

GALLAGHER ARTHUR J & CO  
Form DEF 14A  
April 05, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_ )**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**ARTHUR J. GALLAGHER & CO.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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## **ARTHUR J. GALLAGHER & CO.**

**The Gallagher Centre**

**Two Pierce Place**

**Itasca, Illinois 60143-3141**

April 7, 2004

Dear Stockholder:

Our Annual Meeting will be held on Tuesday, May 18, 2004, at 10:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Second Floor, Itasca, Illinois.

The formal Notice of Annual Meeting of Stockholders and Proxy Statement accompanying this letter describe the business requiring action at the meeting. A presentation by J. Patrick Gallagher, Jr., President and Chief Executive Officer of the Company, and me will provide information on the business and progress of your Company during 2003 and our directors and officers will be available to answer your questions.

We appreciate the interest of our stockholders in Arthur J. Gallagher & Co. and are pleased that in the past so many of you have exercised your right to vote your shares. We hope that you continue to do so.

Whether or not you plan to attend, please mark, sign, date and mail the accompanying proxy card as soon as possible. The enclosed envelope requires no postage if mailed in the United States. If you attend the meeting, you may revoke your proxy and vote personally.

Cordially,

ROBERT E. GALLAGHER

Chairman of the Board

## ARTHUR J. GALLAGHER & CO.

### NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

**To Be Held May 18, 2004**

*To the Stockholders of*

ARTHUR J. GALLAGHER & CO.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Arthur J. Gallagher & Co. (the Company) will be held Tuesday, May 18, 2004, at 10:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Second Floor, Itasca, Illinois for the following purposes:

1. To elect three Class II directors;
2. To ratify the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2004; and
3. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors has fixed the close of business on March 22, 2004 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting.

Whether or not you plan to attend the Annual Meeting, you are urged to mark, date and sign the enclosed proxy and return it promptly so your vote can be recorded. If you are present at the meeting, you may revoke your proxy and vote in person.

Date: April 7, 2004

By Order of the Board of Directors

JOHN C. ROSENGREN

Secretary

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**YOUR VOTE IS IMPORTANT. PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON.**

# ARTHUR J. GALLAGHER & CO.

The Gallagher Centre

Two Pierce Place

Itasca, Illinois 60143-3141

## PROXY STATEMENT

### GENERAL INFORMATION

#### Use of Proxies

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Arthur J. Gallagher & Co. (the Company) of proxies to be voted at the Annual Meeting of Stockholders to be held on Tuesday, May 18, 2004, in accordance with the foregoing notice. This Proxy Statement and accompanying proxy are being mailed to stockholders on or about April 7, 2004.

Any proxy may be revoked by the person giving it at any time before it is voted by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date. Shares represented by a proxy, properly executed and returned to the Company and not revoked, will be voted at the Annual Meeting.

Shares will be voted in accordance with the directions of the stockholder as specified on the proxy. In the absence of directions, the proxy will be voted **FOR** the election of the directors named as the nominees in this Proxy Statement; and **FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2004. Any other matters that may properly come before the meeting will be acted upon by the persons named in the accompanying proxy in accordance with their discretion.

#### Record Date and Voting Securities

The close of business on March 22, 2004 has been fixed as the record date (the Record Date) for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. As of the Record Date, the Company had 90,530,552 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote, exercisable in person or by proxy. There are no other outstanding securities of the Company entitled to vote, and there are no cumulative voting rights with respect to the election of directors.

The presence, in person or by proxy, of a majority of the outstanding shares of the Common Stock of the Company is necessary to constitute a quorum at the Annual Meeting. An automated system administered by the Company's transfer agent tabulates the votes. Abstentions and broker

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non-votes are included in the number of shares present and voting for the purpose of determining if a quorum is present. Abstentions are also included in the tabulation of votes cast on proposals presented to the stockholders but broker non-votes are not.

### **Expenses of Solicitation**

All expenses of the solicitation of proxies will be paid by the Company. Officers, directors and employees of the Company may also solicit proxies by telephone, facsimile or in person.



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**PRINCIPAL HOLDERS OF SECURITIES**

The following table shows with respect to any person who is known to be the beneficial owner as of December 31, 2003 of more than 5% of the Company's Common Stock, par value \$1.00 per share, which is its only class of issued and outstanding capital stock, (i) the total number of shares of Common Stock beneficially owned as of such date; and (ii) the percent of Common Stock so owned as of the same date.

<b>Name and Address of Beneficial Owner</b>	<b>Amount &amp; Nature of Beneficial Ownership</b>	<b>Percent of Common Stock</b>
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	6,031,100(1)	6.70%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	5,016,066(2)	5.57%

The following table shows with respect to each of the directors and nominees for director of the Company, the executive officers named in the Summary Compensation Table, and all directors and executive officers as a group, nineteen in number, (i) the total number of shares of Common Stock beneficially owned as of March 1, 2004 and (ii) the percent of Common Stock so owned as of the same date.

<b>Name of Beneficial Owner</b>	<b>Amount &amp; Nature of Beneficial Ownership(3)</b>	<b>Percent of Common Stock</b>
Robert E. Gallagher	2,595,582(4)	2.86%
James J. Braniff III	459,492	*
T. Kimball Brooker	220,250	*
Gary P. Coughlan	31,375	*
James W. Durkin, Jr.	351,212	*
J. Patrick Gallagher, Jr.	597,290(5)	*
James S. Gault	116,785(6)	*
Ilene S. Gordon	66,295	*
Elbert O. Hand	3,125	*
Bernard L. Hengesbaugh	0	*
Douglas K. Howell	7,753	*
David S. Johnson	0	*
David E. McGurn, Jr.	268,584	*
Richard J. McKenna	146,044	*
James R. Wimmer	107,375	*
All directors and executive officers as a group (19 persons)	5,101,447	5.55%

\* Less than 1%

(1)

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Information obtained from a Schedule 13G dated February 10, 2004 filed with the Securities and Exchange Commission ( SEC ) by Capital Research and Management Company. The Company has been informed that Capital Research and Management Company is deemed to be the beneficial owner in the aggregate of 6,031,100 shares of the Company s voting Common Stock as a result of acting as investment

- adviser to the American Funds Group of mutual funds. In its Schedule 13G, Capital Research and Management Company disclaimed beneficial ownership of these shares.
- (2) Information obtained from a Schedule 13G dated February 13, 2004 filed with the SEC by Wellington Management Company, LLP. The Company has been informed that Wellington Management Company, LLP is deemed to be the beneficial owner in the aggregate of 5,016,066 shares of the Company's voting Common Stock as a result of acting as investment adviser to various clients.
  - (3) Calculated pursuant to Rule 13d-3(d) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Unless otherwise stated in these notes, each person has sole voting and investment power with respect to all such shares. Includes shares which the listed beneficial owner has a right to acquire within sixty days as follows: James J. Braniff III, 256,600 shares; T. Kimball Brooker, 117,250 shares; Gary P. Coughlan, 25,625 shares; James W. Durkin, Jr., 176,000 shares; J. Patrick Gallagher, Jr., 56,500 shares; James S. Gault, 50,500 shares; Ilene S. Gordon, 62,295 shares; Elbert O. Hand, 1,125 shares; Douglas K. Howell, 7,500 shares; David E. McGurn, Jr., 129,500 shares; Richard J. McKenna, 91,000 shares; and James R. Wimmer, 107,375 shares; all directors and executive officers as a group (19 persons), 1,163,370 shares.
  - (4) Includes 300,000 shares held in trust for the benefit of Robert E. Gallagher's grandchildren under which Robert E. Gallagher is the trustee, 400,000 shares held in trust for the benefit of Isabel Gallagher under which Robert E. Gallagher is a trustee, 400,000 shares held by a charitable trust under which Robert E. Gallagher is the trustee, 500,000 shares held by a limited partnership of which Robert E. Gallagher is the general partner, and 276,048 shares held in the Lauren E. Gallagher Trust under which Robert E. Gallagher is a trustee.
  - (5) Includes 164,280 shares held in trust for the benefit of his minor children by his wife, Anne M. Gallagher, and another, as trustees, 100,554 shares held by his wife, and 150,000 shares held by Elm Court LLC, a limited liability company, of which the voting LLC membership interests are owned by J. Patrick Gallagher, Jr. and the non-voting LLC membership interests are owned by a grantor retained annuity trust of which J. Patrick Gallagher, Jr. is the trustee.
  - (6) Includes 28,000 shares held by his wife.

