




Arthur J. Gallagher & Co.

# EXPERTISE · SERVICE TRUST · VALUE

---

2016 ANNUAL REPORT



“For 90 years, we’ve worked hard to ensure that strong ethics and culture remain at the core of how we do business—enduring values as true today as when we first opened our doors in 1927.”

J. Patrick Gallagher, Jr.  
Chairman, President and CEO

#### **NON-GAAP FINANCIAL MEASURES**

For the purpose of each Non-GAAP measure used and a reconciliation of Non-GAAP information to the most directly comparable GAAP measures, please see “Information Regarding Non-GAAP Measures and Other” beginning on page 31 of our Annual Report on Form 10-K for the year ended December 31, 2016, included herein, and “Non-GAAP Reconciliation and Supplemental Quarterly Data” on our website at [ajg.com](http://ajg.com) under “Investor Relations.”

#### **CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report to Stockholders contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of these forward-looking statements include statements regarding the insurance rate environment, organic growth opportunities, the strength of our acquisition pipeline, our ability to generate cash, financing methods for acquisitions, our growth potential, our ability to address client needs, the responsiveness and efficiency of our operations, and our future stockholder returns. See “Information Concerning Forward-Looking Statements” beginning on page 2, and “Risk Factors” beginning on page 10, of our Annual Report on Form 10-K for the year ended December 31, 2016, included herein, for other examples of these forward-looking statements and a description of risks and uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements.



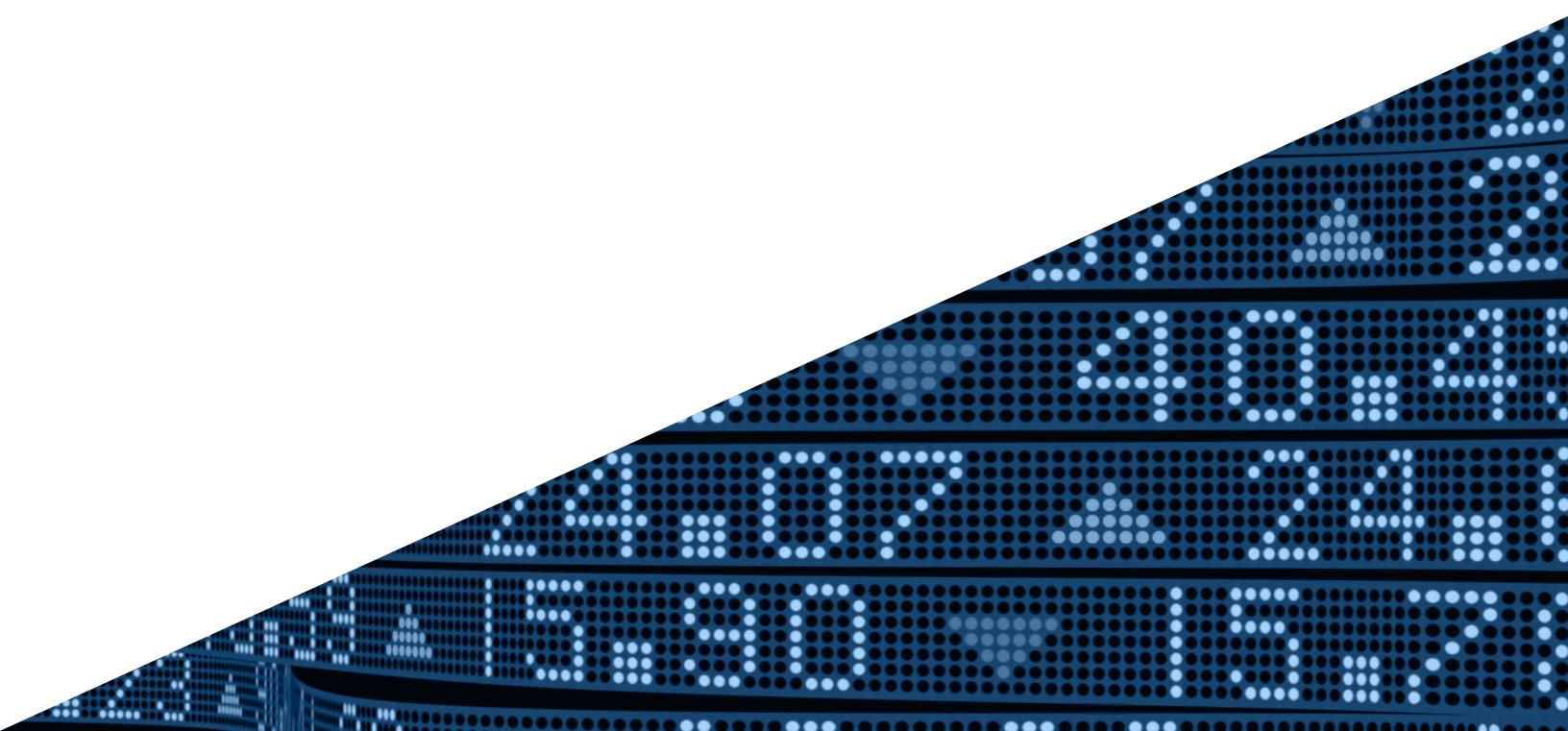
# SELECTED FINANCIAL DATA AS REPORTED

	2016	2015	2014
<b>REVENUES</b>			
Brokerage	\$ 3,527.9	\$ 3,324.0	\$ 2,896.3
Risk Management	718.1	727.1	682.3
<b>BROKERAGE &amp; RISK MANAGEMENT COMBINED</b>	<b>4,246.0</b>	4,051.1	3,578.6
Corporate	1,348.8	1,341.3	1,047.9
<b>TOTAL COMPANY</b>	<b>\$ 5,594.8</b>	\$ 5,392.4	\$ 4,626.5
Percent revenue growth	4%	17%	46%
<b>EBITDAC<sup>(1)</sup></b>			
Brokerage	\$ 885.2	\$ 746.2	\$ 663.1
Risk Management	122.2	119.1	91.7
<b>BROKERAGE &amp; RISK MANAGEMENT COMBINED</b>	<b>1,007.4</b>	865.3	754.8
Corporate	(157.8)	(94.0)	(97.9)
<b>TOTAL COMPANY</b>	<b>\$ 849.6</b>	\$ 771.3	\$ 656.9
Percent EBITDAC growth <sup>(1)</sup>	10%	17%	26%
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO CONTROLLING INTERESTS</b>			
Brokerage	\$ 353.5	\$ 266.4	\$ 262.9
Risk Management	57.2	57.2	42.1
<b>BROKERAGE &amp; RISK MANAGEMENT COMBINED</b>	<b>410.7</b>	323.6	305.0
Corporate	3.7	33.2	(1.6)
<b>TOTAL COMPANY</b>	<b>\$ 414.4</b>	\$ 356.8	\$ 303.4
Percent growth in net earnings attributable to controlling interests	16%	18%	13%
Total company diluted net earnings per share	\$ 2.32	\$ 2.06	\$ 1.97

(1) See "Non-GAAP Financial Measures" on the inside front cover.

## SELECTED FINANCIAL DATA AS REPORTED (CONTINUED)

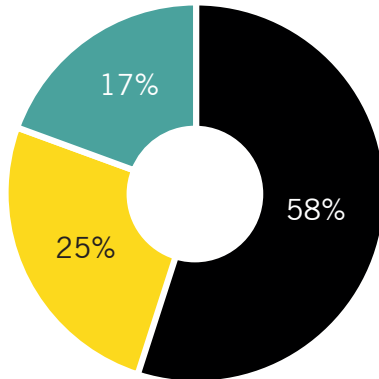
	2016	2015	2014
<b>OTHER INFORMATION</b>			
Dividends declared per share	\$ 1.52	\$ 1.48	\$ 1.44
Total assets at end of year	\$ 11,489.6	\$ 10,910.5	\$ 10,010.0
Total controlling interests of stockholders' equity at end of year	\$ 3,655.8	\$ 3,638.3	\$ 3,229.4
Workforce at end of year (includes acquisitions)	24,790	23,857	22,375
<b>ACQUISITION ACTIVITY</b>			
Number of acquisitions closed	37	44	60
Annualized revenue acquired			
Domestic	\$ 93.5	\$ 186.5	\$ 141.5
International	44.4	44.3	619.7
<b>TOTAL</b>	\$ 137.9	\$ 230.8	\$ 761.2



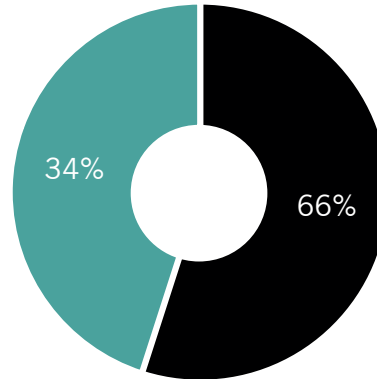
# BROKERAGE SEGMENT

TOTAL REVENUES AS ADJUSTED<sup>(1)</sup>

\$3.5 BILLION



RETAIL P/C ●  
RETAIL BENEFITS ●  
WHOLESALE ●

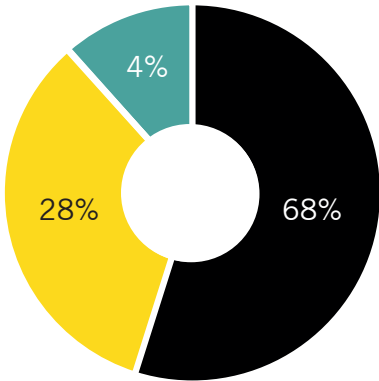


DOMESTIC ●  
INTERNATIONAL ●

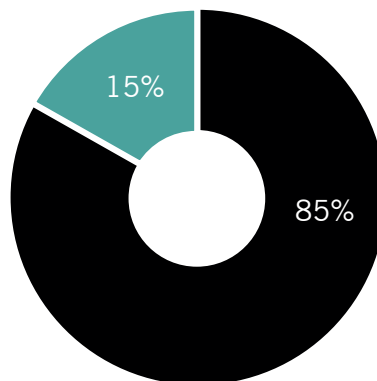
# RISK MANAGEMENT SEGMENT

TOTAL REVENUES AS ADJUSTED<sup>(1)</sup>

\$718 MILLION



WORKERS COMPENSATION ●  
LIABILITY ●  
PROPERTY ●



DOMESTIC ●  
INTERNATIONAL ●

(1) See "Non-GAAP Financial Measures" on the inside front cover.

**NICHE /**

# PRACTICE GROUPS

Our retail brokerage operations are organized into more than 520 office locations primarily in the United States, Australia, Canada, the Caribbean, New Zealand and the United Kingdom, and operate within certain key niche/practice groups, which account for approximately 73% of our retail brokerage revenues. These specialized teams target areas of business and/or industries in which we have developed a depth of expertise and a large client base. Significant niche/practice groups we serve are as follows:

AFFINITY

AUTOMOTIVE

AVIATION & AEROSPACE

CONSTRUCTION

ENERGY

ENTERTAINMENT

ENVIRONMENTAL

FINANCIAL INSTITUTIONS

FOOD/AGRIBUSINESS

GLOBAL RISKS

HEALTHCARE

HIGHER EDUCATION

HOSPITALITY

INSOLVENCY

LAW FIRMS

LIFE SCIENCES

LIFE SOLUTIONS

MANUFACTURING

MARINE

MINING

PERSONAL

PRIVATE EQUITY

PROFESSIONAL GROUPS

PUBLIC ENTITY

REAL ESTATE

RELIGIOUS/NONPROFIT

RESTAURANT

SCHOLASTIC

TECHNOLOGY/TELECOM

TRADE CREDIT/POLITICAL RISK

TRANSPORTATION







## TO OUR STOCKHOLDERS ▶

Arthur J. Gallagher & Co. had a terrific 2016. Our success can be attributed to strong growth in revenue, expanded margins, improved service quality and disciplined execution of our tuck-in M&A strategy. We continued to position the company for growth by investing in people and expanding our product capabilities around the world. I am pleased with our team's performance and I am excited about our future.

During 2016, our combined Brokerage and Risk Management operations' adjusted revenues grew 7% to over \$4.2 billion; adjusted EBITDAC grew 9%, eclipsing the \$1 billion mark for the first time in our history; and our adjusted EBITDAC margin expanded by 49 basis points to 25.3%. Our clean energy investments also performed very well in 2016, generating \$114 million of net after-tax earnings, which will help fund our M&A growth strategy today and in the future.

While we are proud of our 2016 financial performance, we continue to manage, operate and invest in our business for the long term. Our steadfast focus on driving shareholder value is based on four key priorities:

- Organic revenue growth
- Merger and acquisition growth
- Productivity improvements and quality enhancements
- Maintaining our unique Gallagher culture

### ORGANIC GROWTH

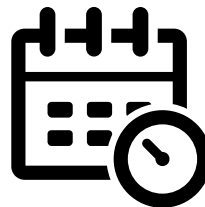
Organically, we grew 3.1% during the year, reflecting strong new business generation and excellent customer retention. We have a long history of organic growth, and over the past five years we have delivered organic revenue growth between 3% and 6% each year.



ORGANIC REVENUE GROWTH



MERGERS AND ACQUISITIONS

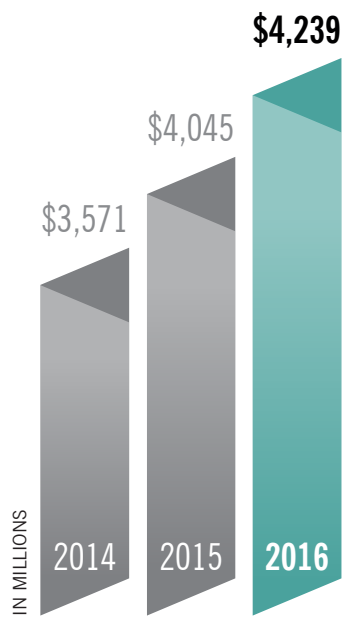


PRODUCTIVITY AND  
QUALITY ENHANCEMENTS

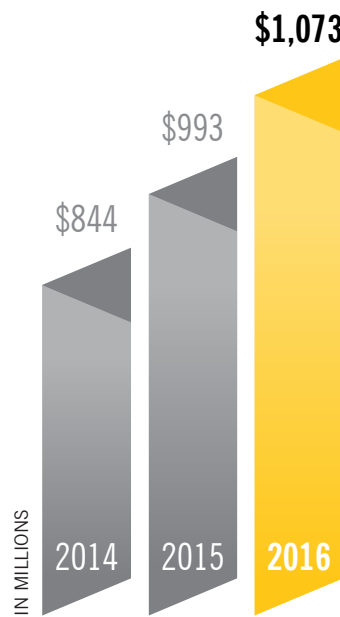


MAINTAINING OUR TEAM-ORIENTED  
SALES AND SERVICE CULTURE

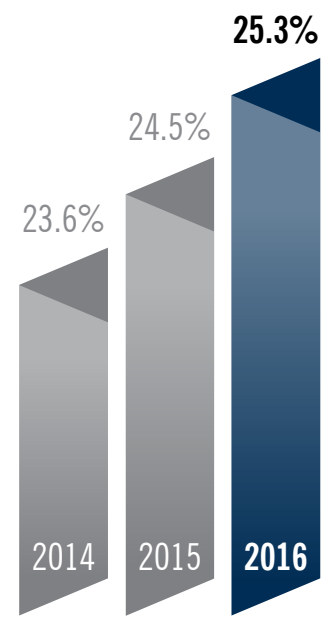
**BROKERAGE & RISK MANAGEMENT  
ADJUSTED REVENUES<sup>(1)</sup>**



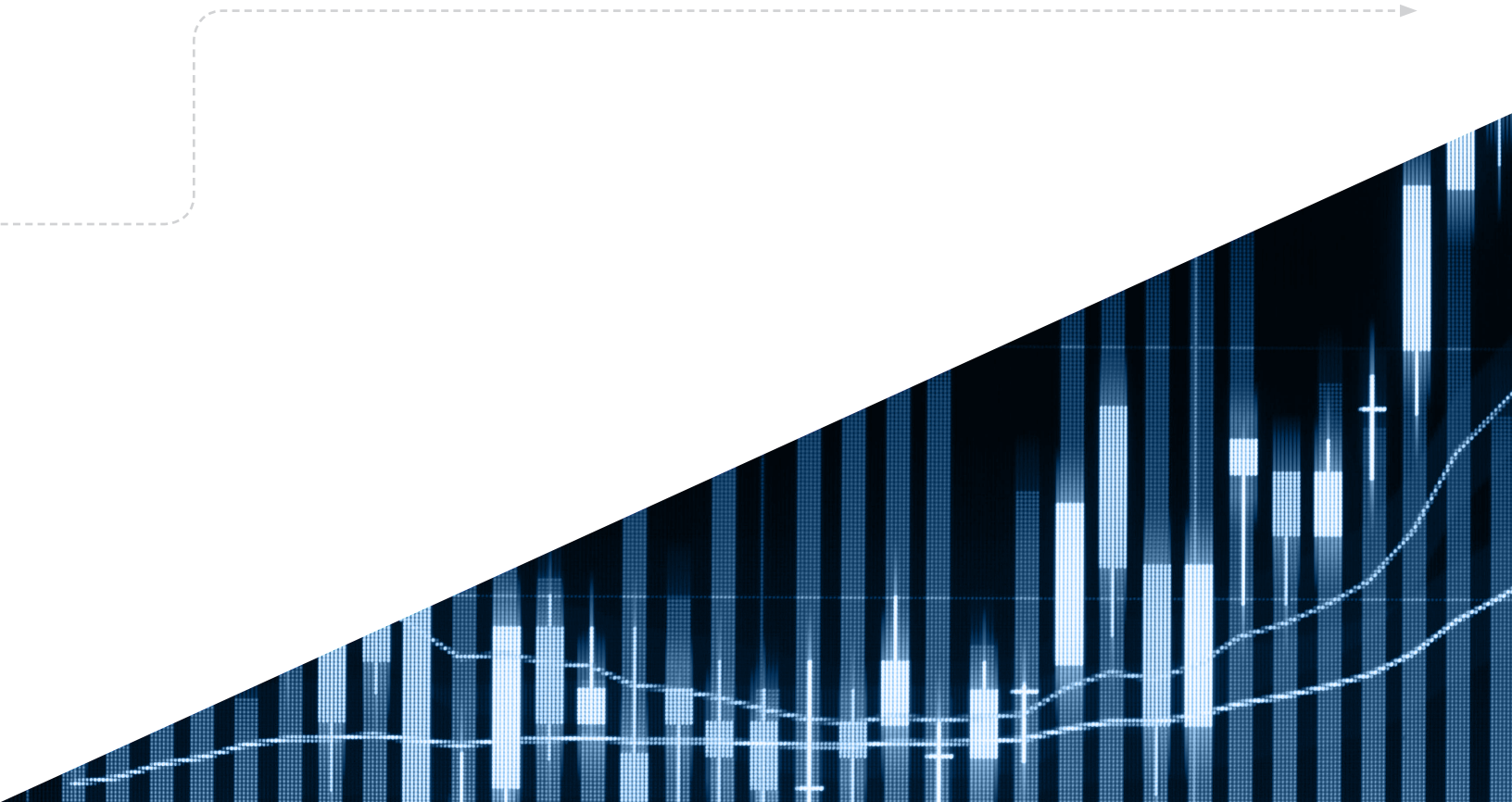
**BROKERAGE & RISK MANAGEMENT  
ADJUSTED EBITDAC<sup>(1)</sup>**



**BROKERAGE & RISK MANAGEMENT  
EBITDAC MARGIN<sup>(1)</sup>**



(1) See "Non-GAAP Financial Measures" on the inside front cover.



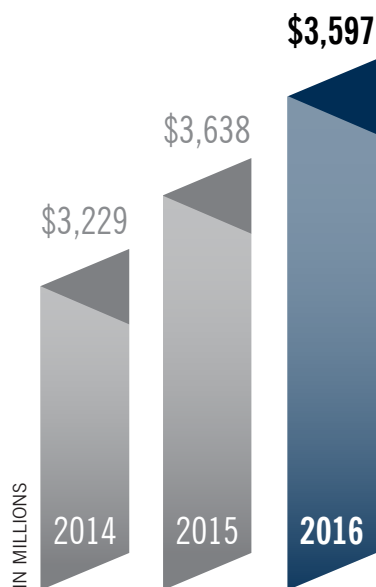


Our 2016 Brokerage segment organic growth of 3.6% reflects strong revenue growth domestically and across our international operations. 2016's solid results will once again put us at or near the highest growth rates among our publicly traded peer group. Property/casualty insurance pricing presented a small headwind, more so internationally than domestically, but its impact was offset somewhat by growth in insurable exposures. Our employee benefits consulting and brokerage business continued to deliver customized solutions and expert advice to our clients in a constantly changing healthcare landscape. Considering the broader macro environment, our organic results were excellent and are a testament to our strategy of hiring and developing the very best producers, aligning our business into niche practice groups to better support our clients, providing superior thought leadership and improving the customer experience through better use of data. I believe that the competitive position of our global brokerage operations has never been stronger.

Our Risk Management segment's 1.3% organic growth was a good result, especially considering the backdrop of slowing claim-count growth and lower international performance bonus fees during 2016. I am excited about the future of the business given the continuous investments we have made to improve client experience and claim outcomes, including GB Go, our mobile application which facilitates communication and the flow of information to injured workers, and Waypoint, our growing suite of decision-support tools. I am confident that these investments, and many others, will continue to support the delivery of superior claim outcomes. These tools, coupled with the professional expertise we offer, help our clients better manage and mitigate their total cost of risk and distinguish us as having a superior and differentiated value proposition.

I see attractive growth opportunities ahead for both our Brokerage and Risk Management businesses and I am confident that our prospects are very bright. The global insurance industry is expanding daily and economies are dependent on insurance to keep the flow of goods and services moving, and employers are looking for solutions to attract, retain and engage their ever-changing workforce. At the same time, the pool of insurable risks is growing, becoming more complicated and more interconnected. The advice and solutions our brokers, consultants and claims professionals offer clients will continue to increase in value and drive future growth.

### TOTAL CONTROLLING INTERESTS STOCKHOLDER'S EQUITY



## MERGERS AND ACQUISITIONS

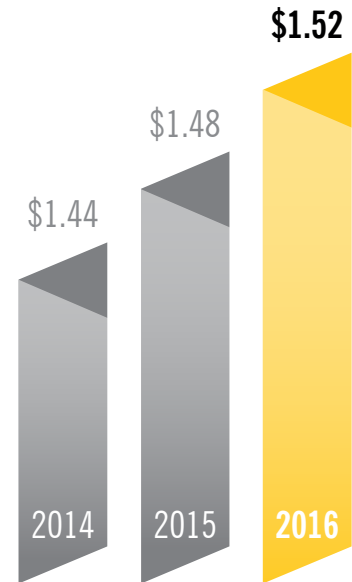
We have an unmatched, successful and profitable acquisition strategy that allows us to strengthen our capabilities, expand our talent base and grow our geographic footprint. It is one of our core competencies. We look for profitable businesses, run and operated by professionals with similar cultures and expertise, that complement or expand our own. During 2016, we successfully executed our smaller, tuck-in acquisition strategy, acquiring \$138 million of annualized revenues without issuing any net shares. We completed 37 acquisitions during the year, with an average size of just under \$4 million in annualized revenues. More importantly, we gained more than 600 outstanding new associates who share our values and growth philosophy.

We completed 28 acquisitions in the United States: 13 in our retail property/casualty operations, 11 in employee benefits and four in our wholesale operations. Our platforms in the United Kingdom, Canada and Australia are now nearly fully integrated and extremely well positioned in markets that are ripe for consolidation, and in 2016 we completed nine bolt-on international acquisitions, following the same, time-tested M&A strategy that has worked so well for us across the United States. Around the world, we will continue to attract merger partners who want access to our growing platform, embody our unique culture and recognize that we can be more successful together.

