be included in the corporation’s proxy materials with respect to the annual meeting as an unopposed (by the corporation) nominee pursuant to an agreement, arrangement or other understanding between the corporation and a stockholder or group of stockholders (other than any such agreement, arrangement or understanding entered into in connection with an acquisition of capital stock, by the stockholder or group of stockholders, from the corporation), and (iii) by any nominees who were previously elected to the board as Stockholder Nominees at any of the preceding three annual meetings and who are nominated for election at the annual meeting by the board as a board nominee and (iv) by any Stockholder Nominee who is not included in the corporation’s proxy materials or is not submitted for director election for any reason, in accordance with the last sentence of Section 2.11(l). In the event that one or more vacancies for any reason occurs after the date of the Stockholder Notice but before the annual meeting and the board resolves to reduce the size of the board in connection therewith, the Authorized Number shall be calculated based on the number of directors in office as so reduced.

(c) To qualify as an “Eligible Stockholder,” a stockholder or a group as described in this Section 2.11 must:

(i) Own and have Owned (as defined below), continuously for at least three years as of the date of the Stockholder Notice, a number of shares (as adjusted to account for any stock dividend, stock split, subdivision, combination, reclassification or recapitalization of outstanding shares of the corporation that are entitled to vote generally in the election of directors) that represents at least three percent (3%) of the outstanding shares of the corporation that are entitled to vote generally in the election of directors as of the date of the Stockholder Notice (the “Required Shares”); and

(ii)
annual meeting of stockholders.

thereafter continue to Own the Required Shares through such

For purposes of satisfying the ownership requirements of this Section 2.11, a group of not more than twenty stockholders and/or beneficial owners may aggregate the number of outstanding shares of the corporation that are entitled to vote generally in the election of directors that each group member has individually Owned continuously for at least three years as of the date of the Stockholder Notice if all other requirements and obligations for an Eligible Stockholder set forth in this Section 2.11 are satisfied by and as to each stockholder or beneficial owner comprising the group whose shares are aggregated. No shares may be attributed to more than one Eligible Stockholder, and no stockholder or beneficial owner, alone or together with any of its affiliates, may individually or as a member of a group qualify as or constitute more than one Eligible Stockholder under this Section 2.11. A group of any two or more funds shall be treated as only one stockholder or beneficial owner for this purpose if they are (A) under common management and investment control, (B) under common management and funded primarily by a single employer or (C) part of a “group of investment companies,” as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended. For purposes of this Section 2.11, the term “affiliate” or “affiliates” shall have the meanings ascribed thereto under the rules and regulations promulgated under the Exchange Act.

(d) For purposes of this Section 2.11:

(i) A stockholder or beneficial owner is deemed to “Own” only those outstanding shares of the corporation that are entitled to vote generally in the election of directors as to which the person possesses both (1) the full voting and investment rights pertaining to the shares and (2) the full economic interest in (including the opportunity for profit and risk of loss on) such shares, except that the number of shares calculated in accordance with clauses (1) and (2) shall not include any shares (A) sold by such person in any transaction that has not been settled or closed, (B) borrowed by the person for any purposes or purchased by the person pursuant to an agreement to resell, or (C) subject to any option, warrant, forward contract, swap, contract of sale, or other derivative or similar agreement entered into by the person, whether the instrument or agreement is to be settled with shares or with cash based on the notional amount or value of outstanding shares of the corporation that are entitled to vote generally in the election of directors, if the instrument or agreement has, or is intended to have, or if exercised would have, the purpose or effect of (x) reducing in any manner, to any extent or at any time in the future, the person’s full right to vote or direct the voting of the shares, and/or (y) hedging, offsetting or altering to any degree any gain or loss arising from the full economic ownership of the shares by the person. The terms “Owned,” “Owning” and other variations of the word “Own,” when used with respect to a stockholder or beneficial owner, have correlative meanings. For purposes of clauses (A) through (C), the term “person” includes its affiliates.

(ii) A stockholder or beneficial owner “Owns” shares held in the name of a nominee or other intermediary so long as the person retains both (1) the full voting and investment rights pertaining to the shares and (2) the full economic interest in the shares. The person’s Ownership of shares is deemed to continue during any period in which the person has delegated any voting power by means of a proxy, power of attorney, or other instrument or arrangement that is revocable at any time by the stockholder.

(iii) A stockholder or beneficial owner's Ownership of shares shall be deemed to continue during any period in which the person has loaned the shares if the person has the power to recall the loaned shares on not more than five business days' notice and (1) the person recalls the loaned shares within five business days of being notified that its Stockholder Nominee shall be included in the corporation's proxy materials for the relevant annual meeting, and (2) the person holds the recalled shares through the annual meeting.

(e) For purposes of this Section 2.11, the "Additional Information" referred to in Section 2.11(a) that the corporation will include in its proxy statement is:

(i) the information set forth in the Schedule 14N provided with the Stockholder Notice concerning each Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the corporation's proxy statement by the applicable requirements of the Exchange Act and the rules and regulations thereunder; and

(ii) if the Eligible Stockholder so elects, a written statement of the Eligible Stockholder (or, in the case of a group, a written statement of the group), not to exceed 500 words, in support of its Stockholder Nominee(s), which must be provided at the same time as the Stockholder Notice for inclusion in the corporation's proxy statement for the annual meeting (the "Statement").

Notwithstanding anything to the contrary contained in this Section 2.11, the corporation may omit from its proxy materials any information or Statement that it, in good faith, believes is untrue in any material respect (or omits a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading) or would violate any applicable law, rule, regulation or listing standard. Nothing in this Section 2.11 shall limit the corporation's ability to solicit against and include in its proxy materials its own statements relating to any Eligible Stockholder or Stockholder Nominee.

(f) The Stockholder Notice shall set forth all information, representations and agreements required under Section 2.10 above, including the information required with respect to any nominee for election as a director, any stockholder giving notice of an intent to nominate a candidate for election, and any stockholder, beneficial owner or other person on whose behalf the nomination is made under this Section 2.11. In addition, such Stockholder Notice shall include:

(i) a copy of the Schedule 14N that has been or concurrently is filed with the SEC under the Exchange Act;

(ii) a written statement of the Eligible Stockholder (and in the case of a group, the written statement of each stockholder or beneficial owner whose shares are aggregated for purposes of constituting an Eligible Stockholder), which statement(s) shall also be included in the Schedule 14N filed with the SEC: (1) setting forth and certifying to the number of outstanding shares of the corporation that are entitled to vote generally in the election of directors the Eligible Stockholder Owns and has Owned (as defined in Section 2.11(d) of these by-laws) continuously for at least three years as of the date of the Stockholder Notice, (2) agreeing to continue to Own such shares through the annual meeting, and (3) regarding whether

or not it intends to maintain Ownership of the Required Shares for at least one year following the annual meeting;

(iii) the written agreement of the Eligible Stockholder (and in the case of a group, the written agreement of each stockholder or beneficial owner whose shares are aggregated for purposes of constituting an Eligible Stockholder) addressed to the corporation, setting forth the following additional agreements, representations, and warranties:

(1) it shall provide (A) within five business days after the date of the Stockholder Notice, one or more written statements from the record holder(s) of the Required Shares and from each intermediary through which the Required Shares are or have been held, in each case during the requisite three-year holding period, specifying the number of shares that the Eligible Stockholder Owns, and has Owned continuously in compliance with this Section 2.11, (B) within five business days after the record date for the annual meeting both the information required under clauses (a)(ii)(3)(B) and (a)(ii)(4)(A)-(C) of Section 2.10 and written statements from the record holder(s) and intermediaries as required under clause (1)(A) verifying the Eligible Stockholder's continuous Ownership of the Required Shares, in each case, as of such date, and (C) immediate notice to the corporation if the Eligible Stockholder ceases to own any of the Required Shares prior to the annual meeting;