## CORPORATE GOVERNANCE

### *Governance Guidelines*

The Governance Guidelines adopted by the Board provide guidelines for the Company and the Board of Directors to ensure effective corporate governance. The Governance Guidelines cover topics including, but not limited to, director qualification standards, Board and committee composition, director responsibilities, director compensation, director access to management and independent advisors, director orientation and continuing education, succession planning and the annual evaluations of the Board and its committees.

The Nominating/Governance Committee will review the Company's Governance Guidelines periodically and, if necessary, recommend changes to the Board. The full text of the Governance Guidelines is available on the Investor Relations page of our web site at the following address: [www.ajg.com](http://www.ajg.com).

### *Independence of Directors*

Our Governance Guidelines provide that the Board of Directors is to be composed of a majority of independent directors. No director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with the Company either directly or as a partner, stockholder or officer of

an organization that has a relationship with the Company. Our current Board of Directors has determined that all non-management directors (seven out of nine directors) are independent in accordance with the New York Stock Exchange ( NYSE ) listing standards. The Board has made this determination based on the following criteria, in addition to any other relevant facts and circumstances:

A director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship.

A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation.

A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company is not independent until three years after the end of either the affiliation or the auditing relationship.

A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serves on that company's compensation committee is not independent until three years after the end of such service or the employment relationship.

A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues is not independent until three years after falling below such threshold.

#### *Nomination of Directors*

It is the policy of the Nominating/Governance Committee to consider candidates for director recommended by stockholders. In order to recommend a candidate, stockholders must submit the individual's name and qualifications in writing to the Committee (in care of the Chairman at the Company's principal office). The Board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility, be leaders in the organizations with which they are affiliated, be selected based on contributions they can make to the Board and management and be free from relationships or conflicts of interest that could interfere with the director's duties to the Company and its stockholders.

In identifying and evaluating nominees for director, the Committee takes into account the applicable requirements for directors under the Exchange Act and the listing standards of the NYSE. In addition, the Committee may take into consideration such factors and criteria as it deems appropriate, including the nominee's judgment, skill, integrity, diversity, and business or other experience. The Committee may (but is not required to) consider candidates suggested by management or other members of the Board. The Committee evaluates candidates recommended for director by stockholders in the same manner it evaluates any other nominee. The Committee may from time to time (but is not required to) hire consultants or search firms to help the Committee identify and/or evaluate potential nominees.

The Company's by-laws establish advance notice procedures with regard to the nomination by a stockholder of a candidate for election as a director. In general, the Company must receive notice not less than 45 days prior to the annual meeting of the stockholders of the Company. Such notice must comply with the information requirements set forth in the by-laws relating to stockholder nominations including providing the consent of any nominee to serve as a director, if elected.

#### *Code of Business Conduct and Ethics*

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's Board of Directors as well as the Company's employees and officers, including the Company's principal executive officer, principal financial officer and principal accounting officer. The Company's Code of Business Conduct and Ethics covers all areas of professional conduct, including conflicts of interest, disclosure obligations, insider trading, confidential information, as well as compliance with all laws, rules and regulations applicable to the Company's business. The Company encourages all employees, officers and directors to promptly report any violations of the Code to the appropriate persons identified in the Code.

A copy of the Company's Code of Business Conduct and Ethics is posted on our website at [www.ajg.com](http://www.ajg.com). The Company will provide a copy of the Code of Business Conduct and Ethics without charge to any person, upon written or verbal request of such person. Requests should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141, or by telephone to (630) 773-3800.

In the event that an amendment to, or waiver from, a provision of the Company's Code of Business Conduct and Ethics that applies to the Company's directors or executive officers is necessary, the Company intends to post such information on its website.

### **BOARD OF DIRECTORS AND COMMITTEES**

#### *Board of Directors*

The Company's Board of Directors has the responsibility to review the overall operations of the Company. The Board members are kept informed of the Company's results of operations and proposed plans and business objectives by the Company's management. In order to ensure that the majority of the Board consisted of independent directors as required by our Governance Guidelines, James J. Braniff III, James W. Durkin, Jr., David E. McGurn, Jr., and Richard J. McKenna resigned as members of the Board of Directors on January 22, 2004. All of these gentlemen continue to be employed by the Company. Messrs. Durkin, McGurn and McKenna together with James S. Gault, Douglas K. Howell and John C. Rosengren are members of the Executive Management Committee.

The Company's policy is to encourage Board members to attend the Company's annual meeting. Ten Board members attended the Company's annual meeting held on May 21, 2003.

During 2003, the Board of Directors met six times. All of the directors attended 75% or more of the aggregate meetings of the Board and Board committees on which they served. Included among the committees of the Board are standing Nominating/Governance, Audit and Compensation Committees.



*Audit Committee*

The Audit Committee of the Board of Directors is composed of 3 directors, none of whom is an employee of the Company. The Committee is governed by a charter approved by the Board of Directors on November 20, 2003, a copy of which is attached hereto as Appendix A. Among other things, the Committee assists the Board in its oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements and the qualifications, independence and performance of independent auditors and the performance of the Company's internal auditors. The Committee is also directly responsible for the appointment, retention, termination, compensation and oversight of the independent auditor.

Current members of the Committee are Gary P. Coughlan (Chairman), T. Kimball Brooker and James R. Wimmer, each of whom is independent within the meaning of SEC regulations and the listing standards of the NYSE. The Board of Directors has determined that Gary P. Coughlan qualifies as an audit committee financial expert, as that term is defined in recently-adopted rules of the SEC implementing requirements of the Sarbanes-Oxley Act of 2002. The Audit Committee met ten times in 2003.

*Compensation Committee*

The Compensation Committee of the Board of Directors is governed by a charter approved by the Board of Directors on November 20, 2003, a copy of which is available on the Company's website at [www.ajg.com](http://www.ajg.com). Current members of the Compensation Committee are T. Kimball Brooker (Chairman), Ilene S. Gordon, Elbert O. Hand and James R. Wimmer, each of whom meets the independence requirements of the NYSE for compensation committee members. The Committee met four times in 2003.

The Compensation Committee determines the salaries, bonuses and other compensation and terms and conditions of employment of the executive officers and certain key employees of the Company and makes recommendations to the Board of Directors with respect to the Company's compensation plans and policies. In addition, the Committee administers the Company's stock option plans and reviews the Company's employee benefit programs.

*Nominating/Governance Committee*

The Nominating/Governance Committee of the Board of Directors is governed by a charter approved by the Board of Directors on July 17, 2003, a copy of which is available on the Company's website at [www.ajg.com](http://www.ajg.com). Current members of the Committee are Ilene S. Gordon (Chairman), Gary P. Coughlan, Elbert O. Hand and James W. Wimmer, each of whom meets the independence requirements of the NYSE for nominating committee members. The committee met four times in 2003.