## PRODUCTIVITY AND QUALITY

We continue to reap the benefits of our productivity and quality initiatives, including over 300 basis points of adjusted EBITDAC margin expansion over the past three years. In addition, our quality has improved dramatically during this same time. We have made tremendous progress toward further centralizing activities within our service centers of excellence, streamlining and standardizing processes based on best practices, and harmonizing our agency management systems around the globe. Our U.S. and Canadian operations are now operating on a single agency management system, and we expect to make further progress on our systems within our international operations during 2017. Our team remains focused on identifying opportunities and implementing solutions to improve our service offerings to clients, and we continue to be recognized for those efforts.

## DIVIDENDS DECLARED PER SHARE



## CULTURE

As we enter Arthur J. Gallagher & Co.'s 90th anniversary year, I am most proud of our company's unique culture. The values that were instilled in this company by my grandfather, founder Arthur J. Gallagher, in 1927, continue to drive our global team's success today. These traits, articulated in *The Gallagher Way*, include a collaborative and professional sales culture, an unwavering focus on our clients, respect and empathy for one another, and a devotion to maintaining the highest standards of moral and ethical behavior. In fact, in March 2017, we were recognized for the sixth consecutive year as one of the World's Most Ethical Companies® by the Ethisphere Institute. We are the only insurance broker to achieve this recognition and one of less than 70 global companies that have been recognized for six straight years.

We believe that our culture is a true competitive advantage and a key differentiator when recruiting experienced talent, growing our own talent through our summer internship program, attracting new merger partners, retaining our valued clients and winning new business.

## LOOKING AHEAD

Our growing global team is well positioned to help our brokerage and risk management clients navigate, manage and mitigate risk. We have an innovative, engaged and client-centric culture with a focus on providing superior advice, customized solutions, and the best products and services to our clients throughout the world. Working across borders as a unified global team, I am confident that we have the right platforms, the right people and the right strategy to successfully grow this business for many years to come. I would like to thank our nearly 25,000 colleagues for another great year and I truly believe that we are just getting started.

Sincerely,



**J. PATRICK GALLAGHER, JR.**  
Chairman, President and CEO

# MERGERS & ACQUISITIONS ANNOUNCED IN 2016

ALTMAN & CRONIN BENEFIT  
CONSULTANTS LLC

ARGENTIS

ASHMORE & ASSOCIATES INSURANCE  
AGENCY, LLC.

BLUE HORIZON INSURANCE SERVICES

BOMFORD, COUCH & WILSON, INC.

BRIM AB (85% INTEREST)

CAPITOL BENEFITS GROUP, INC.

CHARLES ALLEN AGENCY, INC.

GABOR INSURANCE SERVICES, INC.

GROUP INSURANCE ASSOCIATES, INC.

HAGAN NEWKIRK FINANCIAL  
SERVICES, INC.

HOGAN INSURANCE SERVICES, INC.

INSURANCE PLANS AGENCY, INC.

JOSEPH DISTEL & CO, INC.

KANE GROUP'S INSURANCE  
MANAGEMENT OPERATIONS

KDC ASSOCIATES, LLC

KRW INSURANCE AGENCY, INC.

MCNEARY, INC.

NATIONAL ETHICS BUREAU, INC.

ORB FINANCIAL SERVICES LIMITED

REGENCY INSURANCE GROUP, INC.

THE BUCHHOLZ PLANNING  
CORPORATION

THE MW BAGNALL COMPANY

VICTORY INSURANCE AGENCY, INC.

VINCENT L. BRABAND INSURANCE, INC.

WHITE & COMPANY INSURANCE, INC.

# ETHICS, ENVIRONMENT AND OUR COMMUNITY

At Gallagher, we understand the importance of giving back to our communities. We are committed to promoting environmental, social and economic benefits in the communities in which we live and work.

We believe in running our business with integrity and strong values, and pride ourselves in a culture that embodies both. That is why we recognize the thousands of hours of community service our employees around the world undertake every year. These charitable activities give testament to the compassion and generosity of our workforce, and the strength of our company culture.

The Gallagher culture empowers our employees to serve our communities by supporting their favorite charities and organizations. And, to assist in those efforts, The Arthur J. Gallagher Foundation matches qualified employee donations of up to \$1,000 per employee per year.

Whether we are working to help our communities, the environment or other social causes, Gallagher employees are making a difference around the world.





1. **Llantrisant Cleans the Coast**

Colleagues from Gallagher's Llantrisant, Wales, office worked with Keep Wales Tidy and participated in the fourth annual Clean Coast Week in April 2016, filling dozens of bags with litter at Porthkerry Country Park and Ogmores-by-Sea.

2. **Bogotá Builds**

Gallagher Colombia spent a weekend building homes for the less fortunate in Bogotá.

3. **Omaha Blankets**

Employees from the Omaha, Nebraska, office created 34 handmade blankets that were donated to Project Harmony, a community group that provides support for victims of abuse and neglect.

4. **Bermuda Food Drive**

Gallagher's captive services office in Hamilton, Bermuda, started a food drive and donated nonperishable food items in support of a local charity The Coalition for the Protection of Children. They also surprised the organization with a \$1,000 donation.

5. **Caribbean Coastal Cleanup**

Gallagher's Caribbean brokerage operations in Barbados, in partnership with Caribbean Youth Environment Network (CYEN), participated in a coastal cleanup initiative to clean the beaches of Barbados impacted by sargassum seaweed and trash buildup.



5



7



6



8

6. **Birmingham U.K. Charity**

Employees at Gallagher's Birmingham, England, office raised nearly £13,000 over the past two years for the Birmingham Children's Hospital Charity as part of a wider volunteering and support program for the local organization.

7. **Australian Charity Golf Tournament**

Members of Gallagher's Australian brokerage operations in North Sydney organized a charity golf tournament raising \$43,000 AUD for the Monica Ellis Children's Medical Research Grant.

8. **Cape Sanctuary Wildlife Restoration**

A team from Gallagher's New Zealand brokerage operations in Napier cleaned up nesting boxes at Cape Sanctuary wildlife restoration site to assist endangered migratory seabirds with their mating process.

# THE

# GALLAGHER WAY

Shared values at Arthur J. Gallagher & Co. are the rock foundation of the Company and our Culture. What is a Shared Value? These are concepts that the vast majority of the movers and shakers in the Company passionately adhere to. What are some of Arthur J. Gallagher & Co.'s Shared Values?

1. We are a sales and marketing company dedicated to providing excellence in risk management services to our clients.
2. We support one another. We believe in one another. We acknowledge and respect the ability of one another.
3. We push for professional excellence.
4. We can all improve and learn from one another.
5. There are no second-class citizens—everyone is important and everyone's job is important.
6. We're an open society.
7. Empathy for the other person is not a weakness.
8. Suspicion breeds more suspicion. To trust and be trusted is vital.
9. Leaders need followers. How leaders treat followers has a direct impact on the effectiveness of the leader.
10. Interpersonal business relationships should be built.
11. We all need one another. We are all cogs in a wheel.
12. No department or person is an island.
13. Professional courtesy is expected.
14. Never ask someone to do something you wouldn't do yourself.
15. I consider myself support for our sales and marketing. We can't make things happen without each other. We are a team.
16. Loyalty and respect are earned—not dictated.
17. Fear is a turnoff.
18. People skills are very important at Arthur J. Gallagher & Co.
19. We're a very competitive and aggressive company.
20. We run to problems—not away from them.
21. We adhere to the highest standards of moral and ethical behavior.
22. People work harder and are more effective when they're turned on—not turned off.
23. We are a warm, close company. This is a strength—not a weakness.
24. We must continue building a professional company—together—as a team.
25. Shared values can be altered with circumstances—but carefully and with tact and consideration for one another's needs.

When accepted Shared Values are changed or challenged, the emotional impact and negative feelings can damage the Company.

– Robert E. Gallagher  
May 1984

*The Gallagher Way*—the key tenets of Gallagher's culture—was written as a one-page document in 1984 by our late former Chairman and CEO, Robert E. Gallagher.



**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2016

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-09761

**ARTHUR J. GALLAGHER & CO.**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of incorporation or organization)

36-2151613  
(I.R.S. Employer Identification Number)

Two Pierce Place  
Itasca, Illinois  
(Address of principal executive offices)

60143-3141  
(Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

**Note:** Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

(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 aggregate market value of the voting common equity held by non-affiliates of the registrant, computed by reference to the last reported price at which the registrant's common equity was sold on June 30, 2016 (the last day of the registrant's most recently completed second quarter) was \$7,533,668,000.

The number of outstanding shares of the registrant's Common Stock, \$1.00 par value, as of January 31, 2017 was 178,617,000.

**Documents incorporated by reference:** Portions of Arthur J. Gallagher & Co.'s definitive 2017 Proxy Statement are incorporated by reference into this Form 10-K in response to Part III to the extent described herein.

**Arthur J. Gallagher & Co.**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended December 31, 2016**  
**Index**

	<b>Page No.</b>
<b>Part I.</b>	
Item 1. Business .....	2-10
Item 1A. Risk Factors .....	10-22
Item 1B. Unresolved Staff Comments .....	22
Item 2. Properties .....	22
Item 3. Legal Proceedings .....	22
Item 4. Mine Safety Disclosures .....	22
Executive Officers .....	23
<b>Part II.</b>	
Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	23-24
Item 6. Selected Financial Data .....	25
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	26-55
Item 7A. Quantitative and Qualitative Disclosure about Market Risk .....	55-56
Item 8. Financial Statements and Supplementary Data .....	57-104
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	105
Item 9A. Controls and Procedures .....	105
Item 9B. Other Information .....	105
<b>Part III.</b>	
Item 10. Directors, Executive Officers and Corporate Governance .....	105
Item 11. Executive Compensation .....	105
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	105
Item 13. Certain Relationships and Related Transactions, and Director Independence .....	106
Item 14. Principal Accountant Fees and Services .....	106
<b>Part IV.</b>	
Item 15. Exhibits and Financial Statement Schedules .....	106-109
Item 16. Form 10-K Summary .....	109
Signatures .....	110
Schedule II - Valuation and Qualifying Accounts .....	111
Exhibit Index .....	112

## Part I

### Item 1. Business.

#### Overview

Arthur J. Gallagher & Co. and its subsidiaries, collectively referred to herein as we, our, us or Gallagher, are engaged in providing insurance brokerage and consulting services and third party claims settlement and administration services to both domestic and international entities. We believe that our major strength is our ability to deliver comprehensively structured insurance, risk management and consulting services to our clients. Our brokers, agents and administrators act as intermediaries between insurers and their customers.

Since our founding in 1927, we have grown from a one-person agency to the world's fourth largest insurance broker based on revenues, according to *Business Insurance* magazine's July 18, 2016 edition, and one of the world's largest property/casualty third party claims administrators, according to *Business Insurance* magazine's March 24, 2016 edition. We have three reportable segments: brokerage, risk management and corporate, which contributed approximately 63%, 13% and 24%, respectively, to 2016 revenues. We generate approximately 69% of our revenues from the combined brokerage and risk management segments domestically, with the remaining 31% derived internationally, primarily in Australia, Bermuda, Canada, the Caribbean, New Zealand and the United Kingdom (U.K.). Substantially all of the revenues of the corporate segment are generated in the United States (U.S.).

Shares of our common stock are traded on the New York Stock Exchange under the symbol AJG, and we had a market capitalization at December 31, 2016 of approximately \$9.3 billion. Information in this report is as of December 31, 2016 unless otherwise noted. We were reincorporated as a Delaware corporation in 1972. Our executive offices are located at Two Pierce Place, Itasca, Illinois 60143-3141, and our telephone number is (630) 773-3800.

#### Information Concerning Forward-Looking Statements

This report contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. Such statements use words such as "anticipate," "believe," "estimate," "expect," "contemplate," "forecast," "project," "intend," "plan," "potential," and other similar terms, and future or conditional tense verbs like "could," "may," "might," "see," "should," "will" and "would." You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. For example, we may use forward-looking statements when addressing topics such as: market and industry conditions, including competitive and pricing trends; acquisition strategy; the expected impact of acquisitions and dispositions; the development and performance of our services and products; changes in the composition or level of our revenues or earnings; our cost structure and the outcome of cost-saving or restructuring initiatives; future capital expenditures; future debt levels; future debt to earnings ratios; the outcome of contingencies; dividend policy; pension obligations; cash flow and liquidity; capital structure and financial losses; future actions by regulators; the outcome of existing regulatory actions, investigations, reviews or litigation; the impact of changes in accounting rules; financial markets; interest rates; foreign exchange rates; matters relating to our operations; income taxes; expectations regarding our investments, including our clean energy investments; the financial impact of retention agreements in our international brokerage operations; and integrating recent acquisitions. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors.

Potential factors that could impact results include:

- Failure to successfully and cost-effectively integrate recently acquired businesses and their operations or fully realize synergies from such acquisitions in the expected time frame;
- Volatility or declines in premiums or other adverse trends in the insurance industry;
- An economic downturn;
- Competitive pressures in each of our businesses;
- Risks that could negatively affect the success of our acquisition strategy, including continuing consolidation in our industry and growing interest in acquiring insurance brokers on the part of private equity firms, which could make it more difficult to identify targets and could make them more expensive; the risk that we may not receive timely regulatory approval of desired transactions; execution risks; integration risks; the risk of post-acquisition deterioration leading to intangible asset impairment charges; and the risk we could incur or assume unanticipated regulatory liabilities such as those relating to violations of anti-corruption and sanctions laws;
- Our failure to attract and retain experienced and qualified personnel;

- Risks arising from our growing international operations, including the risks posed by political and economic uncertainty in certain countries (such as the risks posed by protectionist local governments and underdeveloped or evolving legal systems), risks related to maintaining regulatory and legal compliance across multiple jurisdictions (such as those relating to violations of anti-corruption, sanctions and privacy laws), and risks arising from the complexity of managing businesses across different time zones, geographies, cultures and legal regimes;
- Risks particular to our risk management segment, including any slowing of the trend toward outsourcing claims administration, and of the concentration of large amounts of revenue with certain clients;
- The lower level of predictability inherent in contingent and supplemental commissions versus standard commissions;
- Sustained increases in the cost of employee benefits;
- Our failure to apply technology effectively in driving value for our clients through technology-based solutions, or failure to gain internal efficiencies and effective internal controls through the application of technology and related tools;
- Our inability to recover successfully should we experience a disaster, cybersecurity attack or other significant disruption to business continuity;
- Damage to our reputation;
- Our failure to comply with regulatory requirements, including those related to governance and control requirements in particular jurisdictions, international sanctions, or a change in regulations or enforcement policies that adversely affects our operations (for example, relating to insurance broker compensation methods or the failure of state and local governments to follow through on agreed-upon income tax credits or other related incentives relating to our planned new corporate headquarters);
- Violations or alleged violations of the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act 2010 or other anti-corruption laws and the Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act, (which we refer to as FATCA);
- The outcome of any existing or future investigation, review, regulatory action or litigation;
- Our failure to adapt our services to changes resulting from the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act;
- Unfavorable determinations related to contingencies and legal proceedings;
- Improper disclosure of confidential, personal or proprietary data;
- Significant changes in foreign exchange rates;
- Changes in our accounting estimates and assumptions (including as a result of the new revenue recognition standard);
- Risks related to our clean energy investments, including the risk of intellectual property claims, utilities switching from coal to natural gas, environmental and product liability claims, and environmental compliance costs;
- Disallowance of Internal Revenue Code of 1986, as amended (which we refer to as IRC) Section 29 or IRC Section 45 tax credits;
- The risk that our outstanding debt adversely affects our financial flexibility and restrictions and limitations in the agreements and instruments governing our debt;
- The risk we may not be able to receive dividends or other distributions from subsidiaries;
- The risk of share ownership dilution when we issue common stock as consideration for acquisitions and for other reasons;
- Volatility of the price of our common stock;
- Risks related to the outcome of the U.S. congressional elections and the new administration; and
- Risks related to the vote in the U.K. to leave the European Union.

Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of, and are based on information available to us on, the date of the applicable document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to update any such statements or release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including the risk factors referred to above. Our future performance and actual results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Forward-looking statements speak only as of the date that they are made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Further information about factors that could materially affect us, including our results of operations and financial condition, is contained in the “Risk Factors” section in Part I, Item 1A of this report.

## Operating Segments

We report our results in three segments: brokerage, risk management and corporate. The major sources of our operating revenues are commissions, fees and supplemental and contingent commissions from brokerage operations, and fees from risk management operations. Information with respect to all sources of revenue, by segment, for each of the three years in the period ended December 31, 2016, is as follows (in millions):

	2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Brokerage						
Commissions	\$ 2,439.1	43%	\$ 2,338.7	44%	\$ 2,083.0	45%
Fees	775.7	14%	705.8	13%	577.0	12%
Supplemental commissions	147.0	3%	125.5	2%	104.0	2%
Contingent commissions	107.2	2%	93.7	2%	84.7	2%
Investment income and other	58.9	1%	60.3	1%	47.6	1%
	<u>3,527.9</u>	<u>63%</u>	<u>3,324.0</u>	<u>62%</u>	<u>2,896.3</u>	<u>62%</u>
Risk Management						
Fees	717.1	13%	726.5	13%	681.3	15%
Investment income	1.0	-%	0.6	-%	1.0	-%
	<u>718.1</u>	<u>13%</u>	<u>727.1</u>	<u>13%</u>	<u>682.3</u>	<u>15%</u>
Corporate						
Clean energy and other investment income	1,348.8	24%	1,341.3	25%	1,047.9	23%
Total revenues	<u>\$ 5,594.8</u>	<u>100%</u>	<u>\$ 5,392.4</u>	<u>100%</u>	<u>\$ 4,626.5</u>	<u>100%</u>

See Note 20 to our 2016 consolidated financial statements for additional financial information, including earnings before income taxes and identifiable assets by segment for 2016, 2015 and 2014.

Our business, particularly our brokerage business, is subject to seasonal fluctuations. Commission and fee revenues, and the related brokerage and marketing expenses, can vary from quarter to quarter as a result of the timing of policy inception dates and the timing of receipt of information from insurance carriers. On the other hand, salaries and employee benefits, rent, depreciation and amortization expenses generally tend to be more uniform throughout the year. The timing of acquisitions, recognition of books of business gains and losses and the variability in the recognition of IRC Section 45 tax credits also impact the trends in our quarterly operating results. See Note 19 to our 2016 consolidated financial statements for unaudited quarterly operating results for 2016 and 2015.

## Brokerage Segment

The brokerage segment accounted for 63% of our revenues in 2016. Our brokerage segment is primarily comprised of retail and wholesale insurance brokerage operations. Our retail brokerage operations negotiate and place property/casualty, employer-provided health and welfare insurance, and healthcare exchange and retirement solutions principally for middle-market commercial, industrial, public entity, religious and not-for-profit entities. Many of our retail brokerage customers choose to place their insurance with insurance underwriters, while others choose to use alternative vehicles such as self-insurance pools, risk retention groups or captive insurance companies. Our wholesale brokerage operations assist our brokers and other unaffiliated brokers and agents in the placement of specialized, unique and hard-to-place insurance programs.

Our primary sources of compensation for our retail brokerage services are commissions paid by insurance companies, which are usually based upon either a percentage of the premium paid by insureds, or brokerage and advisory fees paid directly by our clients. For wholesale brokerage services, we generally receive a share of the commission paid to the retail broker from the insurer. Commission rates are dependent on a number of factors, including the type of insurance, the particular insurance company underwriting the policy and whether we act as a retail or wholesale broker. Advisory fees are dependent on the extent and value of the services we provide. In addition, under certain circumstances, both retail brokerage and wholesale brokerage services receive supplemental and contingent commissions. A supplemental commission is a commission paid by an insurance carrier that is above the base commission paid, is determined by the insurance carrier and is established annually in advance of the contractual period based on historical performance criteria. A contingent commission is a commission paid by an insurance carrier based on the overall profit and/or the overall volume of business placed with that insurance carrier during a particular calendar year and is determined after the contractual period.

We operate our brokerage operations through a network of more than 600 sales and service offices located throughout the U.S. and in 32 other countries. Most of these offices are fully staffed with sales and service personnel. We offer client-service capabilities in more than 150 countries around the world through a network of correspondent brokers and consultants.

**Retail Insurance Brokerage Operations**

Our retail insurance brokerage operations accounted for 83% of our brokerage segment revenues in 2016. Our retail brokerage operations place nearly all lines of commercial property/casualty and health and welfare insurance coverage. Significant lines of insurance coverage and consultant capabilities are as follows:

Aviation	Disability	General Liability	Products Liability
Casualty	Earthquake	Health & Welfare	Professional Liability
Claims Advocacy	Errors & Omissions	Healthcare Analytics	Property
Commercial Auto	Exchange Solutions	Human Resources	Retirement
Compensation	Executive Benefits	Institutional Investment	Surety Bond
Cyber Liability	Fiduciary Services	Loss Control	Voluntary Benefits
Dental	Fine Arts	Marine	Wind
Directors & Officers Liability	Fire	Medical	Workers' Compensation

Our retail brokerage operations are organized into more than 520 office locations primarily located in the U.S., Australia, Canada, the Caribbean, New Zealand and the U.K., and operate within certain key niche/practice groups, which account for approximately 73% of our retail brokerage revenues. These specialized teams target areas of business and/or industries in which we have developed a depth of expertise and a large client base. Significant niche/practice groups we serve are as follows:

Affinity	Food/Agribusiness	Life Solutions	Real Estate
Automotive	Global Risks	Manufacturing	Religious/Not-for-Profit
Aviation & Aerospace	Healthcare	Marine	Restaurant
Construction	Higher Education	Mining	Scholastic
Energy	Hospitality	Personal	Technology/Telecom
Entertainment	Insolvency	Private Equity	Trade Credit/Political Risk
Environmental	Law Firms	Professional Groups	Transportation
Financial Institutions	Life Sciences	Public Entity	

Our specialized focus on these niche/practice groups allows for highly-focused marketing efforts and facilitates the development of value-added products and services specific to those industries or business segments. We believe that our detailed understanding and broad client contacts within these niche/practice groups provide us with a competitive advantage.

We anticipate that our retail brokerage operations’ greatest revenue growth over the next several years will continue to come from:

- Mergers and acquisitions;
- Our niche/practice groups and middle-market accounts;
- Cross-selling other brokerage products to existing customers; and
- Developing and managing alternative market mechanisms such as captives, rent-a-captives and deductible plans/self-insurance.

**Wholesale Insurance Brokerage Operations**

Our wholesale insurance brokerage operations accounted for 17% of our brokerage segment revenues in 2016. Our wholesale brokers assist our retail brokers and other non-affiliated brokers in the placement of specialized and hard-to-place insurance. These brokers operate through more than 80 office locations primarily located across the U.S., Bermuda and through our approved Lloyd’s of London brokerage operation. In certain cases we act as a brokerage wholesaler and in other cases we act as a managing general agent or managing general underwriter distributing specialized insurance coverages for insurance carriers. Managing general agents and managing general underwriters are agents authorized by an insurance company to manage all or a part of the insurer’s business in a specific geographic territory. Activities they perform on behalf of the insurer may include marketing, underwriting (although we do not assume any underwriting risk), issuing policies, collecting premiums, appointing and supervising other agents, paying claims and negotiating reinsurance.

More than 75% of our wholesale brokerage revenues come from non-affiliated brokerage customers. Based on revenues, our domestic wholesale brokerage operation ranked as one of the largest domestic managing general agents/underwriting managers/wholesale brokers/Lloyds coverholders according to *Business Insurance* magazine’s October 24, 2016 edition.