(2) it (A) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control at the corporation, and does not presently have this intent, (B) has not nominated and shall not nominate for election to the board of directors at the annual meeting any person other than the Stockholder Nominee(s) being nominated pursuant to this Section 2.11, (C) has not engaged and shall not engage in, and has not been and shall not be a participant (as defined in Item 4 of Exchange Act Schedule 14A) in, a solicitation within the meaning of Exchange Act Rule 14a-1(l), in support of the election of any individual as a director at the annual meeting other than its Stockholder Nominee(s) or any nominee(s) of the board of directors, and (D) shall not distribute to any stockholder any form of proxy for the annual meeting other than the form distributed by the corporation; and

(3) it will (A) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Stockholder's communications with the stockholders of the corporation or out of the information that the Eligible Stockholder provided to the corporation, (B) indemnify and hold harmless the corporation and each of its directors, officers and employees individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the corporation or any of its directors, officers or employees arising out of the nomination or solicitation process pursuant to this Section 2.11, (C) comply with all laws, rules, regulations and listing standards applicable to its nomination or any solicitation in connection with the annual meeting, (D) file with the SEC any solicitation or other communication by or on behalf of the Eligible Stockholder relating to the corporation's annual meeting of stockholders, one or more of the corporation's directors or director nominees or any Stockholder Nominee, regardless of whether the filing is required under Exchange Act Regulation 14A, or whether any exemption from filing is available for the materials under Exchange Act Regulation 14A, and (E) at the request of the corporation, promptly, but in any event within five business days after such

request (or by the day prior to the day of the annual meeting, if earlier), provide to the corporation such additional information as reasonably requested by the corporation, and

(iv) in the case of a nomination by a group, the designation by all group members of one group member that is authorized to act on behalf of all members of the group with respect to the nomination and matters related thereto, including withdrawal of the nomination, and the written agreement, representation, and warranty of the Eligible Stockholder that it shall provide, within five business days after the date of the Stockholder Notice, documentation reasonably satisfactory to the corporation demonstrating that the number of stockholders and/or beneficial owners within such group does not exceed twenty, including whether a group of funds qualifies as one stockholder or beneficial owner within the meaning of Section 2.11(c).

(g) To be timely under this Section 2.11, the Stockholder Notice must be delivered by a stockholder to the Secretary of the corporation at the principal executive offices of the corporation not later than the close of business (as defined in Section 2.10 above) on the one hundred twentieth day nor earlier than the close of business on the one hundred fiftieth day prior to the first anniversary of the date (as stated in the corporation's proxy materials) the definitive proxy statement was first released to stockholders in connection with the preceding year's annual meeting of stockholders; provided, however, that in the event the annual meeting is more than thirty days before or after the anniversary of the previous year's annual meeting, or if no annual meeting was held in the preceding year, to be timely, the Stockholder Notice must be so delivered not earlier than the close of business on the one hundred fiftieth day prior to such annual meeting and not later than the close of business on the later of the one hundred twentieth day prior to such annual meeting or the tenth day following the day on which public announcement (as defined in Section 2.10 above) of the date of such meeting is first made by the corporation. In no event shall an adjournment or recess of an annual meeting, or a postponement of an annual meeting for which notice of the meeting has already been given to stockholders or a public announcement (as defined in Section 2.10 above) of the meeting date has already been made, commence a new time period (or extend any time period) for the giving of the Stockholder Notice as described above.

(h) Within the time period for delivery of the Stockholder Notice, a written representation and agreement of each Stockholder Nominee shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation, which shall be signed by each Stockholder Nominee and shall include the representations set forth in Section 2.9(a)(i). In addition to the information required in a Stockholder Notice, the questionnaires described in Section 2.9(a)(ii) of these by-laws shall be provided to the secretary of the corporation within the time period for delivery of a Stockholder Notice. At the request of the corporation, a Stockholder Nominee shall promptly, but in any event within five business days after such request (or by the day prior to the day of the annual meeting, if earlier), provide to the corporation such additional information as the corporation may reasonably request. The corporation may request such additional information as necessary to permit the corporation to determine if a Stockholder Nominee satisfies the requirements of this Section 2.11, including information relevant to a determination whether the Stockholder Nominee can be considered an independent director.

(i) In the event that any information or communications provided by the Eligible Stockholder or any Stockholder Nominees to the corporation or its stockholders is not, when provided, or thereafter ceases to be, true, correct and complete in all material respects (including omitting a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading), such Eligible Stockholder or Stockholder Nominee, as the case may be, shall promptly notify the Secretary and provide the information that is required to make such information or communication true, correct, complete and not misleading; it being understood that providing any such notification shall not be deemed to cure any defect or limit the corporation's right to omit a Stockholder Nominee from its proxy materials as provided in this Section 2.11.

(j) All information provided pursuant to sub-sections (f) through (i) of this Section 2.11 shall be deemed part of the Stockholder Notice for purposes of this Section 2.11.

(k) Notwithstanding anything to the contrary contained in this Section 2.11, the corporation may omit from its proxy materials any Stockholder Nominee, and such nomination shall be disregarded and no vote on such Stockholder Nominee shall occur, notwithstanding that proxies in respect of such vote may have been received by the corporation, if:

(i) the Eligible Stockholder or Stockholder Nominee breaches any of its agreements, representations or warranties set forth in the Stockholder Notice or otherwise submitted pursuant to this Section 2.11, any of the information in the Stockholder Notice or otherwise submitted pursuant to this Section 2.11 was not, when provided, true, correct and complete, or the Eligible Stockholder or applicable Stockholder Nominee otherwise fails to comply with its obligations pursuant to these by-laws, including, but not limited to, its obligations under this Section 2.11;

(ii) the Stockholder Nominee (1) is not independent under any applicable listing standards, any applicable rules of the SEC and any publicly disclosed standards used by the board in determining and disclosing the independence of the corporation's directors, (2) is or has been, within the past three years, an employee, officer or director of a competitor, as defined for the purposes of Section 8 of the Clayton Antitrust Act of 1914, as amended, (3) is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in a criminal proceeding (excluding traffic violations and other minor offenses) within the past ten years or (4) is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933, as amended;

(iii) the corporation has received a notice (whether or not subsequently withdrawn) that a stockholder intends to nominate any candidate for election to the board pursuant to the advance notice requirements for stockholder nominees for director in Section 2.10 of these by-laws; or

(iv) the election of the Stockholder Nominee to the board of directors would cause the corporation to violate the certificate of incorporation of the corporation, these by-laws, or any applicable law, rule, regulation or listing standard.

(l) An Eligible Stockholder submitting more than one Stockholder Nominee for inclusion in the corporation's proxy materials pursuant to this Section 2.11 shall rank such Stockholder Nominees based on the order that the Eligible Stockholder desires such Stockholder Nominees to be selected for inclusion in the corporation's proxy materials and include such assigned rank in its Stockholder Notice submitted to the corporation. In the event that the number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 2.11 exceeds the Authorized Number, the Stockholder Nominees to be included in the corporation's proxy materials shall be determined in accordance with the following provisions: one Stockholder Nominee who satisfies the eligibility requirements in this Section 2.11 shall be selected from each Eligible Stockholder for inclusion in the corporation's proxy materials until the Authorized Number is reached, going in order of the amount (largest to smallest) of shares of the corporation each Eligible Stockholder disclosed as Owned in its Stockholder Notice submitted to the corporation and going in the order of the rank (highest to lowest) assigned to each Stockholder Nominee by such Eligible Stockholder. If the Authorized Number is not reached after one Stockholder Nominee who satisfies the eligibility requirements in this Section 2.11 has been selected from each Eligible Stockholder, this selection process shall continue as many times as necessary, following the same order each time, until the Authorized Number is reached. Following such determination, if any Stockholder Nominee who satisfies the eligibility requirements in this Section 2.11 thereafter is nominated by the board of directors, thereafter is not included in the corporation's proxy materials or thereafter is not submitted for director election for any reason (including the Eligible Stockholder's or Stockholder Nominee's failure to comply with this Section 2.11), no other nominee or nominees shall be included in the corporation's proxy materials or otherwise submitted for election as a director at the applicable annual meeting in substitution for such Stockholder Nominee.