The Nominating/Governance Committee is responsible for identifying and recommending individuals qualified to be directors of the Company to the Board for either appointment to the Board or to stand for election at the Company's annual meeting of stockholders. The Committee is responsible for the development of corporate governance guidelines for the Company. At the recommendation of the Committee, the Board approved Governance Guidelines developed by the Committee on July 17, 2003.

*Executive Sessions*

Non-management directors meet regularly in executive sessions without management. Non-management directors are all those who are not company officers, and include directors, if any, who are not



independent by virtue of a material relationship with the Company, any such director's former status with the Company or a family relationship. Executive sessions are led by a Presiding Director. The Presiding Director of such meetings is designated at each such executive session. An executive session is held in conjunction with each regularly scheduled Board meeting and other sessions may be called by the Presiding Director in his or her own discretion or at the request of the Board.

#### *Communications with the Board of Directors*

The Board has established a process for stockholders and other interested parties to communicate with the Board, the non-management directors as a group or any individual director. A stockholder or other interested party may contact the Board of Directors, the non-management directors as a group or any individual director by writing to their attention at the Company's principal executive offices at Arthur J. Gallagher & Co., c/o General Counsel, The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141. Communications received in writing are distributed to the Board, to non-management directors as a group or to an individual director.

### **ELECTION OF DIRECTORS**

The Board of Directors of the Company is divided into three classes. The regular terms of office for the Class I, Class II and Class III directors expire at the 2006, 2004 and 2005 Annual Meetings of Stockholders, respectively. Three persons are to be elected at the meeting to hold office as Class II directors for a term of three years and until their respective successors are elected and qualified.

Bernard L. Hengesbaugh is currently a member of the Board of Directors as a Class III director, having been appointed to fill a vacancy in such Class on March 18, 2004. The Company's Restated Certificate of Incorporation and By-laws provide that any director appointed to fill a vacancy shall hold office until the expiration of the term of the class of directors to which he was appointed, which in this case occurs at the 2005 Annual Meeting. Mr. Hengesbaugh was initially identified to the Nominating/Governance Committee by a search firm.

Set forth below is information concerning the nominees for election as Class II directors as well as information concerning the current directors in each class continuing in office after the Annual Meeting of Stockholders. The Board of Directors recommends a vote FOR the election of such nominees. The persons named on the enclosed proxy card intend to vote the proxies solicited hereby FOR all the nominees named below unless such authority is withheld. The affirmative vote of the holders of a plurality of the shares of Common Stock represented in person or by proxy is required to elect directors. The enclosed proxy cannot be voted for more than three nominees. Should any nominee be unavailable to serve or for good cause refuse to serve, an event which the Board of Directors does not anticipate, the persons named in the enclosed proxy intend to vote the proxies solicited hereby for the election of such other nominee, if any, as they may select.

David S. Johnson is currently a member of the Board of Directors as a Class II director, having been appointed to fill a vacancy in such Class on September 15, 2003. Mr. Johnson was initially identified to the Nominating/Governance Committee by a search firm.

**Nominees for Election to the Board of Directors as****Class II Directors with Terms Expiring in 2007**

<u>Name</u>	<u>Age</u>	<u>Year First Elected Director, Business Experience and Other Directorships</u>
T. Kimball Brooker	64	Director since 1994; President, Barbara Oil Company, an oil and gas exploration and investment business, since 1989; Managing Director, Morgan Stanley & Co., Inc. from 1975 to 1988.
Robert E. Gallagher(1)	81	Director since 1950; Chairman since 1990; Chief Executive Officer from 1963 to 1994.
David S. Johnson	47	Director since 2003; President of North American Commercial for Kraft Foods, Inc., since 2003; President of North American Operations, Technology, Procurement, Information Systems and Sales for Kraft Foods North America, Inc., 2002 to 2003; Group Vice President of Kraft Foods North America, Inc., 2000 to 2002; Executive Vice President of Kraft Foods, Inc., 1998 to 2000; joined Kraft in 1986.

**Members of the Board of Directors Continuing in Office****as Class III Directors with Terms Expiring in 2005**

Gary P. Coughlan	60	Director since 2000; Senior Vice President and Chief Financial Officer of Abbott Laboratories from 1990 to March 2001; Senior Vice President of Kraft General Foods from 1989 to 1990; prior thereto Senior Vice President and Chief Financial Officer of Kraft, Inc. which he joined in 1972. Director of Hershey Foods Corporation.
Elbert O. Hand	64	Director since November 2002; Chairman of the Board of Hartmarx Corporation, a consumer apparel products business, since 1992, Chief Executive Officer from 1992 to April 2002, and President and Chief Operating Officer from 1985 to 1992. Director of Hartmarx Corporation.
Bernard L. Hengesbaugh	57	Director since March 2004; Chairman of the Board of CNA Financial Corporation, an insurer of commercial enterprises, since 2002, not standing for reelection to board at April 28, 2004 CNA annual meeting; Chairman and Chief Executive Officer CNA Insurance Companies 1999 to 2002, Executive Vice President and Chief Operating Officer 1998-1999, and President and Chief Operating Officer, Specialty Operations 1990-1998. Director of CNA Financial Corporation.

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**Members of the Board of Directors Continuing in Office**
**as Class I Directors with Terms Expiring in 2006**

<u>Name</u>	<u>Age</u>	<u>Year First Elected Director, Business Experience and Other Directorships</u>
J. Patrick Gallagher, Jr.(1)	52	Director since 1986; Chief Executive Officer since 1995; President since 1990; Chief Operating Officer from 1990 to 1994; Vice President Operations from 1985 to 1990.
Ilene S. Gordon	50	Director since 1999; President Food Packaging, Americas, Alcan Inc. since 2004 (successor of Pechiney Plastic Packaging, Inc.); President of Pechiney Plastic Packaging, Inc., a flexible packaging manufacturing and marketing business, and Senior Vice President of Pechiney Group since 1999 to 2004; Vice President and General Manager of Tenneco Packaging Folding Carton Business from 1997 to 1999; Vice President-Operations of Tenneco, Inc. from 1994 to 1997. Director of United Stationers, Inc.
James R. Wimmer	75	Director since 1985; Partner, Lord, Bissell & Brook, attorneys, from 1959 to 1992 and Of Counsel from 1992 to 1999; Vice-Chairman and General Counsel of Commonwealth Industries Corporation from 1991 to 1993.

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(1) Robert E. Gallagher is an uncle of J. Patrick Gallagher, Jr.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

For the year ended December 31, 2003 and during the year 2004 to date, the Company and certain of its subsidiaries have engaged in brokerage and other transactions on behalf of CNA Financial and certain of its subsidiaries in the ordinary course of business. One of the Company's directors, Bernard L. Hengesbaugh, is Chairman of the Board of Directors of CNA Financial. Mr. Hengesbaugh is not standing for reelection at the April 28, 2004 CNA annual meeting. All of these transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties. The Company anticipates that it will continue to engage in such transactions with CNA Financial in the ordinary course of business during the remainder of 2004. None of the transactions in which the Company engaged with CNA Financial during 2003 were, or for 2004 are expected to be, in excess of five percent (5%) of the Company's or CNA Financial's consolidated gross revenues for either of such years.

**Report of the Audit Committee**

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act or the Exchange Act that might incorporate filings, including this Proxy Statement, in whole or in part, the following report shall not be incorporated by reference into any such filings.

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1 Independence Discussions with Audit Committees and discussed with the auditors any relationships that may impact their objectivity and independence. The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees.



The Committee reviewed and discussed the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2003, with management and the independent auditors.

Management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, the Company's accounting and financial reporting principles, and internal controls designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States (GAAP). Management has represented to the Committee that the Company's financial statements were prepared in accordance with generally accepted accounting principles. It is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the Company's audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, for filing with the SEC.

