

GALLAGHER ARTHUR J & CO
Form 10-Q
April 29, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2011 or

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

Commission File Number: 1-9761

ARTHUR J. GALLAGHER & CO.

(Exact name of registrant as specified in its charter)

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DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of outstanding shares of the registrant's Common Stock, \$1.00 par value, as of March 31, 2011 was 110,263,000.

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Arthur J. Gallagher & Co.

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

	Three-month period ended March 31,	
	2011	2010
Commissions	\$ 225.7	\$ 204.2
Fees	189.0	165.0
Supplemental commissions	13.5	27.9
Contingent commissions	16.8	15.5
Investment income and gains realized on books of business sales	3.0	2.3
Revenues from clean-coal activities	(1.1)	62.7
Other net revenues	0.5	4.8
Total revenues	447.4	482.4
Compensation	295.1	262.2
Operating	94.0	81.2
Cost of revenues from clean-coal activities		64.0
Interest	9.5	8.6
Depreciation	8.1	7.7
Amortization	16.4	13.9
Change in estimated acquisition earnout payables	0.8	1.9
Total expenses	423.9	439.5
Earnings before income taxes	23.5	42.9
Provision for income taxes	8.3	13.7
Net earnings	\$ 15.2	\$ 29.2
Basic net earnings per share:	\$ 0.14	\$ 0.28
Diluted net earnings per share:	0.14	0.28
Dividends declared per common share	0.33	0.32

See notes to consolidated financial statements.

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

	March 31, 2011 (Unaudited)	December 31, 2010
Cash and cash equivalents	\$ 333.2	\$ 249.8
Restricted cash	580.1	599.7
Premiums and fees receivable	718.8	750.1
Other current assets	117.7	126.4
Total current assets	1,749.8	1,726.0
Fixed assets - net	79.4	75.8
Deferred income taxes	242.5	245.2
Other noncurrent assets	204.0	181.8
Goodwill - net	925.5	883.7
Amortizable intangible assets - net	489.9	483.5
Total assets	\$ 3,691.1	\$ 3,596.0
Premiums payable to insurance and reinsurance companies	\$ 1,213.4	\$ 1,250.3
Accrued compensation and other accrued liabilities	165.3	226.5
Unearned fees	65.0	60.5
Other current liabilities	41.6	40.0
Corporate related borrowings - current		
Total current liabilities	1,485.3	1,577.3
Corporate related borrowings - noncurrent	675.0	550.0
Other noncurrent liabilities	383.7	362.0
Total liabilities	2,544.0	2,489.3
Stockholders' equity:		
Common stock - issued and outstanding 110.3 shares in 2011 and 108.4 shares in 2010	110.3	108.4
Capital in excess of par value	563.5	507.8
Retained earnings	466.8	488.3
Accumulated other comprehensive earnings	6.5	2.2
Total stockholders' equity	1,147.1	1,106.7
Total liabilities and stockholders' equity	\$ 3,691.1	\$ 3,596.0

See notes to consolidated financial statements.

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

	Three-month period ended	
	March 31,	
	2011	2010
Cash flows from operating activities:		
Net earnings	\$ 15.2	\$ 29.2
Adjustments to reconcile net earnings to net cash (used) provided by operating activities:		
Net loss (gain) on investments and other	0.1	(4.8)
Depreciation and amortization	24.5	21.6
Change in estimated acquisition earnout payables	0.8	1.9
Amortization of deferred compensation and restricted stock	1.6	1.4
Stock-based and other noncash compensation expense	0.8	1.0
Net change in restricted cash	20.9	16.6
Net change in premiums receivable	45.1	32.0
Net change in premiums payable	(53.4)	(25.3)
Net change in other current assets	13.6	(10.3)
Net change in accrued compensation and other accrued liabilities	(64.4)	(58.9)
Net change in fees receivable/unearned fees	0.4	1.3
Net change in income taxes payable	(4.2)	3.5
Net change in deferred income taxes	3.1	5.1
Net change in other noncurrent assets and liabilities	(11.4)	(10.8)
Net cash (used) provided by operating activities	(7.3)	3.5
Cash flows from investing activities:		
Net additions to fixed assets	(8.3)	(6.0)
Cash paid for acquisitions, net of cash acquired	(19.1)	(4.3)
Net proceeds from investment transactions	0.1	12.9
Net cash (used) provided by investing activities	(27.3)	2.6
Cash flows from financing activities:		
Proceeds from issuance of common stock	26.3	12.0
Tax impact from issuance of common stock	1.7	1.1
Repurchases of common stock	(0.3)	(0.2)
Dividends paid	(34.7)	(32.8)
Borrowings of corporate related long-term debt	125.0	
Borrowings on line of credit facility		35.0
Net cash provided by financing activities	118.0	15.1
Net increase in cash and cash equivalents	83.4	21.2
Cash and cash equivalents at beginning of period	249.8	205.9
Cash and cash equivalents at end of period	\$ 333.2	\$ 227.1
Supplemental disclosures of cash flow information:		
Interest paid	\$ 13.2	\$ 12.8
Income taxes paid	7.8	3.9

See notes to consolidated financial statements.

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

	Common Stock		Capital in	Retained	Accumulated	
	Shares	Amount	Excess of	Earnings	Other	Total
			Par Value		Comprehensive	
					Earnings	
Balance at December 31, 2010	108.4	\$ 108.4	\$ 507.8	\$ 488.3	\$ 2.2	\$ 1,106.7
Net earnings				15.2		15.2
Net change in pension liability, net of taxes of \$0.2 million					0.3	