(m) Any Stockholder Nominee who is included in the corporation's proxy materials for a particular annual meeting of stockholders but either (i) withdraws from or becomes ineligible or unavailable for election at the annual meeting for any reason, including for the failure to comply with any provision of these by-laws (provided that in no event shall any such withdrawal, ineligibility or unavailability commence a new time period (or extend any time period) for the giving of a Stockholder Notice) or (ii) does not receive a number of votes cast in favor of his or her election that is at least equal to twenty-five percent (25%) of the shares present in person or represented by proxy and entitled to vote in the election of directors, shall be ineligible to be a Stockholder Nominee pursuant to this Section 2.11 for the next two annual meetings.

(n) Notwithstanding the foregoing provisions of this Section 2.11, unless otherwise required by law or otherwise determined by the chairman of the meeting or the board of directors, if the stockholder delivering the Stockholder Notice (or a qualified representative of the stockholder, as defined in Section 2.10) does not appear at the annual meeting of stockholders of the corporation to present its Stockholder Nominee or Stockholder Nominees, such nomination or nominations shall be disregarded, notwithstanding that proxies in respect of the election of the Stockholder Nominee or Stockholder Nominees may have been received by the corporation. Without limiting the board's power and authority to interpret any other provisions of these by-laws, the board (and any other person or body authorized by the board of directors) shall have the power and authority to interpret this Section 2.11 and to make any and all determinations necessary or advisable to apply this Section 2.11 to any persons, facts or

circumstances, in each case acting in good faith. This Section 2.11 shall be the exclusive method for stockholders to include nominees for director election in the corporation's proxy materials.

Section 2.12 The holders of a majority of the stock issued and outstanding and entitled to vote at a meeting of the stockholders, present in person or deemed to be present or represented by proxy, shall constitute a quorum at any such meeting, except as otherwise provided by applicable law or by the certificate of incorporation. If, however, such quorum shall not be present, deemed to be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person, deemed to be present or represented by proxy, shall have power to adjourn or recess the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present, deemed to be present or represented. In addition, any annual or special meeting of stockholders, whether or not a quorum is present, may be adjourned or recessed for any reason from time to time by the chairman of the meeting, subject to any rules and regulations adopted by the board of directors pursuant to Section 2.4(b). At such adjourned or recessed meeting at which a quorum shall be present, deemed to be present or represented any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If a quorum initially is present at any meeting of stockholders, the stockholders may continue to transact business until adjournment or recess, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.13 When a quorum is present or deemed to be present at any meeting, the vote of the holders of a majority of the stock having voting power, present in person, deemed to be present or represented by proxy, shall decide any question brought before such meeting, unless the question is one upon which by express provision of applicable law, the certificate of incorporation or these by-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 2.14 Unless otherwise provided in the certificate of incorporation, or in the case of any series of the corporation's Preferred Stock in the resolution of the board of directors creating such series, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted on after three years from its date, unless the proxy provides for a longer period.

Section 2.15 If authorized by the board of directors in accordance with these by-laws and applicable law, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication, (a) participate in a meeting of stockholders and (b) be deemed present in person and vote at a meeting of the stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to

read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.

Section 2.16 Any action required or permitted to be taken by the stockholders of the corporation must be taken at a duly called and held annual or special meeting of the stockholders of the corporation and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

ARTICLE III

Directors

Section 3.1 The number of directors which shall constitute the whole board shall be not fewer than three nor more than fifteen. Within the limits above specified, the number of directors shall be determined by resolution of the board of directors. The directors shall be elected for terms of office as provided in the corporation's certificate of incorporation. Directors need not be stockholders.

Section 3.2 Each director to be elected by stockholders shall be elected by the affirmative vote of a majority of the votes cast at any meeting for the election of directors at which a quorum is present; provided, however, that if the board of directors determines that the number of nominees exceeds the number of directors to be elected at such meeting (a "Contested Election") by the date that is ten days prior to the date the corporation first files its definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission, each of the directors to be elected at such meeting shall be elected by a plurality of the votes cast at any meeting for the election of directors at which a quorum is present. For purposes of this Section 3.2, a "majority of the votes cast" shall mean that the number of votes cast "for" a director's election exceeds the number of votes cast "against" that director's election. In a Contested Election, stockholders will be entitled to cast votes "for", or to "withhold" votes from, the election of directors but shall not be entitled to cast any other vote with respect to such election of directors.

Section 3.3 Vacancies on the board of directors resulting from the death, resignation or removal of a director or directors, and newly created directorships resulting from any increases in the authorized number of directors, shall be filled, and any director so chosen shall hold office, in each case as provided in the corporation's certificate of incorporation.

Section 3.4 The business of the corporation shall be managed by or under the direction of its board of directors, which may exercise all such powers of the corporation and do all such lawful acts and things as are not by applicable law or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

Meetings of the Board of Directors

Section 3.5 The board of directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 3.6 Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

Section 3.7 Special meetings of the board may be called by the chairman of the board of directors or the president and shall be called by the president or secretary on the written request of a majority of the board. Notice of each such meeting shall be given in accordance with Section 4.2 of these by-laws.

Section 3.8 At all meetings of the board a majority of the then duly elected directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by applicable law or by the certificate of incorporation. If a quorum shall not be present at any meeting of the board of directors the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.9 Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if all members of the board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Committees of Directors

Section 3.10 The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not the member or members present constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent permitted by law and provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors with respect to the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the by-laws of the corporation; and, unless the resolution or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger. Such

committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

Section 3.11 Members of the board of directors of the corporation or any committee thereof may participate in a meeting of the board or committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting. Unless the board of directors provides otherwise by resolution, any committee of the board of directors may adopt, alter and repeal such rules and regulations not inconsistent with the provisions of law, the certificate of incorporation or these by-laws for the conduct of its meetings as such committee may deem proper. Except as otherwise required by law, the certificate of incorporation or these by-laws, and except as otherwise provided in a resolution of the board of directors: (a) a majority of the directors then serving on a committee shall constitute a quorum for the transaction of business by the committee; provided, however, that in no case shall a quorum be less than one-third of the directors then serving on the committee; and (b) the vote of a majority of the members of a committee present at a meeting at which a quorum is present shall be the act of the committee.

The Chairman of the Board

Section 3.12 The board of directors shall elect a chairman of the board of directors from among its members. The chairman of the board of directors shall preside at meetings of the board of directors and shall perform such other duties and hold such other titles as may be prescribed from time to time by the board of directors.

Compensation of Directors

Section 3.13 Unless otherwise restricted by the certificate of incorporation, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

Notices

Section 4.1 Whenever, under the provisions of the statutes or of the certificate of incorporation or of these by-laws, notice is required to be given to any stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, or, except as otherwise required by law, by electronic transmission in accordance with Section 232 of the General Corporation Law of the State of Delaware (the "DGCL"). If mailed, such notice shall be addressed to such stockholder, at such stockholder's address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice by electronic transmission shall be deemed given as provided in Section 232 of the DGCL.