Audit Committee

Gary P. Coughlan (Chairman)

T. Kimball Brooker

James R. Wimmer

## COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

### Report of the Compensation Committee

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act or the Exchange Act that might incorporate filings, including this Proxy Statement, in whole or in part, the following Compensation Committee report and the Comparative Performance Graph on Page 14 shall not be incorporated by reference into any such filings.

#### Executive Compensation

The Compensation Committee is responsible for determining the total compensation and employment conditions of the Company's executive officers. In determining the total 2003 compensation, the Compensation Committee generally evaluated the executive's contribution to the overall success of the Company in achieving the corporate goals set out below. In making such determinations, the members of the Compensation Committee consult with members of senior management and base such determinations on the information and recommendations of senior management. The following items are important elements in determining compensation.

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Earnings Growth Year-over-year earnings growth is one of the most important goals of the Company. The effort of an individual executive in meeting or exceeding year-over-year growth for his or her department or division has historically been an important criterion in the evaluation. In addition, the Compensation Committee focuses on the contribution of the executive to the overall success of the Company in meeting its plan for growth. Longer term growth goals, as measured against the Company's Three Year Strategic Plan, are

also considered in the evaluation. The Compensation Committee believes that the performance of management should be evaluated using operating and cash basis results as well as GAAP results. The Compensation Committee also takes into consideration the separate operating results of each of the Company's core operating divisions in evaluating the performance of the managers of those divisions.

**Business Growth** The Company considers its long-term business growth to be a critical factor in the continued success of the Company. Executives are expected to support the Company's acquisition program, which seeks to achieve growth by successfully integrating independent businesses into the corporate structure. Similarly, establishment of operations in new geographic areas, as well as the successful development and marketing of new product lines, are considered necessary to the continued growth of the Company and are included in the evaluation. In 2003, fourteen businesses were acquired. The development and marketing of new product lines continued on a basis consistent with prior years.

**Human Resources** As a service business, the Company believes that its employees are its greatest asset. Over 60% of the Company's expenses in 2003 were related to the compensation of its employees and related costs. The Company is committed to the successful hiring, training and retaining of people who promote the growth, financial success and management succession of the Company. An executive's ability to manage these resources, as well as the attendant expenses, is a significant criterion.

Enhancement of shareholder value is the ultimate goal of the Company. The Compensation Committee believes that its focus on specific corporate goals should result in a strong stock price, improved earnings per share and greater return on stockholders' equity.

The Company has a discretionary bonus pool for executive officers and key employees, contingent upon satisfactory corporate growth and the attainment of predetermined managerial goals. These predetermined goals are extremely varied and, in the case of the executive officers, are established by the individual officer in conjunction with senior management in consultation with the Compensation Committee. The goals are too diverse to generalize but typically include meeting or exceeding budgetary guidelines and contribution to the Company's profitability. Attainment of these goals in many cases may be determined by a subjective judgment of the individual supervisor or, in the case of the executive officers, by the Compensation Committee. The Board determines the eligibility for participation in the bonus pool. All of the executive officers of the Company (other than Messrs. Braniff, Gault and McGurn, who participate in the BSD Bonus Plan described below) are eligible to participate in this plan.

The Company has a bonus plan for its Brokerage Services Division to provide incentives to the management personnel of the Division. The bonuses under this Plan are determined by a formula applied to the pretax profitability of the Brokerage Services Division. Under the Plan, at the discretion of the Company, participants may receive their award in cash or in Common Stock of the Company. In general, an award under the Plan vests in the participant's account in three installments at the rate of 33 1/3% per year beginning on March 31st after the end of the year in which the bonus is earned, with vesting acceleration in the event of death, disability, or change in control. Messrs. Braniff, Gault and McGurn are eligible to participate in this Plan.

The Company has a Deferred Equity Participation Plan to encourage key executive officers to remain with the Company until their normal retirement. Under the Plan, the Company contributes shares of Common Stock to a rabbi trust in an amount approved by the Compensation Committee in the name of the plan participant. The Chief Executive Officer of the Company, in conjunction with the Compensation Committee, annually determines the key executives who will receive an award under the Plan and the amount

of such award. Distributions under the Plan may not be made until the participant reaches age 62 and are subject to forfeiture in the event of a voluntary termination of employment prior to age 62. All distributions are made in the form of Common Stock of the Company. All of the executive officers are eligible to participate in this plan.

Option grants to executive officers under the Company's Stock Option Plans are determined by the Compensation Committee of the Board of Directors and are generally based upon more subjective factors. The Compensation Committee considers the recommendations of the executive officers of the Company, the responsibilities of each grantee, his or her past performance and his or her anticipated future contribution to the Company. Options directly reflect the Company's performance through its stock price.

The Internal Revenue Code limits the deductibility for federal income tax purposes of certain compensation payable to top executive officers of publicly held corporations. Certain types of compensation are excluded from the limitations. The Company generally attempts to preserve the federal income tax deductibility of compensation paid when it is appropriate and is in the best interests of the Company and its stockholders. However, the Company reserves the right to authorize the payment of nondeductible compensation which it deems appropriate.

Executive officers participate in the Savings and Thrift Plan, Supplemental Savings and Thrift Plan and Pension Plan, and receive customary employee health benefits and expense reimbursement in accordance with the Company's policy.

During 2003, the Committee compared the compensation of the five most highly compensated executive officers of the Company to the publicly held competitors of the Company included in the Comparative Performance Graph on Page 14. The Committee targets the middle of its competitors' salary range for its executive officers' compensation. The Committee believes that the 2003 compensation of the Company's five most highly compensated executive officers will be in the middle range when compared to its publicly-held competitors after making certain adjustments for the size of the Company.

#### **Chief Executive Officer Compensation**

The 2003 salary of J. Patrick Gallagher, Jr., the Company's Chief Executive Officer, was \$850,000. Mr. Gallagher also received a cash bonus of \$500,000, a restricted stock award of \$500,000 and an equity award valued at \$400,000 under the Company's Deferred Equity Participation Plan. In determining Mr. Gallagher's bonus and equity awards, the Compensation Committee considered the Company's excellent performance in 2003 with reference to the Company's substantial overall business growth as well as growth in net operating earnings.

Compensation Committee

T. Kimball Brooker (Chairman)

Ilene S. Gordon

Elbert O. Hand

James R. Wimmer



### Summary Compensation Table

The following table presents information concerning compensation paid or set aside by the Company and its subsidiaries on an accrual basis to or for the benefit of the Chief Executive Officer and each of the other four most highly compensated executive officers of the Company in each of the Company's last three fiscal years.

