SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

Current Report

Pursuant to Section 13 or 15 (D) of the Securities Exchange Act of 1934

June 25, 2003

Date of Report (Date of earliest event reported)

Arthur J. Gallagher & Co.

(Exact name of registrant as specified in its charter)

Delaware	1-9761	36-2151613
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

Two Pierce Place, Itasca, Illinois 60143-3141

(Address of principal executive offices) (Zip code)

(630) 773-3800

(Registrant's telephone number, including area code)

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

Item 5. Other Events.

Beginning with the Form 10-Q filed by Arthur J. Gallagher & Co. (Gallagher) for the quarterly period ended March 31, 2003 (the "First Quarter 10-Q"), Gallagher has changed the way it reports segment information. For all periods ending on or prior to December 31, 2002, Gallagher had reported financial information for three operating segments, Brokerage, Risk Management and Financial Services, and a Corporate segment. Beginning in 2003, Gallagher's segment disclosures only report information for the three operating segments and no longer include information for Corporate. The identifiable assets and income and expense amounts that were previously reported in the Corporate segment are now allocated to the three operating segments. Consistent with the requirements of Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," and to enhance comparability with prior periods, Gallagher is filing this Form 8-K for the purpose of providing financial statement and other historical financial information that show segment information as of and for the three year period ended December 31, 2002 on the new basis of segment reporting that was adopted by Gallagher in its First Quarter 10-Q.

In addition to the foregoing, beginning with the First Quarter 10-Q, Gallagher has changed the way it reports commissions paid to sub-brokers on its retail property/casualty (P/C) brokerage business. Such commissions had been reported as other operating expenses in Gallagher's consolidated statements of earnings, but are now reported as offsets to gross revenues in the consolidated statements of earnings in order to conform to a more common industry practice. Accordingly, the consolidated financial statements included herein have been reclassified to conform to the current year presentation. This reclassification had no impact on the previously reported net earnings or stockholders' equity. The impact on total revenues and expenses of this reclassification is presented in the consolidated statements of earnings included herein.

Operating Segments

Gallagher has identified three operating segments: Brokerage, Risk Management and Financial Services. The Brokerage segment represents three operating divisions: Retail Brokerage Services, Wholesale Brokerage Services and Gallagher Benefit Services. The Brokerage segment, for commission or fee compensation, places commercial P/C and employee benefit-related insurance on behalf of its customers. The Risk Management segment provides P/C and health claim third-party administration, loss control and risk management consulting and insurance property appraisals. Third-party administration is principally the management and processing of claims for self-insurance programs of Gallagher's clients or clients of other brokers. The Financial Services segment is responsible for managing Gallagher's diversified investment portfolio to maximize long-term after-tax returns.

The two major sources of operating revenues for Gallagher are commissions from insurance brokerage operations and service fees primarily from risk management operations. Information with respect to all sources of revenue, by operating segment, for each of the three years in the period ended December 31, 2002, is as follows (in thousands):

	2002		2001 *		2000 *	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commissions						
Brokerage	$ 662,857	63%	$ 537,933	61%	$ 472,878	61%
Fees						
Brokerage	109,046	10%	62,342	7%	51,678	7%
Risk Management	280,434	26%	263,612	30%	230,761	30%
Investment income and other						
Brokerage	9,240	1%	12,070	1%	17,333	2%
Risk Management	817	-	1,084	-	1,534	-
Financial Services	38,828	4%	45,947	5%	26,396	3%
Gross revenues	1,101,222	104%	922,988	104%	800,580	103%
Less brokerage	(41,015)	(4%)	(34,959)	(4%)	(26,048)	(3%)
Total revenues	$ 1,060,207	100%	$ 888,029	100%	$ 774,532	100%

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* Restated to conform to the current year presentation. See Note 3 to the Consolidated Financial Statements.

See Note 18 to the Consolidated Financial Statements for additional financial information, including earnings before income taxes and identifiable assets, by operating segment, for 2002, 2001 and 2000.

During 2002 and 2001, Gallagher's total revenues and expenses increased sequentially from quarter-to-quarter within the calendar years, except for the second quarter of 2001 and the third quarter of 2002, the latter of which was negatively impacted by $28.9 million of investment write-downs. However, commission and fee revenues and the related expenses can vary from quarter-to-quarter as a result of the timing of policy inception dates that traditionally are heaviest in the third and fourth quarters. On the other hand, salaries and employee benefits, rent, depreciation and amortization expenses tend to be more uniform throughout the year. In addition, the timing of acquisitions accounted for as purchases will also impact the trends in Gallagher's quarterly operating results. See Note 17 to the Consolidated Financial Statements for unaudited quarterly operating results for 2002 and 2001.

Brokerage

The Brokerage segment comprises the following operations: the Brokerage

Services Division (BSD) and Gallagher Benefit Services (GBS). BSD encompasses two operating divisions: Retail Brokerage Services, Wholesale Brokerage Services

BSD places insurance for and services commercial, industrial, institutional, governmental, religious and personal accounts throughout the United States and abroad. BSD acts as an agent in soliciting, negotiating and effecting contracts of insurance through insurance companies worldwide, as a broker in procuring contracts of insurance on behalf of insureds, and in setting up and managing self-insured programs. BSD has the capability to handle insurable risks and related coverages for all forms of property/casualty products. BSD also places surplus lines coverages, which are coverages for various specialized risks not available from insurance companies licensed by the states in which the risks are located. In addition, BSD's reinsurance intermediary operations place reinsurance coverages for its insurance company clients.

GBS specializes in the management of employee benefit programs through fully insured and self-insured programs. GBS provides services in connection with the design, financing, implementation, administration and communication of compensation and employee benefit programs (including pension and profit-sharing plans, group life, health, accident and disability insurance programs and tax deferral plans), and provides other professional services in connection therewith.

The primary source of Gallagher's compensation for its Brokerage segment is commissions paid by insurance companies which are usually based upon a percentage of the premium paid by insureds. Commission rates are dependent on a number of factors including the type of insurance, the particular insurance company and the capacity in which Gallagher acts. In some cases, Gallagher is compensated for brokerage or advisory services directly by fees from clients. Gallagher may also receive contingent commissions which are based on the estimated profit the underwriting insurance company earns and/or the overall volume of business placed by Gallagher in a given period of time. Occasionally, Gallagher shares commissions with other brokers who have participated with Gallagher in placing insurance or servicing insureds. GBS receives a fee for acting in the capacity of advisor and administrator with respect to employee benefit programs and receives commissions in connection with the placement of insurance under such programs.

Risk Management

The Risk Management segment comprises two wholly-owned subsidiaries, Gallagher Bassett Services, Inc. (GB) and Gallagher Benefit Administrators, Inc. (GBA).

GB provides a full range of risk management services including claims management, risk control consulting services, information management, property appraisals on a totally integrated or select, stand-alone basis. GB provides these services for Gallagher's clients through a network of service offices located throughout the United States, Canada, England, Scotland and Australia.

GB primarily markets its risk management services directly to clients on an unbundled basis independent of Gallagher. GB also markets these services to BSD's clients who are interested in P/C risk management related services.

In connection with its risk management services, GB provides "self-insurance" programs for large institutions, risk sharing pools and associations, and large commercial and industrial customers. Self-insurance, as administered by GB, is a program in which the client assumes a manageable portion of its insurance risks, usually (although not always) placing the less predictable and larger loss exposures with an insurance carrier that specializes in these less predictable exposures.

GBA is a third-party administrator that serves the self-funded employee health benefit marketplace by integrating effective managed care and quality assurance programs with claims administration services. The employee health benefit services provided by GBA are, in many instances, directly supported by GBS.

GB's and GBA's revenues for risk management services are substantially in the form of fees. These fees are typically negotiated in advance on an annual

basis based upon the estimated volume of the services to be performed.

Financial Services

Financial Services is primarily responsible for Gallagher's diversified investment portfolio which includes investment strategies--trading, marketable securities--trading, tax advantaged investments, real estate partnerships, an investment in Allied World Assurance Holdings, Ltd., venture capital equity investments, a minority investment in an alternative fund manager, notes receivable from investees, and an investment in an airplane leasing company that leases two cargo airplanes to the French postal service. Financial Services manages the invested assets of Gallagher in order to maximize the long-term after-tax return to Gallagher. See Note 4 to the Consolidated Financial Statements of Gallagher's for a summary of Gallagher's investments and notes receivable and for a summary of the assets and liabilities related to Gallagher's unconsolidated investment portfolio, accounted for using the equity method.

Gallagher's equity investment philosophy generally consists of investing in tax advantaged investments and venture capital equity projects which take a long-term view toward private sale or public offering. Gallagher uses the limited partnership or limited liability company forms of legal ownership to fund many of its investments in order to obtain favorable tax treatment with respect to gains, losses and distributions, while limiting its liability. Based on the ownership structure of these investments, management believes that Gallagher's exposure to losses related to these investments is limited to the combination of its net carrying value, funding commitments, letters of credit and financial guarantees. In the event that certain of these limited partnerships or limited liability companies were to default on their debt obligations and Gallagher's net carrying value became impaired, the amount to be written-off could have a material effect on Gallagher's consolidated financial position or operating results. See Note 4 and Note 15 to the Consolidated Financial Statements for a summary of outstanding letters of credit, financial guarantees and funding commitments and Note 7 for a summary of outstanding debt and contingent commitments.

Selected Financial Data

The following selected consolidated financial data for each of the five years in the period ended December 31, 2002 have been derived from Gallagher's consolidated financial statements. Such data should be read in conjunction with Gallagher's audited Consolidated Financial Statements and related notes thereto.

	Year Ended December 31, (1)				
	2002	2001	2000	1999	1998
	(In thousands, except per share and employee data)				
Consolidated Statement of Earnings Data:					
Commissions	$ 662,857	$ 537,933	$ 472,878	$ 440,828	$ 421,256
Fees	389,480	325,954	282,439	235,879	213,360
Investment income and other	48,885	59,101	45,263	39,230	24,980
Gross revenues	1,101,222	922,988	800,580	715,937	659,596
Less brokerage	(41,015)	(34,959)	(26,048)	(16,735)	(15,517)
Total revenues	1,060,207	888,029	774,532	699,202	644,079
Total expenses	874,865	746,176	640,793	572,178	560,913
Earnings before income taxes	185,342	141,853	133,739	127,024	83,166
Provision for income taxes	55,603	16,597	40,784	43,784	16,287
Net earnings	$ 129,739	$ 125,256	$ 92,955	$ 83,240	$ 66,879
Per Share Data:					
Basic net earnings per share (2)	$ 1.49	$ 1.48	$ 1.11	$ 1.02	$ .83
Diluted net earnings per share (3)	1.41	1.39	1.04	.97	.80
Dividends declared per common share (4)	.60	.52	.46	.40	.35
Share Data:					
Shares outstanding at year end	88,548	85,111	84,540	82,157	81,169
Weighted average number of common shares outstanding	87,303	84,795	83,558	81,678	80,757
Weighted average number of common and common equivalent shares outstanding	91,861	90,127	88,967	85,606	83,973

Consolidated Balance Sheet Data:					
Total assets	$ 2,463,574	$ 2,145,342	$ 1,626,771	$ 1,364,302	$ 1,243,946
Long-term debt less current portion	128,349	96,698	103,856	13,900	15,500
Total stockholders' equity	528,155	371,613	328,900	260,801	268,668
Return on Beginning Stockholders' Equity (5)	35%	38%	36%	31%	28%
Employee Data:					
Number of employees at year end	7,111	6,499	5,714	5,344	5,128
Total gross revenue per employee (6)	$ 155	$ 142	$ 140	$ 134	$ 129
Net earnings per employee (6)	$ 18	$ 19	$ 16	$ 16	$ 13

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(1) Restated to conform to the current year presentation. See Note 3 to the Consolidated Financial Statements.

(2) Based on the weighted average number of common shares outstanding during the year.

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

(4) Based on the total dividends declared on a share of common stock outstanding during the entire year.

(5) Represents annual net earnings divided by stockholders' equity as of the beginning of the year.

(6) Based on the number of employees at year end.

Results Of Operations -- Segment Information

As discussed in Note 18 to the Consolidated Financial Statements, Gallagher operates in three business segments; Brokerage, Risk Management and Financial Services.

Brokerage

Total revenues for this segment increased $162.7 million, or 28%, to $740.1 million in 2002. Total domestic revenues were up $134.9 million, or 26%, to $661.0 million in 2002 and total foreign revenues, principally in the United Kingdom, Australia and Bermuda, were up $27.8 million, or 54%, to $79.2 million in 2002. These increases are due principally to new business, renewal rate increases and the effect of acquisitions accounted for as purchases that were made in the fourth quarter of 2001 and throughout 2002, partially offset by lost business. Earnings before income taxes increased $31.2 million, or 27%, to $148.7 million in 2002 due primarily to the new business production and rate increases mentioned above.

Total revenues increased $61.5 million, or 12%, to $577.4 million in 2001. This increase is due primarily to new business production offset partially by lost business and a $5.6 million reduction in interest income generated from the float on fiduciary funds in 2001. The decrease in the fiduciary interest income is due to the decrease in short-term interest rates during 2001. Total domestic revenues were up $53.6 million, or 11%, to $526.1 million in 2001 and total foreign revenues, principally in the United Kingdom, Australia and Bermuda, were up $8.0 million, or 18%, to $51.3 million in 2001. These increases are due primarily to new business production offset partially by lost business. Earnings before income taxes increased $20.0 million, or 21%, to $117.5 million in 2001 principally as a result of increased revenues.