We anticipate growing our wholesale brokerage operations by increasing the number of broker-clients, developing new managing general agency and underwriter programs, and through mergers and acquisitions.

## **Risk Management Segment**

Our risk management segment accounted for 13% of our revenues in 2016. Our risk management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property/casualty coverages and for insurance companies that choose to outsource some or all of their property/casualty claims departments. Approximately 68% of our risk management segment's revenues are from workers' compensation-related claims, 28% are from general and commercial auto liability-related claims and 4% are from property-related claims. In addition, we generate revenues from integrated disability management (employee absence management) programs, information services, risk control consulting (loss control) services and appraisal services, either individually or in combination with arising claims. Revenues for risk management services are comprised of fees generally negotiated in advance on a per-claim or per-service basis, depending upon the type and estimated volume of the services to be performed.

Risk management services are primarily marketed directly to Fortune 1000 companies, larger middle-market companies, not-for-profit organizations and public entities on an independent basis from our brokerage operations. We manage our third party claims adjusting operations through a network of more than 110 offices located throughout the U.S., Australia, Canada, New Zealand and the U.K. Most of these offices are fully staffed with claims adjusters and other service personnel. Our adjusters and service personnel act solely on behalf and under the instruction of our clients and customers.

While this segment complements our insurance brokerage offerings, more than 90% of our risk management segment's revenues come from customers not affiliated with our brokerage operations, such as insurance companies and clients of other insurance brokers. Based on revenues, our risk management operation ranked as one of the world's largest property/casualty third-party claims administrators according to *Business Insurance* magazine's March 24, 2016 edition.

We expect that the risk management segment's most significant growth prospects through the next several years will come from:

- Increased levels of business with Fortune 1000 companies;
- Larger middle-market companies, captives;
- Program business and the outsourcing of insurance company claims departments; and
- Mergers and acquisitions.

## **Corporate Segment**

The corporate segment accounted for 24% of our revenues in 2016. The corporate segment reports the financial information related to our debt, clean energy investments, external acquisition-related expenses and other corporate costs. The revenues reported by this segment in 2016 resulted almost solely from our consolidation of refined fuel operations, of which we control and own more than 50% of those operations. At December 31, 2016, significant investments managed by this segment include:

### **Clean Coal-Related Ventures**

We have a 46.5% interest in Chem-Mod LLC (Chem-Mod), a privately-held enterprise that has commercialized multi-pollutant reduction technologies to reduce mercury, sulfur dioxide and other emissions at coal-fired power plants. We also have a 12.0% interest in a privately-held start-up enterprise, C-Quest Technology LLC, which owns technologies that reduce carbon dioxide emissions created by burning fossil fuels.

### **Tax-Advantaged Investments**

In 2009 and 2011, we built a total of 29 commercial clean coal production plants to produce refined coal using Chem-Mod's proprietary technologies and in 2013, we purchased a 99% interest in a limited liability company that has ownership interests in four limited liability companies that own five commercial clean coal production plants. We believe these operations produce refined coal that qualifies for tax credits under IRC Section 45. The law that provides for IRC Section 45 tax credits substantially expires in December 2019 for the fourteen plants we built and placed in service in 2009 (2009 Era Plants) and in December 2021 for the fifteen plants we built and placed in service in 2011, plus the five plants we purchased interests in that were placed in service in 2011 (2011 Era Plants).

## International Operations

Our total revenues by geographic area for each of the three years in the period ended December 31, 2016 were as follows (in millions):

	2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Brokerage and risk management segments						
United States	\$ 2,944.6	69%	\$ 2,713.9	68%	\$ 2,405.9	68%
United Kingdom	712.1	17%	766.9	19%	726.2	20%
Australia	245.5	6%	256.7	6%	236.6	7%
Canada	138.2	3%	136.6	3%	85.0	2%
New Zealand	125.9	3%	122.6	3%	81.3	2%
Other foreign	79.7	2%	54.4	1%	43.6	1%
Total brokerage and risk management	4,246.0	100%	4,051.1	100%	3,578.6	100%
Corporate segment, substantially all United States	1,348.8		1,341.3		1,047.9	
Total revenues	\$ 5,594.8		\$ 5,392.4		\$ 4,626.5	

Total revenues generated by our U.K. and Australian based operations decreased in 2016 compared to 2015 due to unfavorable foreign currency translation. See Notes 6, 17 and 20 to our 2016 consolidated financial statements for additional financial information related to our foreign operations, including goodwill allocation, earnings before income taxes and identifiable assets, by segment, for 2016, 2015 and 2014.

### International and Other Brokerage Related Operations

The majority of our international brokerage operations are in Australia, Bermuda, Canada, the Caribbean, New Zealand and the U.K., targeting small to medium enterprise risks.

We operate primarily as a retail commercial property and casualty broker throughout more than 35 locations in Australia, 35 locations in Canada and 25 locations in New Zealand. In the U.K., we operate as a retail broker from approximately 100 locations. We also have an underwriting operation for clients to access Lloyd's of London and other international insurance markets, and a program operation offering customized risk management products and services to U.K. public entities.

In Bermuda, we act principally as a wholesaler for clients looking to access the Bermuda insurance markets and also provide services relating to the formation and management of offshore captive insurance companies.

We also have strategic brokerage alliances with a variety of independent brokers in countries where we do not have a local office presence. Through this global network of correspondent insurance brokers and consultants, we are able to fully serve our clients' coverage and service needs in more than 150 countries around the world.

**Captive insurance companies** - We have ownership interests in several insurance and reinsurance companies based in the U.S., Bermuda, Gibraltar, Guernsey, Isle of Man and Malta that primarily operate segregated account "rent-a-captive" facilities. These "rent-a-captive" facilities enable our clients to receive the benefits of owning a captive insurance company without incurring certain disadvantages of ownership. Captive insurance companies, or "rent-a-captive" facilities, are created for clients to insure their risks and capture any underwriting profit and investment income, which would then be available for use by the insureds, generally to reduce future costs of their insurance programs. In general, these companies are set up as protected cell companies that are comprised of separate cell business units (which we refer to as Captive Cells) and the core regulated company (which we refer to as the Core Company). The Core Company is owned and operated by us and no insurance policies are assumed by the Core Company. All insurance is assumed or written within individual Captive Cells. Only the activity of the supporting Core Company of the rent-a-captive facility is recorded in our consolidated financial statements, including cash and stockholder's equity of the legal entity and any expenses incurred to operate the rent-a-captive facility. Most Captive Cells reinsure individual lines of insurance coverage from external insurance companies. In addition, some Captive Cells offer individual lines of insurance coverage from one of our insurance company subsidiaries. The different types of insurance coverage include special property, general liability, products liability, medical professional liability, other liability and medical stop loss. The policies are generally claims-made. Insurance policies are written by an insurance company and the risk is assumed by each of the Captive Cells. In general, we structure these operations to have no underwriting risk on a net written basis. In situations where we have assumed underwriting risk on a net written basis, we have managed that exposure by obtaining full collateral for the underwriting risk we have assumed from our clients. We typically require pledged assets including cash and/or investment accounts or letters of credit to limit our risk.

We have a wholly owned insurance company subsidiary based in the U.S. that cedes all of its insurance risk to reinsurers or captives under facultative and quota-share treaty reinsurance agreements. These reinsurance arrangements diversify our business and minimize our exposure to losses or hazards of an unusual nature. The ceding of insurance does not discharge us of our primary liability to the policyholder. In the event that all or any of the reinsuring companies are unable to meet their obligations, we would be liable for such defaulted amounts. Therefore, we are subject to credit risk with respect to the obligations of our reinsurers or captives. In order to minimize our exposure to losses from reinsurer credit risk and insolvencies, we have managed that exposure by obtaining full collateral for which we typically require pledged assets, including cash and/or investment accounts or letters of credit, to fully offset the risk. See Note 16 to our 2016 consolidated financial statements for additional financial information related to the insurance activity of our wholly owned insurance company subsidiary for 2016, 2015 and 2014.

### **International Risk Management Operations**

Our international risk management operations are principally in Australia, Canada, New Zealand and the U.K. Services are similar to those provided in the U.S. and are provided primarily on behalf of commercial and public entity clients.

See Item 1A. "Risk Factors" for information regarding risks attendant to these foreign operations.

### **Markets and Marketing**

We manage our brokerage operations through a network of more than 600 sales and service offices located throughout the U.S. and in 32 other countries. We manage our third party claims adjusting operations through a network of more than 110 offices located throughout the U.S., Australia, Canada, New Zealand and the U.K. Our customer base is highly diversified and includes commercial, industrial, public entity, religious and not-for-profit entities. No material part of our business depends upon a single customer or on a few customers. The loss of any one customer would not have a material adverse effect on our operations. In 2016, our largest single customer accounted for approximately 1% of our revenues from the combined brokerage and risk management segments and our ten largest customers represented 3% of our revenues from the combined brokerage and risk management segments in the aggregate. Our revenues are geographically diversified, with both domestic and international operations.

Each of our retail and wholesale brokerage operations has a small market-share position and, as a result, we believe has substantial organic growth potential. In addition, each of our retail and wholesale brokerage operations has the ability to grow through the acquisition of small- to medium-sized independent brokerages. See "Business Combinations" below.

While historically we have generally grown our risk management segment organically, and we expect to continue to do so, from time to time we consider acquisitions for this segment.

We require our employees serving in sales or marketing capacities, plus all of our executive officers, to enter into agreements with us restricting disclosure of confidential information and solicitation of our clients and prospects upon their termination of employment. The confidentiality and non-solicitation provisions of such agreements terminate in the event of a hostile change in control, as defined in the agreements.

### **Competition**

#### **Brokerage Segment**

According to *Business Insurance* magazine's July 18, 2016 edition, we were the world's fourth largest insurance broker based on revenues. The insurance brokerage and service business is highly competitive and there are many insurance brokerage and service organizations and individuals throughout the world who actively compete with us in every area of our business.

Our retail and wholesale brokerage operations compete globally with Aon plc, Marsh & McLennan Companies, Inc. and Willis Towers Watson Public Limited Company, each of which has greater worldwide revenues than us. In addition, various other competing firms, such as Jardine Lloyd Thomson Group plc, Wells Fargo Insurance Services, Inc., Brown & Brown Inc., Hub International Ltd., Lockton Companies, Inc. and USI Holdings Corporation, operate globally or nationally or are strong in a particular region or locality and may have, in that region or locality, an office with revenues as large as or larger than those of our corresponding local office. We believe that the primary factors determining our competitive position with other organizations in our industry are the quality of the services we render and the overall costs to our clients. In addition, for health/welfare products and benefit consultant services, we compete with larger firms such as Aon Hewitt, Mercer (a subsidiary of Marsh & McLennan Companies, Inc.), Willis Towers Watson Public Limited Company; mid-market firms such as Lockton, USI Holdings, and Wells Fargo and the benefits consulting divisions of the national public accounting firms, as well as a vast number of local and regional brokerages and agencies.

Our wholesale brokerage and binding operations compete with large wholesalers such as CRC Insurance Services, Inc., RT Specialty, AmWINS Group, Inc., as well as a vast number of local and regional wholesalers.

We also compete with certain insurance companies that write insurance directly for their customers. Government benefits relating to health, disability, and retirement are also alternatives to private insurance and indirectly compete with us.

## **Risk Management Segment**

Our risk management operation currently ranks as one of the world's largest property/casualty third party claims administrators based on revenues, according to *Business Insurance* magazine's March 24, 2016 edition. While many global and regional claims administrators operate within this space, we compete directly with Sedgwick Claims Management Services, Inc., Broadspire Services, Inc. (a subsidiary of Crawford & Company), ESIS (a subsidiary of Chubb Limited) and CorVel. Several large insurance companies, such as Travelers and Liberty Mutual, also maintain their own claims administration units, which can be strong competitors. In addition, we compete with various smaller third party claims administrators on a regional level. We believe that the primary factors determining our competitive position are reputation for outstanding service and the ability to resolve customers' losses in the most cost-efficient manner possible.

## **Regulation**

We are required to be licensed or receive regulatory approval in nearly every state and foreign jurisdiction in which we do business. In addition, most jurisdictions require individuals who engage in brokerage, claim adjusting and certain other insurance service activities to be personally licensed. These licensing laws and regulations vary from jurisdiction to jurisdiction. In most jurisdictions, licensing laws and regulations generally grant broad discretion to supervisory authorities to adopt and amend regulations and to supervise regulated activities.

## **Business Combinations**

We completed and integrated 420 acquisitions from January 1, 2002 through December 31, 2016, almost exclusively within our brokerage segment. The majority of these acquisitions have been smaller regional or local property/casualty retail or wholesale operations with a strong middle-market client focus or significant expertise in one of our niche/practice groups. Over the last decade, we have also increased our acquisition activity in the retail employee benefits brokerage and wholesale brokerage areas. The total purchase price for individual acquisitions has typically ranged from \$1.0 million to \$50.0 million, although in 2014 we completed three large acquisitions with an aggregate purchase price consideration in excess of \$1.7 billion.

Through acquisitions, we seek to expand our talent pool, enhance our geographic presence and service capabilities, and/or broaden and further diversify our business mix. We also focus on identifying:

- A corporate culture that matches our sales-oriented culture;
- A profitable, growing business whose ability to compete would be enhanced by gaining access to our greater resources; and
- Clearly defined financial criteria.

See Note 3 to our 2016 consolidated financial statements for a summary of our 2016 acquisitions, the amount and form of the consideration paid and the dates of acquisition.

## **Employees**

As of December 31, 2016, we had approximately 24,800 employees. We continuously review benefits and other matters of interest to our employees and consider our relations with our employees to be satisfactory.

## **Available Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge on our website at [www.ajg.com](http://www.ajg.com) as soon as reasonably practicable after electronically filing or furnishing such material to the Securities and Exchange Commission. Such reports may also be read and copied at the Securities and Exchange Commission's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at (800) SEC-0330. The Securities and Exchange Commission also maintains a website ([www.sec.gov](http://www.sec.gov)) that includes our reports, proxy statements and other information.

## Disclosure pursuant to Section 13(r) of the Exchange Act

In our Quarterly Reports on Form 10-Q for the first, second and third quarters of 2016, we disclosed certain activities required to be reported under Section 13(r) of the Exchange Act, and such disclosures are incorporated herein by reference. In the fourth quarter of 2016, our U.K. domiciled subsidiary, Arthur J. Gallagher (UK) Limited (AJGUK), acted as insurance broker and advised clients in obtaining insurance coverage for activities related to Iran's oil, gas and petroleum industries. AJGUK assisted clients in obtaining insurance, reinsurance and retrocession coverage for a variety of activities in Iran, including insurance coverage for:

- The supply of crude oil to and from Iran;
- The transport and storage of oil from Iran;
- The shipment of heavy fuel oil to and from Iran;
- The docking and loading of oil shipments in Iran;
- The operation of vessels providing support services to offshore oil platforms that supply oil to Iran; and
- Other closely related activities pertaining to the supply and transportation of oil to and from Iran.

On January 16, 2016, the U.S. lifted the nuclear-related "secondary sanctions" imposed against Iran. In connection with this event, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) issued General License H, which authorizes U.S.-owned or U.S.-controlled foreign entities to engage in certain transactions involving Iran that would otherwise be prohibited by section 560.215 of the Iranian Transactions and Sanctions Regulations.

The activities described above were conducted in full compliance with General License H. AJGUK generated total gross revenue of approximately \$1,718 (in actual dollars) and net profit of approximately \$309 (in actual dollars) from these activities.

AJGUK intends to continue acting as an insurance broker in connection with insurance coverages authorized by General License H.

## Item 1A. Risk Factors.

### Risks Relating to our Business Generally

**An overall economic downturn, as well as unstable economic conditions in the countries and regions in which we operate, could adversely affect our results of operations and financial condition.**

An overall decline in economic activity could adversely impact us in future years as a result of reductions in the overall amount of insurance coverage that our clients purchase due to reductions in their headcount, payroll, properties, and the market values of assets, among other factors. Such reductions could also adversely impact future commission revenues when the carriers perform exposure audits if they lead to subsequent downward premium adjustments. We record the income effects of subsequent premium adjustments when the adjustments become known and, as a result, any improvement in our results of operations and financial condition may lag an improvement in the economy. In addition, some of our clients may experience liquidity problems or other financial difficulties in the event of a prolonged deterioration in the economy, which could have an adverse effect on our results of operations and financial condition. If our clients become financially less stable, enter bankruptcy, liquidate their operations or consolidate, our revenues and collectability of receivables could be adversely affected. Our growing operations in countries and regions undergoing economic downturns, particularly in the U.K., Australia and certain emerging markets, expose us to risks and uncertainties that could materially adversely affect our results of operations and financial condition. In addition, some of our clients may experience liquidity problems or other financial difficulties in the event of a prolonged deterioration in the economy, which could have an adverse effect on our results of operations and financial condition. For example, approximately 20% of our brokerage segment and approximately 3% of our risk management segment revenues came from the U.K. in 2016. In a referendum held on June 23, 2016, a majority of voters in the U.K. voted in favor of the U.K. leaving the European Union. This vote to leave has created significant uncertainty regarding the U.K. economic outlook, and could lead to a decline in economic activity, a recession, or reduced future growth prospects in the U.K., any of which could damage our clients' confidence and materially and adversely affect our business.

**Economic conditions that result in financial difficulties for insurance companies or reduced insurer capacity could adversely affect our results of operations and financial condition.**

We have a significant amount of trade accounts receivable from some of the insurance companies with which we place insurance. If those insurance companies experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us, which could have a significant adverse impact on our consolidated financial condition and results of operations. The failure of an insurer with whom we place business could result in errors and omissions claims against us by our clients, and the failure of errors and omissions insurance carriers could make the errors and omissions insurance we rely upon cost prohibitive or unavailable, which could adversely affect our results of operations and financial condition. In addition, if carriers merge or if a large carrier fails or withdraws from offering certain lines of coverage, overall underwriting capacity could be

negatively affected, which could reduce our ability to place certain lines of coverage and, as a result, reduce our revenues and profitability.

**Volatility or declines in premiums or other adverse trends in the insurance industry may seriously undermine our profitability.**

We derive much of our revenue from commissions and fees for our brokerage services. We do not determine the insurance premiums on which our commissions are generally based. Moreover, insurance premiums are cyclical in nature and may vary widely based on market conditions. Because of market cycles for insurance product pricing, which we cannot predict or control, our brokerage revenues and profitability can be volatile or remain depressed for significant periods of time.

As traditional risk-bearing insurance companies continue to outsource the production of premium revenue to non-affiliated brokers or agents such as us, those insurance companies may seek to further minimize their expenses by reducing the commission rates payable to insurance agents or brokers. The reduction of these commission rates, along with general volatility and/or declines in premiums, may significantly affect our profitability. Because we do not determine the timing or extent of premium pricing changes, it is difficult to precisely forecast our commission revenues, including whether they will significantly decline. As a result, we may have to adjust our budgets for future acquisitions, capital expenditures, dividend payments, loan repayments and other expenditures to account for unexpected changes in revenues, and any decreases in premium rates may adversely affect the results of our operations.

In addition, there have been and may continue to be various trends in the insurance industry toward alternative insurance markets including, among other things, greater levels of self-insurance, captives, rent-a-captives, risk retention groups and non-insurance capital markets-based solutions to traditional insurance. While, historically, we have been able to participate in certain of these activities on behalf of our customers and obtain fee revenue for such services, there can be no assurance that we will realize revenues and profitability as favorable as those realized from our traditional brokerage activities. Our ability to generate premium-based commission revenue may also be challenged by the growing desire of some clients to compensate brokers based upon flat fees rather than variable commission rates. This could negatively impact us because fees are generally not indexed for inflation and do not automatically increase with premium as does commission-based compensation.

**Contingent and supplemental commissions we receive from insurance companies are less predictable than standard commissions, and any decrease in the amount of these kinds of commissions we receive could adversely affect our results of operations.**

A portion of our revenues consists of contingent and supplemental commissions we receive from insurance companies. Contingent commissions are paid by insurance companies based upon the profitability, volume and/or growth of the business placed with such companies during the prior year. Supplemental commissions are commissions paid by insurance companies that are established annually in advance based on historical performance criteria. If, due to the current economic environment or for any other reason, we are unable to meet insurance companies' profitability, volume or growth thresholds, or insurance companies increase their estimate of loss reserves (over which we have no control), actual contingent commissions or supplemental commissions we receive could be less than anticipated, which could adversely affect our results of operations.

**We face significant competitive pressures in each of our businesses.**

The insurance brokerage and service business is highly competitive and many insurance brokerage and service organizations actively compete with us in one or more areas of our business around the world. We compete with three firms in the global risk management and brokerage markets, which have revenues significantly larger than ours. In addition, various other competing firms that operate nationally or that are strong in a particular country, region or locality may have, in that country, region or locality, an office with revenues as large as or larger than those of our corresponding local office. Our third party claims administration operation also faces significant competition from stand-alone firms as well as divisions of larger firms.

The primary factors in determining our competitive position with other organizations in our industry are the quality of the services rendered and the overall costs to our clients. Losing business to competitors offering similar products at lower prices or having other competitive advantages would adversely affect our business.

In addition, any increase in competition due to new legislative or industry developments could adversely affect us. These developments include:

- Increased capital-raising by insurance underwriting companies, which could result in new capital in the industry, which in turn may lead to lower insurance premiums and commissions;
- Insurance companies selling insurance directly to insureds without the involvement of a broker or other intermediary;
- Changes in our business compensation model as a result of regulatory developments;
- Federal and state governments establishing programs to provide health insurance or, in certain cases, property insurance in catastrophe-prone areas or other alternative market types of coverage, that compete with, or completely replace, insurance products offered by insurance carriers; and

- Increased competition from new market participants such as banks, accounting firms, consulting firms and Internet or other technology firms offering risk management or insurance brokerage services, or new distribution channels for insurance such as payroll firms.

New competition as a result of these or other competitive or industry developments could cause the demand for our products and services to decrease, which could in turn adversely affect our results of operations and financial condition.

**If we are unable to apply technology effectively in driving value for our clients through technology-based solutions or gain internal efficiencies and effective internal controls through the application of technology and related tools, our operating results, client relationships, growth and compliance programs could be adversely affected.**

Our future success depends, in part, on our ability to anticipate and respond effectively to the threat of digital disruption and other technology change. We must also develop and implement technology solutions and technical expertise among our employees that anticipate and keep pace with rapid and continuing changes in technology, industry standards, client preferences and internal control standards. We may not be successful in anticipating or responding to these developments on a timely and cost-effective basis and our ideas may not be accepted in the marketplace. Additionally, the effort to gain technological expertise and develop new technologies in our business requires us to incur significant expenses. If we cannot offer new technologies as quickly as our competitors, or if our competitors develop more cost-effective technologies or product offerings, we could experience a material adverse effect on our operating results, client relationships, growth and compliance programs.

In some cases, we depend on key vendors and partners to provide technology and other support for our strategic initiatives. If these third parties fail to perform their obligations or cease to work with us, our ability to execute on our strategic initiatives could be adversely affected.

**Damage to our reputation could have a material adverse effect on our business.**

Our reputation is one of our key assets. We advise our clients on and provide services related to a wide range of subjects and our ability to attract and retain clients is highly dependent upon the external perceptions of our level of service, trustworthiness, business practices, financial condition and other subjective qualities. Negative perceptions or publicity regarding these or other matters, including our association with clients or business partners who themselves have a damaged reputation, or from actual or alleged conduct by us or our employees, could damage our reputation. Any resulting erosion of trust and confidence among existing and potential clients, regulators, stockholders and other parties important to the success of our business could make it difficult for us to attract new clients and maintain existing ones, which could have a material adverse effect on our business, financial condition and results of operations.