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards			All Other Compensation (\$)(6)
		Salary (\$)	Bonus \$(1)(2)	Other \$( 3)	Deferred Equity Awards (\$ (4)	Restricted Stock Awards (\$ (5)	Securities Underlying Options (#)	
J. Patrick Gallagher, Jr. President and Chief Executive Officer	2003	850,000	500,000		400,000	500,000	50,000	31,000
	2002	850,000	283,300		400,000	566,700	25,000	19,600
	2001	850,000			400,000	1,059,000	25,000	28,700
James S. Gault Vice President	2003	500,000	100,000		250,000	200,000	35,000	17,000
	2002	400,000	166,700		300,000	333,300	25,000	9,300
	2001	300,000			250,000	353,000	20,000	9,700
Douglas K. Howell Vice President and Chief Financial Officer	2003	354,000	212,500	96,800	200,000	212,500	75,000	7,600
David E. McGurn, Jr. Vice President	2003	450,000	100,000		250,000	200,000	35,000	15,300
	2002	400,000	133,300		300,000	266,700	20,000	9,100
	2001	400,000			300,000	470,000	20,000	11,900
Richard J. McKenna Vice President	2003	350,000	225,000		250,000		30,000	9,500
	2002	350,000			200,000		20,000	12,900
	2001	330,000	185,000		300,000		20,000	11,800

- (1) Represents bonuses related to services rendered in the fiscal year indicated above that were determined and paid in the subsequent fiscal year.
- (2) Certain employees were eligible to elect to receive a portion of their 2003 bonus as stock options. Messrs. Gallagher, Howell and McKenna elected to receive \$100,000, \$25,000 and \$25,000 of their bonuses, respectively, as options.
- (3) During 2003, the Company paid Mr. Howell additional compensation of \$96,800 to facilitate his transition to his new position at the Company.
- (4) Represents amounts awarded under the Company's Deferred Equity Participation Plan. Amounts shown do not represent actual payments to the executive officer. Participation in the Plan by any person, and the amount of such participation, is at the sole discretion of the Company's Chief Executive Officer, in conjunction with the Compensation Committee. The Plan provides that the Company will contribute to the Plan shares of Common Stock in an amount approved by the Compensation Committee. All funds allocated by the Company to the Plan will be used to purchase Common Stock. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to, the

participant s voluntary

termination of employment with the Company prior to age 62. A participant will be eligible to receive a distribution from the Plan upon reaching age 62. Substantially all distributions will be made in the form of Common Stock of the Company.

- (5) In the case of Mr. Gallagher, represents the value of restricted stock awards which vest annually in equal parts over a three year period for 2001 and a two year period for 2002 and 2003. In the case of Mr. Howell represents the value of a restricted stock award that vests annually in equal parts over a two year period. In the case of Messrs. Gault and McGurn represents the value of restricted stock awards granted under the Brokerage Services Division Bonus Plan which vest annually in equal parts over a three year period for grants made in 2001 and a two year period for grants made in 2002 and 2003. Such awards include the dividends associated with the underlying stock.
- (6) Includes amounts contributed by the Company under the 401(k) match feature of the Company's Savings and Thrift Plan of \$4,000 in 2003 (except for Mr. Howell, who was not eligible for the plan in 2003), amounts contributed by the Company under the match feature of the Company's Supplemental Savings and Thrift Plan in 2003 (Mr. Gallagher \$24,400, Mr. Gault \$11,300, Mr. Howell \$7,100, Mr. McGurn \$10,200, and Mr. McKenna \$3,000) and the equivalent annual value of insurance premiums paid by the Company for group term life insurance for the benefit of the named executive officer (Mr. Gallagher \$2,600, Mr. Gault \$1,700, Mr. Howell \$500, Mr. McGurn \$1,100 and Mr. McKenna \$2,500).

### **Comparative Performance Graph**

The following graph demonstrates a five year comparison of cumulative total returns for the Company, the S&P 500 and a Peer Group comprised of the Company, Aon Corporation, Hilb, Rogal and Hamilton Co., Marsh & McLennan Companies, Inc., Willis Group Holdings Ltd. and Brown & Brown, Inc. The comparison charts the performance of \$100 invested in the Company, the S&P 500 and the Peer Group on December 31, 1998, with dividend reinvestment.

## Directors Compensation

Directors who are officers of the Company receive compensation in their capacities as officers and receive no additional compensation for serving as directors.

Non-employee directors, currently Messrs. Brooker, Coughlan, Hand, Hengesbaugh, Johnson, and Wimmer and Ms. Gordon, are eligible to receive compensation consisting of nonqualified stock options. In addition, non-employee directors receive an annual retainer of \$30,000 per year or, in lieu of the cash retainer, an option to purchase shares of the Company's Common Stock in that amount below market value, plus fees of \$1,000 for attendance at each Board meeting or committee meeting on a date other than a Board meeting date. Non-employee directors are reimbursed for travel and accommodation expenses incurred in attending Board or committee meetings. Non-employee directors are not eligible for participation in any other compensation plans of the Company.

In 1989, the Company's stockholders approved the adoption of the Company's 1989 Non-Employee Directors' Stock Option Plan, which has been subsequently amended (as amended, the 1989 Plan). The 1989 Plan currently provides that non-employee directors are eligible to be granted nonqualified options to purchase a maximum of 1,925,000 shares of the Company's Common Stock. The 1989 Plan encompasses options granted to non-employee directors at the discretion of the Compensation Committee of the Company's Board of Directors (Discretionary Options) and options granted to non-employee directors pursuant to an election made by a non-employee director to receive options in lieu of his or her annual retainer (Retainer Options). Shares issued upon exercise of options granted under the 1989 Plan may be repurchased shares held by the Company or authorized but previously unissued shares.

Under the 1989 Plan, a Discretionary Option shall be exercisable at such rate and price fixed by the Compensation Committee. Discretionary Options terminate if not exercised by the date set forth in the 1989 Plan or by such date established by the Compensation Committee at the time it makes the grant.

Pursuant to the terms of the 1989 Plan, Messrs. Coughlan, Hand, and Wimmer and Ms. Gordon have elected to receive their annual retainers for 2004 in the form of an option to purchase the Company's Common Stock. Each year on or before two weeks preceding the Company's Annual Meeting of Stockholders, the Compensation Committee determines the number of shares of Common Stock with respect to which a non-employee director may be granted a Retainer Option. The non-employee director's option exercise price per share will be equal to the Fair Market Value of the Common Stock subject to the Retainer Option less the Annual Retainer, divided by the number of shares subject to the Retainer Option. The option exercise price per share shall be not less than the par value of the Common Stock. Fair Market Value is defined as the closing price of the Company's Common Stock as reported on the NYSE composite listing for the day on which the option is granted.

On May 21, 2003, the Company granted a Retainer Option for 1,500 shares of the Company's Common Stock to Messrs. Coughlan, Hand and Wimmer and Ms. Gordon at an exercise price of \$5.79 per share. Such options are exercisable at the rate of one-fourth of such grant each successive quarter commencing August 21, 2003. In addition, on May 21, 2003, the Company granted a Discretionary Option for 25,000 shares of the Company's Common Stock to each of Messrs. Brooker, Coughlan, Hand, and Wimmer and Ms. Gordon at an exercise price of \$25.79 per share, which was the closing price for a share of Common Stock as reported on the NYSE composite listing on that date. Such options are exercisable at the rate of one-third of such grant each successive May 21, commencing May 21, 2004.

The Company approved a supplemental deferred compensation arrangement, effective July 1, 1996, with Robert E. Gallagher after his retirement, and to his surviving spouse after his death, and the surviving spouse of John P. Gallagher, providing for a payment of \$100,000 annually, inclusive of any Company pension plan payments, to be paid until the death of each such beneficiary.

### Pension Plan

The Company also maintains a non-contributory defined benefit pension plan covering substantially all domestic employees which is qualified under the Internal Revenue Code. The plan provides an annual pension benefit on normal retirement at age 65 which, when paid in the form of a single life annuity, will equal 1% of final average earnings multiplied by the number of years of credited service, not to exceed 25 years (without any deduction for social security or other offset amounts). A person's earnings for purposes of the plan include all compensation other than allowances such as moving expenses plus any pre-tax contributions under the 401(k) feature of the Savings and Thrift Plan, less pre-tax contributions under the Supplemental Savings and Thrift Plan. The maximum includible compensation for a participant for any year may not exceed an overall salary maximum as determined by the Internal Revenue Service of \$200,000 in 2004. The remuneration for executive officers shown under Salary and Bonus in the Summary Compensation Table constitutes their earnings during 2003 for purposes of the plan without regard to the Internal Revenue Service's limitation. Final average earnings are the highest average earnings received in any five consecutive full calendar years before retirement. Employees' pension rights are fully vested after the earlier of (i) 5 years of service with the Company or (ii) the attainment of age 65.