Risk Management

Total revenues for this segment increased $16.6 million, or 6%, to $281.3 million in 2002 due primarily to new business production substantially offset by reductions in existing business volume and by lost business. Total domestic revenues were up $14.3 million, or 6%, to $256.7 million in 2002 and total foreign revenues, principally from the United Kingdom and Australia, were up $2.2 million, or 10% to $24.5 million in 2002. The slowdown in total revenue growth from historical double-digit percentages to recent single-digit percentages, is primarily the result of the events of September 11, 2001, combined with a general economic slowdown in the United States. GB provides services to several airline, hospitality and restaurant-related clients, all of

whose businesses were particularly hard hit following September 11th. Because those clients experienced declines in their business, including reductions in their headcount, the rate of increase in new GB claim counts slowed, and for some clients, actual claim counts decreased from the same period in 2001. In addition, the hard market had an unfavorable impact on GB as several of its managing general agent programs were unable to renew their coverages in the reinsurance marketplace during 2002. GB's 2002 operating results were also negatively impacted by several insurance carrier insolvencies in 2002 and 2001. As GB's revenues are generally based on the number of new claims it handles, the reduction in claims has had a direct impact on revenue. As revenues slow, expenses in the short-term do not experience the same immediate reduction. The net result of the above is that earnings before income taxes for the segment of $31.5 million in 2002 were flat compared to 2001.

Total revenues were up $32.4 million, or 14%, to $264.7 million in 2001 due to strong new business production and favorable retention rates on existing business. Total domestic revenues were up $32.0 million, or 15%, to $242.4 million in 2001 and total foreign revenues, principally from the United Kingdom and Australia, were up $382,000, or 2%, to $22.3 million in 2001 due primarily to new business and substantially less lost business than in 2000. Earnings before income taxes of $31.3 million in 2001 were flat compared to 2000.

Financial Services

Total revenues for this segment decreased $7.1 million, or 15%, to $38.8 million in 2002. This decrease is primarily due to the following previously discussed items:

- Other-than-temporary impairments that resulted from the sharp decline in the equity markets during 2002, most of which occurred in the third quarter. During 2002, Gallagher recognized other-than-temporary impairments of $10.6 million in the consolidated statements of earnings related to its marketable securities portfolio.

- An unrealized loss of $425,000 that was recognized in the third quarter of 2002 related to reclassifying the marketable securities portfolio from available for sale to trading.

- Aggregate write-downs of loans and equity holdings of $19.6 million related to venture capital investments that were recognized in 2002. In addition, Gallagher incurred a $3.6 million loss in 2002 on the sale of a venture capital investment.

- The $3.0 million loss that was recognized by Gallagher in the fourth quarter of 2002 through the equity method of accounting for Asset Alliance Corporation's (AAC) write-down of its investment in Beacon Hill.

- A one-time gain of $4.5 million generated from the sale of land by Harmony that was recognized in the first quarter of 2001.

These decreases are partially offset by installment gains from the sales of Gallagher's interests in limited partnerships that operate synthetic fuel facilities that were completed in the third and fourth quarters of 2001 and the first and fourth quarters of 2002. These installment gains increased $22.9 million, or 195%, to $34.6 million in 2002. In addition, the $11.8 million gain on the sale of a portion of Gallagher's minority interest in AAC also offset the 2002 decreases discussed above.

Earnings before income taxes increased $12.2 million, or 175%, to $5.2 million in 2002. This increase is primarily due to the $14.9 million reduction in the operating expenses of alternative energy partnerships, the $22.9 million increase in installment gains and the $11.8 million gain on the sale of a portion of Gallagher's minority interest in AAC, all of which were significantly offset by the impairments and write-downs discussed above.

Total revenues increased $19.6 million, or 74%, to $45.9 million in 2001 due primarily to realized gains of $2.8 million generated from Gallagher's investment strategies and marketable securities portfolios, increased installment gains on the alternative energy sale transactions discussed above and to income generated from commitment fees paid to Gallagher for providing letters of credit and financial guarantees to three of its investees. Also

contributing to the increase in total revenues was income from real estate ventures related to the $4.5 million gain from Harmony mentioned above and the $2.4 million gain recognized on the sale of a benefits administration book of business in 2001.

Earnings before income taxes decreased $11.5 million, or 255%, to a loss of $7.0 million in 2001 due primarily to the increase in operating expenses of alternative energy partnerships of $21.1 million in 2001, which represents Gallagher's portion of the production costs associated with the operations of the synthetic fuel facilities. The increase in these expenses in 2001 relates to the production costs incurred by the alternative energy partnerships that generated a substantial portion of the tax credits earned by Gallagher in 2001. The tax credits generated by these investments are included in the provision for income taxes, which is not allocated to Gallagher's operating entities. The impact of the increase in operating expenses of alternative energy partnerships on 2001 earnings before income taxes was partially offset by the revenue increases discussed above.

Information Concerning Forward-Looking Statements

This current report contains forward-looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 (the "Act") found at Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Additional written or oral forward-looking statements may be made by Gallagher from time to time in filings with the Securities and Exchange Commission (SEC), press releases, or otherwise. Statements contained in this report that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Act. Forward-looking statements may include, but are not limited to, discussions concerning revenues, expenses, earnings, cash flow, capital structure, financial losses, as well as market and industry conditions, premium rates, financial markets, interest rates, foreign exchange rates, contingencies and matters relating to Gallagher's operations and income taxes. In addition, when used in this report, the words "anticipates," "believes," "should," "estimates," "expects," "intends," "plans" and variations thereof and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are based on available current market and industry material, experts' reports and opinions and long-term trends, as well as management's expectations concerning future events impacting Gallagher.

Forward-looking statements made by or on behalf of Gallagher are subject to risks and uncertainties, including but not limited to the following: Gallagher's commission revenues are highly dependent on premiums charged by insurers, which are subject to fluctuation; lower interest rates reduce Gallagher's income earned on invested funds; the alternative insurance market continues to grow which could unfavorably impact commission and favorably impact fee revenue; Gallagher's revenues vary significantly from period to period as a result of the timing of policy inception dates and the net effect of new and lost business production; the general level of economic activity can have a substantial impact on Gallagher's renewal business; Gallagher's operating results, returns on investments and financial position may be adversely impacted by exposure to various market risks such as interest rate, equity pricing, foreign exchange rates and the competitive environment, and changes in income tax laws. Gallagher's ability to grow has been enhanced through acquisitions, which may or may not be available on acceptable terms in the future and which, if consummated, may or may not be advantageous to Gallagher. Accordingly, actual results may differ materially from those set forth in the forward-looking statements.

Readers are cautioned not to place undue reliance on any forward-looking statements contained in this report, which speak only as of the date set forth on the signature page hereto. Gallagher undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after such date or to reflect the occurrence of anticipated or unanticipated events.

Item 7. Exhibits.

23.1 Consent of Ernst & Young LLP, independent auditors.

99.1 Gallagher's 2002 Audited Financial Statements.

Signature

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 25th day of June, 2003.

Arthur J. Gallagher & Co.

/s/ Richard C. Cary

Richard C. Cary
Controller and Chief Accounting Officer

Arthur J. Gallagher & Co.

Current Report on Form 8-K

Exhibit Index

23.1	Consent of Ernst & Young LLP, independent auditors.
99.1	Gallagher's 2002 Audited Financial Statements.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8, No. 33-604 and Form S-8, No. 33-14625) pertaining to the Arthur J. Gallagher & Co. Incentive and United Kingdom Incentive Plans, in the Registration Statements (Form S-8, No. 33-24251, Form S-8, No. 33-38031 and Form S-8, No. 333-57155) pertaining to the Arthur J. Gallagher & Co. 1988 Incentive and 1988 Nonqualified Stock Option Plans, in the Registration Statement (Form S-8, No. 33-30816) pertaining to the Arthur J. Gallagher & Co. Non-Employee Directors' Stock Option Plan, in the Registration Statements (Form S-8, No. 33-64614 and Form S-8, No. 33-80648) pertaining to the Arthur J. Gallagher & Co. 1988 Incentive, 1988 Nonqualified, and Non-Employee Directors' Stock Option Plans, in the Registration Statements (Form S-8, No. 333-06359, Form S-8, No. 333-40000 and Form S-8, No. 333-87320) pertaining to the Arthur J. Gallagher & Co. 1988 Nonqualified and Non-Employee Directors' Stock Option Plans, in the Registration Statement (Form S-8, No. 333-62930) pertaining to the Arthur J. Gallagher & Co. 1988 Nonqualified and Non-Employee Directors' Stock Option Plans and the Gallagher Healthcare Insurance Services, Inc. 2001 Nonqualified Stock Option Plan, in the Registration Statements (Form S-4, No. 333-75197, Form S-3, No. 333-84139 and Form S-4, No. 333-55254), and in the related Prospectuses, of our report dated January 29, 2003 with respect to the consolidated financial statements of Gallagher included in this Current Report on Form 8-K.

/s/ Ernst & Young LLP

Ernst & Young LLP

Chicago, Illinois
June 25, 2003

EXHIBIT 99.1

Audited Consolidated Financial Statements
Arthur J. Gallagher & Co.
Years Ended December 31, 2002, 2001 and 2000

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REPORT OF
INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Arthur J. Gallagher & Co.

We have audited the accompanying consolidated balance sheets of Arthur J. Gallagher & Co. (Gallagher) as of December 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of Gallagher's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arthur J. Gallagher & Co. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
January 29, 2003

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)	YEARS ENDED DECEMBER 31, 2002	2001	2000
OPERATING RESULTS			
Revenues:			
Commissions	$ 662,857	$ 537,933	$ 472,878
Fees	389,480	325,954	282,439
Investment income and other:			
Interest income from fiduciary funds	9,289	13,166	19,468
Income (loss) from investment strategies and marketable securities	(5,851)	8,255	6,574
Income (loss) from equity investments and partnerships	(15,534)	8,049	3,243
Gain on sale of portion of minority interest in investment	11,848	--	--
Installment gains from alternative energy partnership sales	34,580	11,703	9,200
Income from real estate ventures	9,324	12,115	3,121
Other income	5,229	5,813	3,657
Total investment income and other	48,885	59,101	45,263
Gross revenues	1,101,222	922,988	800,580
Less brokerage	(41,015)	(34,959)	(26,048)
Total revenues	1,060,207	888,029	774,532
Expenses:			
Salaries and employee benefits	586,975	489,290	426,147
Other operating expenses	242,064	206,021	193,253
Operating expenses of alternative energy partnerships	6,131	21,079	--
Expenses of real estate ventures	7,265	6,640	1,967
Depreciation	25,784	19,641	15,780
Amortization	6,646	3,505	3,646
Total expenses	874,865	746,176	640,793
Earnings before income taxes	185,342	141,853	133,739
Provision for income taxes	55,603	16,597	40,784
Net earnings	$ 129,739	$ 125,256	$ 92,955
Basic net earnings per share	$ 1.49	$ 1.48	$ 1.11
Diluted net earnings per share	1.41	1.39	1.04
Dividends declared per common share	.60	.52	.46

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(in thousands)	DECEMBER 31, 2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 152,536	$ 98,530
Restricted cash	256,323	209,509
Premiums and fees receivable	1,183,737	1,117,238
Investment strategies -- trading	55,937	52,588
Marketable securities -- trading	14,619	--
Other	110,458	85,142
Total current assets	1,773,610	1,563,007
Marketable securities -- available for sale	--	18,290

Deferred income taxes	102,361	99,263
Other investments and notes receivable	168,413	192,002
Other noncurrent assets	33,133	24,194
Fixed assets	367,273	283,807
Accumulated depreciation and amortization	(116,278)	(100,562)
Net fixed assets	250,995	183,245
Goodwill -- net	84,217	55,475
Amortizable intangible assets -- net	50,845	9,866
	$ 2,463,574	$ 2,145,342
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Premiums payable to insurance and reinsurance companies	$ 1,488,222	$ 1,366,516
Accrued salaries and bonuses	58,066	56,572
Accounts payable and other accrued liabilities	107,542	111,618
Unearned fees	19,427	16,527
Income taxes payable	11,036	33,746
Borrowings on line of credit facility	25,000	35,000
Borrowings on line of credit facilities -- limited partnerships	16,996	3,552
Current portion of long-term debt -- limited partnerships	5,786	3,152
Other	17,529	11,273
Total current liabilities	1,749,604	1,637,956
Long-term debt -- limited partnerships	128,349	96,698
Other noncurrent liabilities	57,466	39,075
Commitments and contingencies -- Note 15		
Stockholders' equity:		
Common stock -- issued and outstanding 88,548 shares in 2002 and 85,111 shares in 2001	88,548	85,111
Capital in excess of par value	92,716	8,768
Retained earnings	360,958	283,796
Unearned deferred compensation	(6,544)	(3,438)
Unearned restricted stock	(7,523)	--
Accumulated other comprehensive earnings (loss)	--	(2,624)
Total stockholders' equity	528,155	371,613
	$ 2,463,574	$ 2,145,342

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	YEARS ENDED DECEMBER 31, 2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 129,739	$ 125,256	$ 92,955
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net loss (gain) on investments and other	13,562	(2,895)	(2,006)
Gain on sales of operations	(2,500)	(2,375)	(1,823)
Depreciation and amortization	32,430	23,146	19,426
Increase in restricted cash	(46,814)	(50,863)	(29,350)
Increase in premiums receivable	(57,705)	(297,758)	(53,395)
Increase in premiums payable	103,000	380,464	97,105
(Increase) decrease in trading investments -- net	(1,758)	1,051	6,498
(Increase) decrease in other current assets	(21,787)	(9,160)	7,876
Increase in accrued salaries and bonuses	4,534	18,094	14,073
Decrease in accounts payable and other accrued liabilities	(8,795)	(1,478)	(1,479)
(Decrease) increase in income taxes payable	(22,842)	23,456	105
Tax benefit from issuance of common stock	18,683	24,806	20,027
Net change in deferred income taxes	(6,577)	(77,751)	(30,613)
Other	16,513	(22,452)	30,019
Net cash provided by operating activities	149,683	131,541	169,418

CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(16,004)	(13,957)	(25,832)
Proceeds from sales of marketable securities	10,568	23,051	22,471
Proceeds from maturities of marketable securities	3,185	398	762
Net additions to fixed assets	(45,430)	(31,457)	(20,649)
Cash paid for acquisitions, net of cash acquired	(5,443)	(17,893)	(14,801)
Proceeds from sales of operations	2,500	2,700	2,334
Other	1,897	(47,804)	(35,632)
Net cash used by investing activities	(48,727)	(84,962)	(71,347)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	15,546	27,255	27,837
Repurchases of common stock	(11,662)	(104,122)	(31,344)
Dividends paid	(50,359)	(41,618)	(33,759)
Borrowings on line of credit facilities	271,444	210,252	45,000
Repayments on line of credit facilities	(268,000)	(171,700)	(60,000)
Borrowings of long-term debt	500	--	12,410
Repayments of long-term debt	(4,419)	(4,006)	(2,315)
Equity transactions of pooled companies prior to dates of acquisition	--	(13,497)	(4,937)
Net cash used by financing activities	(46,950)	(97,436)	(47,108)
Net increase (decrease) in cash and cash equivalents	54,006	(50,857)	50,963
Cash and cash equivalents at beginning of year	98,530	149,387	98,424
Cash and cash equivalents at end of year	$ 152,536	$ 98,530	$ 149,387
Supplemental disclosures of cash flow information:			
Interest paid	$ 10,743	$ 10,477	$ 4,937
Income taxes paid	63,067	36,470	25,371

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	UNEARNED DEFERRED COMPENSATION	UNEARNED RESTRICTED STOCK
Balance at December 31, 1999	82,157	$ 82,157	$ 8,847	$ 172,466	$ --	$ --
Net earnings	--	--	--	92,955	--	--
Net change in unrealized gain (loss) on available for sale securities	--	--	--	--	--	--
COMPREHENSIVE EARNINGS						
Cash dividends declared on common stock	--	--	--	(35,539)	--	--
Common stock issued under stock option plans	3,811	3,811	24,026	--	--	--
Tax benefit from issuance of common stock	--	--	20,027	--	--	--
Common stock repurchases	(1,500)	(1,500)	(30,987)	--	--	--
Common stock issued in two pooling acquisitions	72	72	--	--	--	--
Equity transactions of pooled companies prior to dates of acquisition	--	--	(151)	(4,786)	--	--
Balance at December 31, 2000	84,540	84,540	21,762	225,096	--	--
Net earnings	--	--	--	125,256	--	--
Net change in unrealized gain (loss) on available for sale securities	--	--	--	--	--	--
COMPREHENSIVE EARNINGS						
Cash dividends declared on common stock	--	--	--	(43,534)	--	--
Common stock issued under stock option plans	3,007	3,007	24,248	--	--	--
Tax benefit from issuance of common stock	--	--	24,806	--	--	--
Common stock repurchases	(3,359)	(3,359)	(90,151)	(9,470)	--	--
Common stock issued in three pooling acquisitions	93	93	--	--	--	--
Common stock issued in three purchase acquisitions	678	678	24,200	--	--	--
Common stock issued under deferred compensation	152	152	3,848	--	(3,438)	--
Equity transactions of pooled companies prior to dates of acquisition	--	--	55	(13,552)	--	--
Balance at December 31, 2001	85,111	85,111	8,768	283,796	(3,438)	--
Net earnings	--	--	--	129,739	--	--

Net change in unrealized gain (loss) on available for sale securities	--	--	--	--	--	--
COMPREHENSIVE EARNINGS						
Cash dividends declared on common stock	--	--	--	(52,577)	--	--
Common stock issued under stock option plans	1,896	1,896	13,650	--	--	--
Tax benefit from issuance of common stock	--	--	18,683	--	--	--
Common stock repurchases	(478)	(478)	(11,184)	--	--	--
Common stock issued in seven purchase acquisitions	1,590	1,590	49,166	--	--	--
Common stock issued under deferred compensation	123	123	3,908	--	(3,106)	--
Common stock issued under restricted stock	306	306	9,725	--	--	(7,523)
Balance at December 31, 2002	88,548	$ 88,548	$ 92,716	$ 360,958	$ (6,544)	$ (7,523)

(IN THOUSANDS)	ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS)	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1999	$ (2,669)	$ 260,801
Net earnings	--	92,955
Net change in unrealized gain (loss) on available for sale securities	171	171
COMPREHENSIVE EARNINGS		93,126
Cash dividends declared on common stock	--	(35,539)
Common stock issued under stock option plans	--	27,837
Tax benefits from issuance of common stock	--	20,027
Common stock repurchases	--	(32,487)
Common stock issued in two pooling acquisitions	--	72
Equity transactions of pooled companies prior to dates of acquisition	--	(4,937)
Balance at December 31, 2000	(2,498)	328,900
Net earnings	--	125,256
Net change in unrealized gain (loss) on available for sale securities	(126)	(126)
		125,130
COMPREHENSIVE EARNINGS		
Cash dividends declared on common stock	--	(43,534)
Common stock issued under stock option plans	--	27,255
Tax benefit from issuance of common stock	--	24,806
Common stock repurchases	--	(102,980)
Common stock issued in three pooling acquisitions	--	93
Common stock issued in three purchase acquisitions	--	24,878
Common stock issued under deferred compensation	--	562
Equity transactions of pooled companies prior to dates of acquisition	--	(13,497)
Balance at December 31, 2001	(2,624)	371,613
Net earnings	--	129,739
Net change in unrealized gain (loss) on available for sale securities	2,624	2,624
		132,363
COMPREHENSIVE EARNINGS		
Cash dividends declared on common stock	--	(52,577)
Common stock issued under stock option plans	--	15,546
Tax benefit from issuance of common stock	--	18,683
Common stock repurchases	--	(11,662)
Common stock issued in seven purchase acquisitions	--	50,756
Common stock issued under deferred compensation	--	925
Common stock issued under restricted stock	--	2,508
Balance at December 31, 2002	$ --	$ 528,155

See notes to consolidated financial statements.

NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Arthur J. Gallagher & Co. (Gallagher) provides insurance brokerage and risk management services to a wide variety of commercial, industrial, institutional and governmental organizations. Commission revenue is principally generated through the negotiation and placement of insurance for its clients. Fee revenue is primarily generated by providing other risk management services including claims management, information management, risk control services and appraisals in either the property/casualty market or human resource/employee benefit market. Investment income and other revenue is generated from Gallagher's investment portfolio, which includes fiduciary funds, equity securities and tax advantaged and other strategic investments. Gallagher is headquartered in Itasca, Illinois, has operations in seven countries and does business in more than 100 countries around the world through a network of correspondent brokers and consultants.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Gallagher and all of its majority owned subsidiaries (50% or greater ownership). Investments in partially owned entities in which Gallagher's ownership is less than 50% are accounted for using either the lower of amortized cost/cost or fair value, or the equity method, whichever is appropriate depending on the legal form of Gallagher's ownership interest and the applicable percentage of the entity owned. For partially owned entities accounted for using the equity method, Gallagher's share of the net earnings of these entities is included in consolidated net earnings. All material intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior years' financial statements in order to conform to the current year presentation.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

REVENUE RECOGNITION

Gallagher's revenues are derived from commissions, fees and investment income.

Commission revenues, as well as the related premiums receivable and premiums payable to insurance companies, are recognized at the latter of the billing or the effective date of the related insurance policies, net of an allowance for estimated policy cancellations. Commission revenues related to installment premiums are recognized periodically as billed. Contingent commissions and commissions on premiums directly billed by insurance companies are recognized as revenue when the data necessary to reasonably determine such amounts has been obtained by Gallagher. Typically, these types of commission revenues cannot be reasonably determined until the cash or the related detail is received by Gallagher from the insurance company. A contingent commission is a commission, paid by an insurance company, that is based on the overall estimated profit and/or volume of the business placed with that insurance company. Commissions on premiums billed directly by insurance companies relates to a large number of small premium transactions, whereby the billing and policy issuance process is controlled entirely by the insurance company. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

Fee revenues are recognized ratably as the services are rendered. Fee revenues generated from the Insurance Brokerage Services segment primarily relate to fees negotiated in lieu of commissions, which are recognized in the same manner as commission revenues. Fee revenues generated from the Risk Management Services segment relate to third-party claims administration, loss control and other risk management consulting services,

which are provided over a period of time, typically one year. The income effects of subsequent fee adjustments are recorded when the adjustments become known.

Premiums and fees receivable in the accompanying consolidated balance sheets are net of allowances for estimated policy cancellations and doubtful accounts. The allowance for estimated policy cancellations was $3,000,000 and $2,500,000 at December 31, 2002 and 2001, respectively, which represents a reserve for future reversals in commission and fee revenues related to the potential cancellation of client insurance policies that were in force as of year end. The allowance for doubtful accounts was $2,025,000 and $1,730,000 at December 31, 2002 and 2001, respectively. Gallagher periodically reviews the adequacy of the allowances for estimated policy cancellations and doubtful accounts and adjusts them as deemed necessary.

Investment income and other primarily includes interest income, dividend income, net realized and unrealized gains (losses), income (loss) from equity investments, and gains on sales of operations and invested assets. Interest income is recorded as earned. Dividend income is recognized as income based on the date that the underlying security trades "ex-dividend." For revenue recognition policies pertaining to net realized and unrealized gains (losses), see the accounting policy on investments below. Income (loss) from equity investments represents Gallagher's proportionate share of income or losses from investments accounted for using the equity method.

EARNINGS PER SHARE

Basic net earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the respective period. Diluted net earnings per share is computed by dividing net earnings by the weighted average number of common and common equivalent shares outstanding during the respective period. Common equivalent shares include incremental shares from dilutive stock options, which are calculated from the date of grant under the treasury stock method using the average market price for the period.

CASH AND CASH EQUIVALENTS

Short-term investments, consisting principally of commercial paper and certificates of deposit that have a maturity of 90 days or less at date of purchase, are considered cash equivalents.

RESTRICTED CASH

In its capacity as an insurance broker, Gallagher collects premiums from insureds and, after deducting its commissions and/or fees, remits these premiums to insurance carriers. Unremitted insurance premiums are held in a fiduciary capacity until disbursed by Gallagher. Various state and foreign

agencies that regulate insurance brokers provide specific requirements that limit the type of investments that may be made with such funds. Accordingly, Gallagher invests these funds in cash, money market accounts, commercial paper and certificates of deposit. Gallagher earns interest income on these unremitted funds, which is reported as interest income from fiduciary funds in the accompanying consolidated statements of earnings.

Premiums collected from insureds, but not yet remitted to insurance carriers, are restricted as to use by laws in certain states and foreign jurisdictions in which Gallagher's subsidiaries operate. These unremitted amounts are reported as restricted cash in the accompanying consolidated balance sheets, with the related liability reported as premiums payable to insurance companies. Additionally, one of Gallagher's United Kingdom subsidiaries is required by Lloyd's of London to meet certain liquidity requirements.

INVESTMENTS

Investment strategies and marketable securities are considered trading securities. Investment strategies consist primarily of limited partnerships, which invest in common and preferred stocks and bonds. Marketable securities consist primarily of common and preferred stocks and bonds. Investments designated as trading are carried at fair value in the

accompanying consolidated balance sheets, with unrealized gains and losses included in the consolidated statements of earnings. The fair value of investment strategies is determined by reference to the fair values of the underlying common and preferred stocks and bonds, which are based primarily on quoted market prices. The fair value of marketable securities is based primarily on quoted market prices.

Effective September 30, 2002, Gallagher reclassified its marketable securities portfolio which consists primarily of common and preferred stocks and bonds, from available for sale to trading based on changes in its investment philosophy. Prior to September 30, 2002, marketable securities were considered available for sale and were carried at fair value in the accompanying consolidated balance sheets, with unrealized gains and losses, less related deferred income taxes, excluded from net earnings and reported as accumulated other comprehensive earnings (loss). Gains and losses were recognized in net earnings when realized using the specific identification method. The fair value of marketable securities held as available for sale were based primarily on quoted market prices. As a result of this reclassification, $425,000 of net pretax unrealized losses, previously classified in accumulated other comprehensive earnings (loss), was recognized in earnings before income taxes in the third quarter of 2002.

FIXED ASSETS

Fixed assets are carried at cost in the accompanying consolidated balance sheets. Gallagher periodically reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Under those circumstances, if the fair value were less than the carrying amount of the asset, a loss would be recognized for the difference. Depreciation for fixed assets is computed using the straight-line method over the following estimated useful lives:

	YEARS
Furniture and equipment	3-10 years
Buildings and improvements	3-40 years
Airplanes of the leasing company	15 years
Leasehold improvements	Lesser of remaining life of the asset or life of lease

INTANGIBLE ASSETS

Intangible assets consist of the excess of cost over the value of net tangible assets of acquired businesses, expiration lists and non-compete agreements. Expiration lists and non-compete agreements are amortized using the straight-line method over their estimated useful lives (5 to 15 years for expiration lists and 5 to 6 years for non-compete agreements). In accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," goodwill and indefinite lived assets are not amortized, but are subject to periodic reviews for impairment (at least annually or more frequently if impairment indicators arise). Gallagher reviews goodwill and other intangible assets for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Under those circumstances, if the fair value were less than the carrying amount of the asset, a loss would be recognized for the difference.