Section 4.2 Whenever, under applicable law or the provisions of the certificate of incorporation or of these by-laws, notice is required to be given to any director, such notice may be given personally or by telephone, mail, electronic transmission or other form of recorded communication. If mailed, such notice shall be addressed to such director at such director's residence or usual place of business and shall be deposited in the United States mail at least five days before the day on which the meeting is to be held. Notice given by any other permitted means shall be given at least 24 hours prior to the time set for the meeting.

Section 4.3 Whenever any notice is required to be given under applicable law or the provisions of the certificate of incorporation or of these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, or a waiver by electronic transmission by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, the board of directors or a committee of the board of directors need to be specified in any written waiver of notice or any waiver by electronic transmission, unless so required by the certificate of incorporation or these by-laws.

ARTICLE V

Officers

Section 5.1 The officers of the corporation shall be chosen by the board of directors and shall be a president, a secretary and a treasurer. The function of chief executive officer and chief financial officer of the corporation shall be discharged by such officer or officers as the board of directors may from time to time designate. The board of directors may appoint such other officers as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board. Any number of offices may be held by the same person, unless the certificate of incorporation or these by-laws otherwise provide. The board of directors may also designate persons as officers of divisions of the corporation, but such persons shall not be officers of the corporation unless so specified.

Section 5.2 The board of directors shall choose a president, a secretary and a treasurer and shall designate the officer or officers who shall discharge the functions of chief executive officer and chief financial officer.

Section 5.3 Each officer of the corporation shall hold office until such person's successor is chosen and qualified or until such person's earlier death, resignation or removal. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

The President

Section 5.4 The president shall have the general powers and duties of supervision and management of the business and affairs of the corporation and shall see that all orders and resolutions of the board of directors are carried into effect. The president shall exercise such authority and perform such duties as are customarily incident to the office of the president and shall perform such other duties and hold such other titles as may from time to time be prescribed by the board of directors or these by-laws.

The Secretary

Section 5.5 The secretary or, in his or her absence, an assistant secretary or other designee, shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors or any committee thereof required to be given by these by-laws or by applicable law, and shall perform such other duties as may from time to time be prescribed by the board of directors, the president or any other supervising officer of the secretary or these by-laws. The secretary or an assistant secretary shall have custody of the corporate seal of the corporation and shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the secretary's or assistant secretary's signature. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by such officer's signature.

The Treasurer

Section 5.6 The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors. The treasurer shall disburse the funds of the corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements. The treasurer shall perform such other duties as may be prescribed from time to time by the board of directors, the president or any other supervising officer of the treasurer or these by-laws. If required by the board of directors, the treasurer shall give the corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of the office of the treasurer and for the restoration to the corporation, in case of the treasurer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the treasurer's possession or under the treasurer's control belonging to the corporation.

Delegation

Section 5.7 The board of directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding the foregoing provisions of this Article V.

Certificates of Stock

Section 6.1 Shares of the corporation's stock may be certificated or uncertificated in accordance with the DGCL. The issue of shares in uncertificated form shall not affect shares represented by a certificate until the certificate is surrendered to the corporation. Every holder of stock in the corporation represented by certificates shall be entitled to have a certificate, signed by, or in the name of the corporation by any two authorized officers of the corporation, including, without limitation, the chairman of the board of directors, the president, the treasurer or the secretary, certifying the number of shares owned by such holder in the corporation. The powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of any such certificates which the corporation may issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements, there may be set forth on the face or back of any such certificate which the corporation may issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 6.2 Any or all of the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 6.3 Subject to the foregoing Sections 6.1 and 6.2, certificates for stock of the corporation shall be in such form as the board of directors may from time to time prescribe.

Section 6.4 The board of directors may direct a new certificate or certificates or uncertificated shares to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such alleged lost, stolen or destroyed certificate or certificates, or such owner's legal representative, to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Transfers of Stock

Section 6.5 Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer (upon the payment of taxes thereon if applicable), it shall be

the duty of the corporation to issue a new certificate or uncertificated shares to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Uncertificated shares shall be transferred upon the receipt of proper transfer instructions from the registered owner of such uncertificated shares.

Fixing Record Date

Section 6.6 In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date: (a) in the case of a determination of stockholders entitled to vote at any meeting of the stockholders or any adjournment thereof, shall not be more than sixty nor less than ten days before the date of such meeting, and (b) in the case of any other action, shall not be more than sixty days prior to such other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Registered Stockholders

Section 6.7 The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by applicable law.

ARTICLE VII

Indemnification

Section 7.1 The corporation shall indemnify, to the fullest extent permitted by applicable law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (other than action by or in the right of the corporation) by reason of the fact that the person is or was a director or officer of the corporation or, while a director or officer is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful; provided, however, that, except as provided in Section 7.6 with respect to proceedings to enforce rights to indemnification or advancement of expenses, the corporation shall indemnify any such person in

connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding (or part thereof) was authorized or ratified by the board of directors. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe the person's conduct was unlawful.

Section 7.2 The corporation shall indemnify, to the fullest extent permitted by applicable law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director or officer of the corporation, or while a director or officer is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no such indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that, subject to Article X of these by-laws, the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application, that despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such Court of Chancery or such other court shall deem proper.

Section 7.3 To the extent that a director or officer of the corporation shall be successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 7.1 and 7.2 of this Article, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 7.4 Any indemnification under Sections 7.1 and 7.2 of this Article (unless ordered by a court or required pursuant to Section 7.3) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because the person has met the applicable standard of conduct set forth in said Sections 7.1 and 7.2. Such determination shall be made (a) by a majority vote of the directors who are not parties to such action, suit or proceeding, even if less than a quorum, (b) by a committee of such directors designated by majority vote of such directors, even if less than a quorum, (c) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (d) by the stockholders.

To receive indemnification under this Article, a director or officer shall submit to the corporation a written request, which shall include documentation or information which is necessary to determine whether indemnification is payable under this Article and which is reasonably available to the director or officer. Upon receipt by the corporation of such a written request, a determination regarding whether indemnification is payable under this Article shall be

made, based upon the facts known at the time. All such indemnification shall be paid in full within sixty days after the corporation receives the director's or officer's written request therefor, unless a determination is made that the claims giving rise to the director's or officer's request are not payable under this Article.

Section 7.5 Expenses (including attorneys' fees) incurred by a director or officer in defending a civil, criminal, administrative, investigative or other action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined, in a final, nonappealable adjudication, that such person is not entitled to be indemnified by the corporation as authorized in this Article.

Section 7.6 If a claim under Section 7.1 or 7.2 of this Article is not paid in full by the corporation within sixty days after a written request has been received by the corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the director or officer may at any time thereafter bring suit against the corporation in a court of competent jurisdiction in the State of Delaware to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the director or officer shall be entitled to be paid also the expense of prosecuting or defending such suit.

Section 7.7 The indemnification and advancement of expenses provided by, or granted pursuant to, the other sections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any provision of a certificate of incorporation or any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Section 7.8 The board of directors may authorize the corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of this Article.

Section 7.9 For purposes of this Article, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had the power and authority to indemnify its directors and officers, so that any person who is or was a director or officer of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation

as such person would have with respect to such constituent corporation if its separate existence had continued.

Section 7.10 For purposes of this Article, references to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the corporation” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this Article.

Section 7.11 In addition to any rights granted pursuant to this Article, the corporation may, to the extent and in the manner permitted by applicable law, grant rights to indemnification and to the advancement of expenses to any employee or agent of the corporation.