The following table shows the estimated annual benefits (which are not subject to deduction for social security or other offset amounts) payable on retirement under the Company's defined benefit plan to persons in specific remuneration and credited years of service classifications assuming (i) the person elects the single life annuity basis providing monthly payments without benefits to his survivors and (ii) the person continues in the employ of the Company at his present rate of remuneration until age 65:

**PENSION PLAN TABLE**

Average remuneration during highest five consecutive years before retirement	Years of Credited Service		
	15	20	25 or More
	\$130,000	\$ 19,500	\$ 26,000
150,000	22,500	30,000	37,500
170,000	25,500	34,000	42,500
200,000	30,000	40,000	50,000

For purposes of estimating potential pension benefits using the foregoing table, the number of years of credited service as of December 31, 2003 for the executive officers named in the Summary Compensation Table are as follows: J. Patrick Gallagher, Jr. (25 years), James S. Gault (25 years), Douglas K. Howell (0 years) David E. McGurn, Jr. (24 years), and Richard J. McKenna (25 years). Such pension benefits are in addition to amounts payable to such persons under the Company's Savings and Thrift Plan and Supplemental Savings and Thrift Plan on their retirement and are subject to certain limitations as required under the Internal Revenue Code.



**Equity Compensation Plan Information**

The following table provides information as of December 31, 2003 regarding the number of shares of the Company's Common Stock that may be issued under the Company's equity compensation plans.

Plan Category	(a) Number of securities issued or to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	15,087,752	\$ 18.59	14,528,259(1)
Equity compensation plans not approved by security holders(2)	35,861(3)	\$ 19.04	4,000,787(4)
<b>Total</b>	<b>15,123,613</b>		<b>14,604,608</b>

- (1) Includes the following:
- 1,049,853 shares available under the Company's 1988 Incentive Stock Option Plan.
  - 8,040,724 shares available under the Company's 1988 Nonqualified Stock Option Plan.
  - 688,000 shares available under the Company's 1989 Non-Employee Directors' Stock Option Plan.
  - 905,244 shares available under the Company's United Kingdom Incentive Stock Option Plan.
  - 3,844,438 shares available under the Company's Employee Stock Purchase Plan.
- (2) The following plans have not been approved by the Company's stockholders: the Deferred Equity Participation Plan, the Management Bonus Plan for the Brokerage Services Division, the Gallagher Healthcare Insurance Services, Inc. 2001 Nonqualified Stock Option Plan, and the Restricted Stock Plan. The material terms of each of these plans are described following the table.
- (3) Includes stock options to purchase 35,861 shares of the Company's Common Stock pursuant to the Gallagher Healthcare Insurance Services, Inc. 2001 Nonqualified Stock Option Plan. The Company currently does not grant awards under this plan. The material terms of this plan are described following the table.
- (4) Includes 4,000,000 shares available under the Restricted Stock Plan and 787 shares available under the Gallagher Healthcare Insurance Services, Inc. 2001 Nonqualified Stock Option Plan. The Company currently does not grant awards under the Gallagher Healthcare Insurance Services, Inc. 2001 Nonqualified Stock Option Plan. The material terms of each of these plans are described following the table.

Set forth below is a brief description of the material features of each of the Company's equity compensation plans that was adopted without the approval of the Company's stockholders and that was in effect at December 31, 2003.

*Deferred Equity Participation Plan*

All of the Company's executive officers and key employees are eligible to receive awards under the Company's Deferred Equity Participation Plan. The Deferred Equity Participation Plan is a nonqualified plan that provides for distributions to certain executive officers and key

employees of the Company upon their normal retirement or earlier death or disability, or upon change of control. Under the provisions of the plan,



the Company contributes shares of its common stock, in an amount approved by the Company's Board of Directors, to a rabbi trust on behalf of the executive officers and key employees participating in the plan. The Chief Executive Officer of the Company annually determines the executive officers and key employees that will receive an award under the plan and the amount of such award. 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. Substantially all distributions from the plan are made in the form of the Company's Common Stock. There is no authorized amount of shares to be issued pursuant to the Deferred Equity Participation Plan. As a result, the Deferred Equity Participation Plan is not included in the table above.

*Management Bonus Plan for the Brokerage Services Division*

All management employees of the Brokerage Services Division are eligible to participate in the Management Bonus Plan. The bonuses under this plan are determined by a formula applied to the pretax profitability of the Brokerage Services Division. Under this plan, at the discretion of the Company, participants may receive their award in cash or in the Company's Common Stock. In general, an award under this plan vests in the participant's account in three installments at the rate of 33 1/3% per year beginning on March 31st after the end of the year in which the bonus is earned, with vesting acceleration in the event of death, disability, or change of control. There is no authorized amount of shares to be issued pursuant to the Management Bonus Plan. As a result, the Management Bonus Plan is not included in the table above.

*Gallagher Healthcare Insurance Services, Inc. 2001 Nonqualified Stock Option Plan*

All salaried employees of Gallagher Healthcare Insurance Services, Inc. are eligible to participate in the 2001 Nonqualified Stock Option Plan. The Company adopted this plan at the time that it acquired The Galtney Group, Inc. in order to grant replacement options to the employees of the acquired company. All options granted under this plan have a term of not more than 10 years from the grant date and become exercisable over a period of time and at an exercise price determined by the Compensation Committee. If an optionee's employment is terminated for any reason other than the death, disability or retirement of the optionee, all of the optionee's options will terminate immediately, whether or not vested. In the event of a change of control (as defined in the plan), all outstanding options will become fully exercisable. Options granted under the plan are nontransferable and, during the optionee's lifetime, are exercisable only by the optionee. The plan may be amended, suspended or terminated by the Board at anytime so long as no termination or amendment of the plan adversely affects the rights of an option holder. The Company does not plan to grant future options under this plan.

*Restricted Stock Plan*

All of the Company's directors, officers and employees are eligible to receive awards under the Company's Restricted Stock Plan adopted by the Board of Directors effective on June 1, 2003. The Restricted Stock Plan provides for the grant to certain directors, officers and employees of the Company of contingent rights to receive shares of common stock of the Company. Awards under the plan are granted at the discretion of the Compensation Committee of the Board. Each award granted under the plan represents the right of the holder of the award to receive shares of common stock of the Company, cash or a combination of shares and cash, upon and subject to the holder's continued employment with the Company for a period of time after the date the award is granted. The Compensation Committee shall determine each recipient of an award under

the plan, the number of shares of common stock subject to such an award and the period of continued employment required for the vesting of such award. Four million shares of common stock of the Company are authorized to be issued pursuant to the Restricted Stock Plan. As of March 1, 2004, no awards have been granted under the Restricted Stock Plan.

### Broad-Based Employee Stock Option Plans

The Company maintains a 1988 Incentive Stock Option Plan and a 1988 Nonqualified Stock Option Plan. Over 2,500 employees below the executive officer level have been awarded one or more stock option grants under these Stock Option Plans. The top five executive officers of the Company have received less than 10% of the options granted in each of the last three years. These awards are granted in an effort to develop and motivate those employees who have been identified as important to sustaining the Company's outstanding performance into the future. These awards reinforce in the Company an entrepreneurial environment and spirit by providing real incentives for these employees to sustain and enhance the Company's long-term performance. The Company believes that the superior performance of these individuals will contribute significantly to the Company's future success.

The following table sets forth certain information regarding options to purchase shares of Common Stock granted to the executive officers of the Company named in the Summary Compensation Table during the Company's 2003 fiscal year. The exercise price of the options equals the closing price for a share of the Company's Common Stock on the date of the option grant.