STOCK-BASED COMPENSATION

At December 31, 2002, Gallagher has four stock-based employee compensation plans, which are described more fully in Note 10. Gallagher primarily grants stock options for a fixed number of shares to employees, with an exercise price equal to the fair value of the underlying shares at the date of grant. Gallagher accounts for stock option grants under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations and, accordingly, recognizes no compensation expense for these stock options granted to employees. The following table illustrates the effect on net earnings and net earnings per share if Gallagher had applied the fair value recognition provisions of Statement of Financial Accounting Standards Board No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	YEARS ENDED DECEMBER 31, 2002	2001	2000
Net earnings, as reported	$ 129,739	$ 125,256	$ 92,955
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards (see Note 10), net of related tax effects	(4,013)	(6,232)	(2,046)
Pro forma net earnings	$ 125,726	$ 119,024	$ 90,909
Basic net earnings per share -- as reported	$ 1.49	$ 1.48	$ 1.11
Basic net earnings per share -- pro forma	1.44	1.40	1.09
Diluted net earnings per share -- as reported	1.41	1.39	1.04
Diluted net earnings per share -- pro forma	1.38	1.33	1.03

As presented in the table above, had Gallagher applied the fair value recognition provisions of SFAS 123, diluted net earnings per share as reported would have been reduced by $.03 in 2002, $.06 in 2001 and $.01 in 2000. The pro forma disclosures above only include the effect of options granted subsequent to January 1, 1995. Accordingly, the effects of applying the SFAS 123 pro forma disclosures to future periods may not be indicative of future effects.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheets for cash and cash equivalents, restricted cash, premiums and fees receivable, premiums payable to insurance companies, accrued salaries and bonuses, accounts payable and other accrued liabilities, unearned fees and income taxes payable, at December 31, 2002 and 2001, approximate fair value because of the short maturity of these instruments. The financial assets that comprise investment strategies and marketable securities are carried at fair value in the accompanying consolidated balance sheets. Fair values for other investments and notes receivable are disclosed in Note 4. The carrying amount of borrowings outstanding under Gallagher's credit agreement approximates fair value at December 31, 2002 because the borrowings are at floating interest rates.

EFFECT OF NEW PRONOUNCEMENTS

GUARANTEES

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (Interpretation 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which will significantly change current practice in the accounting for, and disclosure of, guarantees. Interpretation 45 requires certain guarantees to initially be recorded as a liability at fair value, which is different from the current practice of recording a liability only when a loss is probable and estimable, as those terms are defined in Statement of Financial Accounting Standards No. 5 (SFAS 5), "Accounting for Contingencies." Interpretation 45 also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote, which is also a change from general current practice.

The Interpretation's disclosure requirements are effective for all guarantees, regardless of the initiation date, for financial statements of interim or annual periods ending after December 15, 2002, while the initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued, renewed or modified after December 31, 2002. Gallagher implemented the disclosure requirements of Interpretation 45 in 2002, which is presented in Note 15. Gallagher is currently evaluating the impact Interpretation 45 will have on Gallagher's consolidated financial statements for those current guarantees that are anticipated to renew in 2003. The adoption of Interpretation 45 could have a material effect on Gallagher's consolidated operating results or financial position.

CONSOLIDATION OF PARTIALLY-OWNED ENTITIES

In January 2003, the FASB issued FASB Interpretation No. 46 (Interpretation 46), "Consolidation of Variable Interest Entities." Interpretation 46 generally defines a variable interest entity (VIE) as a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its own activities.

Prior to Interpretation 46, a partially owned entity was only consolidated into the investor company's consolidated financial statements if it was controlled by the investor company through voting interests. Regardless of voting interests, Interpretation 46 generally requires a VIE to be consolidated by an investor company if that VIE's equity is less than 10% of its assets and the investor company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residual returns or both. Interpretation 46 also requires disclosures about VIEs in circumstances where the investor company is not required to consolidate but in which it has a significant variable interest.

The consolidation requirements of Interpretation 46 apply immediately to VIEs created or invested in after January 31, 2003. The consolidation requirements apply to entities created or invested in as of January 31, 2003 or earlier, in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the VIE was created or invested in.

Gallagher has a number of investments it believes may be deemed to be VIEs. These investments include qualified affordable housing and alternative energy projects intended primarily to be income tax credit generators, a synthetic fuel facility intended to produce both tax credits and pretax income, real estate development projects intended to generate gains and venture capital investees intended to generate equity income and realized gains. Total assets of these investments approximates $650,000,000 in the aggregate. Gallagher's maximum exposure to losses related to these investments is approximately $14,000,000 including net book value, letters of credit, financial guarantees and funding commitments. Management is currently evaluating the impact Interpretation 46 will have on Gallagher's consolidated financial statements. However, management anticipates that the adoption of Interpretation 46 will not have a material effect on Gallagher's consolidated net earnings or stockholders' equity.

INTANGIBLE ASSETS

In 2001, the FASB issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations," and SFAS 142. SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. In addition, SFAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS 141 were effective for business combinations accounted for by the purchase method completed after June 30, 2001.

Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized, but are subject to periodic review for impairment (at least annually or more frequently if impairment indicators arise). Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their estimated useful lives. The amortization provisions of SFAS 142 initially applied only to goodwill and intangible assets related to business combinations accounted for by the purchase method that were completed after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies were required to adopt SFAS 142 in their fiscal year beginning after December 15, 2001 (i.e., January 1, 2002 for calendar year companies). Because of the different transition dates for goodwill and intangible assets acquired before June 30, 2001 and those acquired after that date, pre-existing goodwill and intangible assets were amortized during the transition period from June 30 to December 31, 2001. Effective January 1, 2002, Gallagher adopted the remaining provisions of SFAS 142 with respect to pre-existing goodwill and intangible assets, the effect of which was not material to Gallagher's consolidated operating results or financial position.

2. BUSINESS COMBINATIONS

PURCHASE ACQUISITIONS

In 2002, Gallagher acquired substantially all of the net assets of the following insurance brokerage and risk management firms for its common stock and/or cash using the purchase accounting method for recording business combinations (in thousands):

2002 PURCHASE ACQUISITIONS	COMMON SHARES ISSUED	COMMON SHARE VALUE	CASH PAID	ESCROW DEPOSITED	RECORDED PURCHASE PRICE	CONTINGENT PAYABLE
Life Plans Unlimited, Inc. (LPUI), February 28, 2002	127	$ 3,987	$ --	$ 443	$ 4,430	$ 3,000
Tom Sherwin Insurance Agency, February 28, 2002	--	--	720	80	800	600
NiiS/Apex Group Holdings, Inc. (NAGH), April 1, 2002	643	18,968	--	2,108	21,076	2,000
Cornwall & Stevens Co., Inc., April 30, 2002	--	--	1,800	200	2,000	--
Manning & Smith Insurance, Inc. (MSII), May 31, 2002	274	8,664	--	992	9,656	7,500
Roberts & Roberts Insurance Agency, Inc. (RRIA), May 31, 2002	87	2,773	--	308	3,081	1,700
Mountain View Software Corporation, May 31, 2002	15	491	--	55	546	1,100
Craig M. Ferguson & Co., Inc., July 31, 2002	--	--	2,600	100	2,700	2,300
Grandy Pratt Co. (GPC), October 31, 2002	393	9,470	--	1,052	10,522	800
Encore Insurance & Bonding, Inc. (EIBI), November 30, 2002	51	1,340	1,375	105	2,820	1,500
	1,590	$ 45,693	$ 6,495	$ 5,443	$ 57,631	$ 20,500

Common shares exchanged in connection with these acquisitions were valued at closing market prices as of the effective date of the respective acquisition. Escrow deposits returned to Gallagher as a result of purchase price adjustment provisions are recorded as downward adjustments to intangible assets when the escrows are settled. The contingent payables that are disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid per the purchase agreements. These contingent obligations are primarily based upon future earnings of the acquired entities and were not included in the purchase price that was recorded for these acquisitions at their respective dates of acquisition. Future payments made under these arrangements will be recorded as upward adjustments to goodwill when the contingencies are settled.

The following is a summary of the estimated fair values of the assets

acquired at the date of each acquisition based on preliminary purchase price allocations (in thousands):

	LPUI	NAGH	MSII	RRIA	GPC	EIBI	FOUR OTHER ACQUISITIONS	TOTAL
Current assets	$ 107	$ 2,626	$ 7,185	$ 52	$ 5,250	$ 1,230	$ 6,424	$ 22,874
Other noncurrent assets	--	--	--	--	15	--	320	335
Fixed assets	7	307	196	53	341	--	153	1,057
Goodwill	2,866	13,455	2,381	2,176	4,915	1,107	3,797	30,697
Expiration lists	1,046	4,480	4,113	691	6,143	1,384	2,343	20,200
Non-compete agreements	504	3,030	2,808	333	1,229	277	603	8,784
Total assets acquired	4,530	23,898	16,683	3,305	17,893	3,998	13,640	83,947
Current liabilities	100	2,617	7,027	224	5,991	1,178	7,594	24,731
Other noncurrent liabilities	--	205	--	--	1,380	--	--	1,585
Total liabilities assumed	100	2,822	7,027	224	7,371	1,178	7,594	26,316
Total net assets acquired	$ 4,430	$ 21,076	$ 9,656	$ 3,081	$ 10,522	$ 2,820	$ 6,046	$ 57,631

These acquisitions allow Gallagher to expand into desirable geographic locations, further extend its presence in the retail insurance brokerage services and risk management industries 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 for the 2002 acquisitions was allocated to goodwill, expiration lists and non-compete agreements in the amounts of $30,697,000, $20,200,000 and $8,784,000, respectively. With the exception of the intangible assets related to the MountainView Software Corporation acquisition, which were allocated to the Risk Management segment, all of the goodwill, expiration lists, and non-compete agreements were allocated to the Brokerage segment. Purchase price allocations are preliminarily established at the time of the acquisition and are subsequently reviewed within the first year of operation to determine the necessity for allocation adjustments. Expiration lists and non-compete agreements related to the 2002 acquisitions are currently being amortized on a straight-line basis over a weighted average useful life of 14 years and 6 years, respectively. Of the $20,200,000 of expiration lists and $8,784,000 of non-compete agreements related to the 2002 acquisitions, Gallagher expects $3,727,000 and $880,000, respectively, to be deductible for tax purposes. Accordingly, $10,530,000 of goodwill and a corresponding deferred tax liability related to the nondeductible amortizable intangible assets were established in the Financial Services segment, which is not included in the above table.

Gallagher's consolidated financial statements for the years ended December 31, 2002 include the operations of these companies from the dates of their respective acquisitions. The following is a summary of the unaudited proforma historical results, as if these entities had been acquired at January 1, 2002 and 2001, respectively (in thousands, except per share data):

	YEARS ENDED DECEMBER 31, 2002	2001
Gross revenues	$ 1,119,978	$ 968,442
Net earnings	130,321	128,028
Basic net earnings per share	1.48	1.48
Diluted net earnings per share	1.41	1.40

The unaudited proforma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations, which actually would have resulted had the acquisitions occurred as of January 1, 2002 and 2001, respectively, nor is it necessarily indicative of future operating results.

In the second quarter of 2002, a 90% owned subsidiary of Gallagher acquired a leasing company that leases two cargo airplanes to the French postal

service. As part of this acquisition, the subsidiary acquired assets of $47.0 million and assumed non-recourse long-term debt of $38.2 million, in exchange for $3.1 million of cash and $5.7 million of other assets. During the second quarter of 2002, Gallagher consolidated the financial results of this leasing company into its consolidated financial statements.

POOLINGS OF INTERESTS ACQUISITIONS

In 2001, Gallagher acquired substantially all of the net assets of the following insurance brokerage firms in exchange for shares of its common stock: The Galtney Group, Inc. dba Healthcare Insurance Services, 3,330,000 shares; MDM Insurance Associates, Inc., 752,000 shares; The InWest Group, Inc., 407,000 shares; SKANCO International, Ltd., 263,000 shares; Nelson/Monarch Insurance Services, Ltd., 109,000 shares: E.S. Susanin, Inc., 109,000 shares; Burgess & Associates, Inc., 73,000 shares; Madison Scott & Associates, Inc., 34,000 shares; Midwest Surety Services, Inc., 32,000 shares; and Central Surety Agency, Inc., 26,000 shares.

These acquisitions were accounted for as poolings of interests and, except for three of these acquisitions whose results were not significant, the consolidated financial statements for all periods prior to the acquisition dates were restated in 2001 to include the operations of these companies.

3. RECLASSIFICATIONS OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS

Prior to 2003, commissions paid to sub-brokers on Gallagher's retail P/C brokerage business were reported as other operating expenses in Gallagher's consolidated statements of earnings. During 2003, Gallagher determined that it would be appropriate to report these amounts as offsets to gross revenues in the consolidated statements of earnings in order to conform to a more common industry practice. Previously reported financial statements have been reclassified to conform to this current year presentation and this reclassification had no impact on the previously reported net earnings or stockholders' equity. The impact on total revenues and expenses of this reclassification is presented in the consolidated statements of earnings.

During the first quarter of 2003, Gallagher reviewed its historical segment disclosures and determined that it would be appropriate to change how the segment information is reported. Prior to 2003, Gallagher reported three operating segments, brokerage, risk management and financial services, and a corporate segment. For the 2003 segment disclosures, Gallagher has only reported the three operating segments and has allocated the corporate balances to the three operating segments. Allocations of investment income and certain expenses are based on reasonable assumptions and estimates. Reported operating results by segment would change if different methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated based on formulas. Previously reported segment information has been reclassified to conform to the current year's presentation.