**We have historically acquired large numbers of insurance brokers, benefits consulting firms and risk management firms. We may not be able to continue such an acquisition strategy in the future and there are risks associated with such acquisitions, which could adversely affect our growth and results of operations.**

Our acquisition program has been an important part of our historical growth, particularly in our brokerage segment, and we believe that similar acquisition activity will be important to maintaining comparable growth in the future. Failure to successfully identify and complete acquisitions likely would result in us achieving slower growth. Continuing consolidation in our industry and growing interest in acquiring insurance brokers on the part of private equity firms and private equity-backed consolidators could make it more difficult for us to identify appropriate targets and could make them more expensive. Even if we are able to identify appropriate acquisition targets, we may not have sufficient capital to fund acquisitions, be able to execute transactions on favorable terms or integrate targets in a manner that allows us to realize the benefits we have historically experienced from acquisitions. When regulatory approval of acquisitions is required, our ability to complete acquisitions may be limited by an ongoing regulatory review or other issues with the relevant regulator. Our ability to finance and integrate acquisitions may also decrease if we complete a greater number of large acquisitions than we have historically.

Post-acquisition risks include those relating to retention of personnel, retention of clients, entry into unfamiliar markets or lines of business, contingencies or liabilities, such as violations of sanctions laws or anti-corruption laws including the FCPA and U.K. Bribery Act, risks relating to ensuring compliance with licensing and regulatory requirements, tax and accounting issues, the risk that the acquisition distracts management and personnel from our existing business, and integration difficulties relating to accounting, information technology, human resources, or organizational culture and fit, some or all of which could have an adverse effect on our results of operations and growth. The failure of acquisition targets to achieve anticipated revenue and earnings levels could also result in goodwill impairment charges.

We own interests in firms where we do not exercise management control (such as Jiang Tai Re, our joint venture with Jiang Tai Insurance Brokers in China, or Casanueva Perez S.A.P. de C.V. (Grupo CP) in Mexico) and are therefore unable to direct or manage the business to realize the anticipated benefits, including mitigation of risks, that could be achieved through full integration.

### **Our future success depends, in part, on our ability to attract and retain experienced and qualified personnel.**

Our future success depends, in part, on our ability to attract and retain both new talent and experienced personnel, including our senior management, brokers and other key personnel. In addition, we could be adversely affected if we fail to adequately plan for the succession of members of our senior management team. The insurance brokerage industry has experienced intense competition for the services of leading brokers, and in the past we have lost key brokers and groups of brokers, along with their client and business relationships, to competitors. Such departures could lead to the loss of clients and intellectual property. The loss of our chief executive officer or any of our other senior managers, brokers or other key personnel (including the key personnel that manage our interests in our IRC Section 45 investments), or our inability to identify, recruit and retain highly skilled personnel, could materially and adversely affect our business, operating results and financial condition.

### **Our substantial operations outside the U.S. expose us to risks different than those we face in the U.S.**

In 2016, we generated approximately 31% of our revenues outside the U.S., including in countries where the risk of political and economic uncertainty is relatively greater than that present in the U.S. and more stable countries. The global nature of our business creates operational and economic risks. Adverse geopolitical or economic conditions may temporarily or permanently disrupt our operations in these countries or create difficulties in staffing and managing foreign operations. For example, we have substantial operations in India to provide certain back-office services. To date, the dispute between India and Pakistan involving the Kashmir region, incidents of terrorism in India and general geopolitical uncertainties have not adversely affected our operations in India. However, such factors could potentially affect our operations there in the future. Should our access to these services be disrupted, our business, operating results and financial condition could be adversely affected.

Operating outside the U.S. may also present other risks that are different from, or greater than, the risks we face doing comparable business in the U.S. These include, among others, risks relating to:

- Maintaining awareness of and complying with a wide variety of labor practices and foreign laws, including those relating to export and import duties, environmental policies and privacy issues, as well as laws and regulations applicable to U.S. business operations abroad. These and other international regulatory risks are described below under “Regulatory, Legal and Accounting Risks;”
- The potential costs, difficulties and risks associated with local regulations across the globe, including the risk of personal liability for directors and officers and “piercing the corporate veil” risks under the corporate law regimes of certain countries;
- Difficulties in staffing and managing foreign operations;
- Less flexible employee relationships, which may limit our ability to prohibit employees from competing with us after they are no longer employed with us or recovering damages in the event they do so, and may make it more difficult and expensive to terminate their employment;
- Political and economic instability, including in the U.K., the Eurozone, Australia and certain emerging markets (including risks relating to undeveloped or evolving legal systems, unstable governments, acts of terrorism and outbreaks of war);
- Coordinating our communications and logistics across geographic distances and multiple time zones, including during times of crisis management;
- Adverse trade policies, and adverse changes to any of the policies of the U.S. or any of the foreign jurisdictions in which we operate;
- Unfavorable audits and exposure to additional liabilities relating to various non-income taxes (such as payroll, sales, use, value-added, net worth, property and goods and services taxes) in foreign jurisdictions. In addition, our future effective tax rates could be unfavorably affected by changes in tax rates, discriminatory or confiscatory taxation, changes in the valuation of our deferred tax assets or liabilities, changes in tax laws or their interpretation and the financial results of our international subsidiaries. The Organization for Economic Cooperation and Development issued reports and recommendations as part of its Base Erosion and Profit Shifting project (BEPS), and in response many countries in which we do business are expected to adopt rules which may change various aspects of the existing framework under which our tax obligations are determined. For example, in response to BEPS, the U.K. adopted rules in 2016 that will affect the deductibility of interest paid on intercompany debt, and other jurisdictions where we operate, including Australia and New Zealand, may do so as well in the near future;
- Legal or political constraints on our ability to maintain or increase prices;
- Cash balances held in foreign banks and institutions where governments have not specifically enacted formal guarantee programs;
- Lost business or other financial harm due to governmental actions affecting the flow of goods, services and currency, including protectionist policies that discriminate in favor of local competitors; and
- Governmental restrictions on the transfer of funds to us from our operations outside the U.S.



Following the recent presidential election in the U.S., the foreign and international trade policies of the U.S. could change in ways that exacerbate the risks described above, or introduce new risks for our international operations. If any of these risks materialize, our results of operations and financial condition could be adversely affected.

**Significant changes in foreign exchange rates may adversely affect our results of operations.**

A large and growing portion of our business is located outside the U.S. Some of our foreign subsidiaries receive revenues or incur obligations in currencies that differ from their functional currencies. We must also translate the financial results of our foreign subsidiaries into U.S. dollars. Although we have used foreign currency hedging strategies in the past and currently have some in place, such risks cannot be eliminated entirely, and significant changes in exchange rates may adversely affect our results of operations. In the U.K., the vote to leave the European Union may result in substantial volatility in foreign exchange markets and may lead to a sustained weakness in the British pound's exchange rate against the U.S. dollar. Any significant weakening of the British pound to the U.S. dollar will have an adverse impact on our brokerage and risk management segment revenues and earnings as reported in U.S. dollars.

**We face a variety of risks in our third party claims administration operations that are distinct from those we face in our brokerage operations.**

Our third party claims administration operations face a variety of risks distinct from those faced by our brokerage operations, including the risks that:

- The favorable trend among both insurers and insureds toward outsourcing various types of claims administration and risk management services will reverse or slow, causing our revenues or revenue growth to decline;
- Concentration of large amounts of revenue with certain clients results in greater exposure to the potential negative effects of lost business due to changes in management at such clients or changes in state government policies, in the case of our government-entity clients, or for other reasons;
- Contracting terms will become less favorable or that the margins on our services will decrease due to increased competition, regulatory constraints or other developments;
- We will not be able to satisfy regulatory requirements related to third party administrators or that regulatory developments (including unanticipated regulatory developments relating to security and data privacy outside the U.S.) will impose additional burdens, costs or business restrictions that make our business less profitable;
- Economic weakness or a slow-down in economic activity could lead to a reduction in the number of claims we process;
- If we do not control our labor and technology costs, we may be unable to remain competitive in the marketplace and profitably fulfill our existing contracts (other than those that provide cost-plus or other margin protection);
- We may be unable to develop further efficiencies in our claims-handling business and may be unable to obtain or retain certain clients if we fail to make adequate improvements in technology or operations; and
- Insurance companies or certain insurance consumers may create in-house servicing capabilities that compete with our third party administration and other administration, servicing and risk management products.

If any of these risks materialize, our results of operations and financial condition could be adversely affected.

**Sustained increases in the cost of employee benefits could reduce our profitability.**

The cost of current employees' medical and other benefits, as well as pension retirement benefits and postretirement medical benefits under our legacy defined benefit plans, substantially affects our profitability. In the past, we have occasionally experienced significant increases in these costs as a result of macro-economic factors beyond our control, including increases in health care costs, declines in investment returns on pension assets and changes in discount rates used to calculate pension and related liabilities. A significant decrease in the value of our defined benefit pension plan assets or decreases in the interest rates used to discount the pension plans' liabilities could cause an increase in pension plan costs in future years. Although we have actively sought to control increases in these costs, we can make no assurance that we will succeed in limiting future cost increases, and continued upward pressure in these costs could reduce our profitability.

**Our inability to recover successfully should we experience a disaster, cybersecurity attack or other disruption to business continuity could have a material adverse effect on our operations, damage our reputation and impact client relationships.**

Our ability to conduct business may be adversely affected, even in the short-term, by a disruption in the infrastructure that supports our business and the communities where we are located. For example, our third party claims administration operation is highly dependent on the continued and efficient functioning of RISX-FACS<sup>®</sup>, our proprietary risk management information system, to provide clients with insurance claim settlement and administration services.

Disruptions could be caused by, among other things, restricted physical site access, terrorist activities, disease pandemics, cybersecurity attacks, or outages to electrical, communications or other services we use, our employees or third parties with whom we conduct business. We have disaster recovery procedures in place and insurance to protect against such contingencies. However, such procedures may not be effective and any insurance or recovery procedures may not continue to be available at reasonable prices and may not address all such losses or compensate us for the possible loss of clients or increase in claims and lawsuits directed against us because of any period during which we are unable to provide services. We anticipate moving our corporate headquarters during the first quarter of 2017. Any major disruption in the move, or our inability to successfully recover should we experience a disaster or other disruption to business continuity could have a material adverse effect on our operations. The occurrence of such events could also cause reputational harm and damage our client relationships.

## **Regulatory, Legal and Accounting Risks**

**Improper disclosure of confidential, personal or proprietary data, whether due to human error, misuse of information by employees or vendors, or as a result of cyberattacks, could result in regulatory scrutiny, legal liability or reputational harm, and could have an adverse effect on our business or operations.**

We maintain confidential, personal and proprietary information relating to our company, our employees and our clients. This information includes personally identifiable information, protected health information and financial information. In many jurisdictions, particularly in the U.S. and the European Union, we are subject to laws and regulations relating to the collection, use, retention, security and transfer of this information. These laws apply to transfers of information among our affiliates, as well as to transactions we enter into with third party vendors.

We have from time to time experienced cybersecurity breaches, such as computer viruses, unauthorized parties gaining access to our information technology systems and similar incidents, which to date have not had a material impact on our business. In the future, these types of incidents could disrupt the security of our internal systems and business applications, impair our ability to provide services to our clients and protect the privacy of their data, compromise confidential business information, result in intellectual property or other confidential information being lost or stolen, including client, employee or company data, which could harm our competitive position or otherwise adversely affect our business. Cyber threats are constantly evolving, which makes it more difficult to detect cybersecurity incidents, assess their severity or impact in a timely manner, and successfully defend against them.

We maintain policies, procedures and technical safeguards designed to protect the security and privacy of confidential, personal and proprietary information. Nonetheless, we cannot eliminate the risk of human error or inadequate safeguards against employee or vendor malfeasance. It is possible that the steps we follow, including our security controls over personal data and training of employees on data security, may not prevent improper access to, disclosure of, or misuse of confidential, personal or proprietary information. This could cause harm to our reputation, create legal exposure, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue.

Significant costs are involved with maintaining system safeguards for our technology infrastructure. If we are unable to effectively maintain and upgrade our system safeguards, including in connection with the integration of acquisitions, we may incur unexpected costs and certain of our systems may become more vulnerable to unauthorized access.

With respect to our commercial arrangements with third party vendors, we have processes designed to require third party IT outsourcing, offsite storage and other vendors to agree to maintain certain standards with respect to the storage, protection and transfer of confidential, personal and proprietary information. However, we remain at risk of a data breach due to the intentional or unintentional non-compliance by a vendor's employee or agent, the breakdown of a vendor's data protection processes, or a cyber attack on a vendor's information systems.

Data privacy is subject to frequently changing laws, rules and regulations in the various jurisdictions and countries in which we operate. For example, in 2015, the European Court of Justice invalidated a key safe harbor relied upon by many businesses to transfer personal data legally from the European Union to the U.S. There is a growing body of international data protection law, which, in part, includes security breach notification obligations, more stringent operational requirements and significant penalties for non-compliance. In addition, legislators in the U.S. are proposing new and more robust cybersecurity legislation in light of the recent broad-based cyberattacks at a number of companies. These and similar initiatives around the world could increase the cost of developing, implementing or securing our servers and require us to allocate more resources to improved technologies, adding to our IT and compliance costs. Our failure to adhere to, or successfully implement processes in response to, changing legal or regulatory requirements in this area could result in legal liability or damage to our reputation in the marketplace.

**We are subject to regulation worldwide. If we fail to comply with regulatory requirements or if regulations change in a way that adversely affects our operations, we may not be able to conduct our business, or we may be less profitable.**

Many of our activities throughout the world are subject to regulatory supervision and regulations promulgated by bodies such as the Securities and Exchange Commission (SEC), the Department of Justice (DOJ), the Internal Revenue Service (IRS) and the Office of Foreign Assets Control (OFAC) in the U.S., the Financial Conduct Authority (FCA) in the U.K., the Australian Securities and Investments Commission in Australia and insurance regulators in nearly every jurisdiction in which we operate. Our activities are also subject to a variety of other laws, rules and regulations addressing licensing, data privacy, wage-and-hour standards, employment and labor relations, anti-competition, anti-corruption, currency, reserves and the amount of local investment with respect to our operations in certain countries. This regulatory supervision could reduce our profitability or growth by increasing the costs of compliance, restricting the products or services we sell, the markets we enter, the methods by which we sell our products and services, or the prices we can charge for our services and the form of compensation we can accept from our clients, carriers and third parties. As our operations grow around the world, it is increasingly difficult to monitor and enforce regulatory compliance across the organization. A compliance failure by even one of our smallest branches could lead to litigation and/or disciplinary actions that may include compensating clients for loss, the imposition of penalties and the revocation of our authorization to operate. In all such cases, we would also likely incur significant internal investigation costs and legal fees.

The global nature of our operations increases the complexity and cost of compliance with laws and regulations, including increased staffing needs, the development of new policies, procedures and internal controls and providing training to employees in multiple locations, adding to our cost of doing business. Many of these laws and regulations may have differing or conflicting legal standards across jurisdictions, increasing further the complexity and cost of compliance. In emerging markets and other jurisdictions with less developed legal systems, local laws and regulations may not be established with sufficiently clear and reliable guidance to provide us with adequate assurance that we are aware of all necessary licenses to operate our business, that we are operating our business in a compliant manner, or that our rights are otherwise protected. In addition, in light of recent events associated with the planned exit of the U.K. from the European Union, we will likely face new regulatory costs and challenges. For example, our U.K. operations could lose their European Union financial services passport which provides them the license to operate across borders within the single European Union market without obtaining local regulatory approval.

Changes in legislation or regulations and actions by regulators, including changes in administration and enforcement policies, could from time to time require operational changes that could result in lost revenues or higher costs or hinder our ability to operate our business.

For example, the method by which insurance brokers are compensated has received substantial scrutiny in the past because of the potential for conflicts of interest. The potential for conflicts of interest arises when a broker is compensated by two parties in connection with the same or similar transactions. The vast majority of the compensation we receive for our work as insurance brokers is in the form of retail commissions and fees. We receive additional revenue from insurance companies, separate from retail commissions and fees, including, among other things, contingent and supplemental commissions and payments for consulting and analytics services provided to insurance carriers. Future changes in the regulatory environment may impact our ability to collect these additional revenue streams. Adverse regulatory, legal or other developments regarding these revenues could have a material adverse effect on our business, results of operations or financial condition, expose us to negative publicity and reputational damage and harm our client, insurer or other relationships.

**We could be adversely affected by violations or alleged violations of laws that impose requirements for the conduct of our overseas operations, including the FCPA, the U.K. Bribery Act or other anti-corruption laws, sanctioned parties restrictions, and FATCA.**

In foreign countries where we operate, a risk exists that our employees, third party partners or agents could engage in business practices prohibited by applicable laws and regulations, such as the FCPA and the U.K. Bribery Act. Such anti-corruption laws generally prohibit companies from making improper payments to foreign officials and require companies to keep accurate books and records and maintain appropriate internal controls. Our policies mandate strict compliance with such laws and we devote substantial resources to programs to ensure compliance. However, we operate in some parts of the world that have experienced governmental corruption, and, in certain circumstances, local customs and practice might not be consistent with the requirements of anti-corruption laws. In addition, in recent years, two of the five publicly traded insurance brokerage firms were investigated in the U.S. and the U.K. for improper payments to foreign officials. These firms undertook internal investigations and paid significant settlements.

We remain subject to the risk that our employees, third party partners or agents will engage in business practices that are prohibited by our policies and violate such laws and regulations. Violations by us or a third party acting on our behalf could result in significant internal investigation costs and legal fees, civil and criminal penalties, including prohibitions on the conduct of our business, and reputational harm.

We may also be subject to legal liability and reputational damage if we violate U.S. trade sanctions administered by OFAC, the European Union and the United Nations, and trade sanction laws such as the Iran Threat Reduction and Syria Human Rights Act of 2012.

In addition, FATCA requires certain of our subsidiaries, affiliates and other entities to obtain valid FATCA documentation from payees prior to remitting certain payments to such payees. In the event we do not obtain valid FATCA documents, we may be obliged to withhold a portion of such payments. This obligation is shared with our customers and clients who may fail to comply, in whole or in part. In such circumstances, we may incur FATCA compliance costs including withholding taxes, interest and penalties. In addition, regulatory initiatives and changes in the regulations and guidance promulgated under FATCA may increase our costs of operations, and could adversely affect the market for our services as intermediaries, which could adversely affect our results of operations and financial condition.

**Our business could be negatively impacted if we are unable to adapt our services to changes resulting from the 2010 Health Care Reform Legislation.**

The 2010 Health Care Reform Legislation, among other things, increases the level of regulatory complexity for companies that offer health and welfare benefits to their employees, and continues to be amended through regulations issued by various government agencies. Initiatives by the incoming presidential administration to change certain aspects of this legislation may increase such complexity. Many clients of our brokerage segment purchase health and welfare products for their employees and, therefore, are impacted by the 2010 Health Care Reform Legislation. We have made significant investments in product and knowledge development to assist clients as they navigate the complex requirements of this legislation. Depending on future changes to health legislation, these investments may not yield returns. In addition, if we are unable to adapt our services to changes resulting from this law and any subsequent regulations, our ability to grow our business or to provide effective services, particularly in our employee benefits consulting business, will be negatively impacted. In addition, if our clients reduce the role or extent of employer sponsored health care in response to this or any other law, our results of operations could be adversely impacted.

**We are subject to a number of contingencies and legal proceedings which, if determined unfavorably to us, would adversely affect our financial results.**

We are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business. Such claims, lawsuits and other proceedings could, for example, include claims for damages based on allegations that our employees or sub-agents improperly failed to procure coverage, report claims on behalf of clients, provide insurance companies with complete and accurate information relating to the risks being insured, or provide clients with appropriate consulting, advisory and claims handling services. There is the risk that our employees or sub-agents may fail to appropriately apply funds that we hold for our clients on a fiduciary basis. Certain of our benefits and retirement consultants provide investment advice or decision-making services to clients. If these clients experience investment losses, our reputation could be damaged and our financial results could be negatively affected as a result of claims asserted against us and lost business. We have established provisions against these potential matters that we believe are adequate in light of current information and legal advice, and we adjust such provisions from time to time based on current material developments. The damages claimed in such matters are or may be substantial, including, in many instances, claims for punitive, treble or other extraordinary damages. It is possible that, if the outcomes of these contingencies and legal proceedings were not favorable to us, it could materially adversely affect our future financial results. In addition, our results of operations, financial condition or liquidity may be adversely affected if, in the future, our insurance coverage proves to be inadequate or unavailable or we experience an increase in liabilities for which we self-insure. We have purchased errors and omissions insurance and other insurance to provide protection against losses that arise in such matters. Accruals for these items, net of insurance receivables, when applicable, have been provided to the extent that losses are deemed probable and are reasonably estimable. These accruals and receivables are adjusted from time to time as current developments warrant.

As more fully described in Note 15 to our consolidated financial statements, we are a defendant in various legal actions incidental to our business, including but not limited to matters related to employment practices, alleged breaches of non-compete or other restrictive covenants, theft of trade secrets, breaches of fiduciary duties, intellectual property infringement and related causes of action. We are also periodically the subject of inquiries and investigations by regulatory and taxing authorities into various matters related to our business. For example, our micro-captive advisory services are currently the subject of an investigation by the IRS. In addition, we were named in a lawsuit asserting that we, our subsidiary, Gallagher Clean Energy, LLC, and Chem-Mod LLC are liable for infringement of a patent held by Nalco Company. An adverse outcome in connection with one or more of these matters could have a material adverse effect on our business, results of operations or financial condition in any given quarterly or annual period, or on an ongoing basis. In addition, regardless of any eventual monetary costs, any such matter could expose us to negative publicity, reputational damage, harm to our client or employee relationships, or diversion of personnel and management resources, which could adversely affect our ability to recruit quality brokers and other significant employees to our business, and otherwise adversely affect our results of operations.

## **Changes in our accounting estimates and assumptions could negatively affect our financial position and operating results.**

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (which we refer to as GAAP). These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We are also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions, including those relating to the valuation of goodwill and other intangible assets, investments (including our IRC Section 45 investments), income taxes, stock-based compensation, claims handling obligations, retirement plans, litigation and contingencies. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Actual results could differ from these estimates. Additionally, changes in accounting standards (such as new standards relating to revenue recognition and leases) could increase costs to the organization and could have an adverse impact on our future financial position and results of operations. See Note 2 to our 2016 consolidated financial statements for information with respect to the potential impacts the new standards relating to revenue recognition and leases could have on our future financial position and operating results.

## **Risks Relating to our Investments, Debt and Common Stock**

### **Our clean energy investments are subject to various risks and uncertainties.**

We have invested in clean energy operations capable of producing refined coal that we believe qualify for tax credits under IRC Section 45.

See Note 13 to our consolidated financial statements for a description of these investments. Our ability to generate returns and avoid write-offs in connection with these investments is subject to various risks and uncertainties. These include, but are not limited to, the risks and uncertainties set forth below.