Section 7.12 The rights conferred in this Article shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person. Any amendment, alteration or repeal of this Article that adversely affects any right of a director or officer or such person’s successors shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment, alteration or repeal.

Section 7.13 The corporation shall not be liable to indemnify any person under this Article for any amounts paid in settlement of any action or claim effected without the corporation’s written consent, which consent shall not be unreasonably withheld, or for any judicial award if the corporation was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action.

Section 7.14 In the event of payment under this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the director or officer, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the corporation effectively to bring suit to enforce such rights.

ARTICLE VIII

Conflict of Interests

Section 8.1 No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or

committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(a) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) The material facts as to his relationship interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) The contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the board of directors, a committee thereof, or the stockholders.

Section 8.2 Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

ARTICLE IX

General Provisions

Dividends

Section 9.1 Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to applicable law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 9.2 Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Fiscal Year

Section 9.3 The fiscal year of the corporation shall commence January 1 and end December 31 unless and until the board of directors shall adopt a different fiscal year by resolution duly adopted by it.

Seal

Section 9.4 The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words “Corporate Seal, Delaware.” The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Emergency By-laws

Section 9.5 In the event of any emergency, disaster or catastrophe, as referred to in Section 110 of the DGCL, or other similar emergency condition, as a result of which a quorum of the board of directors or a standing committee of the board of directors cannot readily be convened for action, then the director or directors in attendance at the meeting shall constitute a quorum. Such director or directors in attendance may further take action to appoint one or more of themselves or other directors to membership on any standing or temporary committees of the board of directors as they shall deem necessary and appropriate.

Corporate Contracts and Instruments

Section 9.6 Except as otherwise provided in these by-laws, the board of directors may determine the method, and designate (or authorize officers of the corporation to designate) the person or persons who shall have authority, to enter into any contract or execute any instrument in the name of and on behalf of the corporation. Such authority may be general or confined to specific instances. Unless so authorized, or within the power incident to a person’s office or other position with the corporation, no person shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Signature Authority

Section 9.7 Unless otherwise specifically determined by the board of directors or otherwise provided by law or these by-laws, contracts, evidences of indebtedness and other instruments or documents of the corporation may be executed, signed or endorsed: (a) by the Chief Executive Officer and the President; or (b) by the Chief Financial Officer, any Vice President, Treasurer, Secretary or Controller, in each case only with regard to such instruments or documents that pertain to or relate to such person’s duties or business functions.

Subject to Law and Certificate of Incorporation

Section 9.8 All powers, duties and responsibilities provided for in these by-laws, whether or not explicitly so qualified, are qualified by the certificate of incorporation (including any preferred stock designation) and applicable law.

ARTICLE X

Forum for Adjudication of Disputes

Section 10.1 Unless the corporation, in writing, selects or consents to the selection of an alternative forum: (a) the sole and exclusive forum for any complaint asserting any internal corporate claims (as defined below), to the fullest extent permitted by law, and subject to applicable jurisdictional requirements, shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have, or declines to accept, jurisdiction, another state court or a federal court located within the State of Delaware); and (b) the sole and exclusive forum for any complaint asserting a cause of action arising under the Securities Act of 1933, to the fullest extent permitted by law, shall be the federal district courts of the United States of America. For purposes of this Article X, internal corporate claims means claims, including claims in the right of the corporation: (A) that are based upon a violation of a duty by a current or former director, officer, employee or stockholder in such capacity, or (B) as to which the DGCL confers jurisdiction upon the Court of Chancery. To the fullest extent permitted by law, any person or entity purchasing or otherwise acquiring or holding any interest in shares of stock of the corporation shall be deemed to have notice of and consented to the provisions of this Article X.

Section 10.2 If any provision of this Article X shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provision in any other circumstance and of the remaining provisions of this Article X (including, without limitation, each portion of any sentence of this Article X containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities or circumstances shall not in any way be affected or impaired thereby.

ARTICLE XI

Amendments

Section 11.1 These by-laws may be altered, amended or repealed or new by-laws may be adopted by the stockholders or by the board of directors, at any regular meeting of the stockholders or of the board of directors or at any special meeting of the stockholders or of the board of directors if notice of such alteration, amendment, repeal or adoption of new by-laws be contained in the notice of such regular or special meeting.

Amendment No. 1 to Credit Agreement

This AMENDMENT NO. 1 TO CREDIT AGREEMENT (this “*Amendment*”) is dated as of August 27, 2020 and is by and among Arthur J. Gallagher & Co., a Delaware corporation (the “*Company*”), the Subsidiaries of the Company party hereto (such Subsidiaries together with the Company individually, a “*Borrower*” and collectively, the “*Borrowers*”), the Lenders party hereto and Bank of Montreal, as Administrative Agent.

PRELIMINARY STATEMENTS

A. The Borrowers, the financial institutions from time to time party thereto and the Administrative Agent have heretofore entered into that certain Second Amended and Restated Multicurrency Credit Agreement, dated as of June 7, 2019 (as amended, restated, supplemented or otherwise modified from time to time in accordance with its provisions, the “*Credit Agreement*”); and

B. The parties hereto desire to amend the Credit Agreement to terminate the status as a Borrower or Guarantor under the Credit Agreement of each of the Subsidiaries of the Company that is currently a Borrower or Guarantor and release them from their joint and several obligations under the Credit Agreement, to add a priority debt limitation, and to enter into certain other amendments to the Credit Agreement provided herein.

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I**DEFINITIONS**

Section 1.1 Use of Defined Terms. Unless otherwise defined or the context otherwise requires, terms for which meanings are provided in the Credit Agreement shall have such meanings when used in this Amendment.

ARTICLE II

AMENDMENTS

Section 2.1. Section 6.1 of the Credit Agreement is hereby amended by inserting the following defined terms in their proper alphabetical order:

“*Affected Financial Institution*” means (a) any EEA Financial Institution or (b) any UK Financial Institution.

“*Amendment No. 1 to Credit Agreement*” means, that certain Amendment No. 1 to Credit Agreement dated as of August 27, 2020 among the Borrowers, the Administrative Agent and the Lenders party thereto.

“*Amendment No. 1 Effective Date*” means, the date on which the conditions precedent set forth in Section 4.1 of the Amendment No. 1 to Credit Agreement were satisfied or waived in accordance therewith.

“*Consolidated Indebtedness*” means, without duplication, all Indebtedness for Borrowed Money of the Company and its Restricted Subsidiaries, determined on a consolidated basis eliminating intercompany items.

“*Consolidated Priority Indebtedness*” means, without duplication, all Priority Indebtedness of the Company and its Restricted Subsidiaries determined on a consolidated basis eliminating intercompany items.

“*Consolidated Total Capitalization*” means, as of the date of any determination thereof and without duplication, the sum of (a) Consolidated Indebtedness *plus* (b) Net Worth.

“*Priority Indebtedness*” means, without duplication (a) any Indebtedness for Borrowed Money of the Company or a Restricted Subsidiary secured by a Lien permitted by Section 9.8(h) and (b) any Indebtedness for Borrowed Money of the Company’s Restricted Subsidiaries; *provided that* there shall be excluded from any calculation of Priority Indebtedness: (i) the Indebtedness for Borrowed Money of any Borrower or Guarantor (other than Indebtedness for Borrowed Money of any Borrower or Guarantor secured by a Lien permitted by Section 9.8(h)), (ii) the Indebtedness for Borrowed Money of any Restricted Subsidiary owing to the Company or a Wholly-owned Restricted Subsidiary of the Company, and (iii) with respect to any Person which becomes a

Restricted Subsidiary after the Amendment No. 1 Effective Date, Indebtedness for Borrowed Money of such Person existing at the time such Person became a Restricted Subsidiary and any extension, renewal or refunding thereof, provided that such Indebtedness for Borrowed Money was not incurred in contemplation of such Person becoming a Restricted Subsidiary.