During the first quarter of 2002, Gallagher undertook a review of how it was accounting for all of its partially owned entities. Given the current environment regarding ownership/control relationships with respect to partially owned entities, Gallagher determined that it would be appropriate to consolidate three operations that were previously accounted for using the equity method of accounting. In addition, prior to 2002, the premiums and claims receivable and payable of a reinsurance intermediary subsidiary of Gallagher were reported on a net basis in Gallagher's consolidated balance sheets, with the gross amounts disclosed in the notes to the consolidated financial statements. During 2002, Gallagher determined that it would be appropriate to include these amounts on a gross basis in its consolidated balance sheets in order to conform to a more common industry practice. Reclassifications have been made to the previously reported financial statements in order to conform them to the current year presentation. These reclassifications had no impact on the previously reported net earnings or stockholders' equity. The following summarizes the reclassifications that were made to the 2001 consolidated financial statements (in thousands, except per share data):

DECEMBER 31, 2002	AS PREVIOUSLY REPORTED	AMOUNTS RECLASSIFIED	AS RECLASSIFIED
Premiums and fees receivable	$ 555,276	$ 561,962	$ 1,117,238

Net fixed assets	51,246	131,999	183,245
Total assets	1,471,823	673,519	2,145,342
Premiums payable to insurance and reinsurance companies	805,595	560,921	1,366,516
Borrowings on line of credit facilities -- limited partnerships	--	3,552	3,552
Total long-term debt -- limited partnerships	--	99,850	99,850
Total stockholders' equity	371,613	--	371,613

4. INVESTMENTS

EQUITY INVESTMENTS

Gallagher's equity investment philosophy generally consists of investing in tax advantaged and other investment projects that take a long-term view toward private sale or public offering. Gallagher uses the limited partnership or limited liability company forms of legal ownership to fund many of its investments in order to obtain favorable tax treatment with respect to gains, losses and distributions, while limiting its liability. Based on the ownership structure of these investments, management believes that Gallagher's exposure to losses related to these investments is limited to the combination of its net carrying value, letters of credit, financial guarantees and funding commitments.

The following is a summary of Gallagher's investments and notes receivable and the related outstanding letters of credit, financial guarantees and funding commitments (in thousands):

DECEMBER 31, 2002	INVESTMENTS AND RECEIVABLES	LETTERS OF CREDIT AND FINANCIAL GUARANTEES	FUNDING COMMITMENTS
Investment strategies -- trading	$ 55,937(1)	$ --	$ 6,516
Marketable securities -- trading	14,619(1)	--	--
Other investments and notes receivable:			
Tax advantaged investments:			
Partnership interest	$ 56,700	5,880	2,600
Notes receivable	20,752	--	--
Equity investment in Asset Alliance Corporation	45,526	15,000	--
Venture capital investments:			
Equity and partnership interests	27,911	14,931	2,565
Notes receivable	19,966	--	--
Equity investment in Allied World Assurance Holdings, Ltd.	20,000	--	--
Other Notes receivable	1,251	--	--
	192,106(1)	35,811	5,165
Less amounts included in other current assets	(23,693)		
Total other investments and notes receivable per the consolidated balance sheet	$ 168,413		
Net investment assets, letters of credit, financial guarantees and funding commitments related to investments accounted for on a consolidated basis	33,166(1)	45,675	7,000
Total net investment assets, letters of credit, financial guarantees and funding commitments related to Gallagher's investment portfolios	$ 295,828(2)	$ 81,486	18,681
DECEMBER 31, 2001			
Investment strategies -- trading	$ 52,588(1)	$ --	$ 6,650
Marketable securities -- available for sale	$ 18,290(1)	--	--

Other investments and notes receivable:			
Tax advantaged investments:			
Partnership interests	$ 47,219	4,380	--
Notes receivable	16,956	--	--
Equity investment in Assets Alliance Corporation	33,595	25,000	--
Venture capital investments:			
Equity and partnership interests	45,328	10,495	5,900
Notes receivable	31,303	--	--
Equity investment in Allied World Assurance Holdings, Ltd.	20,000	--	--
Other notes receivable	1,417	--	--
	195,818(1)	39,875	5,900
Less amounts included in other current assets	(3,816)		
Total other investments and notes receivable per the consolidated balance sheet	$ 192,002		
Net invested assets, letters of credit, financial guarantees and funding commitments related to investments accounted for on a consolidated basis	25,431(1)	34,175	--
Total net invested assets, letters of credit, financial guarantees and funding commitments related to Gallagher's investment portfolios	$ 292,127(2)	$ 74,050	$ 12,550

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(2) Equals sum of (1)'s above.

4. INVESTMENTS (CONTINUED)

Tax advantaged investments represents amounts invested by Gallagher in 32 limited partnerships (36 in 2001) that operate qualified affordable housing and alternative energy projects that are generating tax benefits to Gallagher on an ongoing basis. These benefits are in the form of both tax deductions for operating losses and tax credits. The tax advantaged investments are primarily accounted for using the effective yield method and are carried at amortized cost in the consolidated balance sheets. Under the effective yield method, Gallagher recognizes the tax credits as they are allocated by the partnerships, which are included, net of amortization of the investments as a component of the provision for income taxes.

Gallagher's 25% equity investment in Asset Alliance Corporation, an alternative fund manager, is accounted for using the equity method of accounting. Accordingly, Gallagher's share of net earnings of this entity is included in consolidated net earnings.

Venture capital investments at December 31, 2002 and 2001 consist primarily of minority investments in 14 and 17, respectively, real estate, asset management, insurance, energy, software and e-commerce companies, only one of which exceeded $5,000,000 individually at December 31, 2002. Venture capital investments included limited partnerships and other equity projects where Gallagher's ownership is between 3% and 50%. As a result, these investments are accounted for using either the lower of amortized cost/cost or fair value, or the equity method, whichever is appropriate, depending on the legal form of Gallagher's ownership interest and the applicable percentage of the entity owned. For the investments accounted for using the equity method, Gallagher's share of the net earnings of these entities is included in consolidated net earnings.

The equity investment in Allied World Assurance Holding, Ltd, represents Gallagher's minority investment in a Bermuda based insurance and reinsurance company founded in 2001 by American International Group Inc., The Chubb Corporation and affiliates of Goldman, Sachs & Co.

Notes receivable from investees primarily represent secured loans made by Gallagher of 10 of its investees (12 in 2001). Interest rates on the loans at December 31, 2002 and 2001 ranged form 4.75% to 10.0%. The carrying value of these loans at December 31, 2002 and 2001 approximated fair value.

Investments accounted for on a consolidated basis include two real estate partnerships and an leasing company (2002 only). The real estate partnerships represent an investment in a limited partnership that owns the building that Gallagher leases for its corporate headquarters and several of its subsidiary operations, and an investment in a limited partnership that owns 11,000 acres of land under development near Orlando, Florida (Harmony). The airplane leasing company is a 90% owned subsidiary that owns the net assets of a leasing company that leases two cargo airplanes to the French postal service. These three investments are consolidated into Gallagher's consolidated financial statements because Gallagher's voting control in each of these investments is greater than 50%.

The following is a summary of the assets and liabilities of Gallagher's unconsolidated investments, accounted for using the equity method, reconciled to Gallagher's net carrying value (in thousands):

	DECEMBER 31, 2002	DECEMBER 31, 2001
Net current assets	$ 84,321	$ 98,241
Other noncurrent assets	315,859	249,110
Net fixed assets	31,438	25,182
Net intangible assets	86,454	135,104
Debt outstanding	(306,711)	(327,281)
Other noncurrent liabilities	(120,901)	(78,735)
Interests of other shareholders	(32,864)	(45,778)
Gallagher's net carrying value	$ 57,596	$ 55,843

4. INVESTMENTS (CONTINUED)

The following is a summary of the total debt outstanding and Gallagher's commitments related to Gallagher's unconsolidated investments accounted for using the equity method (in thousands):

	2002 DEBT	2002 LETTERS OF CREDIT	2002 GUARANTEES	2001 DEBT	2001 LETTERS OF CREDIT	2001 GUARANTEES
Convertible subordinated debentures payable: Issued in connection with various acquisitions made by Asset Alliance, fixed rates of 3.09% to 6.58%, mature 2003 to 2006	$ 40,108	$ --	$ --	$ 42,605	$ --	$ --
Mortgage loan on commercial (office and retail) real estate complex, secured by the commercial real estate: Monthly installments through 2011, 30-year amortization period, fixed rate of 7.40%, balloon payment in 2011	12,763	--	--	12,873	--	--
Line of credit facility on commercial (hotel) real estate complex, secured by the commercial real estate: Permits borrowing up to $8,750,000, interest only, variable rate of LIBOR plus 4.00%, floor of 8.00%, balloon payment April 2003	8,536	500	--	8,037	500	--
"Warehouse" line of credit facilities of equity investee, secured by loan portfolio: Monthly interest-only payments, variable rates of commercial paper rate plus 1.06%, commercial paper rate plus .95%, LIBOR plus 3.00%, maturities in 2003 and five-day call	226,481	5,000	--	238,824	5,000	--
Unsecured bank credit agreement of Asset Alliance: Due in periodic equal installments through June 2003, variable rate of LIBOR plus 1.00%	14,957	--	15,000	24,942	--	25,000
Redevelopment loan on golf course, secured by the property: Interest-only, variable rate of LIBOR plus 2.25%, balloon payment June 2004	3,866	--	--	--	--	--
Other	--	250	--	--	250	--
Total debt and Gallagher's contingent commitments for Gallagher's investments accounted for using the equity method	$ 306,711	$ 5,750	$ 15,000	$ 327,281	$ 5,750	$ 25,000

See Notes 7 and 15 for additional commitments and contingencies.

INVESTMENT INCOME AND OTHER

Significant components of investment income and other are as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Interest	$ 15,525	$ 18,267	$ 24,148
Dividends	1,839	2,923	2,955
Net change in unrealized gain (loss) on investment strategies	32	(110)	628
Net realized gain on investment strategies	1,518	1,852	1,244
Net realized (loss) gain on marketable securities	(10,458)	1,153	134
Net change in unrealized gain (loss) on marketable securities -- trading	194	--	--
Gain on sale of portion of minority interest in investment	11,848	--	--
Realized loss on sale of equity interest in start-up venture	(3,547)	--	--
Income (loss) from equity investments	(8,002)	(332)	(709)
Write-downs of notes receivables from equity investments	(13,149)	--	--
Income from tax advantaged investments	35,391	13,591	9,200
Income from consolidated investments	11,147	12,115	3,121
Gains on sales of operations	2,500	2,375	1,823
Other income	4,047	7,267	2,719
Total investment income and other	$ 48,885	$ 59,101	$ 45,263

4. INVESTMENTS (CONTINUED)

INCOME FROM TAX ADVANTAGED INVESTMENTS

Income from tax advantaged investments in 2002 and 2001 primarily relates to the sales of interests in three alternative energy related limited partnerships.

During the third quarter of 2001, Gallagher completed the sale of a 95% interest in one of its synthetic fuel facilities located in South Carolina. Under the sale agreement, Gallagher received an initial nonrefundable down-payment of $6,700,000 and will receive additional installment payments over time through 2007 based on qualified fuel production generated by the facility. Gallagher recognized installment gains of $18,208,000 and $8,242,000 on this sale transaction in 2002 and 2001 respectively. Gallagher retains a 5% partnership interest in this synthetic fuel facility.

During the fourth quarter of 2001 and the first and fourth quarters of 2002, Gallagher completed the sales of 95% of its interest in a partnership that owns a 59.9% interest in a synthetic fuel facility also located in South Carolina. Gallagher received aggregate down-payments of $4,493,000 and will receive additional installment payments over time through 2007 based on qualified fuel production generated by the facility. The buyer has the option to put the purchased interests back to Gallagher if certain adverse tax consequences occur through 2007. In the event of a put, Gallagher would retain all installment payments made through the put date and a pro-rated portion of the initial down-payments. Gallagher recognized

installment gains of $15,360,000 and $2,050,000 respectively on this sale transaction in 2002 and 2001 respectively. Gallagher retains a 3% partnership interest in this synthetic fuel facility.

Effective December 31, 2000, Gallagher completed the sale of its interests in several partnerships that operate landfill gas facilities. Gallagher received an initial down-payment of $8,706,000 and will receive additional installment payments over time through 2007 based on qualified fuel production generated by the facilities. Gallagher recognized installment gains of $1,012,000 and $1,411,000 on this sale transaction in 2002 and 2001 respectively. This transaction had no impact on Gallagher's 2000 results.

In 2000, Gallagher recognized $7,200,000 of income related to the forfeiture of a non-refundable down-payment from the termination of an installment sale of a synthetic fuel facility and $2,000,000 of income related to an investment development fee generated from one of Gallagher's alternative energy investments.

INCOME FROM CONSOLIDATED INVESTMENTS
Income from consolidated investments in 2002, 2001 and 2000 primarily represents rental income related to the airplane leasing company (2002 only) and the two real estate partnerships previously discussed. Rental income of the corporate headquarters limited partnership was $7,165,000, $7,428,000 and $2,351,000 in 2002, 2001 and 2000, respectively. Total expenses associated with this income, including interest and depreciation expenses, were $7,479,000, $7,712,000 and $2,508,000 in 2002, 2001 and 2000, respectively. In 2002, rental income of the airplane leasing company was $1,943,000 and total expenses associated with this income, including interest and depreciation expenses, was $2,904,000.

GAINS ON SALES OF OPERATIONS
In 2002, Gallagher sold a P/C book of business and recorded a gain on the sale of $2,500,000. In 2001, Gallagher sold a benefits administration book of business that was underperforming and recorded a gain on the sale of $2,375,000. In 2000, Gallagher sold several underperforming or geographically undesirable operations and recorded aggregate gains on these sales of $1,823,000. The net assets sold and the operating results included in the consolidated statements of earnings related to these operations were not material to the consolidated financial statements.