- **Availability of the tax credits under IRC Section 45.** Our ability to claim tax credits under IRC Section 45 depends upon the operations in which we have invested satisfying certain ongoing conditions set forth in IRC Section 45. These include, among others, the emissions reduction, “qualifying technology”, “placed-in-service” and coal sales to unrelated parties requirements of IRC Section 45, as well as the requirement that at least one of the operations’ owners qualifies as a “producer” of refined coal. While we have received some degree of confirmation from the IRS relating to our ability to claim these tax credits, the IRS could ultimately determine that the operations have not satisfied, or have not continued to satisfy, the conditions set forth in IRC Section 45.
- **Value of the tax credits.** The value of the tax credits could be impacted by changes in the tax code as a result of the recent presidential and congressional elections in the U.S. Congress could modify or repeal IRC Section 45 and remove the tax credits (either prospectively or through the elimination of the carryover of the credits), which would adversely affect the value of our investment. Also, if Congress reduces tax rates as proposed, although we might pay less in taxes overall, it would reduce the tax benefit of operating costs associated with the production of refined coal.
- **Co-investor tax credit risks.** We have co-investors in several of the operations currently producing refined coal, and are working to negotiate arrangements with potential co-investors for the purchase of equity stakes in other operations. If no satisfactory arrangements can be reached with these potential co-investors, or if in the future any one of our co-investors leaves a project, we could have difficulty finding replacements in a timely manner. On February 10, 2017, one of the refined coal partnerships in which we are an investor received a notice from the IRS setting forth its view that certain of our co-investors are unable to claim tax credits based on the structure of their partnership interests. The IRS notice does not challenge the validity of the tax credits or our ability to utilize tax credits. Our co-investors have the right to appeal and defend their position in tax court. While it is not possible to predict the ultimate outcome of any such appeal, an adverse ruling would likely make it more difficult for us to reach satisfactory arrangements with new co-investors. We could also be subject to claims against us from the co-investors affected by this IRS notice.
- **Operational risks.** Chem-Mod’s multi-pollutant reduction technologies (The Chem-Mod™ Solution) require chemicals that may not be readily available in the marketplace at reasonable costs. Utilities that use the technologies could be idled for various reasons, including operational or environmental problems at the plants or in the boilers, disruptions in the supply or transportation of coal, revocation of their Chem-Mod technologies environmental permits, labor strikes, force majeure events such as hurricanes, or terrorist attacks, any of which could halt or impede the operations. Long-term operations using Chem-Mod’s multi-pollutant reduction technologies could also lead to unforeseen technical or other problems not evident in the short- or medium-term. A serious injury or death of a worker connected with the production of refined coal using Chem-Mod’s technologies could expose the operations to material liabilities, jeopardizing our investment, and could lead to reputational harm. In the event of any such operational problems, we may not be able to take full advantage of the tax credits. We could also be exposed to risk due to our lack of control over the operations if future developments, for example a regulatory change affecting public and private companies differently, causes our interests and those of our co-investors to diverge. Finally, our partners responsible for operation and management could fail to run the operations in compliance with IRC Section 45. If any of these developments occur, our investment returns may be negatively impacted.

- **Market demand for coal.** When the price of natural gas and/or oil declines relative to that of coal, some utilities may choose to burn natural gas or oil instead of coal. Market demand for coal may also decline as a result of an economic slowdown or mild weather and a corresponding decline in the use of electricity. Sustained low natural gas prices may also cause utilities to phase out or close existing coal-fired power plants. If utilities burn less coal or eliminate coal in the production of electricity, the availability of the tax credits would also be reduced.
- **Environmental concerns regarding coal.** Environmental concerns about greenhouse gases, toxic wastewater discharges and the potential hazardous nature of coal combustion waste could lead to public pressure to reduce, or regulations that discourage, the burning of coal. For example, regulations could mandate that electric power generating companies purchase a minimum amount of power from renewable energy sources such as wind, hydroelectric, solar and geothermal.
- **Demand for commercial refined coal plants.** The implementation of environmental regulations regarding certain pollution control and permitting requirements has been delayed from time to time due to various lawsuits. The uncertainty created by litigation and reconsiderations of rule-making by the Environmental Protection Agency could negatively impact power generational facilities' demand for commercial refined coal plants, should we need to move them as described below.
- **Incompatible coal.** If utilities purchase coal of a quality or type incompatible with their boilers and operations, treating such coal through a commercial refined coal plant could magnify the negative impacts of burning such coal. As a result, refined coal plants at such utilities may be removed from production until the incompatible coal has all been burned, which could cause us to be unable to take full advantage of the tax credits.
- **Moving a commercial refined coal plant.** Changes in circumstances, such as those described above, may cause a commercial refined coal plant to be moved to a different power generation facility, which could require us to invest additional capital. Three plants do not currently have long-term production contracts, and may have to be moved once negotiations for such contracts are finalized. In addition, if for any reason one or more of these operations are unable to satisfy regulatory permitting requirements and the utilities at which they are installed are unable to timely obtain long-term permits, we may not be able to generate additional earnings from these operations.
- **Intellectual property risks.** There is a risk that foreign laws will not protect the intellectual property associated with The Chem-Mod™ Solution to the same extent as U.S. laws, leaving us vulnerable to companies outside the U.S. who may attempt to copy such intellectual property. In addition, other companies may make claims of intellectual property infringement with respect to The Chem-Mod™ Solution. Such intellectual property claims, with or without merit, could require that Chem-Mod (or us and our investment and operational partners) obtain a license to use the intellectual property, which might not be obtainable on favorable terms, if at all. In July 2014, we were named in a lawsuit asserting that we and other defendants are liable for infringement of a patent held by Nalco Company. In response, we filed a motion to dismiss the complaint on behalf of all defendants, alleging no infringement of Nalco's intellectual property. This motion and similar motions attacking amended complaints filed by Nalco, were granted. On April 20, 2016 the court dismissed Nalco's complaint and disallowed any further opportunity to amend or refile. Although Nalco has appealed this ruling, we believe that the probability of a material loss is remote. However, litigation is inherently uncertain and it is not possible to predict the ultimate disposition of this proceeding. If Chem-Mod (or we and our investment and operational partners) cannot defeat or defend this or other such claims or obtain necessary licenses on reasonable terms, the operations may be precluded from using The Chem-Mod™ Solution.
- **Strategic alternatives risk.** While we currently expect to continue to hold at least a portion of these refined coal investments, if for any reason in the future we decide to sell more of our interests, the discount rate on future cash flows could be excessive, and could result in an impairment on our investment.
- **IRC Section 45 phase out provisions.** IRC Section 45 contains phase out provisions based upon the market price of coal, such that, if the price of coal rises to specified levels, we could lose some or all of the tax credits we expect to receive from these investments.

**The IRC Section 45 operations in which we have invested and the by-products from such operations may result in environmental and product liability claims and environmental compliance costs.**

The construction and operation of the IRC Section 45 operations are subject to Federal, state and local laws, regulations and potential liabilities arising under or relating to the protection or preservation of the environment, natural resources and human health and safety. Such laws and regulations generally require the operations and/or the utilities at which the operations are located to obtain and comply with various environmental registrations, licenses, permits, inspections and other approvals. There are costs associated with ensuring compliance with all applicable laws and regulations, and failure to fully comply with all applicable laws and regulations could lead to the imposition of penalties or other liability. Failure of The Chem-Mod™ Solution utilized at coal-fired generation facilities, for example, could result in violations of air emissions permits, which could lead to the imposition of penalties or other liability. Additionally, some environmental laws, without regard to fault or the legality of a party's conduct, on certain entities that are considered to have contributed to, or are otherwise responsible for, the release or threatened release of hazardous substances into the environment. One party may, under certain circumstances, be required to bear more than its share or the entire share of investigation and cleanup costs at a site if payments or participation cannot be obtained from other responsible parties. By using The Chem-Mod™ Solution at locations owned and operated by others, we and our partners may be exposed to the risk of being held liable for environmental damage from releases of hazardous substances we may have had little, if any, involvement in creating. Such risk remains even after production ceases at an operation to the extent the environmental damage can be traced to the types of chemicals or compounds used or operations conducted in connection with The Chem-Mod™ Solution. In addition, we and our partners could face the risk of environmental and product liability claims related to concrete incorporating fly ash produced using The Chem-Mod™ Solution. No assurances can be given that contractual arrangements and precautions taken to ensure assumption of these risks by facility owners or operators, or other end users, will result in that facility owner or operator, or other end user, accepting full responsibility for any environmental or product liability claim. Nor can we or our partners be certain that facility owners or operators, or other end users, will fully comply with all applicable laws and regulations, and this could result in environmental or product liability claims. It is also not uncommon for private claims by third parties alleging contamination to also include claims for personal injury, property damage, nuisance, diminution of property value, or similar claims. Furthermore, many environmental, health and safety laws authorize citizen suits, permitting third parties to make claims for violations of laws or permits. Our insurance may not cover all environmental risk and costs or may not provide sufficient coverage in the event of an environmental or product liability claim, and defense of such claims can be costly, even when such defense prevails. If significant uninsured losses arise from environmental or product liability claims, or if the costs of environmental compliance increase for any reason, our results of operations and financial condition could be adversely affected.

**We have historically benefited from IRC Section 29 tax credits and that law expired on December 31, 2007. The disallowance of IRC Section 29 tax credits would likely cause a material loss.**

The law permitting us to claim IRC Section 29 tax credits related to our synthetic coal operations expired on December 31, 2007. We believe our claim for IRC Section 29 tax credits in 2007 and prior years is in accordance with IRC Section 29 and four private letter rulings previously obtained by IRC Section 29-related limited liability companies in which we had an interest. We understand these private letter rulings are consistent with those issued to other taxpayers and have received no indication from the IRS that it will seek to revoke or modify them. However, while our synthetic coal operations are not currently under audit, the IRS could place those operations under audit and an adverse outcome may cause a material loss or cause us to be subject to liability under indemnification obligations related to prior sales of partnership interests in partnerships claiming IRC Section 29 tax credits. For additional information about the potential negative effects of adverse tax audits and related indemnification contingencies, see the discussion on IRC Section 29 tax credits included in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**We have debt outstanding that could adversely affect our financial flexibility and subjects us to restrictions and limitations that could significantly impact our ability to operate our business.**

As of December 31, 2016, we had total consolidated debt outstanding of approximately \$2.7 billion. The level of debt outstanding each period could adversely affect our financial flexibility. We also bear risk at the time debt matures. Our ability to make interest and principal payments, to refinance our debt obligations and to fund our acquisition program and planned capital expenditures will depend on our ability to generate cash from operations. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control, such as an environment of rising interest rates. It will also reduce the ability to use that cash for other purposes, including working capital, dividends to stockholders, acquisitions, capital expenditures, share repurchases, and general corporate purposes. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, and investments, any of which could impede the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. Additionally, we may not be able to effect such actions, if necessary, on commercially reasonable terms, or at all. We may not be able to refinance any of our indebtedness on commercially reasonable terms, or at all.

The agreements governing our debt contain covenants that, among other things, restrict our ability to dispose of assets, incur additional debt, engage in certain asset sales, mergers, acquisitions or similar transactions, create liens on assets, engage in certain transactions with affiliates, change our business or make investments, and require us to comply with certain financial covenants. The restrictions in the agreements governing our debt may prevent us from taking actions that we believe would be in the best interest of our business and our stockholders and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional or more restrictive covenants that could affect our financial and operational flexibility, including our ability to pay dividends. We cannot make any assurances that we will be able to refinance our debt or obtain additional financing on terms acceptable to us, or at all. A failure to comply with the restrictions under the agreements governing our debt could result in a default under the financing obligations or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could cause our obligations with respect to our debt to be accelerated and have a material adverse effect on our financial condition and results of operations.

**We are a holding company and, therefore, may not be able to receive dividends or other distributions in needed amounts from our subsidiaries.**

We are organized as a holding company, a legal entity separate and distinct from our operating subsidiaries. As a holding company without significant operations of our own, we are dependent upon dividends and other payments from our operating subsidiaries to meet our obligations for paying principal and interest on outstanding debt obligations, for paying dividends to stockholders, repurchasing our common stock and for corporate expenses. In the event our operating subsidiaries are unable to pay sufficient dividends and other payments to us, we may not be able to service our debt, pay our obligations, pay dividends on or repurchase our common stock.

Further, we derive a significant portion of our revenue and operating profit from operating subsidiaries located outside the U.S. Since the majority of financing obligations as well as dividends to stockholders are paid from the U.S., it is important to be able to access the cash generated by our operating subsidiaries located outside the U.S. in the event we are unable to meet these U.S. based cash requirements.

Funds from our operating subsidiaries outside the U.S. may be repatriated to the U.S. via stockholder distributions and intercompany financings, where necessary. A number of factors may arise that could limit our ability to repatriate funds or make repatriation cost prohibitive, including, but not limited to the imposition of currency controls and other government restrictions on repatriation in the jurisdictions in which our subsidiaries operate, fluctuations in foreign exchange rates, the imposition of withholding and other taxes on such payments and our ability to repatriate earnings in a tax-efficient manner.

In the event we are unable to generate or repatriate cash from our operating subsidiaries for any of the reasons discussed above, our overall liquidity could deteriorate and our ability to finance our obligations, including to pay dividends on or repurchase our common stock, could be adversely affected.

**Future sales or other dilution of our equity could adversely affect the market price of our common stock.**

We grow our business organically as well as through acquisitions. One method of acquiring companies or otherwise funding our corporate activities is through the issuance of additional equity securities. The issuance of any additional shares of common or of preferred stock or convertible securities could be substantially dilutive to holders of our common stock. Moreover, to the extent that we issue restricted stock units, performance stock units, options or warrants to purchase our shares of our common stock in the future and those options or warrants are exercised or as the restricted stock units or performance stock units vest, our stockholders may experience further dilution. Holders of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our stockholders. The market price of our common stock could decline as a result of sales of shares of our common stock or the perception that such sales could occur.

**The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.**

The trading price of our common stock may fluctuate widely as a result of a number of factors, including the risk factors described above, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- General economic and political conditions such as recessions, economic downturns and acts of war or terrorism;
- Quarterly variations in our operating results;
- Seasonality of our business cycle;



- Changes in the market’s expectations about our operating results;
- Our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- Changes in financial estimates and recommendations by securities analysts concerning us or the insurance brokerage or financial services industries in general;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends in our markets, including any expectations regarding an upcoming “hard” or “soft” market;
- Changes in laws and regulations affecting our business;
- Material announcements by us or our competitors;
- The impact or perceived impact of developments relating to our investments, including the possible perception by securities analysts or investors that such investments divert management attention from our core operations;
- Market volatility;
- A negative market reaction to announced acquisitions;
- Competitive pressures in each of our segments;
- General conditions in the insurance brokerage and insurance industries;
- Legal proceedings or regulatory investigations;
- Regulatory requirements, including international sanctions and the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act 2010 or other anti-corruption laws;
- Quarter-to-quarter volatility in the earnings impact of IRC Section 45 tax credits from our clean energy investments, due to the application of accounting standards applicable to the recognition of tax credits; and
- Sales of substantial amounts of common shares by our directors, executive officers or significant stockholders or the perception that such sales could occur.

Stockholder class action lawsuits may be instituted against us following a period of volatility in our stock price. Any such litigation could result in substantial cost and a diversion of management’s attention and resources.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

The executive offices of our corporate segment and certain subsidiary and branch facilities of our brokerage and risk management segments are located at Two Pierce Place, Itasca, Illinois, where we lease approximately 306,000 square feet of space, or approximately 60% of the building. The lease commitment on this property expires on February 28, 2018. We plan to relocate our headquarters to the city of Rolling Meadows, Illinois (a suburb of Chicago approximately 4 miles from our current location) during early 2017.

Elsewhere, we generally operate in leased premises related to the facilities of our brokerage and risk management operations. We prefer to lease office space rather than own real estate related to the branch facilities of our brokerage and risk management segments. Certain of our office space leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of our leases contain annual escalation clauses generally related to increases in an inflation index. See Note 15 to our 2016 consolidated financial statements for information with respect to our lease commitments as of December 31, 2016.

**Item 3. Legal Proceedings.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## Executive Officers

Our executive officers are as follows:

<u>Name</u>	<u>Age</u>	<u>Position and Year First Elected</u>
J. Patrick Gallagher, Jr.	64	Chairman since 2006, President since 1990, Chief Executive Officer since 1995
Walter D. Bay	53	Corporate Vice President, General Counsel, Secretary since 2007
Richard C. Cary	54	Controller since 1997, Chief Accounting Officer since 2001
Joel D. Cavaness	55	Corporate Vice President since 2000, President of our Wholesale Brokerage Operation since 1997
James W. Durkin, Jr.	67	Corporate Vice President, President of our Employee Benefit Brokerage Operation 1985 - 2016, Chairman beginning in 2017
Thomas J. Gallagher	58	Corporate Vice President since 2001, Chairman of our International Brokerage Operation 2010 - 2016, President of our Retail Property/Casualty Brokerage Operation beginning in 2017
James S. Gault	64	Corporate Vice President since 1992, President of our Retail Property/Casualty Brokerage Operation 2002 - 2016, Chairman beginning in 2017
Douglas K. Howell	55	Corporate Vice President, Chief Financial Officer since 2003
Scott R. Hudson	55	Corporate Vice President and President of our Risk Management Operation since 2010
Susan E. Pietrucha	49	Corporate Vice President, Chief Human Resource Officer since 2007
William F. Ziebell *	54	Corporate Vice President since 2011, regional leader in our Employee Benefits Brokerage Operations 2004 - 2016, President beginning in 2017

\* Mr. Ziebell was designated as an executive officer in January 2017.

We have employed each such person principally in management capacities for more than the past five years. All executive officers are appointed annually and serve at the pleasure of our board of directors.

## Part II

### Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange, trading under the symbol "AJG." The following table sets forth information as to the price range of our common stock for the two-year period from January 1, 2015 through December 31, 2016 and the dividends declared per common share for such period. The table reflects the range of high and low sales prices per share as reported on the New York Stock Exchange composite listing.

<u>Quarterly Periods</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared per Common Share</u>
<b><u>2016</u></b>			
First	\$ 44.67	\$ 35.96	\$ 0.38
Second	48.64	43.17	0.38
Third	51.24	47.15	0.38
Fourth	52.34	47.16	0.38
<b><u>2015</u></b>			
First	\$ 48.71	\$ 44.24	\$ 0.37
Second	49.59	46.30	0.37
Third	48.33	39.99	0.37
Fourth	44.54	39.43	0.37

As of January 31, 2017, there were approximately 1,000 holders of record of our common stock.

**(c) Issuer Purchases of Equity Securities**

The following table shows the purchases of our common stock made by or on behalf of Gallagher or any “affiliated purchaser” (as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Gallagher for each fiscal month in the three-month period ended December 31, 2016:

<b>Period</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share (2)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)</b>	<b>Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (3)</b>
October 1 through October 31, 2016	-	\$ -	-	7,735,489
November 1 through November 30, 2016	4,684	48.44	-	7,735,489
December 1 through December 31, 2016	<u>21,565</u>	<u>51.23</u>	<u>-</u>	7,735,489
Total	<u><u>26,249</u></u>	<u>\$ 50.73</u>	<u><u>-</u></u>	

- (1) Amounts in this column represent shares of our common stock purchased by the trustees of rabbi trusts established under our Deferred Equity Participation Plan (which we refer to as the DEPP), our Deferred Cash Participation Plan (which we refer to as the DCP) and our Supplemental Savings and Thrift Plan (which we refer to as the Supplemental Plan), respectively. The DEPP is a non-qualified deferred compensation plan that generally provides for distributions to certain of our key executives when they reach age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) or upon or after their actual retirement. See Note 10 to the consolidated financial statements in this report for more information regarding the DEPP. The DCP is a non-qualified deferred compensation plan for certain key employees, other than executive officers, that generally provides for vesting and/or distributions no sooner than five years from the date of awards. Under the terms of the DEPP and the DCP, we may contribute cash to the rabbi trust and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. In the fourth quarter of 2016, we instructed the rabbi trustee for the DEPP and the DCP to reinvest dividends paid into the plans in our common stock and to purchase our common stock using the cash that was funded into these plans related to the 2016 awards. The Supplemental Plan is an unfunded, non-qualified deferred compensation plan that allows certain highly compensated employees to defer amounts, including company match amounts, on a before-tax basis or after-tax basis. Under the terms of the Supplemental Plan, all cash deferrals and company match amounts may be deemed invested, at the employee’s election, in a number of investment options that include various mutual funds, an annuity product and a fund representing our common stock. When an employee elects to deem his or her amounts under the Supplemental Plan invested in the fund representing our common stock, the trustee of the rabbi trust purchases the number of shares of our common stock equivalent to the amount deemed invested in the fund representing our common stock. We established the rabbi trusts for the DEPP, the DCP and the Supplemental Plan to assist us in discharging our deferred compensation obligations under these plans. All assets of the rabbi trusts, including any shares of our common stock purchased by the trustees, remain, at all times, assets of the Company, subject to the claims of our creditors. The terms of the DEPP, the DCP and the Supplemental Plan do not provide for a specified limit on the number of shares of common stock that may be purchased by the respective trustees of the rabbi trusts.
- (2) The average price paid per share is calculated on a settlement basis and does not include commissions.
- (3) We have a common stock repurchase plan that the board of directors adopted on May 10, 1988 and has periodically amended since that date to authorize additional shares for repurchase (the last amendment was on January 24, 2008). We did not repurchase any shares of our common stock under the repurchase plan during the fourth quarter of 2016. The repurchase plan has no expiration date and we are under no commitment or obligation to repurchase any particular amount of our common stock under the plan. At our discretion, we may suspend the repurchase plan at any time.

## Item 6. Selected Financial Data.

The following selected consolidated financial data for each of the five years in the period ended December 31, 2016 have been derived from our consolidated financial statements. Such data should be read in conjunction with our consolidated financial statements and notes thereto in Item 8 of this annual report.

	<b>Year Ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	(In millions, except per share and employee data)				
<b>Consolidated Statement of Earnings Data:</b>					
Commissions	\$ 2,439.1	\$ 2,338.7	\$ 2,083.0	\$ 1,553.1	\$ 1,302.5
Fees	1,492.8	1,432.3	1,258.3	1,059.5	971.7
Supplemental commissions	147.0	125.5	104.0	77.3	67.9
Contingent commissions	107.2	93.7	84.7	52.1	42.9
Investment income and other	1,408.7	1,402.2	1,096.5	437.6	135.3
Total revenues	<u>5,594.8</u>	<u>5,392.4</u>	<u>4,626.5</u>	<u>3,179.6</u>	<u>2,520.3</u>
Total expenses	<u>5,237.9</u>	<u>5,098.9</u>	<u>4,335.0</u>	<u>2,888.6</u>	<u>2,259.2</u>
Earnings before income taxes	356.9	293.5	291.5	291.0	261.1
Provision (benefit) for income taxes	<u>(88.1)</u>	<u>(95.6)</u>	<u>(36.0)</u>	<u>6.4</u>	<u>50.3</u>
Net earnings	445.0	389.1	327.5	284.6	210.8
Net earnings attributable to noncontrolling interests	<u>30.6</u>	<u>32.3</u>	<u>24.1</u>	<u>16.0</u>	<u>15.8</u>
Net earnings attributable to controlling interests	<u>\$ 414.4</u>	<u>\$ 356.8</u>	<u>\$ 303.4</u>	<u>\$ 268.6</u>	<u>\$ 195.0</u>
<b>Per Share Data:</b>					
Diluted net earnings per share (1)	2.32	2.06	1.97	2.06	1.59
Dividends declared per common share (2)	1.52	1.48	1.44	1.40	1.36
<b>Share Data:</b>					
Shares outstanding at year end	178.3	176.9	164.6	133.6	125.6
Weighted average number of common shares outstanding	177.6	172.2	152.9	128.9	121.0
Weighted average number of common and common equivalent shares outstanding	178.4	173.2	154.3	130.5	122.5
<b>Consolidated Balance Sheet Data:</b>					
Total assets	\$ 11,489.6	\$ 10,910.5	\$ 10,010.0	\$ 6,860.5	\$ 5,352.3
Long-term debt less current portion	2,150.0	2,075.0	2,125.0	825.0	725.0
Total stockholders' equity	3,655.8	3,688.2	3,305.1	2,114.8	1,672.8
<b>Return on beginning stockholders' equity (3)</b>	11%	11%	14%	16%	26%
<b>Employee Data:</b>					
Number of employees - at year end (4)	24,790	23,857	22,375	18,055	14,924

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

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

(3) Represents net earnings divided by total stockholders' equity, as of the beginning of the year.