“*Resolution Authority*” means an EEA Resolution Authority or, with respect to any UK Financial Institution, a UK Resolution Authority.

“*UK Financial Institution*” means any BRRD Undertaking (as such term is defined under the PRA Rulebook (as amended from time to time) promulgated by the United Kingdom Prudential Regulation Authority) or any person falling within IFPRU 11.6 of the FCA Handbook (as amended from time to time) promulgated by the United Kingdom Financial Conduct Authority, which includes certain credit institutions and investment firms, and certain affiliates of such credit institutions or investment firms.

“*UK Resolution Authority*” means the Bank of England or any other public administrative authority having responsibility for the resolution of any UK Financial Institution.

Section 2.2. The definitions of “*Bail-In Action*,” “*Bail-In Legislation*,” “*Indebtedness for Borrowed Money*,” “*Note Purchase Agreements*,” “*Restricted Subsidiary*,” and “*Write-Down and Conversion Powers*” appearing in Section 6.1 of the Credit Agreement are each hereby amended in their entirety and as so amended shall read as follows:

“*Bail-In Action*” means the exercise of any Write-Down and Conversion Powers by the applicable Resolution Authority in respect of any liability of an Affected Financial Institution.

“*Bail-In Legislation*” means, (a) with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law, regulation rule or requirement for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule and (b) with respect to the United Kingdom, Part I of the United Kingdom Banking Act 2009 (as amended from time to time) and any other law, regulation or rule applicable in the United Kingdom relating to the resolution of unsound or failing banks, investment firms or other financial institutions or their affiliates (other than through liquidation, administration or other insolvency proceedings).

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

“Note Purchase Agreements” means, collectively, the (i) Note Purchase Agreement, dated as of February 10, 2011, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended by the First Amendment thereto dated as of October 18, 2013, the Second Amendment thereto dated as of June 24, 2014, the Third Amendment thereto dated as of June 2, 2016, the Fourth Amendment thereto dated as of June 13, 2018 and the Fifth Amendment thereto dated as of December 20, 2018 and as further amended, modified, supplemented or restated from time to time, (ii) Note Purchase Agreement, dated as of June 14, 2013, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended by the First Amendment thereto dated as of October 18, 2013, the Second Amendment thereto dated as of June 24, 2014, the Third Amendment thereto dated as of June 2, 2016, the Fourth Amendment thereto dated as of June 13, 2018 and the Fifth Amendment thereto dated as of December 20, 2018 and as further amended, modified, supplemented or restated from time to time, (iii) Note Purchase Agreement, dated as of December 20, 2013, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended by the First Amendment thereto dated as of June 24, 2014, the Second Amendment thereto dated as of June 2, 2016, the Third Amendment thereto dated as of June 13, 2018 and

the Fourth Amendment thereto dated as of December 20, 2018 and as further amended, modified, supplemented or restated from time to time, (iv) Note Purchase Agreement, dated as of June 24, 2014, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended by the First Amendment thereto dated as of June 2, 2016, the Second Amendment thereto dated as of June 13, 2018 and the Third Amendment thereto dated as of December 20, 2018 and as further amended, modified, supplemented or restated from time to time, (v) Note Purchase Agreement, dated as of June 2, 2016, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended by the First Amendment thereto dated as of June 13, 2018 and the Second Amendment thereto dated as of December 20, 2018 and as further amended, modified, supplemented or restated from time to time, (vi) Note Purchase and Private Shelf Agreement, dated as of December 1, 2016, by and among Obligors (as defined therein), on one hand, and the Initial Purchasers (as defined therein), PGIM, Inc. and certain other affiliates of PGIM, Inc., on the other hand, as amended by Amendment No. 1 thereto dated as of July 13, 2017, the Second Amendment thereto dated as of June 13, 2018, the Third Amendment thereto dated as of December 20, 2018 and the Fourth Amendment thereto dated June 11, 2019 and as further amended, modified, supplemented or restated from time to time, (vii) Note Purchase Agreement, dated as of June 27, 2017, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended by the First Amendment thereto dated as of June 13, 2018 and the Second Amendment thereto dated as of December 20, 2018 and as further amended, modified, supplemented or restated from time to time, (viii) Note Purchase Agreement, dated as of June 13, 2018, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended by the First Amendment thereto dated as of December 20, 2018 and as further amended, modified, supplemented or restated from time to time, (ix) Note Purchase Agreement, dated as of February 13, 2019, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended, modified, supplemented or restated from time to time and (x) Note Purchase Agreement, dated as of January 30, 2020, by and among the Obligors (as defined therein), on one hand, and the Purchasers (as defined therein) listed on Schedule A thereto, on the other hand, as amended, modified, supplemented or restated from time to time.

“*Restricted Subsidiary*” means any Subsidiary that is not an Unrestricted Subsidiary.

“*Write-Down and Conversion Powers*” means, (a) with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule, and (b) with respect to the United Kingdom, any powers of the applicable Resolution Authority under the Bail-In Legislation to cancel, reduce, modify or change the form of a liability of any UK Financial Institution or any contract or instrument under which that liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability or any of the powers under that Bail-In Legislation that are related to or ancillary to any of those powers.

Section 2.3. Section 5.3 of the Credit Agreement is hereby amended by deleting the second sentence thereof in its entirety.

Section 2.4. Section 9.4 of the Credit Agreement is hereby amended by: (i) deleting the phrase “*or the Vice President and Treasurer*” appearing in the second to last paragraph therein and inserting in its place the phrase “, *Chief Accounting Officer, or the Vice President and Treasurer*” and (ii) deleting the phrase “*Sections 9.6 and 9.7*” appearing in the second to last paragraph therein and inserting in its place the phrase “*Sections 9.6, 9.7, 9.16, and 9.19*”.

Section 2.5. Section 9.16 of the Credit Agreement is hereby amended in its entirety and as so amended shall read as follows:

Section 9. 16. *Limitations on Consolidated Priority Indebtedness.* The Company will not, as at the end of any fiscal quarter, permit Consolidated Priority Indebtedness to exceed 15% of Consolidated Total Capitalization, calculated in accordance with GAAP.

Section 2.6. Section 14.27 of the Credit Agreement is hereby amended in its entirety and as so amended shall read as follows:

Section 14.27. *Acknowledgement and Consent to Bail-In of Affected Financial Institutions.* Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Affected Financial

Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of the applicable Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by the applicable Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an Affected Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such Affected Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of the applicable Resolution Authority.

Section 2.7. Release of Co-Borrowers/Guarantors. The Borrowers hereby request that each of the Subsidiaries of the Company that is currently a “Borrower” under the Credit Agreement be removed as a “Borrower” under the Credit Agreement (each, a “*Departing Borrower*”). Upon satisfaction of the conditions precedent contained in Section 4.1 hereof, the Company, the Departing Borrowers, the Lenders and the Administrative Agent hereby agree that: (i) each Departing Borrower shall cease to be a “*Borrower*” for all purposes of the Loan Documents, (ii) the obligation of the Lenders to extend credit to or for the account of the Departing Borrowers under the Loan Documents will be terminated, and (iii) each Departing Borrower shall be released from their respective joint and several obligation as a Borrower under the Loan Documents. The Company affirms and confirms its obligations and undertakings as the “Borrower” under the Loan Documents and that it remains liable for all Obligations (including, without limitation, all outstanding Loans and L/C Obligations) under the Loan Documents and acknowledges and agrees that each Loan Document shall continue to be in full force and effect.