OTHER INCOME
Other income in 2002 and 2001 consists primarily of investment related fees paid to Gallagher for providing letters of credit and financial guarantees to its investees. Other income in 2000 consists primarily of other income attributable to the restatement effects of the 2001 and 2000 acquisitions accounted for as poolings of interests.

MARKETABLE SECURITIES
The following is a summary of marketable securities -- available for sale (in thousands):

DECEMBER 31, 2001	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Preferred stocks	$ 11,567	$ 215	$ 991	$ 10,791
Common stocks	6,635	228	2,161	4,702
Fixed maturities	4,461	20	1,684	2,797
	$ 22,663	$ 463	$ 4,836	$ 18,290

The gross realized gains on sales of marketable securities -- available for sale totaled $527,000, $2,420,000 and $884,000 for 2002,2001 and 2000, respectively. The gross realized losses totaled $414,000, $690,000 and $750,000 for 2002,2001 and 2000, respectively. In addition, in 2002 and 2001, Gallagher recognized other-than-temporary impairment losses of $10,571,000 and $577,000, respectively, related to its marketable securities -- available for sale portfolio. Effective September 30, 2002, Gallagher reclassified its marketable securities portfolio from available for sale to trading based on changes in investment philosophy.

The components of other comprehensive earnings (loss), including the related income tax effects, consist of the following (in thousands):

	YEARS ENDED DECEMBER 31, 2002	2001	2000
Change in unrealized gain (loss) on available for sale securities during the year, net of income taxes of ($481) and $95, respectively	$ --	$ (722)	$ 143
Reclassifications adjustment for losses (gains) realized in net earnings during the year, net of income taxes of $1,749, $397 and $19, respectively	2,624	596	28
Net change in unrealized gain (loss) on available for sale securities during the year, net of income taxes of $1,749, ($84) and $114, respectively	$ 2,624	$ (126)	$ 171

5. FIXED ASSETS

Major classes of fixed assets consist of the following (in thousands):

	DECEMBER 31, 2002	2001
Furniture and equipment	$ 137,837	$ 122,325
Buildings and improvements	96,678	96,647
Land and improvements	54,306	43,254
Airplanes of leasing company	51,793	--
Leasehold improvements	26,659	21,581
	$ 367,273	$ 283,807

6. INTANGIBLE ASSETS

Major classes of amortizable intangible assets of the following (in thousands):

	DECEMBER 31, 2002	2001
Expiration lists	$ 45,150	$ 11,233
Accumulated amortization -- Expiration lists	(5,686)	(1,444)
	39,464	9,789
Non-compete agreements	13,146	235
Accumulated amortization -- Non-compete agreements	(1,765)	(158)
	11,381	77
	$ 50,845	$ 9,866

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

2003	$ 7,745
2004	7,576
2005	7,244
2006	6,300
2007	5,625
Total	$ 34,490

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The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows (in thousands):

	INSURANCE BROKERAGE SERVICES	RISK MANAGEMENT SERVICES	CORPORATE	TOTAL
Balance as of January 1, 2002	$ 52,475	$ 1,882	$ 1,118	$ 55,475
Goodwill acquired during the year	30,007	690	10,530	41,227
Adjustments related to independent appraisals and other purchase accounting adjustments	(12,849)	--	450	(12,399)
Goodwill written off related to sales of business units during the year	(29)	(57)	--	(86)
Balance as of December 31, 2002	$ 69,604	$ 2,515	$ 12,098	$ 84,217

7. CREDIT AND OTHER DEBT AGREEMENTS

In 2000, Gallagher and its financial services subsidiary entered into an unsecured Revolving Credit Agreement (the Credit Agreement), which expires on September 10, 2003, with a group of five financial institutions. The Credit Agreement provides for short-term and long-term revolving credit commitments of $100,000,000 and $50,000,000, respectively. The Credit Agreement provides for loans and letters of credit. Letters of credit are limited to $75,000,000, of which up to $50,000,000 may be issued under the long-term facility and up to $25,000,000 may be issued under the short-term facility in the determination of net funds available for future borrowing. The Credit Agreement provides for borrowings to be denominated in either U.S. dollars or Alternative Currencies, as defined in the Credit Agreement. In addition, the Credit Agreement has two borrowing options, Domestic Rate Loans and Eurocurrency Loans, as defined in the Credit Agreement. Interest rates on borrowings under the Domestic Rate Loan option are based on the prime commercial rate and interest rates on borrowings under the Eurocurrency Loan option are based on LIBOR plus .40% for short-term and long-term revolving credit commitments. The facility fee related to the Credit Agreement is .10% of the used and unused portions of the short-term and long-term revolving credit commitments. Terms of the Credit Agreement include various covenants that require Gallagher to maintain specified levels of net worth and restrict the amount of payments on certain expenditures and debt outside the facility. Gallagher was in compliance with these covenants as of December 31, 2002.

As of December 31, 2002, under the Credit Agreement, Gallagher has contingently committed to funding $54,250,000 through letter of credit arrangements related to its corporate insurance programs and several of its equity and other strategic investments. Also, as of December 31, 2002 and 2001 respectively, there were $25,000,000 and $35,000,000 of short-term borrowings outstanding under the Credit Agreement. Accordingly, Gallagher had $70,750,000 available at December 31, 2002 for future borrowing.

The following is a summary of Gallagher's Credit Agreement and limited partnership consolidated debt (in thousands):

	DECEMBER 31,					
	2002			2001		
	DEBT	LETTERS OF CREDIT	FINANCIAL GUARANTEES	DEBT	LETTERS OF CREDIT	FINANCIAL GUARANTEES
Gallagher's line of credit facility: Periodic payments of interest and principal, prime for daily borrowings, .40% plus LIBOR for 30 day plus borrowings, expires September 2003	$ 25,000	$ --	$ --	$ 35,000	$ --	$ --
Line of credit facility on Harmony: Permits borrowings up to $17,000,000, monthly interest-only payments, variable rate of LIBOR plus 1.45%, expires 2004	16,996	--	17,000	3,552	--	8,500
Line of credit facility on Harmony: Permits borrowings up to $3,000,000, quarterly interest-only, rate of prime with a collar of 3.00% and 6.00%, expires 2004	--	--	3,000	--	--	--
Bonds payable on Harmony: Monthly interest-only payments through 2010, variable rate based on commercial paper rate, balloon payment 2010	12,410	12,575	--	12,410	12,575	--
Mortgage loan on Harmony: Annual installments, fixed rate of 8.00%, expires 2004	5,700	--	--	8,165	--	--
Equipment loan on Harmony: Fixed monthly payments, fixed rate of 7.00%, expires 2005	421	--	--	--	--	--
Government-issued community development bonds on Harmony: Guaranteed through 2032	--	5,000	5,100	--	5,000	5,100
Loan on airplanes leased to French postal service: Monthly principal and interest payments, variable rate of LIBOR plus 1.62%, balloon payment 2006	37,021	--	--	--	--	--
Mortgage loan on Gallagher's corporate headquarters building: Monthly installments of principal and interest, fixed rate of 8.35%, 30 year amortization, balloon payment 2008	78,583	3,000	--	79,275	3,000	--
	$ 176,131	$ 20,575	$ 25,100	$ 138,402	$ 20,575	$ 13,600

See Note 15 for additional discussion on commitments and contingencies.

8. CAPITAL STOCK AND STOCKHOLDERS' RIGHTS PLAN

CAPITAL STOCK

The table below summarizes certain information about Gallagher's capital stock at December 31, 2002 and 2001 (in thousands, except par value data):

CLASS	PAR VALUE	AUTHORIZED SHARES
Preferred stock	No Par	1,000
Common stock	$ 1.00	400,000

STOCKHOLDERS' RIGHTS PLAN

Non-voting Rights, authorized by the Board of Directors on March 10, 1987 and approved by stockholders on May 12, 1987, are outstanding on each share of Gallagher's outstanding common stock. The Rights Plan was amended in 1996 to extend the expiration of the Rights to May 12, 2007. Under certain conditions, each Right may be exercised to purchase one share of common stock at an exercise price of $25. The Rights become exercisable and transferable after a public announcement that a person or group (as defined) has acquired 20% or more of the common stock or after commencement or public announcement of a tender offer for 30% or more of the common stock. If Gallagher is acquired in a merger or business combination each Right exercised gives the holder the right to purchase $50 of market value of common stock of surviving company for the $25 exercise price. The Rights may be redeemed by Gallagher at $.0125 per Right at any time prior to the public announcement of the acquisition of 20% of the common stock.

9. EARNINGS PER SHARE

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Net earnings	$ 129,739	$ 125,256	$ 92,955
Weighted average number of common shares outstanding	87,303	84,795	83,558
Dilutive effect of stock options using the treasury stock method	4,558	5,332	5,409
Weighted average number of common and common equivalent shares outstanding	91,861	90,127	88,967
Basic net earnings per share	$ 1.49	$ 1.48	$ 1.11
Diluted net earnings per share	1.41	1.39	1.04

Options to purchase 252,000, 231,000 and 313,000 shares of common stock were outstanding at December 31, 2002, 2001 and 2000, respectively, but were not included in the computation of the dilutive effect of stock options. These options were excluded from the computation because the options' exercise prices were greater than the average market price of the common shares during the respective year and, therefore, would be antidilutive to earnings per share under the treasury stock method.

10. STOCK OPTION PLANS

Gallagher has incentive and nonqualified stock option plans for officers and key employees of Gallagher and its subsidiaries. The options are primarily granted at the fair value of the underlying shares at the date of grant. Options granted under the nonqualified plan primarily become exercisable at the rate of 10% per year beginning the calendar year after the date of grant or earlier in the event of death, disability or retirement. Options expire 10 years from the date of grant, or earlier in the event of termination of the employee.

In addition, Gallagher has a non-employee directors' stock option plan, which currently authorizes 1,025,000 shares for grant, with Discretionary Options granted at the direction of the Compensation Committee and Retainer Options granted in lieu of the directors' annual retainer. Discretionary Options shall be exercisable at such rates as shall be determined by the Committee on the date of grant. Retainer Options shall be cumulatively exercisable at the rate of 25% of the total Retainer Option at the end of each full fiscal quarter succeeding the date of grant. The excess of fair value at the date of grant over the option price for these nonqualified stock options is considered compensation and is charged against earnings ratably over the vesting period.

Gallagher also has an incentive stock option plan for its officers and key employees resident in the United Kingdom. The United Kingdom plan is essentially the same as Gallagher's domestic employee stock option plans, with certain modifications to comply with United Kingdom law and to provide potentially favorable tax treatment for grantees resident in the United Kingdom.

All of the aforementioned stock option plans provide for the immediate vesting of all outstanding stock option grants in the event of a change in control of Gallagher. A change in control of Gallagher is defined as the acquisition by a person (or entity) of the beneficial ownership of 50% or more of Gallagher's common stock; the cessation, for any reason, of a majority of directors of Gallagher to serve as directors during any two year period; or the approval by the stockholders of Gallagher of the sale of substantially all of the assets of Gallagher.

For purposes of the pro forma disclosures (see Note 1), the estimated fair values of the stock option grants are amortized to expense over the options' expected lives. The fair value of stock options at the date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Dividend yield	3.0%	3.0%	2.5%
Risk-free interest rate	3.8%	5.0%	5.1%
Volatility	26.1%	24.5%	24.6%
Expected life (in years)	6.0	5.3	6.0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Gallagher's employee and director stock options have characteristics significantly different from those of traded options, and because changes in the selective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee and director stock options.

The following is a summary of Gallagher's stock option activity and related information (in thousands, except exercise price data):

	YEARS ENDED DECEMBER 31,					
	2002		2001		2000	
	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
Beginning balance	14,117	$ 13.63	14,419	$ 10.43	15,800	$ 8.05
Granted	2,342	24.30	2,842	24.95	2,642	19.98
Exercised	(1,896)	8.16	(3,007)	9.00	(3,811)	7.22
Canceled	(113)	17.15	(137)	14.17	(212)	9.68
Ending balance	14,450	$ 16.05	14,117	$ 13.63	14,419	$ 10.43
Exercisable at end of year	5,107		4,808		5,229	

Options with respect to 6,686,000 shares were available for grant at December 31, 2002.

Other information regarding stock options outstanding and exercisable at December 31, 2002 is summarized as follows (in thousands, except exercise price data):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 1.11 -- $ 8.44	3,627	2.09	$ 7.87	2,353	$ 7.89
8.56 -- 12.36	3,661	4.75	9.52	1,709	9.61
12.56 -- 22.70	3,834	8.47	20.41	468	17.51
22.87 -- 36.94	3,328	8.43	27.10	577	26.01
$ 1.11 -- $ 36.94	14,450	5.91	$ 16.05	5,107	$ 11.39

11. DEFERRED COMPENSATION

In 2001, Gallagher implemented the Deferred Equity Participation Plan, which is a nonqualified plan that provides for distributions to certain key executives of Gallagher upon their normal retirement. Under the provisions of the plan, Gallagher contributes shares of its common stock, in an amount approved by Gallagher's Board of Directors, to a rabbi trust on behalf of the executives participating in the plan. Distributions under the plan normally may not be made until the participant reaches age 62 and are subject to forfeiture in the event of voluntary termination of employment prior to age 62. All distributions from the plan are made in the form of Gallagher's common stock.

In 2002 and 2001, Gallagher contributed $4,031,000 and $4,000,000, respectively, to the plan through the issuance of 123,000 and 152,000 shares of Gallagher common stock. Gallagher accounts for the common stock

issued to the plan in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No 97-14, "Accounting for Deferred Compensation Arrangement Where Amounts Earned are Held in Rabbi Trust and Invested." EITF 97-14 requires that the Gallagher common stock issued to the trust be value at historical cost (fair market value at the date of grant) and the unearned deferred compensation obligation be classified as an equity instrument, with no recognition of changes in the fair value of the amount owed to the participants. The unearned deferred compensation balance is shown as a reduction of stockholders equity in the accompanying 2002 and 2001 consolidated balance sheets and is being amortized ratably over the vesting period of the participants. During 2002 and 2001, $925,000 and $562,000, respectively, were charged to expense related to this plan.