#### Option Grants in the Last Fiscal Year (1)

Name	Individual Grants		Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)	
	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year			5% (\$)	10% (\$)
J. Patrick Gallagher, Jr.	50,000	1.73	24.90	7-17-13	783,000	1,984,000
James S. Gault	35,000	1.21	24.90	7-17-13	548,000	1,389,000
Douglas K. Howell	75,000	2.60	24.58	3-03-13	1,159,000	2,938,000
David E. McGurn, Jr.	35,000	1.21	24.90	7-17-13	548,000	1,389,000
Richard J. McKenna	30,000	1.04	24.90	7-17-13	470,000	1,191,000

- (1) Nonqualified options granted July 17, 2003 (Incentive options were granted March 3, 2003 for Mr. Howell), exercisable at the rate of 10% of total option for each calendar year after 2003.
- (2) Based on actual option term and annual compounding.

The following table sets forth certain information regarding options to purchase shares of Common Stock exercised during the Company's 2003 fiscal year and the number and value of unexercised options to purchase shares of Common Stock held at the end of the Company's 2003 fiscal year by the executive officers of the Company named in the Summary Compensation Table.

**Aggregated Option Exercises in the Last Fiscal Year  
and Fiscal Year End Option Values**

Name	Number of Shares Acquired on Exercise (#)	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options at FY-End Exercisable (#)	Number of Securities Underlying Unexercised Options at FY-End Unexercisable (#)	Value of Unexercised In-the-Money Options at FY-End Exercisable (\$)(2)	Value of Unexercised In-the-Money Options at FY-End Unexercisable (\$)(2)
J. Patrick Gallagher, Jr.	20,000	334,000	25,500	159,500	425,000	2,114,700
James S. Gault	8,000	132,500	26,500	126,500	471,300	1,707,200
Douglas K. Howell				75,000		593,300
David E. McGurn, Jr.	48,000	818,200	106,000	129,000	2,383,100	1,761,700
Richard J. McKenna	15,000	305,800	71,400	116,600	1,521,100	1,541,400

(1) Market value of underlying securities at exercise, minus the exercise price.

(2) Market value of underlying securities at year end, minus the exercise price.

#### Severance Arrangements

The Company has a plan for severance compensation to employees after a hostile takeover. The plan defines a hostile takeover to include, among other events, the following events, if not approved by two-thirds of the members of the Board of Directors in office immediately prior to any such events: the election of directors not nominated by the Board of Directors, a business combination, such as a merger, not approved by the holders of 80% or more of the Common Stock and the Board of Directors or not meeting various fair price criteria, or the acquisition of 20% or more of the combined voting power of the Company's stock by any person or entity. All full-time and part-time employees who are regularly scheduled to work 20 or more hours per week and who have completed at least two years of continuous employment with the Company are participants in the plan. A severance benefit is payable under the plan if a participant's employment with the Company terminates voluntarily or involuntarily within two years after a hostile takeover for reasons such as reduction in compensation, discontinuance of employee benefit plans without replacement with substantially similar plans, change in duties or status, certain changes in job location and involuntary termination of employment for reasons other than just cause. For participants who have completed two but less than five years of employment, the benefit is equal to the employee's annual compensation during the year immediately preceding the termination of employment. For employees who have completed five or more years of employment, the benefit is equal to two and one-half times the employee's annual compensation during the 12 months ending on the date of termination of employment, but may not exceed 2.99 times average annual compensation during the preceding five years. Annual compensation is defined for purposes of the plan as the amount of the employee's wages, salary, bonuses and other incentive compensation. Benefits are payable in a lump sum not later than 10 days after termination of employment.

Each of the executive officers of the Company named in the Summary Compensation Table has entered into a change in control agreement with the Company. A severance benefit is payable under the agreement if the executive officer's employment with the Company is terminated by (i) the Company for any reason other than death, physical or mental incapacity, or cause within 24 months following a change in control of the Company; or (ii) the resignation of the executive officer within 24 months following a change in control of the Company upon the occurrence of a material change in the nature or scope of the executive's authorities, powers, functions or duties or a reduction in the executive's total compensation. In the event of any such termination of the executive officer's employment, under the agreement the Company is required to pay the executive a severance allowance equal to his then salary and bonus payments for a 24 calendar month period. Additionally, the executive will also continue to participate for a period of two years in the Company's welfare benefit plans. Cash benefits are payable in a lump sum not later than seven days after termination of employment.

**PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF  
ERNST & YOUNG LLP AS THE COMPANY'S  
INDEPENDENT AUDITORS FOR THE FISCAL YEAR  
ENDING DECEMBER 31, 2004**

The Audit Committee has considered the qualifications of Ernst & Young LLP and recommended that the Board of Directors appoint them as independent auditors of the Company for the fiscal year ending December 31, 2004. The Board of Directors desires to obtain stockholders ratification of the Board's action in such appointment. A resolution ratifying the appointment will be offered at the meeting. If the resolution is not adopted, the adverse vote will be considered as a direction to the Board to select other auditors for the following year. Because of the difficulty and expense of making any substitution of auditors so long after the beginning of the current year, it is contemplated that the appointment for the year 2004 will stand unless the Board finds other good reason for making a change.

**Principal Accountant Fees and Services**

The following is a summary of the fees billed to the Company by Ernst & Young LLP for professional services rendered for the fiscal years ended December 31, 2003 and December 31, 2002:

	<u>2003</u>	<u>2002</u>
<i>Audit Fees</i>	\$ 919,000	\$ 790,000
<i>Audit-Related Fees</i>	417,000	396,000
<i>Tax Fees</i>	480,000	501,000
<i>All Other Fees</i>	3,000	34,000

Fees for audit services include fees associated with the annual audit of the Company and its subsidiaries, the review of the Company's quarterly reports on Form 10-Q, and statutory audits required internationally. Audit-related fees principally include due diligence in connection with acquisitions, audits in connection with the Company's employee benefit plans, issuance of Service Auditor Reports (SAS 70) related to two Company subsidiaries and advisory work related to the Company's internal control evaluation under Section 404 of the Sarbanes-Oxley Act of 2002. Tax fees include tax compliance, tax advice and tax planning related to Federal, state and international tax matters. All other fees principally include fees for access to an online accounting and tax information database in 2003 and internet and human resources related consulting services in 2002.



All audit-related services, tax services and other services for fiscal years 2003 and 2002 were pre-approved by the Audit Committee. It is the policy of the Audit Committee to pre-approve the engagement of any accountant (including the independent auditor) before such accountant is engaged by the Company to render audit or permissible non-audit services.

A representative of Ernst & Young LLP will be present at the Annual Meeting to respond to appropriate questions and to make a statement if the representative so desires.

Ratification requires the affirmative vote of the holders of a majority of the shares of Common Stock represented at the Annual Meeting, in person or by proxy, and entitled to vote thereon.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE

**FOR THE RATIFICATION OF THE APPOINTMENT OF**

**ERNST & YOUNG LLP AS THE COMPANY'S**

**INDEPENDENT AUDITORS FOR 2004.**

#### **SUBMISSION OF STOCKHOLDER PROPOSALS FOR 2005 ANNUAL MEETING**

Stockholder proposals to be presented at the 2005 Annual Meeting of Stockholders must be received by the Company at its principal office on or before December 8, 2004 to be considered for inclusion in the Company's proxy materials for that meeting. With respect to any stockholder proposal to be presented at the 2005 Annual Meeting of Stockholders that is received by the Company after February 21, 2005, the proxies solicited on behalf of the Board of Directors may exercise discretionary voting power.