(4) Prior to September 1, 2016, most of Gallagher's India-based workforce was provided by a third-party on a cost-pass-through basis. During the third quarter of 2016, Gallagher consummated a transaction whereby it now directly employees those associates, thereby adding approximately 2,700 employees to our global workforce counts shown above. We revised the workforce number as of December 31, 2015, 2014, 2013 and 2012 to conform to the current period presentation.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Introduction

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included in Item 8 of this annual report. In addition, please see "Information Regarding Non-GAAP Measures and Other" beginning on page 31 for a reconciliation of the non-GAAP measures for adjusted total revenues, organic commission, fee and supplemental commission revenues and adjusted EBITDAC to the comparable GAAP measures, as well as other important information regarding these measures.

We are engaged in providing insurance brokerage and third party property/casualty claims settlement and administration services to entities in the U.S. and abroad. We believe that one of our major strengths is our ability to deliver comprehensively structured insurance and risk management services to our clients. Our brokers, agents and administrators act as intermediaries between insurers and our customers and we do not assume net underwriting risks. We are headquartered in Itasca, Illinois, have operations in 33 other countries and offer client-service capabilities in more than 150 countries globally through a network of correspondent brokers and consultants. In 2016, we expanded, and expect to continue to expand, our international operations through both acquisitions and organic growth. We generate approximately 69% of our revenues for the combined brokerage and risk management segments domestically, with the remaining 31% derived internationally, primarily in Australia, Bermuda, Canada, the Caribbean, New Zealand and the U.K. (based on 2016 revenues). We expect that our international revenue as a percentage of our total revenues in 2017 will be comparable to 2016. We have three reportable segments: brokerage, risk management and corporate, which contributed approximately 63%, 13% and 24%, respectively, to 2016 revenues. Our major sources of operating revenues are commissions, fees and supplemental and contingent commissions from brokerage operations and fees from risk management operations. Investment income is generated from invested cash and fiduciary funds, clean energy and other investments, and interest income from premium financing.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain statements relating to future results which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Please see "Information Concerning Forward-Looking Statements" in Part I of this annual report, for certain cautionary information regarding forward-looking statements and a list of factors that could cause our actual results to differ materially from those predicted in the forward-looking statements.

### Summary of Financial Results – Year Ended December 31,

See the reconciliations of non-GAAP measures on pages 27 and 28.

	Year 2016		Year 2015		Change	
	Reported GAAP	Adjusted Non-GAAP	Reported GAAP	Adjusted Non-GAAP	Reported GAAP	Adjusted Non-GAAP
(In millions, except per share data)						
<b>Brokerage Segment</b>						
Revenues	\$ 3,527.9	\$ 3,521.3	\$ 3,324.0	\$ 3,232.0	6%	9%
Organic revenues		\$ 3,286.7		\$ 3,173.9		3.6%
Net earnings	\$ 357.1		\$ 268.1		33%	
Net earnings margin	10.1%		8.1%		+205 bpts	
Adjusted EBITDAC		\$ 948.7		\$ 856.8		11%
Adjusted EBITDAC margin		26.9%		26.5%		+43 bpts
Diluted net earnings per share	\$ 1.98	\$ 2.30	\$ 1.54	\$ 2.13	29%	8%
<b>Risk Management Segment</b>						
Revenues	\$ 718.1	\$ 718.1	\$ 727.1	\$ 723.4	-1%	-1%
Organic revenues		\$ 713.9		\$ 705.1		1.3%
Net earnings	\$ 57.2		\$ 57.2		0%	
Net earnings margin	8.0%		7.9%		+10 bpts	
Adjusted EBITDAC		\$ 124.4		\$ 124.9		0%
Adjusted EBITDAC margin		17.3%		17.3%		+5 bpts
Diluted net earnings per share	\$ 0.32	\$ 0.33	\$ 0.33	\$ 0.36	-3%	-8%
<b>Corporate Segment</b>						
Diluted net earnings per share	\$ 0.02	\$ 0.11	\$ 0.19	\$ 0.09	-89%	22%
<b>Total Company</b>						
Diluted net earnings per share	\$ 2.32	\$ 2.74	\$ 2.06	\$ 2.58	13%	6%

In our corporate segment, net after tax earnings from our clean energy investments was \$114.4 million in 2016. We anticipate our clean energy investments to generate between \$117.0 million and \$133.0 million in net after tax earnings in 2017. We expect to use these additional earnings to continue our mergers and acquisition strategy in our core brokerage and risk management operations.

The following provides information that management believes is helpful when comparing revenues, net earnings, EBITDAC and diluted net earnings per share for 2016 and 2015. In addition, these tables provide reconciliations to the most comparable GAAP measures for adjusted revenues, adjusted EBITDAC (non-GAAP measure) and adjusted diluted net earnings per share. Reconciliations of EBITDAC for the brokerage and risk management segments are provided on pages 35 and 42 of this filing.

**Year Ended December 31 Reported GAAP to Adjusted Non-GAAP Reconciliation:**

Segment	Revenues		Net Earnings		(Non-GAAP Measure) EBITDAC		Diluted Net Earnings Per Share	
	2016	2015	2016	2015	2016	2015	2016	2015
	(In millions, except per share data)							
Brokerage, as reported	\$ 3,527.9	\$ 3,324.0	\$ 357.1	\$ 268.1	\$ 885.2	\$ 746.2	\$ 1.98	\$ 1.54
Gains on book sales	(6.6)	(6.7)	(4.7)	(5.0)	(6.6)	(6.7)	(0.03)	(0.03)
Acquisition integration	-	-	32.8	69.2	45.7	100.9	0.18	0.40
Workforce & lease termination	-	-	15.1	16.3	20.7	23.0	0.09	0.09
Acquisition related adjustments	-	-	14.9	28.5	3.7	3.4	0.09	0.16
U.K. statutory income tax rate change	-	-	(1.5)	(4.2)	-	-	(0.01)	(0.02)
Levelized foreign currency translation	-	(85.3)	-	(1.1)	-	(10.0)	-	(0.01)
Brokerage, as adjusted *	<u>3,521.3</u>	<u>3,232.0</u>	<u>413.7</u>	<u>371.8</u>	<u>948.7</u>	<u>856.8</u>	<u>2.30</u>	<u>2.13</u>
Risk Management, as reported	718.1	727.1	57.2	57.2	122.2	119.1	0.32	0.33
Workforce & lease termination	-	-	1.5	2.1	2.2	2.9	0.01	0.01
Client run-off/bankruptcy	-	1.0	-	3.1	-	4.0	-	0.02
Acquisition related adjustments	-	-	-	(0.3)	-	-	-	-
Levelized foreign currency translation	-	(4.7)	-	(0.6)	-	(1.1)	-	-
Risk Management, as adjusted *	<u>718.1</u>	<u>723.4</u>	<u>58.7</u>	<u>61.5</u>	<u>124.4</u>	<u>124.9</u>	<u>0.33</u>	<u>0.36</u>
Corporate, as reported	1,348.8	1,341.3	30.7	63.8	(157.8)	(94.0)	0.02	0.19
Impact of 2015 litigation settlement	-	(31.0)	16.1	(17.7)	20.2	(16.2)	0.09	(0.10)
Corporate, as adjusted *	<u>1,348.8</u>	<u>1,310.3</u>	<u>46.8</u>	<u>46.1</u>	<u>(137.6)</u>	<u>(110.2)</u>	<u>0.11</u>	<u>0.09</u>
Total Company, as reported	<u>\$ 5,594.8</u>	<u>\$ 5,392.4</u>	<u>\$ 445.0</u>	<u>\$ 389.1</u>	<u>\$ 849.6</u>	<u>\$ 771.3</u>	<u>\$ 2.32</u>	<u>\$ 2.06</u>
Total Company, as adjusted *	<u>\$ 5,588.2</u>	<u>\$ 5,265.7</u>	<u>\$ 519.2</u>	<u>\$ 479.4</u>	<u>\$ 935.5</u>	<u>\$ 871.5</u>	<u>\$ 2.74</u>	<u>\$ 2.58</u>
Total Brokerage & Risk Management, as reported	<u>\$ 4,246.0</u>	<u>\$ 4,051.1</u>	<u>\$ 414.3</u>	<u>\$ 325.3</u>	<u>\$ 1,007.4</u>	<u>\$ 865.3</u>	<u>\$ 2.30</u>	<u>\$ 1.87</u>
Total Brokerage & Risk Management, as adjusted *	<u>\$ 4,239.4</u>	<u>\$ 3,955.4</u>	<u>\$ 472.4</u>	<u>\$ 433.3</u>	<u>\$ 1,073.1</u>	<u>\$ 981.7</u>	<u>\$ 2.63</u>	<u>\$ 2.49</u>

\* For 2016, the pretax impact of the brokerage segment adjustments totals \$80.5 million, with a corresponding adjustment to the provision for income taxes of \$23.9 million relating to these items. The pretax impact of the risk management segment adjustments totals \$2.2 million, with a corresponding adjustment to the provision for income taxes of \$0.7 million relating to these items. The pretax impact of the corporate segment adjustments totals \$20.2 million, with a corresponding adjustment to the provision for income taxes of \$4.1 million relating to these items. For the year ended December 31, 2015, the pretax impact of the brokerage segment adjustments totals \$155.2 million, with a corresponding adjustment to the provision for income taxes of \$51.5 million relating to these items. The pretax impact of the risk management segment adjustments totals \$5.6 million, with a corresponding adjustment to the provision for income taxes of \$1.3 million relating to these items. The pretax impact of the corporate segment adjustments totals (\$16.2) million, with a corresponding adjustment to the provision for income taxes of \$1.5 million relating to these items.

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

(In millions except share and per share data)

	Earnings (Loss) Before Income Taxes	Provision (Benefit) for Income Taxes	Net Earnings	Net Earnings (Loss) Attributable to Noncontrolling Interests	Net Earnings (Loss) Attributable to Controlling Interests	Diluted Net Earnings (Loss) per Share
<b>Year Ended Dec 31, 2016</b>						
<b>Brokerage, as reported</b>	\$ 551.2	\$ 194.1	\$ 357.1	\$ 3.6	\$ 353.5	\$ 1.98
Gains on book sales	(6.6)	(1.9)	(4.7)	-	(4.7)	(0.03)
Acquisition integration	45.7	12.9	32.8	-	32.8	0.18
Workforce & lease termination	20.7	5.6	15.1	-	15.1	0.09
Acquisition related adjustments	20.7	5.8	14.9	-	14.9	0.09
U.K. statutory income tax rate change	-	1.5	(1.5)	-	(1.5)	(0.01)
Brokerage, as adjusted	\$ 631.7	\$ 218.0	\$ 413.7	\$ 3.6	\$ 410.1	\$ 2.30
<b>Risk Management, as reported</b>	\$ 92.5	\$ 35.3	\$ 57.2	\$ -	\$ 57.2	\$ 0.32
Workforce & lease termination	2.2	0.7	1.5	-	1.5	0.01
Risk Management, as adjusted	\$ 94.7	\$ 36.0	\$ 58.7	\$ -	\$ 58.7	\$ 0.33
<b>Corporate, as reported</b>	\$ (286.8)	\$ (317.5)	\$ 30.7	\$ 27.0	\$ 3.7	\$ 0.02
Impact of 2015 litigation settlement	20.2	4.1	16.1	-	16.1	0.09
Corporate, as adjusted	\$ (266.6)	\$ (313.4)	\$ 46.8	\$ 27.0	\$ 19.8	\$ 0.11
<b>Year Ended Dec 31, 2015</b>						
<b>Brokerage, as reported</b>	\$ 413.4	\$ 145.3	\$ 268.1	\$ 1.7	\$ 266.4	\$ 1.54
Gains on book sales	(6.7)	(1.7)	(5.0)	-	(5.0)	(0.03)
Acquisition integration	100.9	31.7	69.2	-	69.2	0.40
Workforce & lease termination	23.0	6.7	16.3	-	16.3	0.09
Acquisition related adjustments	39.8	11.3	28.5	-	28.5	0.16
U.K. statutory income tax rate change	-	4.2	(4.2)	-	(4.2)	(0.02)
Levelized foreign currency translation	(1.8)	(0.7)	(1.1)	-	(1.1)	(0.01)
Brokerage, as adjusted	\$ 568.6	\$ 196.8	\$ 371.8	\$ 1.7	\$ 370.1	\$ 2.13
<b>Risk Management, as reported</b>	\$ 92.3	\$ 35.1	\$ 57.2	\$ -	\$ 57.2	\$ 0.33
Workforce & lease termination	2.9	0.8	2.1	-	2.1	0.01
Client run-off/bankruptcy	4.0	0.9	3.1	-	3.1	0.02
Acquisition related adjustments	(0.5)	(0.2)	(0.3)	-	(0.3)	-
Levelized foreign currency translation	(0.8)	(0.2)	(0.6)	-	(0.6)	-
Risk Management, as adjusted	\$ 97.9	\$ 36.4	\$ 61.5	\$ -	\$ 61.5	\$ 0.36
<b>Corporate, as reported</b>	\$ (212.2)	\$ (276.0)	\$ 63.8	\$ 30.6	\$ 33.2	\$ 0.19
Impact of 2015 litigation settlement	(16.2)	1.5	(17.7)	-	(17.7)	(0.10)
Corporate, as adjusted	\$ (228.4)	\$ (274.5)	\$ 46.1	\$ 30.6	\$ 15.5	\$ 0.09

### Insurance Market Overview

Fluctuations in premiums charged by property/casualty insurance carriers have a direct and potentially material impact on the insurance brokerage industry. Commission revenues are generally based on a percentage of the premiums paid by insureds and normally follow premium levels. Insurance premiums are cyclical in nature and may vary widely based on market conditions. Various factors, including competition for market share among insurance carriers, increased underwriting capacity and improved economies of scale following consolidations, can result in flat or reduced property/casualty premium rates (a “soft” market). A soft market tends to put downward pressure on commission revenues. Various countervailing factors, such as greater than anticipated loss experience and capital shortages, can result in increasing property/casualty premium rates (a “hard” market). A hard market tends to favorably impact commission revenues. Hard and soft markets may be broad-based or more narrowly focused across individual product lines or geographic areas. As markets harden, certain insureds, who are the buyers of insurance

(our brokerage clients), have historically resisted paying increased premiums and the higher commissions these premiums generate. Such resistance often causes some buyers to raise their deductibles and/or reduce the overall amount of insurance coverage they purchase. As the market softens, or costs decrease, these trends have historically reversed. During a hard market, buyers may switch to negotiated fee in lieu of commission arrangements to compensate us for placing their risks, or may consider the alternative insurance market, which includes self-insurance, captives, rent-a-captives, risk retention groups and capital market solutions to transfer risk. According to industry estimates, these mechanisms now account for 50% of the total U.S. commercial property/casualty market. Our brokerage units are very active in these markets as well. While increased use by insureds of these alternative markets historically has reduced commission revenue to us, such trends generally have been accompanied by new sales and renewal increases in the areas of risk management, claims management, captive insurance and self-insurance services and related growth in fee revenue. Inflation tends to increase the levels of insured values and risk exposures, resulting in higher overall premiums and higher commissions. However, the impact of hard and soft market fluctuations has historically had a greater impact on changes in premium rates, and therefore on our revenues, than inflationary pressures.

The Council of Insurance Agents & Brokers (which we refer to as the CIAB) 2016 quarterly surveys indicated that U.S. commercial property/casualty rates decreased by 3.7%, 3.9%, 3.2% and 3.3% on average across all lines, for the first, second, third and fourth quarters of 2016, respectively. The fourth quarter 2016 CIAB survey indicated that rates declined for the eighth straight quarter. CIAB survey respondents noted that the decrease in rates during the fourth quarter of 2016 were fairly consistent with the third quarter of 2016, signaling some stability in the market. In 2017, while we see retail property/casualty rates as a headwind, we do see property/casualty exposure growth offsetting this partially. We also see employment growth and complexity surrounding the Affordable Care Act as tailwinds for our employee benefit units. In addition, our history of strong new business generation, solid retentions and enhanced value-added services for our carrier partners should all result in further organic growth opportunities around the world. We believe similar conditions exist as we start the January 1, 2017 renewal season. Internationally, we see a similar market in U.K. retail, Canada, Australia and New Zealand, but more softening in London Specialty. Overall, we believe a modestly-down rate environment can be partially mitigated through exposure unit growth in certain lines and by our professionals demonstrating our expertise and high quality value added capabilities by strengthening our clients' insurance portfolio in these times. Based on our experience, insurance carriers appear to be making rational pricing decisions. In lines and accounts where rate increases or decreases are warranted, the underwriters are pricing accordingly. As carriers reach their profitability targets in lines, rates may start to flatten. In summary, in this environment, rates decreased at a moderate pace, clients can still obtain coverage, businesses continue to stay in standard-line markets and there is adequate capacity in the insurance market. It is not clear whether the rate retraction will continue due to the uncertainty of the current economic environment. The CIAB represents the leading domestic and international insurance brokers, who write approximately 85% of the commercial property/casualty premiums in the U.S.

**Clean energy investments** - In 2009 and 2011, we built a total of 29 commercial clean coal production plants to produce refined coal using Chem-Mod's (see below) proprietary technologies. On September 1, 2013, we purchased a 99% interest in a limited liability company that has ownership interests in four limited liability companies that own five clean coal production plants. On March 1, 2014, we purchased an additional ownership interest in seven of the 2009 Era Plants and five of the 2011 Era Plants from a co-investor. For all seven of the 2009 Era Plants, our ownership increased from 49.5% to 100.0%. For the 2011 Era Plants, our ownership increased from 48.8% to 90.0% for one of the plants, from 49.0% to 100.0% for three of the plants and from 98.0% to 100.0% for one of the plants. We believe these operations produce refined coal that qualifies for tax credits under IRC Section 45. The law that provides for IRC Section 45 tax credits expires in December 2019 for the fourteen plants we built and placed in service in 2009 (2009 Era Plants) and in December 2021 for the fifteen plants we built and placed in service in 2011, plus the five plants we purchased interests in that were placed in service in 2011 (2011 Era Plants).

Thirty-one plants are under long-term production contracts with several utilities. The remaining three plants are in early stages of seeking and negotiating long-term production contracts.

We also own a 46.5% controlling interest in Chem-Mod, which has been marketing The Chem-Mod™ Solution proprietary technologies principally to refined fuel plants that sell refined fuel to coal-fired power plants owned by utility companies, including those plants in which we hold interests. Based on current production estimates provided by licensees, Chem-Mod could generate for us approximately \$4.0 million to \$5.0 million of net after-tax earnings per quarter.

Our current estimate of the 2017 annual net after tax earnings that could be generated from all of our clean energy investments in 2017 is between \$117.0 million to \$133.0 million.

All estimates set forth above regarding the future results of our clean energy investments are subject to significant risks, including those set forth in the risk factors regarding our IRC Section 45 investments under Item 1A, "Risk Factors."



## Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (which we refer to as GAAP), which require management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We believe the following significant accounting policies may involve a higher degree of judgment and complexity. See Note 1 to our consolidated financial statements for other significant accounting policies.

**Revenue Recognition** - See Revenue Recognition in Note 1 to our consolidated financial statements. See Note 2 to our 2016 consolidated financial statements for information with respect to the potential impacts a new accounting standard relating to revenue recognition could have on our future financial position and operating results.

**Income Taxes** - See Income Taxes in Note 1 to our consolidated financial statements.

Uncertain tax positions are measured based upon the facts and circumstances that exist at each reporting period and involve significant management judgment. Subsequent changes in judgment based upon new information may lead to changes in recognition, derecognition and measurement. Adjustments may result, for example, upon resolution of an issue with the taxing authorities, or expiration of a statute of limitations barring an assessment for an issue. We recognize interest and penalties, if any, related to unrecognized tax benefits in our provision for income taxes. See Note 17 to our consolidated financial statements for a discussion regarding the possibility that our gross unrecognized tax benefits balance may change within the next twelve months.

Tax law requires certain items to be included in our tax returns at different times than such items are reflected in the financial statements. As a result, the annual tax expense reflected in our consolidated statements of earnings is different than that reported in the tax returns. Some of these differences are permanent, such as expenses that are not deductible in the returns, and some differences are temporary and reverse over time, such as depreciation expense and amortization expense deductible for income tax purposes. Temporary differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which a tax payment has been deferred, or expense which has been deducted in the tax return but has not yet been recognized in the financial statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in tax returns in future years for which a benefit has already been recorded in the financial statements.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to fully use a deduction or credit in a specific jurisdiction. In assessing the need for the recognition of a valuation allowance for deferred tax assets, we consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized and adjust the valuation allowance accordingly. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income by jurisdiction, tax-planning strategies that would result in the realization of deferred tax assets and the presence of taxable income in prior carryback years. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable.

**Intangible Assets/Earnout Obligations** - See Intangible Assets in Note 1 to our consolidated financial statements.

Current accounting guidance related to business combinations requires us to estimate and recognize the fair value of liabilities related to potential earnout obligations as of the acquisition dates for all of our acquisitions subject to earnout provisions. The maximum potential earnout payables disclosed in the notes to our consolidated financial statements represent the maximum amount of additional consideration that could be paid pursuant to the terms of the purchase agreement for the applicable acquisition. The amounts recorded as earnout payables, which are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date, are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration. We will record subsequent changes in these estimated earnout obligations, including the accretion of discount, in our consolidated statement of earnings when incurred.

The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements. In determining fair value, we estimate the acquired entity's future performance using financial projections that are developed by management for the acquired entity and market participant assumptions that are derived for revenue growth and/or profitability. We estimate future payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. We then discount these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that reflect the ability of the acquired entity to achieve the targets. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations. See Note 3 to our consolidated financial statements for additional discussion on our 2016 business combinations.

## Business Combinations and Dispositions

See Note 3 to our consolidated financial statements for a discussion of our 2016 business combinations. We did not have any material dispositions in 2016, 2015 and 2014.

## Results of Operations

### Information Regarding Non-GAAP Measures and Other

In the discussion and analysis of our results of operations that follows, in addition to reporting financial results in accordance with GAAP, we provide information regarding EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, diluted net earnings per share, as adjusted (adjusted EPS) for the brokerage and risk management segments, adjusted revenues, adjusted compensation and operating expenses, adjusted compensation expense ratio, adjusted operating expense ratio and organic revenue measures for each operating segment. These measures are not in accordance with, or an alternative to, the GAAP information provided in this report. We believe that these presentations provide useful information to management, analysts and investors regarding financial and business trends relating to our results of operations and financial condition. Our industry peers may provide similar supplemental non-GAAP information with respect to one or more of these measures, although they may not use the same or comparable terminology and may not make identical adjustments. The non-GAAP information we provide should be used in addition to, but not as a substitute for, the GAAP information provided. As disclosed in our most recent Proxy Statement, we do not make determinations regarding executive officer incentive compensation on the basis of “adjusted” measures such as those described below in “Adjusted revenues and expenses” or “Adjusted EBITDAC”. Instead, incentive compensation determinations for executive officers are made on the basis of revenue and EBITAC (defined as earnings before interest, taxes, amortization and change in estimated earnout payables) for the combined brokerage and risk management segments. Certain reclassifications have been made to the prior-year amounts reported in this report in order to conform them to the current year presentation.