Section 2.8. The Attachment to Exhibit G to the Credit Agreement is hereby amended in its entirety to be as set forth as Exhibit A to this Amendment.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 Credit Agreement Representations. In order to induce the Lenders and the Administrative Agent to enter into this Amendment, each Borrower hereby represents and warrants that each of its representations and warranties contained in Section 7 of the Credit Agreement is true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of the Amendment No. 1 Effective Date (except to the extent such representation or warranty specifically relates to an earlier date, in which case such representation is made as of such earlier date). The Borrowers and Lenders acknowledge and agree that this Amendment shall constitute a Loan Document.

Section 3.2 Authority and Validity. Each Borrower has all requisite corporate or other applicable entity power and authority to execute and deliver this Amendment and perform its obligations under this Amendment and the Loan Documents (as amended by this Amendment). This Amendment has been duly authorized, executed, and delivered by each Borrower, and this Amendment and the Credit Agreement (as amended by this Amendment) constitute the valid and binding obligation of the Borrowers enforceable against them in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

Section 3.3 Non-Contravention. The execution and delivery by each Borrower of this Amendment and the performance by each Borrower of this Amendment and the Credit Agreement (as amended by this Amendment) do not: (a) contravene or constitute a default under any provision of law or any judgment, injunction, order or decree binding upon any Borrower or any provision of the organizational documents (*e.g.*, charter, certificate or articles of incorporation and by-laws, certificate or articles of association and operating agreement, partnership agreement, or other similar organizational documents) of any Borrower, (b) contravene or constitute a default under any covenant, indenture or agreement of or affecting any Borrower or any of their Property, in each case where such contravention or default, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, or (c) result in the creation or imposition of any Lien on any Property of any Borrower.

Section 3.4 Approvals. No authorization, consent, license or exemption from, or filing or registration with, any court or governmental department, agency or instrumentality, nor any approval or consent of any other Person, is or will be necessary to the valid execution and delivery by any Borrower of this Amendment or performance by any Borrower of this Amendment or the Credit Agreement (as amended by this Amendment), except for such approvals which have been obtained prior to the date of this Amendment and remain in full force and effect.

Section 3.5. No Default. At the time of and after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

ARTICLE IV

CONDITIONS PRECEDENT

Section 4.1 Effectiveness. This Amendment shall become effective on the date (the “*Amendment No. 1 Effective Date*”) on which each of the following conditions precedent are satisfied:

(a) The Administrative Agent shall have received from the Company, each Departing Borrower, each Lender, the L/C Issuer and the Swing Line Lender either (i) a counterpart of this Amendment duly executed and delivered on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include facsimile or other electronic transmission of a signed counterpart of this Amendment) that such party has duly executed and delivered a counterpart of this Amendment;

(b) The Administrative Agent shall have received for the Company (i) an original certificate of good standing certified as of a date not earlier than 30 days prior to the date hereof by the Secretary of State of Delaware and (ii) a signed certificate dated the Amendment No. 1 Effective Date from the Company’s Secretary or an Assistant Secretary certifying that its certificate incorporation and bylaws have not been amended, supplemented or otherwise modified since June 7, 2019 or, if so, attaching true, complete and correct copies of each such document as so amended, supplemented or modified;

(c) The Administrative Agent shall have received copies of resolutions of the Company’s Board of Directors authorizing the execution and delivery of the Credit Agreement, and any amendment thereof, and the consummation of the transactions contemplated hereby, together with specimen signatures of the persons authorized to execute such documents on behalf of the Company, all certified in each instance by its Secretary or Assistant Secretary on the Amendment No. 1 Effective Date; and

(d) The Administrative Agent shall have received on or prior to the Amendment No. 1 Effective Date evidence reasonably satisfactory to the Administrative Agent of the release of the Departing Borrowers from their co-obligor and/or co-guarantor obligations under each Note Purchase Agreements.

ARTICLE V

MISCELLANEOUS PROVISIONS

Section 5.1 Ratification of and References to the Credit Agreement. Except for the amendments expressly set forth above, the Credit Agreement and each other Loan Document is hereby ratified, approved and confirmed in each and every respect. Reference to this specific Amendment need not be made in the Credit Agreement, the Note(s), or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

Section 5.2 Headings. The various headings of this Amendment are for convenience of reference only, are not part of this Amendment and shall not affect the construction of, or be taken into consideration in interpreting, this Amendment.

Section 5.3 Execution in Counterparts. This Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single agreement. Delivery of executed counterparts of this Amendment by telecopy or in electronic (i.e., “pdf” or “tif”) format shall be effective as delivery of a manually executed counterpart of this Amendment.

Section 5.4 No Other Amendments. Except for the amendments expressly set forth in this Amendment, the text of the Credit Agreement and the other Loan Documents shall remain unchanged and in full force and effect, and the Lenders and the Administrative Agent expressly reserve the right to require strict compliance with the terms of the Credit Agreement and the other Loan Documents.

Section 5.5 Costs and Expenses. The Company agrees to pay promptly following an invoice therefor all reasonable costs and expenses of or incurred by the Administrative Agent in connection with the negotiation, preparation, execution and delivery of this Amendment, including the reasonable fees and expenses of counsel for the Administrative Agent, in each case, subject to the limitations set forth in Section 14.14 of the Credit Agreement.

Section 5.6 Governing Law; Submission to Jurisdiction; Waiver of Jury Trial. This Amendment, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the internal laws of the State of Illinois. The provisions of Section 14.19 (Submission to Jurisdiction; Waiver of Jury Trial) of the Credit Agreement shall be applicable *mutatis mutandis* to this Amendment.

[REMAINDER OF PAGE TO BE LEFT BLANK]

This Amendment No. 1 to Credit Agreement is entered into by the parties hereto for the uses and purposes hereinabove set forth as of the date first above written.

Borrowers

ARTHUR J. GALLAGHER & Co.

By /s/ Theodore A. Skirvin II
Name: Theodore A. Skirvin II
Title: Vice President and Treasurer

ARTHUR J. GALLAGHER & Co. (ILLINOIS)
ARTHUR J. GALLAGHER BROKERAGE & RISK MANAGEMENT
SERVICES, LLC
RISK PLACEMENT SERVICES, INC.
GALLAGHER BASSETT SERVICES, INC.
GALLAGHER BENEFIT SERVICES, INC.
ARTHUR J. GALLAGHER RISK MANAGEMENT SERVICES, INC.
ARTHUR J. GALLAGHER SERVICE COMPANY, LLC
ARTHUR J. GALLAGHER (U.S.) LLC

By /s/ Theodore A. Skirvin II
Name: Theodore A. Skirvin II
Title: Vice President and Treasurer of each of foregoing
entities

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

BANK OF MONTREAL, individually as a Lender, as L/C Issuer,
Swing Line Lender and as Administrative Agent

By /s/ Jason Deegan
Name: Jason Deegan
Title: Director

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

BANK OF AMERICA, N.A.

By /s/ Chris Choi
Name:Chris Choi
Title:Director

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

BARCLAYS BANK PLC

By /s/ Andrew Asmodeo
Name: Andrew Asmodeo
Title: Director, FIG - Insurance

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

CITIBANK, N.A.

By /s/ Justine O'Connor
Name: Justine O'Connor
Title: Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

JPMORGAN CHASE BANK, N.A.