#### **OTHER MATTERS**

The Company knows of no other matters to be presented for action at the meeting. If any other matters should properly come before the meeting or any adjournment thereof, such matters will be acted upon by the persons named as proxies in the accompanying proxy according to their best judgment in the best interests of the Company.

The Annual Report to Stockholders containing financial statements for the year ended December 31, 2003, and other information concerning the Company is being furnished to the stockholders but is not to be regarded as proxy soliciting material.

Each stockholder is urged to mark, date, sign and return the enclosed proxy card in the envelope provided for that purpose. Your prompt response is helpful and your cooperation will be appreciated.

Dated: April 7, 2004

By Order of the Board of Directors

JOHN C. ROSENGREN

Secretary

**APPENDIX A**

**ARTHUR J. GALLAGHER & CO. ( AJGCO )**

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS.**

**CHARTER**

The Audit Committee is appointed by the Board to assist the Board of Directors in its oversight of the integrity of AJGCO's financial statements; the compliance of AJGCO with legal and regulatory requirements; and the qualifications, independence and performance of independent auditors and the performance of AJGCO's internal auditors.

The Audit Committee shall be comprised of three or more directors as determined and appointed by the Board. The members of the Audit Committee shall (a) meet the independence and experience requirements of the New York Stock Exchange and (b) shall otherwise satisfy the applicable requirements for audit committee service imposed by the Securities Exchange Act of 1934, as amended (the Act). One member of the Audit Committee shall be a financial expert, as such term is defined by the SEC. No director who serves on the audit committee of more than two public companies other than AJGCO shall be eligible to serve as a member of the Audit Committee. Determinations as to whether a particular director satisfies the requirements for membership on the Audit Committee shall be made by the Board.

The members of the Audit Committee shall be designated by the Board on the recommendation of the Nominating/Governance Committee at the annual meeting of the Board or until their successors shall be duly designated. Unless a Chair is elected by the Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

The Committee shall meet with such frequency and at such intervals as it shall determine is necessary to carry out its duties and responsibilities, but in any case, not less than four times a year. The Committee will meet at such times as determined by its chairperson or as requested by any two of its members. Notice of all meetings shall be given, and waiver thereof determined, pursuant to the provisions contained in AJGCO's bylaws. The chairperson will preside, when present, at all meetings of the Committee. The Committee may meet by telephone or video conference and may take action by written consent.

The Committee may form and delegate to one or more subcommittees all or any portion of the Committee's authority, duties and responsibilities, and may establish such rules as it determines necessary or appropriate to conduct its business.

Each member of the Committee shall have one vote. A majority of the members shall constitute a quorum and the Committee shall be authorized to take any permitted action only by the affirmative vote of a majority of the Committee members present at any meeting at which a quorum is present, or by the unanimous written consent of all of the Committee members subject to the provisions of the preceding paragraph.

The Committee shall maintain copies of minutes of each meeting of the Committee, and each written consent to action taken without a meeting, reflecting the actions so authorized or taken by the Committee. A copy of the minutes of each meeting and all consents shall be placed in AJGCO's minute book.



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The Committee shall have the authority to obtain, at AJGCO's expense, but at funding levels determined by the Committee, advice and assistance from outside legal, accounting or other advisors. The Committee shall also have authority to obtain advice and assistance from any officer or employee of AJGCO.

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The Audit Committee shall:

1. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
2. Review and discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including the disclosures under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations. The Audit Committee shall make a recommendation to the Board as to whether the annual audited financial statements should be included in AJGCO's Annual Report on Form 10-K.
3. Review with the independent auditor any audit problems or difficulties, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and management's responses to the same.
4. Be directly responsible for the appointment, retention, termination, compensation and oversight of the independent auditor. The Audit Committee shall also be responsible for the resolution of disagreements between management and the independent auditor regarding financial reporting. The independent auditor shall report directly to the Audit Committee. The Audit Committee shall preapprove all auditing and permitted non-audit services (including the fees and terms thereof) to be provided to AJGCO by the independent auditor, subject to any exceptions provided in the Act.
5. Obtain and review, at least annually, a report from the independent auditor describing: the independent auditor's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditor, and any steps taken to deal with any such issues; and (to assess the independent auditor's independence) all relationships between the independent auditor and AJGCO. Discuss with the independent auditor any issues or relationships disclosed in such report that, in the judgment of the Audit Committee, may have an impact on the competence or independence of the independent auditor.
6. Meet periodically with each of AJGCO's independent auditor, management and chief internal auditor in separate executive sessions.
7. Consider the independent auditor's judgments about the quality and appropriateness of AJGCO's accounting principles as applied in its financial reporting.
8. Review major changes to AJGCO's auditing and accounting principles and practices as suggested by the independent auditor or management.
9. Review AJGCO's financial reporting processes and internal controls, based on consultation with the independent auditor and the internal audit department. Such review shall include a consideration of major issues regarding accounting principles and financial statement presentations, including any significant changes in AJGCO's selection or application of accounting principles, and major issues as to the adequacy of AJGCO's internal controls and any special audit steps adopted in light of identified deficiencies.
10. Review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.

11. Review with AJGCO's General Counsel, or appropriate delegates, legal, disclosure or other matters that may have a material impact on AJGCO's financial statements and legal compliance matters.
12. Prepare an audit committee report as required by the SEC to be included in AJGCO's annual proxy statement.
13. Obtain assurance from the independent auditor that the audit was conducted in a manner consistent with Section 10A of the Act.
14. Discuss with the independent auditor all matters required to be communicated to the Audit Committee by the independent auditor under auditing standards generally accepted in the United States.
15. Annually review and evaluate the qualifications, performance and independence of the lead partner of the independent auditor and assure regular rotation of the lead audit partner of the independent auditor as required by law.
16. Discuss earnings press releases, including the use of pro forma or adjusted non-GAAP information, as well as financial information and earnings guidance if and to the extent provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Audit Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Audit Committee need not discuss in advance each earnings release or each instance in which AJGCO gives earnings guidance.
17. Review and discuss with the independent auditor and, to the extent appropriate, management, any reports of the independent auditor required by law or professional auditing standards, including reports on: (a) all critical accounting policies and practices to be used in preparing the financial statements, (b) all alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (c) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
18. Discuss, as appropriate, the adequacy of the Company's internal controls with the internal and independent auditors and senior management, including without limitation, reports from the Chief Executive Officer or the Chief Financial Officer regarding deficiencies in the design or operation of internal controls or any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
19. Establish procedures for (i) the receipt, retention and treatment of complaints received by AJGCO regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission by employees of AJGCO of concerns regarding questionable accounting or auditing matters. Review periodically with management and the internal audit department these procedures and any significant complaints received.
20. Review annually the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, on AJGCO's financial statements.
21. Discuss policies with respect to risk assessment and risk management, AJGCO's major financial risk exposures and the steps management has taken to monitor and control such exposures, it being understood that it is the job of management to assess and manage AJGCO's exposure to risk and that

the Audit Committee's responsibility is to discuss guidelines and policies by which risk assessment and management is undertaken.

22. Set clear hiring policies with respect for employees or former employees of the independent auditor.
23. Conduct an annual performance evaluation of the Audit Committee.
24. Report regularly to the Board, both with respect to the activities of the Audit Committee generally and with respect to any issues that arise regarding the quality or integrity of AJGCO's financial statements, AJGCO's compliance with legal and/or regulatory requirements, the performance and independence of the independent auditor and the performance of the internal audit department.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that AJGCO's financial statements are complete and accurate and are in accordance with accounting principles generally accepted in the United States or other jurisdictions. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to assure compliance with laws and regulations and AJGCO's Code of Business Conduct and Ethics.