**Adjusted Non-GAAP presentation** - We believe that the adjusted Non-GAAP presentation of our 2016, 2015 and 2014 information, presented on the following pages, provides stockholders and other interested persons with useful information regarding certain financial metrics that may assist such persons in analyzing our operating results as they develop a future earnings outlook for us. The after-tax amounts related to the adjustments were computed using the normalized effective tax rate for each respective period.

- **Adjusted revenues and expenses** - We define these measures as revenues, compensation expense and operating expense, respectively, each adjusted to exclude the following:
  - Net gains realized from sales of books of business, which are primarily net proceeds received related to sales of books of business and other divestiture transactions.
  - Acquisition integration costs, which include costs related to certain of our large acquisitions, outside the scope of our usual tuck-in strategy, not expected to occur on an ongoing basis in the future once we fully assimilate the applicable acquisition. These costs are typically associated with redundant workforce, extra lease space, duplicate services and external costs incurred to assimilate the acquisition with our IT related systems.
  - Claim portfolio transfer ramp up fees/costs and client run-off/bankruptcy costs.
  - Workforce related charges, which primarily include severance costs related to employee terminations and other costs associated with redundant workforce.
  - Lease termination related charges, which primarily include costs related to terminations of real estate leases and abandonment of leased space.
  - Acquisition related adjustments, which include change in estimated acquisition earnout payables adjustments, impacts of acquisition valuation true-ups, impairment charges and acquisition related compensation charges.
  - The impact of foreign currency translation, as applicable. The amounts excluded with respect to foreign currency translation are calculated by applying current year foreign exchange rates to the same periods in the prior year.
- **Adjusted ratios** - Adjusted compensation expense ratio and adjusted operating expense ratio, respectively, each divided by adjusted revenues.

## Non-GAAP Earnings Measures

- **EBITDAC and EBITDAC Margin** - EBITDAC is net earnings before interest, income taxes, depreciation, amortization and the change in estimated acquisition earnout payables and EBITDAC margin is EBITDAC divided by total revenues. These measures for the brokerage and risk management segments provide a meaningful representation of our operating performance and, for the overall business, provide a meaningful way to measure its financial performance on an ongoing basis.
- **Adjusted EBITDAC and Adjusted EBITDAC Margin** - Adjusted EBITDAC is EBITDAC adjusted to exclude gains realized from sales of books of business, acquisition integration costs, workforce related charges, lease termination related charges, claim portfolio transfer ramp up fees/costs, client run-off/bankruptcy costs, acquisition related adjustments, and the period-over-period impact of foreign currency translation, as applicable and Adjusted EBITDAC margin is Adjusted EBITDAC divided by total adjusted revenues (defined above). These measures for the brokerage and risk management segments provide a meaningful representation of our operating performance, and are also presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.
- **Adjusted EPS for the Brokerage and Risk Management segments** - We define this measure as net earnings adjusted to exclude the after-tax impact of gains realized from sales of books of business, acquisition integration costs, claim portfolio transfer ramp up fees/costs, client run-off/bankruptcy costs, workforce related charges, lease termination related charges and acquisition related adjustments, the period-over-period impact of foreign currency translation, as applicable, divided by diluted weighted average shares outstanding. This measure provides a meaningful representation of our operating performance (and as such should not be used as a measure of our liquidity), and is also presented to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability.

**Organic Revenues (a non-GAAP Measure)** - For the brokerage segment, organic change in base commission and fee revenues excludes the first twelve months of net commission and fee revenues generated from acquisitions and the net commission and fee revenues related to operations disposed of in each year presented. These commissions and fees are excluded from organic revenues in order to help interested persons analyze the revenue growth associated with the operations that were a part of our business in both the current and prior year. In addition, change in base commission and fee revenue organic growth excludes the period-over-period impact of foreign currency translation. For the risk management segment, organic change in fee revenues excludes the first twelve months of fee revenues generated from acquisitions and the fee revenues related to operations disposed of in each year presented. In addition, change in organic growth excludes the impact of claim portfolio transfer ramp up fees, client run-off bankruptcy costs, and the period-over-period impact of foreign currency translation to improve the comparability of our results between periods by eliminating the impact of the items that have a high degree of variability or due to the limited-time nature of these revenue sources.

These revenue items are excluded from organic revenues in order to determine a comparable, but non-GAAP, measurement of revenue growth that is associated with the revenue sources that are expected to continue in 2017 and beyond. We have historically viewed organic revenue growth as an important indicator when assessing and evaluating the performance of our brokerage and risk management segments. We also believe that using this non-GAAP measure allows readers of our financial statements to measure, analyze and compare the growth from our brokerage and risk management segments in a meaningful and consistent manner.

**Reconciliation of Non-GAAP Information Presented to GAAP Measures** - This report includes tabular reconciliations to the most comparable GAAP measures for adjusted revenues, adjusted compensation expense and adjusted operating expense, EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, diluted net earnings per share (as adjusted) and organic revenue measures.

## Brokerage Segment

The brokerage segment accounted for 63% of our revenue in 2016. Our brokerage segment is primarily comprised of retail and wholesale brokerage operations. Our retail brokerage operations negotiate and place property/casualty, employer-provided health and welfare insurance and retirement solutions, principally for middle-market commercial, industrial, public entity, religious and not-for-profit entities. Many of our retail brokerage customers choose to place their insurance with insurance underwriters, while others choose to use alternative vehicles such as self-insurance pools, risk retention groups or captive insurance companies. Our wholesale brokerage operations assist our brokers and other unaffiliated brokers and agents in the placement of specialized, unique and hard-to-place insurance programs.

Our primary sources of compensation for our retail brokerage services are commissions paid by insurance companies, which are usually based upon a percentage of the premium paid by insureds, and brokerage and advisory fees paid directly by our clients. For wholesale brokerage services, we generally receive a share of the commission paid to the retail broker from the insurer. Commission rates are dependent on a number of factors, including the type of insurance, the particular insurance company underwriting the policy and whether we act as a retail or wholesale broker. Advisory fees are dependent on the extent and value of services we provide. In addition, under certain circumstances, both retail brokerage and wholesale brokerage services receive supplemental and contingent commissions. A supplemental commission is a commission paid by an insurance carrier that is above the base commission paid, is determined by the insurance carrier and is established annually in advance of the contractual period based on historical performance criteria. A contingent commission is a commission paid by an insurance carrier based on the overall profit and/or volume of the business placed with that insurance carrier during a particular calendar year and is determined after the contractual period.

**Litigation and Regulatory Matters** - A portion of our brokerage business includes the development and management of “micro-captives,” through operations we acquired in 2010 in our acquisition of the assets of Tribeca Strategic Advisors (Tribeca). A “captive” is an insurance company that insures the risks of its owner, affiliates or a group of companies. Micro-captives are captive insurance companies that are subject to taxation only on net investment income under IRC Section 831(b). Our micro-captive advisory services are under investigation by the Internal Revenue Service (IRS). Additionally, the IRS has initiated audits for the 2012 tax year of over 100 of the micro-captive insurance companies organized and/or managed by us. Among other matters, the IRS is investigating whether we have been acting as a tax shelter promoter in connection with these operations. While the IRS has not made specific allegations relating to our operations or the pre-acquisition activities of Tribeca, if the IRS were to successfully assert that the micro-captives organized and/or managed by us do not meet the requirements of IRC Section 831(b), we could be subject to monetary claims by the IRS and/or our micro-captive clients, and our future earnings from our micro-captive operations could be materially adversely affected, any of which event could negatively impact the overall captive business and adversely affect our consolidated results of operations and financial condition. We may also experience lost earnings due to the negative effect of an extended IRS investigation on our clients’ and potential clients’ businesses. Annual renewals for micro-captive clients generally occur during the fourth quarter. Therefore, any negative impact from this investigation would likely have a disproportionate impact on fourth-quarter results. In 2016, 2015 and 2014, our micro-captive operations contributed less than \$3.5 million of net earnings and less than \$5.0 million of EBITDAC to our consolidated results in any one year. Due to the fact that the IRS has not made any allegation against us or completed all of its audits of our clients, we are not able to reasonably estimate the amount of any potential loss in connection with this investigation.

Financial information relating to our brokerage segment results for 2016, 2015 and, 2014 (in millions, except per share, percentages and workforce data):

<b>Statement of Earnings</b>	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Commissions	\$ 2,439.1	\$ 2,338.7	\$ 100.4	\$ 2,338.7	\$ 2,083.0	\$ 255.7
Fees	775.7	705.8	69.9	705.8	577.0	128.8
Supplemental commissions	147.0	125.5	21.5	125.5	104.0	21.5
Contingent commissions	107.2	93.7	13.5	93.7	84.7	9.0
Investment income	52.3	53.6	(1.3)	53.6	40.3	13.3
Gains realized on books of business sales	6.6	6.7	(0.1)	6.7	7.3	(0.6)
Total revenues	<u>3,527.9</u>	<u>3,324.0</u>	<u>203.9</u>	<u>3,324.0</u>	<u>2,896.3</u>	<u>427.7</u>
Compensation	2,041.8	1,939.7	102.1	1,939.7	1,703.1	236.6
Operating	600.9	638.1	(37.2)	638.1	530.1	108.0
Depreciation	57.2	54.4	2.8	54.4	44.4	10.0
Amortization	244.7	237.3	7.4	237.3	186.3	51.0
Change in estimated acquisition earnout payables	32.1	41.1	(9.0)	41.1	17.6	23.5
Total expenses	<u>2,976.7</u>	<u>2,910.6</u>	<u>66.1</u>	<u>2,910.6</u>	<u>2,481.5</u>	<u>429.1</u>
Earnings before income taxes	551.2	413.4	137.8	413.4	414.8	(1.4)
Provision for income taxes	<u>194.1</u>	<u>145.3</u>	<u>48.8</u>	<u>145.3</u>	<u>151.0</u>	<u>(5.7)</u>
Net earnings	357.1	268.1	89.0	268.1	263.8	4.3
Net earnings attributable to noncontrolling interests	<u>3.6</u>	<u>1.7</u>	<u>1.9</u>	<u>1.7</u>	<u>0.9</u>	<u>0.8</u>
Net earnings attributable to controlling interests	<u>\$ 353.5</u>	<u>\$ 266.4</u>	<u>\$ 87.1</u>	<u>\$ 266.4</u>	<u>\$ 262.9</u>	<u>\$ 3.5</u>
Diluted net earnings per share	<u>\$ 1.98</u>	<u>\$ 1.54</u>	<u>\$ 0.44</u>	<u>\$ 1.54</u>	<u>\$ 1.70</u>	<u>\$ (0.16)</u>
<b>Other Information</b>						
Change in diluted net earnings per share	29%	(9%)		(9%)	9%	
Growth in revenues	6%	15%		15%	36%	
Organic change in commissions and fees	3%	3%		3%	4%	
Compensation expense ratio	58%	58%		58%	59%	
Operating expense ratio	17%	19%		19%	18%	
Effective income tax rate	35%	35%		35%	36%	
Workforce at end of period (includes acquisitions) *	18,635	17,841		17,841	16,681	
Identifiable assets at December 31	\$ 9,183.4	\$ 8,969.7		\$ 8,969.7	\$ 8,386.2	

\* Prior to September 1, 2016, most of our India-based workforce was provided by a third party on a cost-pass-through basis. During 2016, we consummated a transaction whereby we now directly employ those associates thereby adding approximately 2,700 employees to our global workforce counts, of which approximately 2,200 employees were included in the 2016 number above. We revised the workforce number as of December 31, 2015 and 2014 to conform to the current period presentation.

The following provides information that management believes is helpful when comparing EBITDAC and adjusted EBITDAC for 2016, 2015 and 2014 (in millions):

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Net earnings, as reported	\$ 357.1	\$ 268.1	33.2%	\$ 268.1	\$ 263.8	1.6%
Provision for income taxes	194.1	145.3		145.3	151.0	
Depreciation	57.2	54.4		54.4	44.4	
Amortization	244.7	237.3		237.3	186.3	
Change in estimated acquisition earnout payables	32.1	41.1		41.1	17.6	
EBITDAC	885.2	746.2	18.6%	746.2	663.1	12.5%
Gains from books of business sales	(6.6)	(6.7)		(6.7)	(7.3)	
Acquisition integration	45.7	100.9		100.9	67.1	
Acquisition related adjustments	3.7	3.4		3.4	1.1	
Workforce and lease termination related charges	20.7	23.0		23.0	7.8	
Levelized foreign currency translation	-	(10.0)		-	(22.3)	
EBITDAC, as adjusted	<u>\$ 948.7</u>	<u>\$ 856.8</u>	10.7%	<u>\$ 866.8</u>	<u>\$ 709.5</u>	22.2%
Net earnings margin, as reported	<u>10.1%</u>	<u>8.1%</u>	+205 bpts	<u>8.1%</u>	<u>9.1%</u>	-104 bpts
EBITDAC margin, as adjusted	<u>26.9%</u>	<u>26.5%</u>	+43 bpts	<u>26.1%</u>	<u>25.4%</u>	+75 bpts
Reported revenues	<u>\$ 3,527.9</u>	<u>\$ 3,324.0</u>		<u>\$ 3,324.0</u>	<u>\$ 2,896.3</u>	
Adjusted revenues - see page 27	<u>\$ 3,521.3</u>	<u>\$ 3,232.0</u>		<u>\$ 3,317.3</u>	<u>\$ 2,795.0</u>	

Acquisition integration costs include costs related to our July 2, 2014 acquisition of Noraxis Capital Corporation (which we refer to as Noraxis), our June 16, 2014 acquisition of Crombie/OAMPS (which we refer to as Crombie/OAMPS), our April 1, 2014 acquisition of Oval Group of Companies (which we refer to as Oval), our November 14, 2013 acquisition of Giles Group of Companies (which we refer to as Giles) and our August 1, 2015 acquisition of William Gallagher Associates Insurance Brokers (which we refer to as WGA) that are not expected to occur on an ongoing basis in the future once we fully assimilate these acquisitions. These costs relate to on-boarding of employees, communication system conversion costs, related performance compensation, redundant workforce, extra lease space, duplicate services and external costs incurred to assimilate the acquired businesses with our IT related systems. The WGA integration costs in 2016 totaled \$5.0 million and were primarily related to retention and incentive compensation. The Noraxis integration costs in 2016 totaled \$1.9 million and were primarily related to the consolidation of offices, technology costs and incentive compensation. The Crombie/OAMPS integration costs in 2016 totaled \$3.2 million, and were primarily related to technology costs and incentive compensation. The Giles and Oval integration costs in 2016 totaled \$35.6 million and were primarily related to the consolidation of offices in the U.K., technology costs, branding and incentive compensation. The Noraxis integration costs in 2015 totaled \$7.4 million and were primarily related to the consolidation of offices, technology costs and incentive compensation. The Crombie/OAMPS integration costs in 2015 totaled \$23.4 million, and were primarily related to technology costs and incentive compensation. The Giles and Oval integration costs in 2015 totaled \$69.0 million and were primarily related to the consolidation of offices in the U.K., technology costs, branding and incentive compensation. Integration costs related to these acquisitions for the full year in 2017 are estimated to be less than a third of what they were in 2016.

**Commissions and fees** - The aggregate increase in commissions and fees for 2016 was principally due to revenues associated with acquisitions that were made during 2016 (\$173.2 million). Commissions and fees in 2016 included new business production of \$359.7 million, which was offset by lost business and renewal rate decreases of \$362.6 million. The aggregate increase in commissions and fees for 2015 was principally due to revenues associated with acquisitions that were made during 2015 (\$390.6 million). Commissions and fees in 2015 included new business production of \$345.2 million, which was offset by lost business and renewal rate decreases of \$287.3 million. Commission revenues increased 4% and fee revenues increased 10% in 2016 compared to 2015, respectively. Commission revenues increased 12% and fee revenues increased 22% in 2015 compared to 2014, respectively. The organic change in base commission and fee revenues was 3% in 2016, 3% in 2015 and 4% in 2014.

Items excluded from organic revenue computations yet impacting revenue comparisons for 2016, 2015 and 2014 include the following (in millions):

	2016 Organic Revenue		Change	2015 Organic Revenue		Change
	2016	2015		2015	2014	
<b>Base Commissions and Fees</b>						
<b>Commission and fees, as reported</b>	\$ 3,214.8	\$ 3,044.5	5.6%	\$ 3,044.5	\$ 2,660.0	14.5%
Less commission and fee revenues from acquisitions	(173.2)	-		(390.6)	-	
Less disposed of operations	-	(3.3)		-	(9.1)	
Levelized foreign currency translation	-	(78.7)		-	(82.1)	
<b>Organic base commission and fees</b>	<u>\$ 3,041.6</u>	<u>\$ 2,962.5</u>	2.7%	<u>\$ 2,653.9</u>	<u>\$ 2,568.8</u>	3.3%
<b>Supplemental Commissions</b>						
<b>Supplemental commissions, as reported</b>	\$ 147.0	\$ 125.5	17.1%	\$ 125.5	\$ 104.0	20.7%
Less supplemental commissions from acquisitions	(1.5)	-		(9.1)	-	
Less disposed of operations	-	(0.3)		-	-	
Levelized foreign currency translation	-	(6.3)		-	(3.5)	
<b>Organic supplemental commissions</b>	<u>\$ 145.5</u>	<u>\$ 118.9</u>	22.4%	<u>\$ 116.4</u>	<u>\$ 100.5</u>	15.8%
<b>Contingent Commissions</b>						
<b>Contingent commissions, as reported</b>	\$ 107.2	\$ 93.7	14.4%	\$ 93.7	\$ 84.7	10.6%
Less contingent commissions from acquisitions	(7.6)	-		(11.6)	-	
Less disposed of operations	-	(0.2)		-	-	
Levelized foreign currency translation	-	(1.0)		-	(1.4)	
<b>Organic contingent commissions</b>	<u>\$ 99.6</u>	<u>\$ 92.5</u>	7.7%	<u>\$ 82.1</u>	<u>\$ 83.3</u>	-1.4%
<b>Total reported commissions, fees, supplemental commissions and contingent commissions</b>	\$ 3,469.0	\$ 3,263.7	6.3%	\$ 3,263.7	\$ 2,848.7	14.6%
Less commission and fee revenues from acquisitions	(182.3)	-		(411.3)	-	
Less disposed of operations	-	(3.8)		-	(9.1)	
Levelized foreign currency translation	-	(86.0)		-	(87.0)	
<b>Total organic commissions, fees supplemental commissions and contingent commissions</b>	<u>\$ 3,286.7</u>	<u>\$ 3,173.9</u>	3.6%	<u>\$ 2,852.4</u>	<u>\$ 2,752.6</u>	3.6%

	2015 Organic Revenue		Change	2014 Organic Revenue		Change
	2015	2014		2014	2013	
<b>Base Commissions and Fees</b>						
<b>Commission and fees, as reported</b>	\$ 3,044.5	\$ 2,660.0	14.5%	\$ 2,660.0	\$ 1,985.6	34.0%
Less commission and fee revenues from acquisitions	(390.6)	-		(595.2)	-	
Less disposed of operations	-	(9.1)		-	(8.5)	
Levelized foreign currency translation	-	(82.1)		-	9.7	
<b>Organic base commission and fees</b>	<u>\$ 2,653.9</u>	<u>\$ 2,568.8</u>	3.3%	<u>\$ 2,064.8</u>	<u>\$ 1,986.8</u>	3.9%
<b>Supplemental Commissions</b>						
<b>Supplemental commissions, as reported</b>	\$ 125.5	\$ 104.0	20.7%	\$ 104.0	\$ 77.3	34.5%
Less supplemental commissions from acquisitions	(9.1)	-		(25.2)	-	
Levelized foreign currency translation	-	(3.5)		-	1.0	
<b>Organic supplemental commissions</b>	<u>\$ 116.4</u>	<u>\$ 100.5</u>	15.8%	<u>\$ 78.8</u>	<u>\$ 78.3</u>	0.6%
<b>Contingent Commissions</b>						
<b>Contingent commissions, as reported</b>	\$ 93.7	\$ 84.7	10.6%	\$ 84.7	\$ 52.1	62.6%
Less contingent commissions from acquisitions	(11.6)	-		(19.9)	-	
Levelized foreign currency translation	-	(1.4)		-	(0.2)	
<b>Organic contingent commissions</b>	<u>\$ 82.1</u>	<u>\$ 83.3</u>	-1.4%	<u>\$ 64.8</u>	<u>\$ 51.9</u>	24.9%
<b>Total reported commissions, fees, supplemental commissions and contingent commissions</b>						
	\$ 3,263.7	\$ 2,848.7	14.6%	\$ 2,848.7	\$ 2,115.0	34.7%
Less commission and fee revenues from acquisitions	(411.3)	-		(640.3)	-	
Less disposed of operations	-	(9.1)		-	(8.5)	
Levelized foreign currency translation	-	(87.0)		-	10.5	
<b>Total organic commissions, fees supplemental commissions and contingent commissions</b>	<u>\$ 2,852.4</u>	<u>\$ 2,752.6</u>	3.6%	<u>\$ 2,208.4</u>	<u>\$ 2,117.0</u>	4.3%

#### Acquisition Activity

	2016	2015	2014
Number of acquisitions closed *	37	42	60
Estimated annualized revenues acquired (in millions)	<u>\$ 137.9</u>	<u>\$ 223.2</u>	<u>\$ 761.2</u>

\* For 2016, we issued 1,998,000 shares in connection with tax-free exchange acquisitions and repurchased 2,265,000 shares to fully offset the impact of the issued shares.

Through January 26, 2017, we closed an additional 5 acquisitions with estimated annualized revenues of approximately \$32.2 million. No shares were issued related to these acquisitions.

**Supplemental and contingent commissions** - Reported supplemental and contingent commission revenues recognized in 2016, 2015 and 2014 by quarter are as follows (in millions):

	Q1	Q2	Q3	Q4	Full Year
<b>2016</b>					
Reported supplemental commissions	\$ 32.9	\$ 38.6	\$ 35.3	\$ 40.2	\$ 147.0
Reported contingent commissions	<u>55.2</u>	<u>25.1</u>	<u>16.4</u>	<u>10.5</u>	<u>107.2</u>
Reported supplemental and contingent commissions	<u>\$ 88.1</u>	<u>\$ 63.7</u>	<u>\$ 51.7</u>	<u>\$ 50.7</u>	<u>\$ 254.2</u>



	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Full Year</u>
<b>2015</b>					
Reported supplemental commissions	\$ 26.9	\$ 34.8	\$ 29.2	\$ 34.6	\$ 125.5
Reported contingent commissions	<u>44.5</u>	<u>22.8</u>	<u>14.5</u>	<u>11.9</u>	<u>93.7</u>
Reported supplemental and contingent commissions	<u>\$ 71.4</u>	<u>\$ 57.6</u>	<u>\$ 43.7</u>	<u>\$ 46.5</u>	<u>\$ 219.2</u>
<b>2014</b>					
Reported supplemental commissions	\$ 25.4	\$ 27.9	\$ 24.2	\$ 26.5	\$ 104.0
Reported contingent commissions	<u>32.2</u>	<u>21.8</u>	<u>14.4</u>	<u>16.3</u>	<u>84.7</u>
Reported supplemental and contingent commissions	<u>\$ 57.6</u>	<u>\$ 49.7</u>	<u>\$ 38.6</u>	<u>\$ 42.8</u>	<u>\$ 188.7</u>

**Investment income and gains realized on books of business sales** - This primarily represents interest income earned on cash, cash equivalents and restricted funds, interest income from premium financing and one-time gains related to sales of books of business, which were \$6.6 million, \$6.7 million and \$7.3 million in 2016, 2015 and 2014, respectively. Investment income in 2016 decreased compared to 2015 primarily due to decreases in interest income from our premium financing business and in interest income earned on client held funds, both of which were related to a decline in interest rates in Australia and New Zealand. Investment income in 2015 increased compared to 2014 primarily due to the interest income from premium financing generated by our Australia and New Zealand operations which were acquired on June 16, 2014.