12. RESTRICTED STOCK AWARDS

In 2001, Gallagher adopted an incentive compensation plan for several of its key executives and management personnel. The compensation under this plan is determined by a formula applied to the pretax profitability of certain operating divisions and may include an equity award as part of such incentive compensation.

Effective on March 31, 2002 Gallagher contributed 274,000 shares of Gallagher common stock to the plan, with an aggregate value of $8,972,000 as of that date. Also, effective on March 31, 2002, Gallagher granted, to its Chief Executive Officer, a restricted stock award of 32,000 shares of Gallagher common stock with an aggregate value of $1,059,000 at the time of grant. All of the 2002 restricted stock awards vest over a three-year period at the rate of 33 1/3% per year beginning on March 31, 2003. Gallagher accounts for restricted stock at historical cost, which equals its fair market value at the date of grant. When restricted shares are issued, an unearned restricted stock obligation is recorded as a reduction of stockholders' equity, which will be ratably charged to salary expense over the vesting period of the participants. During 2002, $2,508,000 was charged to expense related to these awards.

13. RETIREMENT PLANS

Gallagher has a noncontributory defined benefit pension plan that covers substantially all domestic employees who have attained a specified age and one year of employment. Benefits under the plan are based on years of service and salary history. Plan assets consist primarily of common stocks and bonds invested under the terms of a group annuity contract managed by a life insurance company.

Gallagher accounts for the defined benefit pension plan in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), "Employers' Accounting for Pensions." The difference the present value of the pension benefit obligation at the date of adoption of SFAS 87 and the fair value of plan assets at that date is being amortized on a straight-line basis over the average service period of employees expected to receive benefits.

13. RETIREMENT PLANS (CONTINUED)

A reconciliation of the beginning and ending balances of the pension benefit obligation and fair value of plan assets and the funded status of the plan is as follows (in thousands):

	YEARS ENDED DECEMBER 31, 2002	2001
CHANGE IN PENSION BENEFIT OBLIGATION:		
Pension benefit obligation at beginning of year	$ 98,787	$ 92,792
Service cost	11,368	9,108
Interest cost	7,575	6,316
Plan amendments	2,958	--
Net actuarial loss (gain)	4,558	(7,711)
Benefits paid	(1,960)	(1,718)
Pension benefit obligation at end of year	123,286	98,787

CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	66,231	66,137
Actual return on plan assets	(6,129)	(3,481)
Company contributions	24,573	5,293
Benefits paid	(1,960)	(1,718)
Fair value of plan assets at end of year	82,715	66,231
Funded status of the plan (underfunded)	(40,571)	(32,556)
Unrecognized net actuarial loss (gain)	14,080	(3,069)
Unrecognized prior service cost	3,345	772
Unrecognized transition obligation	219	275
Accrued pension benefit cost	$ (22,927)	$ (34,578)

The components of the net periodic pension benefit cost for the plan consists of the following (in thousands):

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Service cost -- benefits earned during the year	$ 11,368	$ 9,108	$ 7,754
Interest cost on benefit obligation	7,575	6,316	6,002
Expected return on plan assets	(6,462)	(5,911)	(5,935)
Recognized net actuarial gain	--	(412)	(495)
Amortization of prior service cost	385	110	110
Amortization of transition obligation	56	56	56
Other	26	26	26
Net periodic pension benefit cost	$ 12,948	$ 9,293	$ 7,518

The following assumptions were used in determining the plan's pension benefit obligation:

	2002	2001	2000
Discount rate	6.75%	7.50%	7.50%
Weighted average rate of increase in future compensation levels	6.30%	6.50%	6.50%
Expected long-term rate of return on assets	8.50%	9.00%	9.00%

Gallagher has a qualified contributory savings and thrift (401(k)) plan covering the majority of its domestic employees. Gallagher's matching contributions (up to a maximum of 2% of eligible compensation) are at the discretion of Gallagher's Board of Directors and may not exceed the maximum amount deductible for federal income tax purposes. Gallagher contributed $5,347,000, $4,605,000, and $4,638,000 in 2002, 2001 and 2000, respectively. Effective January 1, 1999, Gallagher implemented a nonqualified deferred compensation plan for certain employees who, due to Internal Revenue Service rules, cannot take full advantage of the Gallagher matching contributions under the savings and thrift plan. The plan permits these employees to annually elect to defer a portion of their compensation until their retirement. Gallagher's matching contributions to this plan are also at the discretion of Gallagher's Board of Directors. Gallagher contributed $430,000, $471,000 and $316,000 to the plan in 2002, 2001, and 2000, respectively. The fair value of the plan's assets as of December 31, 2002, and 2001 respectively, including employee contributions and investment earnings thereon, was $16,040,000 and $12,461,000, respectively, and has been included in other noncurrent assets and the corresponding liability has been included in other noncurrent liabilities in the accompanying consolidated balance sheets.

Gallagher also has a foreign defined contribution plan that provides for basic contributions by Gallagher and voluntary contributions by employees resident in the United Kingdom, which are matched 100% by Gallagher, up to a maximum of 5% of eligible compensation. Net expense for foreign retirement plans amounted to $4,332,000 in 2002, $3,392,000 in 2001 and $2,921,000 in 2000.

14. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In 1992, Gallagher amended its health plan to eliminate retiree coverage, except for retirees and those employees who had already attained as specified age and length of services at the time of the amendment. The retiree health plan is contributory, with contributions adjusted annually, and is funded on a pay-as-you-go basis.

A reconciliation of the beginning and ending balance of the postretirement benefit obligation and the funded status of the plan is as follows (in thousands):

	YEARS ENDED DECEMBER 31,	
	2002	2001
CHANGE IN POSTRETIREMENT BENEFIT OBLIGATION:		
Postretirement benefit obligation at beginning of year	$ 6,861	$ 6,852
Service cost	--	--
Interest cost	416	493
Net actuarial gain	(798)	(280)
Benefits paid	(299)	(204)
Postretirement benefit obligation at end of year	6,180	6,861
Fair value of plan assets at beginning and end of year	--	--
Funded status of the plan (underfunded)	(6,180)	(6,861)
Unrecognized net actuarial gain	(5,685)	(5,306)
Unrecognized prior service cost	--	--
Unrecognized transition obligation	5,116	5,628
Accrued postretirement benefit cost	$ (6,749)	$ (6,539)

The components of the net periodic postretirement benefit cost include the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Service cost -- benefits earned during the year	$ --	$ --	$ --
Interest cost on benefit obligation	416	493	491
Amortization of transition obligation	512	512	512
Amortization of net actuarial gain	(419)	(331)	(325)
Net periodic postretirement benefit cost	$ 509	$ 674	$ 678

The discount rate used to measure the postretirement benefit obligation was 6.75% at December 31, 2002, and 7.50% at December 31,2001 and 2000. The transition obligation is being amortized over a 20-year period. For measurement purposes, a 6.50% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2003. This rate was assumed to gradually scale down to 4.50% for 2009 and remain at that level thereafter. The assumed healthcare cost trend rate has a significant effect on the amounts reported and disclosed herein. A one percentage point change in the assumed healthcare cost trend rate would have the following effects (in thousands):

	ONE PERCENTAGE POINT	
	INCREASE	(DECREASE)
Effect on the net periodic postretirement benefit cost in 2002	$ 44	$ (37)
Effect on the postretirement benefit obligation at December 31, 2002	681	(590)

15. COMMITMENTS, CONTINGENCIES AND FINANCIAL GUARANTEES

Gallagher generally operates in leased premises. Certain office space leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of leases contain annual escalation clauses generally related to increases in an inflation index.

Total rent expense, including rent relating to cancelable leases and leases with initial terms of less than one year, amounted to $49,900,000 in 2002, $46,721,000 in 2001 and $40,231,000 in 2000.

In connection with its investing and operating activities, Gallagher has entered into certain contractual obligations as well as commitments to fund certain investments. Gallagher's future cash payments, excluding interest, associated with its contractual obligations pursuant to the Credit Agreement, limited partnership debt obligations and operating leases as of December 31, 2002 are as follows (in thousands):

	PAYMENTS DUE BY PERIOD						
CONTRACTUAL OBLIGATIONS	2003	2004	2005	2006	2007	THEREAFTER	TOTAL
Credit Agreement	$ 25,000	$ -	$ -	$ -	$ -	$ -	$ 25,000
Florida real estate limited partnership debt	7,857	15,161	99	-	-	12,410	35,527
Corporate headquarters limited partnership mortgage loan	746	811	882	958	1,041	74,145	78,583
Airplane leasing company debt	2,180	2,351	2,553	29,937	-	-	37,021
Total debt obligations	35,783	18,323	3,534	30,895	1,041	86,555	176,131
Operating leases	51,006	46,237	40,593	27,008	25,041	41,019	230,904
Total contractual obligations	$ 86,789	$ 64,560	$ 44,127	$ 57,903	$ 26,082	$ 127,574	$ 407,035

The debt of the limited partnerships and the airplane leasing company

disclosed in the table above represents the debt of three of Gallagher's investments that are accounted for on a consolidated basis in the accompanying consolidated balance sheets. This debt is secured by the partnerships' assets and supports their operations. Approximately $32.4 million of the limited partnership debt is recourse to Gallagher through the letters of credit and financial guarantees which are included below.

Gallagher's commitments associated with outstanding letters of credit (LOC), financial guarantees and funding commitments as of December 31, 2002 are as follows (all dollar amounts in table and related footnotes are in thousands):

DESCRIPTION AND PURPOSE	TYPE	MATURITY	TRIGGER	COLLATERAL	COMPENSATION TO GALLAGHER
INVESTMENTS					
Investment strategies -- trading					
Funding commitments to two funds	Commitment	2004	Agreed conditions met	None	None
Marketable securities -- trading					
Funding commitment to investee	Commitment	2004	Agreed conditions met	None	None
Tax advantaged investments					
Credit support for investee's loan to develop landfill gas projects	Guarantee	2003	Investee defaults on loan	None	None
"Reclamation" collateral for land owned by Gallagher	LOC	After 2007	Activities cease and Gallagher does not proceed with the reclamation process	(3)	None
Funding commitments to two synthetic fuel facilities	Commitment	2004	Agreed conditions met	None	None
Asset Alliance Corporation					
Credit support for Asset Alliance's loan used for acquisitions	Guarantee	2003	Asset Alliance defaults on loan	None	$2,000 fee received in the second quarter of 2002
Venture capital investments					
Credit support for investee's debt facility used to acquire and develop landfill gas sites	LOC	2003 and after 2007	Investee defaults on loan	(4)	None
Collateral for investee's debt on landfill gas site capital improvement projects	LOC	2003	Investee defaults on loan	None	None
Credit support for e-commerce investee office space lease	LOC	2003	Investee defaults on rent payments	None	None
Credit support for franchise finance investee "warehouse" loans	LOC	after 2007	Investee defaults on loan	None	1.75% per year on amount of guarantee
Credit support for property developer investee loans used to purchase and develop retail properties, two of which are anchored by a large, national, well-known retailer	3 LOCs	2004	Investee defaults on loan	(4)	18.5% of two projects and 37.0% of one project
Credit support for investee's mortgage on hotel	LOC	after 2007	Investee defaults on mortgage	None	None
Funding commitment to investee	Commitment	2003	Agreed conditions met	None	None

DESCRIPTION AND PURPOSE	MAXIMUM EXPOSURE	LIABILITY RECORDED
INVESTMENTS		
Investment strategies -- trading		
Funding commitments to two funds	$ 6,516	$ --
Marketable securities -- trading		
Funding commitment to investee	2,365	--
Tax advantaged investments		
Credit support for investee's loan to develop landfill gas projects	1,500(1)	--
"Reclamation" collateral for land owned by Gallagher	4,380	--
Funding commitments to two synthetic fuel facilities	2,600	--
Asset Alliance Corporation		
Credit support for Asset Alliance's loan used for acquisitions	15,000	--
Venture capital investments		
Credit support for investee's debt facility used to acquire and develop landfill gas sites	4,100	--
Collateral for investee's debt on landfill gas site capital improvement projects	645	--
Credit support for e-commerce investee office space lease	250	250
Credit support for franchise finance investee "warehouse" loans	5,000	--
Credit support for property developer investee loans used to purchase and develop retail properties, two of which are anchored by a large, national, well-known retailer	4,450	--
Credit support for investee's mortgage on hotel	500	--
Funding commitment to investee	200	--

15. COMMITMENTS, CONTINGENCIES AND FINANCIAL GUARANTEES (CONTINUED)

DESCRIPTION AND PURPOSE	TYPE	MATURITY	TRIGGER	COLLATERAL	COMPENSATION TO GALLAGHER
Investments accounted for on a consolidated basis					
Credit support for Gallagher's corporate headquarters building mortgage	LOC	2005	Manager (partial owner) defaults on mortgage payment	None	None
Credit support for Harmony property development bonds, loans and lines of credit used for project development	3 LOCs and 2 Guarantees	2004 through 2032	Harmony or Community Development District default on payments	(5)	(6)
Funding commitment to Harmony	Commitment	2004	Agreed conditions met	None	None
OTHER					
Credit support for deductibles due by Gallagher on its own insurance coverages	LOC	After 2007	Gallagher does not reimburse the insurance company for deductibles the insurance company advances on behalf of Gallagher	None	None
Credit support for deductibles due by client of Gallagher on the client's insurance plan	2 LOCs	2004 and after 2007	Client does not fund its deductibles	(7)	Outstanding guarantee multiplied by the current prime interest rate
Credit enhancement for two of Gallagher's Bermuda captive insurance operations to meet minimum statutory capital requirements	2 LOCs	2003 and after 2007	Dissolution or catastrophic financial results of the operations	(8)	Reimbursement of LOC fees
Credit support for Gallagher's subsidiary's line of credit	LOC	2006	Subsidiary defaults on its payments	None	None

DESCRIPTION AND PURPOSE	MAXIMUM EXPOSURE	LIABILITY RECORDED

Investments accounted for on a consolidated basis		
Credit support for Gallagher's corporate headquarters building mortgage	$ 3,000	$ --
Credit support for Harmony property development bonds, loans and lines of credit used for project development	42,675(2)	--
Funding commitment to Harmony	7,000	--
OTHER		
Credit support for deductibles due by Gallagher on its own insurance coverages	5,197	3,200
Credit support for deductibles due by client of Gallagher on the client's insurance plan	5,263	--
Credit enhancement for two of Gallagher's Bermuda captive insurance operations to meet minimum statutory capital requirements	3,330	--
Credit support for Gallagher's subsidiary's line of credit	560	560
	$ 114,531	$ 4,010

(1) Plus interest and collection expenses.
(2) Plus interest and collection expenses on $20,000 of the total.
(3) The land.
(4) The property secures the loan.
(5) A portion of the property secures one of the lines of credit and the two bond issues.
(6) Gallagher is in the process of negotiating a retroactive, annual, cumulative fee for $30,100 of the LOCs and guarantees. The remaining $12,575 LOC has a fee of $750 plus an interest rate differential.
(7) Lien on real property with an appraised value of approximately $12,500.
(8) The majority owners of the operation that has $3,100 of the LOCs pledge their percentage ownership portion of any draw.