By /s/ Milena M Kolev

Name: Milena M Kolev

Title: Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

By /s/ Paul Isaac

Name: Paul Isaac

Title: Duly Authorized Signatory

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

By /s/ Kyle Patterson

Name: Kyle Patterson

Title: Senior Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

By /s/ Matthew Titus
Name: Matthew Titus
Title: Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

By /s/ Andre Liu
Name: Andre Liu
Title: Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

CIBC BANK USA, f/k/a The PrivateBank and Trust
Company

By /s/ Austin G. Love
Name:Austin G. Love
Title:Managing Director

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

CITIZENS BANK, N.A., formerly known as RBS Citizens
National Association

By /s/ Donald A. Wright
Name: Donald A. Wright
Title: Senior Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

By /s/ Cynthia Dioquino
Name:Cynthia Dioquino
Title:Associate Director

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

By /s/ Lena Dawson

Name:Lena Dawson

Title:Senior Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

By /s/ Tina Wong
Name:Tina Wong
Title:Assistant Vice President

By /s/ Kamala Basdeo
Name:Kamala Basdeo
Title:Assistant Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

COMERICA BANK

By /s/ John Lascody
Name: John Lascody
Title: Vice President

Signature Page to
Amendment No. 1 to Arthur J. Gallagher & Co. Credit Agreement

ATTACHMENT TO COMPLIANCE CERTIFICATE
ARTHUR J. GALLAGHER & Co.

Compliance Calculations for Second Amended and Restated Multicurrency Credit Agreement
Dated as of June 7, 2019
Calculations as of _____, 20____
(\$000)

A. CASH FLOW LEVERAGE RATIO (SECTION 9.6)

FUNDED DEBT

1. Debt Outstanding - AJG\$
2. Debt Outstanding - Unrestricted Subsidiaries(\$)
3. Debt Outstanding - OtherAll recourse obligations included below

Guarantees \$

LOCs \$

Commitments \$

4. Excess Cash(\$)

NET "DEBT" \$

ADJUSTED EBITDA

1. Net Earnings
4 quarters ended
_____ \$
 2. Net Earnings Attributable to Non-Controlling Interests
4 quarters ended
_____ \$
 3. Interest Expense
4 quarters ended
_____ \$
 4. Taxes (including any portion in "Net Earnings
Attributable to Non-Controlling Interests")
4 quarters ended
_____ \$
 5. Depreciation/Amortization
4 quarters ended
_____ \$
-

6.	Change in Estimated Earnouts			
	4		quarters	ended
	_____	\$		
7.	Clean Energy Subsidiaries Pretax			
	4		quarters	ended
	_____	\$		
8.	Acquisitions EBITDA	\$		
9.	Non-Cash Stock Compensation Expense			
	4		quarters	ended
	_____	\$		
10.	Restructuring, Workforce and Lease Termination Charges			
	4		quarters	ended
	_____	\$		
11.	Acquisition Professional Fees			
	4		quarters	ended
	_____	\$		
12.	Premium/Make-Whole Amounts			
	4		quarters	ended
	_____	\$		
TOTAL EBITDA		\$		
1.	Unrestricted Subsidiaries EBITDA			
	4		quarters	ended
	_____	\$		
TOTAL UNRESTRICTED SUBSIDIARIES EBITDA			(\$)	
ADJUSTED EBITDA		\$		
CASH FLOW LEVERAGE RATIO		_____	: 1.00	
Cash Flow Leverage Ratio allowed as of this date		3.50 : 1.00		
Borrowers are in compliance? (Circle yes or no)		Yes/No		

B. INTEREST COVERAGE RATIO (SECTION 9.7)

ADJUSTED EBIT

1.	Net Earnings			
	4		quarters	ended
	_____	\$		
2.	Net Earnings Attributable to Non-Controlling Interests			
	4		quarters	ended
	_____	\$		
3.	Interest Expense			
	4		quarters	ended
	_____	\$		

4. Clean Energy Subsidiaries Pre-Tax
_____ \$ 4 quarters ended

5. Taxes (including any portion in "Net Earnings
Attributable to Non-Controlling Interests")
4 quarters ended _____ \$

6. Change in Estimated Earnouts
4 quarters ended
_____ \$

7. Unrestricted Subsidiaries(\$)

TOTAL UNRESTRICTED SUBSIDIARIES EBIT \$

INTEREST EXPENSE

1. Interest Expense
4 quarters ended
_____ \$

2. Unrestricted Subsidiaries(\$)

TOTAL UNRESTRICTED SUBSIDIARIES INTEREST EXPENSE \$

INTEREST COVERAGE RATIO _____ : 1.00

Interest Coverage Ratio allowed as of this date 3.50 : 1.00

Borrowers are in compliance? (Circle yes or no) Yes/No

C CONSOLIDATED PRIORITY INDEBTEDNESS (SECTION 9.16)

Consolidated Priority Indebtedness

1. Indebtedness for Borrowed Money of the Company and the Restricted Subsidiaries secured by a Lien permitted by Section 9.8(h)\$
2. Indebtedness for Borrowed Money of the Restricted Subsidiaries\$

TOTAL PRIORITY INDEBTEDNESS\$

Consolidated Total Capitalization

1. Consolidated Indebtedness\$
2. Net Worth\$

CONSOLIDATED TOTAL CAPITALIZATION\$

Maximum Consolidated Priority Indebtedness allowed (15% of Consolidated Total Capitalization) \$

Borrowers are in compliance?
(Circle yes or no) Yes/No

D. RESTRICTED SUBSIDIARIES (SECTION 9.19)

Total Consolidated Assets \$

Total Unrestricted Subsidiaries Assets \$

Difference \$

TOTAL ASSETS OF RESTRICTED SUBSIDIARIES AS A PERCENTAGE OF TOTAL CONSOLIDATED ASSETS _____%

Percentage shall not be less than 90%

Borrowers are in compliance? (Circle yes or no) Yes/No

Total EBITDA \$

Total EBITDA Unrestricted Subsidiaries EBITDA \$

Difference \$

TOTAL EBITDA OF RESTRICTED SUBSIDIARIES AS A PERCENTAGE OF TOTAL CONSOLIDATED EBITDA _____%

Percentage shall not be less than 90%

Borrowers are in compliance? (Circle yes or no) Yes/No

DEBT OUTSTANDING OF UNRESTRICTED SUBSIDIARIES THAT IS NON-RECOURSE TO COMPANY OR ANY RESTRICTED SUBSIDIARY \$

Rule 13a-14(a) Certification of Chief Executive Officer

I, J. Patrick Gallagher, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arthur J. Gallagher & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ J. Patrick Gallagher, Jr.

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

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

I, Douglas K. Howell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arthur J. Gallagher & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ Douglas K. Howell

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

Section 1350 Certification of Chief Executive Officer

I, J. Patrick Gallagher, Jr., the chief executive officer of Arthur J. Gallagher & Co., certify that (i) the Quarterly Report on Form 10-Q of Arthur J. Gallagher & Co. for the quarterly period ended September 30, 2020 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: October 30, 2020

/s/ J. Patrick Gallagher, Jr.

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

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Arthur J. Gallagher & Co. and will be retained by Arthur J. Gallagher & Co. and furnished to the Securities Exchange Commission or its staff upon request.

Section 1350 Certification of Chief Financial Officer

I, Douglas K. Howell, the chief financial officer of Arthur J. Gallagher & Co., certify that (i) the Quarterly Report on Form 10-Q of Arthur J. Gallagher & Co. for the quarterly period ended September 30, 2020 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: October 30, 2020

/s/ Douglas K. Howell

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

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Arthur J. Gallagher & Co. and will be retained by Arthur J. Gallagher & Co. and furnished to the Securities Exchange Commission or its staff upon request.