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect the actual future cash funding requirements of Gallagher.

LITIGATION

Gallagher is engaged in various legal actions incident to the nature of its business. Management is of the opinion that none of the litigation will have a material effect on Gallagher's consolidated financial position or operating results. Gallagher's financial services subsidiary is party to a lawsuit relating to its investment in the synthetic fuel industry which, if determined adversely to the subsidiary on substantially all claims and for a substantial amount of the damages asserted, could have a material adverse effect on Gallagher. However, Gallagher believes that the plaintiff's claims lack merit. The subsidiary is vigorously defending such claims and has asserted counterclaims against the plaintiff.

See Notes 4 and 7 for additional discussion on commitments and contingencies.

16. INCOME TAXES

Significant components of earnings before income taxes and the provision for income taxes are as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Earnings before income taxes:			
Domestic	$ 171,528	$ 133,350	$ 125,874

Foreign, principally United Kingdom, Australia and Bermuda	13,814	8,503	7,865
	$ 185,342	$ 141,853	$ 133,739
Provision for income taxes:			
Federal:			
Current	$ 44,950	$ 78,995	$ 63,919
Deferred	(5,691)	(73,552)	(33,305)
	39,259	5,443	30,614
State and local:			
Current	14,213	20,240	10,540
Deferred	(1,203)	(10,507)	(4,683)
	13,010	9,733	5,857
Foreign:			
Current	2,731	1,518	4,787
Deferred	603	(97)	(474)
	3,334	1,421	4,313
Total provision for income taxes	$ 55,603	$ 16,597	$ 40,784

A reconciliation of the provision for income taxes with the United States federal income tax rate is as follows (in thousands):

	YEARS ENDED DECEMBER 31,					
	2002		2001		2000	
	AMOUNT	% OF PRETAX INCOME	AMOUNT	% OF PRETAX INCOME	AMOUNT	% OF PRETAX INCOME
Federal statutory rate	$ 64,870	35.0	$ 49,649	35.0	$ 46,809	35.0
State income taxes -- net of federal benefit	8,456	4.6	6,326	4.5	3,807	2.8
Pre-acquisition earnings of pooled companies taxed to previous owners	--	--	(699)	(0.5)	(293)	(0.2)
Foreign taxes	(1,509)	(0.8)	(1,561)	(1.1)	1,570	1.2
Affordable housing and alternative energy tax credits	(19,059)	(10.3)	(40,125)	(28.3)	(26,341)	(19.7)
Amortization expense of affordable housing and alternative energy investment, net of tax benefit	2,421	1.3	4,821	3.4	14,462	10.8
Other -- net	424	0.2	(1,814)	(1.3)	770	0.6
Provision for income taxes	$ 55,603	30.0	$ 16,597	11.7	$ 40,784	30.5

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Gallagher's deferred tax liabilities and assets are as follows (in thousands):

	DECEMBER 31,	
	2002	2001
Deferred tax assets:		
Alternative minimum tax (AMT) and other credit carryforwards	$ 46,617	$ 42,724

Accrued and unfunded compensation and employee benefits	44,265	41,968
Investment-related partnerships	40,319	46,370
Accrued liabilities	23,960	13,922
Unrealized investment loss	--	1,749
Other	4,822	5,675
Total deferred tax assets	159,983	152,408
Valuation allowance for deferred tax assets	--	--
Deferred tax assets	159,983	152,408
Deferred tax liabilities:		
Nondeductible amortizable intangible assets	10,277	450
Accrued and unfunded compensation and employee benefits	956	1,209
Accrued liabilities	5,095	2,900
Investment-related partnerships	7,811	5,852
Total deferred tax liabilities	24,139	10,411
Net deferred tax assets	$ 135,844	$ 141,997

At December 31, 2002 and 2001, $57,622,000 and $53,145,000 respectively, of deferred tax assets have been included in other current assets in the accompanying consolidated balance sheets. AMT credits and other have an indefinite and 20 year life, respectively. Gallagher expects to fully utilize the amounts carried forward. During the period from 1994 to 1996, Gallagher provided for United States federal income taxes on the undistributed earnings of its foreign subsidiaries. Due to changes in the United States federal income tax laws effective in 1997, Gallagher no longer provides for United States federal income taxes on the undistributed earnings ($42,000,000 at December 31, 2002) of certain foreign subsidiaries which are considered permanently invested outside of the United States. The amount of unrecognized deferred tax liability on these undistributed earnings is $9,000,000 at December 31, 2002.

17. QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly operating results for 2002 and 2001 were as follows (in thousands, except per share data):

	1ST	2ND	3RD	4TH
2002				
Total revenues	$ 238,996	$ 266,781	$ 256,508	$ 297,922
Total expenses	190,191	218,249	223,208	243,217
Earnings before income taxes	48,805	48,532	33,300	54,705
Net earnings	33,675	34,461	23,310	38,293
Basic earnings per share	.39	.39	.26	.43

Diluted net earnings per share	.37	.37	.25	.42
2001				
Total revenues	$ 209,246	$ 205,132	$ 225,807	$ 247,844
Total expenses	175,173	176,360	183,788	210,855
Earnings before income taxes	34,073	28,772	42,019	36,989
Net earnings	27,083	23,197	41,903	33,073
Basic earnings per share	.32	.27	.49	.39
Diluted net earnings per share	.30	.26	.47	.36

18. SEGMENT INFORMATION

Gallagher has identified three operating segments: Brokerage, Risk Management and Financial Services. The Brokerage Segment represents three operating divisions: Retail Brokerage Services, Wholesale Brokerage Services and Gallagher Benefit Services. The Brokerage segment, for commission or fee compensation, places commercial property/casualty and employee benefit-related insurance on behalf of its customers. The Risk Management segment provides property/casualty and health claim third-party administration, loss control and risk management consulting and insurance property appraisals. Third-party administration is principally the management and processing of claims for self-insurance programs of Gallagher's clients or clients of other brokers. The Financial Services segment is responsible for managing Gallagher's diversified investment portfolio to maximize long-term after-tax returns.

Allocations of investment income and certain expenses are based on assumptions and estimates. Reported operating results by segment would change if different methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated based on formulas. Financial information relating to Gallagher's operating segments for 2002, 2001 and 2000 is as follows (in thousands):

	BROKERAGE	RISK MANAGEMENT	FINANCIAL SERVICES	TOTAL
YEAR ENDED DECEMBER 31, 2002				
Revenues:				
Commissions	$ 662,857	$ --	$ --	$ 662,857
Fees	109,046	280,434	--	389,480
Investment income and other	9,240	817	38,828	48,885
Gross revenues	781,143	281,251	38,828	1,101,222
Less brokerage	(41,015)	--	--	(41,015)
Total revenues	$ 740,128	$ 281,251	$ 38,828	$ 1,060,207
Earnings (loss) before income taxes	$ 148,661	$ 31,459	$ 5,222	$ 185,342
Provision for income taxes	44,564	9,469	1,570	55,603
Net earnings (loss)	$ 104,097	$ 21,990	$ 3,652	$ 129,739
Income (loss) from equity investments	$ (581)	$ --	$ (7,421)	$ (8,002)
Depreciation expense	10,924	9,316	5,544	25,784
Amortization expense	6,606	40	--	6,646
Interest expense	183	123	9,182	9,488
Net foreign exchange gain (loss)	265	(10)	--	255
Revenues:				
United States	$ 660,976	$ 256,726	$ 36,939	$ 954,641
Foreign, principally United Kingdom, Australia and Bermuda	79,152	24,525	1,889	105,566
Total revenues	$ 740,128	$ 281,251	$ 38,828	$ 1,060,207

AT DECEMBER 31, 2002

	BROKERAGE	RISK MANAGEMENT	FINANCIAL SERVICES	TOTAL
Identifiable assets:				
United States	$ 1,259,675	$ 53,500	$ 598,062	$ 1,911,237
Foreign, principally United Kingdom, Australia and Bermuda	483,464	20,079	48,794	552,337
Total Identifiable assets	$ 1,743,139	$ 73,579	$ 646,856	$ 2,463,574
Goodwill -- net	$ 70,722	$ 2,515	$ 10,980	$ 84,217
Amortizable Intangible assets -- net	50,195	650	--	50,845
Identifiable assets related to equity investments	375	--	58,422	58,797

18. SEGMENT INFORMATION (CONTINUED)

	BROKERAGE	RISK MANAGEMENT	FINANCIAL SERVICES	TOTAL
YEAR ENDED DECEMBER 31, 2001				
Revenues:				
Commissions	$ 537,933	$ --	$ --	$ 537,933
Fees	62,342	263,612	--	325,954
Investment income and other	12,070	1,084	45,947	59,101
Gross revenues	612,345	264,696	45,947	922,988
Less brokerage	(34,959)	--	--	(34,959)
Total revenues	$ 577,386	$ 264,696	$ 45,947	$ 888,029
Earnings (loss) before income taxes	$ 117,490	$ 31,327	$ (6,964)	$ 141,853
Provision for income taxes	13,502	3,895	(800)	16,597
Net earnings (loss)	$ 103,988	$ 27,432	$ (6,164)	$ 125,256
Income (loss) from equity investments	$ (470)	$ --	$ 138	$ (332)
Depreciation expense	9,107	7,217	3,317	19,641
Amortization expense	3,265	240	--	3,505
Interest expense	199	150	10,128	10,477
Net foreign exchange gain (loss)	(464)	(32)	--	(496)
Revenues:				
United States	$ 526,083	$ 242,403	$ 43,916	$ 812,402
Foreign, principally United Kingdom, Australia and Bermuda	51,303	22,293	2,031	75,627
Total revenues	$ 577,386	$ 264,696	$ 45,947	$ 888,029
AT DECEMBER 31, 2001				
Identifiable assets:				
United States	$ 1,164,136	$ 47,203	$ 538,642	$ 1,749,981
Foreign, principally United Kingdom, Australia and Bermuda	375,531	16,481	3,349	395,361
Total Identifiable assets	$ 1,539,667	$ 63,684	$ 541,991	$ 2,145,342
Goodwill -- net	$ 53,143	$ 1,882	$ 450	$ 55,475
Amortizable Intagible assets - net	9,866	--	--	9,866
Identifiable assets related to equity investments	1,175	--	49,315	50,490

YEAR ENDED DECEMBER 31, 2000

Revenues:

Commissions	$ 472,878	$ --	$ --	$ 472,878
Fees	51,678	230,761	--	282,439
Investment income and other	17,333	1,534	26,396	45,263
Gross revenues	541,889	232,295	26,396	800,580
Less brokerage	(26,048)	--	--	(26,048)
Total revenues	$ 515,841	$ 232,295	$ 26,396	$ 774,532
Earnings (loss) before income taxes	$ 97,442	$ 31,809	$ 4,488	$ 133,739
Provision for income taxes	28,822	9,964	1,998	40,784
Net earnings (loss)	$ 68,620	$ 21,845	$ 2,490	$ 92,955
Income from equity investments	$ (384)	$ --	$ (325)	$ (709)
Depreciation expense	8,971	5,875	934	15,780
Amortization expense	3,547	99	--	3,646
Interest expense	517	174	2,387	3,078
Net foreign exchange gain (loss)	(313)	20	--	(293)
Revenues:				
United States	$ 472,528	$ 210,384	$ 25,771	$ 708,683
Foreign, principally United Kingdom, Australia and Bermuda	43,313	21,911	625	65,849
Total revenues	$ 515,841	$ 232,295	$ 26,396	$ 774,532

AT DECEMBER 31,2000

Identifiable assets:				
United States	$ 875,876	$ 47,919	$ 426,163	$ 1,349,958
Foreign, principally United Kingdom, Australia and Bermuda	256,630	13,744	6,439	276,813
Total identifiable assets	$ 1,132,506	$ 61,663	$ 432,602	$ 1,626,771
Goodwill -- net	$ 10,975	$ 2,122	$ --	$ 13,097
Amortizable intangible assets -- net	2,992	--	--	2,992
Identifiable assets related to equity investments	945	--	34,596	35,541