**Compensation expense** - The following provides non-GAAP information that management believes is helpful when comparing 2016 and 2015 compensation expense and 2015 and 2014 compensation expense (in millions):

	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>
Compensation expense, as reported	\$ 2,041.8	\$ 1,939.7	\$ 1,939.7	\$ 1,703.1
Acquisition integration	(16.9)	(38.3)	(38.3)	(45.3)
Workforce related charges	(17.5)	(20.0)	(20.0)	(7.2)
Acquisition related adjustments	(3.7)	(3.4)	(3.4)	(1.1)
Levelized foreign currency translation	-	(52.9)	-	(53.6)
Compensation expense, as adjusted	<u>\$ 2,003.7</u>	<u>\$ 1,825.1</u>	<u>\$ 1,878.0</u>	<u>\$ 1,595.9</u>
Reported compensation expense ratios	<u>57.9%</u>	<u>58.4%</u>	<u>58.4%</u>	<u>58.8%</u>
Adjusted compensation expense ratios	<u>56.9%</u>	<u>56.5%</u>	<u>56.6%</u>	<u>57.1%</u>
Reported revenues	<u>\$ 3,527.9</u>	<u>\$ 3,324.0</u>	<u>\$ 3,324.0</u>	<u>\$ 2,896.3</u>
Adjusted revenues - see page 27	<u>\$ 3,521.3</u>	<u>\$ 3,232.0</u>	<u>\$ 3,317.3</u>	<u>\$ 2,795.0</u>

The increase in compensation expense in 2016 compared to 2015 was primarily due to an increase in the average number of employees, salary increases, one-time compensation payments and increases in incentive compensation linked to our overall operating results (\$81.1 million in the aggregate), increases in employee benefits expense (\$15.7 million), stock compensation expense (\$4.7 million), deferred compensation (\$3.5 million) and temporary staffing (\$0.5 million), offset by decreases in severance related costs (\$2.5 million) and earnout related compensation expense (\$0.9 million). The increase in employee headcount in 2016 compared to 2015 primarily relates to the addition of employees associated with the acquisitions that we completed in 2016 and new production hires.

The increase in compensation expense in 2015 compared to 2014 was primarily due to an increase in the average number of employees, salary increases, one-time compensation payments and increases in incentive compensation linked to our overall operating results (\$195.6 million in the aggregate), increases in employee benefits expense (\$27.2 million), severance related costs (\$12.8 million), stock compensation expense (\$4.4 million), and temporary staffing (\$0.6 million), offset by a decrease in deferred compensation (\$4.0 million). The increase in employee headcount in 2015 compared to 2014 primarily relates to the addition of employees associated with the acquisitions that we completed in 2015 and new production hires.

**Operating expense** - The following provides non-GAAP information that management believes is helpful when comparing 2016 and 2015 operating expense and 2015 and 2014 operating expense (in millions):

	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>
Operating expense, as reported	\$ 600.9	\$ 638.1	\$ 638.1	\$ 530.1
Acquisition integration	(28.8)	(62.6)	(62.6)	(21.8)
Workforce and lease termination related charges	(3.2)	(3.0)	(3.0)	(0.6)
Levelized foreign currency translation	-	(22.4)	-	(18.1)
Operating expense, as adjusted	<u>\$ 568.9</u>	<u>\$ 550.1</u>	<u>\$ 572.5</u>	<u>\$ 489.6</u>
Reported operating expense ratios	<u>17.0%</u>	<u>19.2%</u>	<u>19.2%</u>	<u>18.3%</u>
Adjusted operating expense ratios	<u>16.2%</u>	<u>17.0%</u>	<u>17.3%</u>	<u>17.5%</u>
Reported revenues	<u>\$ 3,527.9</u>	<u>\$ 3,324.0</u>	<u>\$ 3,324.0</u>	<u>\$ 2,896.3</u>
Adjusted revenues - see page 27	<u>\$ 3,521.3</u>	<u>\$ 3,232.0</u>	<u>\$ 3,317.3</u>	<u>\$ 2,795.0</u>

The decrease in operating expense in 2016 compared to 2015 was due primarily to favorable foreign currency translation (\$3.2 million), decreases in business insurance (\$15.3 million), technology expenses (\$11.4 million), professional and banking fees (\$5.6 million), licenses and fees (\$3.7 million), other expense (\$3.4 million), bad debt expense (\$2.4 million), employee expense (\$1.0 million), premium financing interest expense (\$0.7 million), real estate expenses (\$0.3 million), slightly offset by increases in meeting and client entertainment expenses (\$4.2 million), outside consulting fees (\$2.9 million), office supplies (\$1.3 million) and lease termination charges (\$0.2 million). Also contributing to the increase in operating expense in 2016 were increased expenses associated with the acquisitions completed in 2016.

The increase in operating expense in 2015 compared to 2014 was due primarily to increases in technology expenses (\$30.5 million), outside consulting fees (\$16.3 million), business insurance (\$12.9 million), real estate expenses (\$11.4 million), meeting and client entertainment expenses (\$10.0 million), professional and banking fees (\$7.7 million), bad debt expense (\$6.4 million), licenses and fees (\$4.8 million), employee expense (\$2.4 million), lease termination charges (\$2.4 million), other expense (\$2.3 million), outside services expense (\$0.6 million), premium financing interest expense (\$0.4 million), interest expense (\$0.1 million) and unfavorable foreign currency translation (\$1.3 million), slightly offset by a decrease in office supplies (\$1.4 million). Also contributing to the increase in operating expense in 2015 were increased expenses associated with the acquisitions completed in 2015.

**Depreciation** - The increases in depreciation expense in 2016 compared to 2015 and in 2015 compared to 2014 were due primarily to the purchases of furniture, equipment and leasehold improvements related to office expansions and moves, and expenditures related to upgrading computer systems. Also contributing to the increases in depreciation expense in 2016, 2015 and 2014 were the depreciation expenses associated with acquisitions completed during these years.

**Amortization** - The increases in amortization in 2016 compared to 2015 and in 2015 compared to 2014 were due primarily to amortization expense of intangible assets associated with acquisitions completed during these years. Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (three to fifteen years for expiration lists, three to five years for non-compete agreements and five to ten years for trade names). Based on the results of impairment reviews in 2016, 2015 and 2014, we wrote off \$1.8 million, \$11.5 million and \$1.8 million of amortizable intangible assets related to the brokerage segment acquisitions.

**Change in estimated acquisition earnout payables** - The change in the expense from the change in estimated acquisition earnout payables in 2016 compared to 2015 and 2015 compared to 2014 was due primarily to adjustments made to the estimated fair value of earnout obligations related to revised projections of future performance. During 2016, 2015 and 2014, we recognized \$16.9 million, \$16.2 million and \$14.5 million, respectively, of expense related to the accretion of the discount recorded for earnout obligations in connection with our 2016, 2015 and 2014 acquisitions. During 2016, 2015 and 2014, we recognized \$15.2 million, \$24.9 million and \$3.1 million of expense, respectively, related to net adjustments in the estimated fair market values of earnout obligations in connection with revised projections of future performance for 101, 103 and 67 acquisitions, respectively.

The amounts initially recorded as earnout payables for our 2012 to 2016 acquisitions were measured at fair value as of the acquisition date and are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements. In determining fair value, we estimate the acquired entity's future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. We estimate future earnout payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. Subsequent changes in the underlying financial projections or assumptions will cause the estimated earnout obligations to change and such adjustments are recorded in our consolidated statement of earnings when incurred. Increases in the earnout payable obligations will result in the recognition of expense and decreases in the earnout payable obligations will result in the recognition of income.

**Provision for income taxes** - We allocate the provision for income taxes to the brokerage segment using local statutory rates. The brokerage segment's effective tax rate in 2016, 2015 and 2014 was 35.2% (35.4% on a controlling basis), 35.1% and 36.4%, respectively. We anticipate reporting an effective tax rate on adjusted results of approximately 34.0% to 36.0% in our brokerage segment for the foreseeable future. In third quarter 2016, new tax legislation was enacted in the U.K., which will decrease the U.K. corporation tax rate from the current 18% to 17% effective April 1, 2020. Accordingly, we adjusted our deferred tax asset and liability balances in 2016 to reflect these rate changes, which decreased the provision for income taxes in the brokerage segment by \$1.5 million, or \$0.01 per share. In fourth quarter 2015, new tax legislation was enacted in the U.K., which will decrease the U.K. corporation tax rate from the current 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. Accordingly, we adjusted our deferred tax asset and liability balances in 2015 to reflect these rate changes, which decreased the provision for income taxes in the brokerage segment by \$4.2 million, or \$0.02 per share.

**Net earnings (loss) attributable to noncontrolling interests** - The amounts reported in this line for 2016, 2015 and 2014 include non-controlling interest earnings of \$3.6 million, \$1.7 million and \$0.9 million, respectively, primarily related to our investment in Capsicum Reinsurance Brokers LLP (which we refer to as Capsicum). We are partners in this venture with Grahame Chilton, the CEO of our International Brokerage Division. We are the controlling partner, participating in 33% of Capsicum's net operating results and Mr. Chilton owns approximately 50% of Capsicum.

## Risk Management Segment

The risk management segment accounted for 13% of our revenue in 2016. The risk management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property/casualty coverages and for insurance companies that choose to outsource some or all of their property/casualty claims departments. In addition, this segment generates revenues from integrated disability management programs, information services, risk control consulting (loss control) services and appraisal services, either individually or in combination with arising claims. Revenues for risk management services are substantially in the form of fees that are generally negotiated in advance on a per-claim or per-service basis, depending upon the type and estimated volume of the services to be performed.

Financial information relating to our risk management segment results for 2016, 2015 and 2014 (in millions, except per share, percentages and workforce data):

<b>Statement of Earnings</b>	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Fees	\$ 717.1	\$ 726.5	\$ (9.4)	\$ 726.5	\$ 681.3	\$ 45.2
Investment income	1.0	0.6	0.4	0.6	1.0	(0.4)
Total revenues	718.1	727.1	(9.0)	727.1	682.3	44.8
Compensation	424.5	427.2	(2.7)	427.2	414.2	13.0
Operating	171.4	180.8	(9.4)	180.8	176.4	4.4
Depreciation	27.2	24.3	2.9	24.3	21.2	3.1
Amortization	2.5	3.0	(0.5)	3.0	3.2	(0.2)
Change in estimated acquisition earnout payables	-	(0.5)	0.5	(0.5)	(0.1)	(0.4)
Total expenses	625.6	634.8	(9.2)	634.8	614.9	19.9
Earnings before income taxes	92.5	92.3	0.2	92.3	67.4	24.9
Provision for income taxes	35.3	35.1	0.2	35.1	25.3	9.8
Net earnings	57.2	57.2	(0.0)	57.2	42.1	15.1
Net earnings attributable to noncontrolling interests	-	-	-	-	-	-
Net earnings attributable to controlling interests	\$ 57.2	\$ 57.2	\$ (0.0)	\$ 57.2	\$ 42.1	\$ 15.1
Diluted earnings per share	\$ 0.32	\$ 0.33	\$ (0.01)	\$ 0.33	\$ 0.28	\$ 0.05
<b>Other information</b>						
Change in diluted earnings per share	(3%)	18%		18%	(24%)	
Growth in revenues	(1%)	7%		7%	8%	
Organic change in fees	1%	11%		11%	10%	
Compensation expense ratio	59%	59%		59%	61%	
Operating expense ratio	24%	25%		25%	26%	
Effective income tax rate	38%	38%		38%	38%	
Workforce at end of period (includes acquisitions) *	5,449	5,439		5,439	5,156	
Identifiable assets at December 31	\$ 666.4	\$ 660.1		\$ 660.1	\$ 574.9	

\* Prior to September 1, 2016, most of our India-based workforce was provided by a third party on a cost-pass-through basis. During 2016, we consummated a transaction whereby we now directly employ those associates thereby adding approximately 2,700 employees to our global workforce counts, of which approximately 300 employees were included in the 2016 number above. We revised the workforce number as of December 31, 2015 and 2014 to conform to the current period presentation.

On November 18, 2014, we announced that a contract for the administration of workers' compensation claims with the New South Wales Workers Compensation Scheme in Australia would be moved to run-off status on December 31, 2014. Our net earnings from this contract were approximately \$3.5 million in 2014. We took a \$12.9 million charge in the fourth quarter of 2014 primarily relating to a non-cash impairment of capitalized software and personnel costs dedicated to servicing the New South Wales run-off contract, and in 2015 during we broke even on this contract in the run-off period.

The following provides non-GAAP information that management believes is helpful when comparing 2016 and 2015 EBITDAC and adjusted EBITAC and 2015 and 2014 EBITDAC and adjusted EBITDAC (in millions):

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Net earnings, as reported	\$ 57.2	\$ 57.2	0.0%	\$ 57.2	\$ 42.1	35.9%
Provision for income taxes	35.3	35.1		35.1	25.3	
Depreciation	27.2	24.3		24.3	21.2	
Amortization	2.5	3.0		3.0	3.2	
Change in estimated acquisition earnout payables	-	(0.5)		(0.5)	(0.1)	
Total EBITDAC	122.2	119.1	2.6%	119.1	91.7	29.9%
Workforce and lease termination related charges	2.2	2.9		2.9	1.0	
Claim portfolio transfer and ramp up	-	-		-	6.4	
Client run-off/bankruptcy	-	4.0		4.0	12.9	
Levelized foreign currency translation	-	(1.1)		-	(5.4)	
EBITDAC, as adjusted	<u>\$ 124.4</u>	<u>\$ 124.9</u>	-0.4%	<u>\$ 126.0</u>	<u>\$ 106.6</u>	18.2%
Net earnings margin, as reported	<u>8.0%</u>	<u>7.9%</u>	+10 bpts	<u>7.9%</u>	<u>6.2%</u>	+170 bpts
EBITDAC margin, as adjusted	<u>17.3%</u>	<u>17.3%</u>	+5 bpts	<u>17.3%</u>	<u>16.1%</u>	+117 bpts
Reported revenues	<u>\$ 718.1</u>	<u>\$ 727.1</u>		<u>\$ 727.1</u>	<u>\$ 682.3</u>	
Adjusted revenues - see page 27	<u>\$ 718.1</u>	<u>\$ 723.4</u>		<u>\$ 728.1</u>	<u>\$ 660.4</u>	

**Fees** - The decrease in fees for 2016 compared to 2015 was primarily due to lost business of \$68.2 million, which was offset by new business and the impact of increased claim counts (total of \$58.8 million) in 2016. The increase in fees for 2015 compared to 2014 was primarily due to new business and the impact of increased claim counts (total of \$75.3 million), which were partially offset by lost business of \$30.1 million in 2015. Organic change in fee revenues was 1% in 2016, 11% in 2015 and 10% in 2014.

Items excluded from organic fee computations yet impacting revenue comparisons in 2016, 2015 and 2014 include the following (in millions):

	<u>2016 Organic Revenue</u>			<u>2015 Organic Revenue</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Fees	\$ 713.5	\$ 710.9	0.4%	\$ 710.9	\$ 662.6	7.3%
International performance bonus fees	3.6	15.6	-76.9%	15.6	18.7	-16.6%
Fees as reported	717.1	726.5	-1.3%	726.5	681.3	6.6%
Less fees from acquisitions	(3.1)	-		(3.9)	-	
Less client run-off	(0.1)	(16.7)		(17.5)	(25.8)	
Levelized foreign currency translation	-	(4.7)		-	(21.8)	
Organic fees	<u>\$ 713.9</u>	<u>\$ 705.1</u>	1.3%	<u>\$ 705.1</u>	<u>\$ 633.7</u>	11.3%

	2015 Organic Revenue			2014 Organic Revenue		
	2015	2014	Change	2014	2013	Change
Fees	\$ 710.9	\$ 662.6	7.3%	\$ 662.6	\$ 607.0	9.2%
International performance bonus fees	15.6	18.7	-16.6%	18.7	20.0	-6.5%
Fees as reported	726.5	681.3	6.6%	681.3	627.0	8.7%
Less fees from acquisitions	(3.9)	-		(4.1)	-	
Less client run-off and ramp up fees	(17.5)	(25.8)		(30.4)	(33.5)	
Levelized foreign currency translation	-	(21.8)		-	(5.3)	
Organic fees	<u>\$ 705.1</u>	<u>\$ 633.7</u>	11.3%	<u>\$ 646.8</u>	<u>\$ 588.2</u>	10.0%

**Investment income** - Investment income primarily represents interest income earned on our cash and cash equivalents.

Investment income in 2016 increased compared to 2015 primarily due to higher levels of invested assets in 2016. Investment income in 2015 decreased compared to 2014 primarily due to lower levels of invested assets in 2015.

**Compensation expense** - The following provides non-GAAP information that management believes is helpful when comparing 2016 and 2015 compensation expense and 2015 and 2014 compensation expense (in millions):

	2016	2015	2015	2014
Compensation expense, as reported	\$ 424.5	\$ 427.2	\$ 427.2	\$ 414.2
Client run-off	-	(0.7)	(0.7)	(1.7)
Claim portfolio transfer ramp up costs	-	-	-	(3.6)
Workforce and lease termination related charges	(1.9)	(2.2)	(2.2)	(0.8)
Levelized foreign currency translation	-	(2.6)	-	(12.5)
Compensation expense, as adjusted	<u>\$ 422.6</u>	<u>\$ 421.7</u>	<u>\$ 424.3</u>	<u>\$ 395.6</u>
Reported compensation expense ratios	<u>59.1%</u>	<u>58.8%</u>	<u>58.8%</u>	<u>60.7%</u>
Adjusted compensation expense ratios	<u>58.9%</u>	<u>58.3%</u>	<u>58.3%</u>	<u>59.9%</u>
Reported revenues	<u>\$ 718.1</u>	<u>\$ 727.1</u>	<u>\$ 727.1</u>	<u>\$ 682.3</u>
Adjusted revenues - see page 27	<u>\$ 718.1</u>	<u>\$ 723.4</u>	<u>\$ 728.1</u>	<u>\$ 660.4</u>

The decrease in compensation expense in 2016 compared to 2015 was primarily due to favorable foreign currency translation (\$2.6 million) and decreases in salaries (\$0.4 million in the aggregate), temporary-staffing expense (\$2.2 million) and severance related costs (\$0.3 million), offset by increased headcount, increases in employee benefits (\$1.6 million), stock compensation expense (\$0.9 million) and deferred compensation (\$0.3 million).

The increase in compensation expense in 2015 compared to 2014 was primarily due to increased headcount and increases in salaries (\$27.9 million in the aggregate), employee benefits (\$1.8 million), severance related costs (\$1.4 million), offset by favorable foreign currency translation (\$12.6 million), decreases in claim portfolio transfer ramp up costs (\$3.6 million), temporary-staffing expense (\$1.3 million) and deferred compensation (\$0.6 million).

**Operating expense** - The following provides non-GAAP information that management believes is helpful when comparing 2016 and 2015 operating expense and 2015 and 2014 operating expense (in millions):

	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>
Operating expense, as reported	\$ 171.4	\$ 180.8	\$ 180.8	\$ 176.4
Clinet run-off	-	(2.3)	(2.3)	(11.2)
Claim portfolio transfer ramp up costs	-	-	-	(2.8)
Workforce and lease termination related charges	(0.3)	(0.7)	(0.7)	(0.2)
Levelized foreign currency translation	-	(1.0)	-	(4.0)
Operating expense, as adjusted	<u>\$ 171.1</u>	<u>\$ 176.8</u>	<u>\$ 177.8</u>	<u>\$ 158.2</u>
Reported compensation expense ratios	<u>23.9%</u>	<u>24.9%</u>	<u>24.9%</u>	<u>25.9%</u>
Adjusted compensation expense ratios	<u>23.8%</u>	<u>24.4%</u>	<u>24.4%</u>	<u>24.0%</u>
Reported revenues	<u>\$ 718.1</u>	<u>\$ 727.1</u>	<u>\$ 727.1</u>	<u>\$ 682.3</u>
Adjusted revenues - see page 27	<u>\$ 718.1</u>	<u>\$ 723.4</u>	<u>\$ 728.1</u>	<u>\$ 660.4</u>

The decrease in operating expense in 2016 compared to 2015 was primarily due to decreases in business insurance (\$5.7 million), other expense (\$2.7 million), real estate expenses (\$2.3 million), bad debt expense (\$1.8 million), licenses and fees (\$1.4 million), meeting and client entertainment expense (\$0.9 million), employee expense (\$0.9 million), technology expenses (\$0.4 million), office supplies (\$0.4 million), lease termination related charges (\$0.4 million), offset by increases in professional and banking fees (\$4.4 million), outside consulting fees (\$2.8 million) and outside services (\$0.3 million).

The increase in operating expense in 2015 compared to 2014 was primarily due to increases in professional and banking fees (\$6.3 million), outside consulting fees (\$5.2 million), technology expenses (\$4.3 million), business insurance (\$2.5 million), licenses and fees (\$1.1 million), meeting and client entertainment expense (\$0.7 million), bad debt expense (\$0.5 million), lease termination related charges (\$0.5 million) and outside services (\$0.4 million), offset by decreases in other expense (\$10.6 million), claim portfolio transfer ramp up costs (\$2.8 million), office supplies (\$2.0 million), real estate expenses (\$1.1 million) and employee expense (\$0.3 million).

**Depreciation** - Depreciation expense increased in 2016 compared to 2015 and 2015 compared to 2014, which reflects the impact of purchases of furniture, equipment and leasehold improvements related to office expansions and moves and expenditures related to upgrading computer systems.

**Amortization** - Amortization expense decreased in 2016 compared to 2015 and 2015 compared to 2014. Historically, the risk management segment has made few acquisitions. We made no material acquisitions in this segment in 2016, 2015 or 2014. No indicators of impairment were noted in 2016, 2015 or 2014.

**Change in estimated acquisition earnout payables** - The increase in income from the change in estimated acquisition earnout payables in 2016 compared to 2015 and the decrease in income from the change in estimated acquisition earnout payable 2015 compared to 2014 was due primarily to adjustments made in 2015 to the estimated fair value of an earnout obligation related to a revised projections of future performance for two acquisitions. During 2016, 2015 and 2014, we recognized zero, \$0.5 million and \$0.1 million, respectively, of income related to net adjustments in the estimated fair value of earnout obligations related to revised projections of future performance for two acquisitions.

**Provision for income taxes** - We allocate the provision for income taxes to the risk management segment using local statutory rates. The risk management segment's effective tax rate in 2016, 2015 and 2014 was 38.2%, 38.0% and 37.5%, respectively. We anticipate reporting an effective tax rate on adjusted results of approximately 36.0% to 38.0% in our risk management segment for the foreseeable future.

## Corporate Segment

The corporate segment reports the financial information related to our clean energy and other investments, our debt, and certain corporate and acquisition-related activities. See Note 13 to our consolidated financial statements for a summary of our investments at December 31, 2016 and 2015 and a detailed discussion of the nature of these investments. See Note 7 to our consolidated financial statements for a summary of our debt at December 31, 2016 and 2015.

Financial information relating to our corporate segment results for 2016, 2015 and 2014 (in millions, except per share and percentages):

<b>Statement of Earnings</b>	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Revenues from consolidated clean coal production plants	\$ 1,303.8	\$ 1,254.6	\$ 49.2	\$ 1,254.6	\$ 975.5	\$ 279.1
Royalty income from clean coal licenses	48.1	57.5	(9.4)	57.5	57.4	0.1
Loss from unconsolidated clean coal production plants	(1.8)	(1.3)	(0.5)	(1.3)	(3.4)	2.1
Other net revenues	(1.3)	30.5	(31.8)	30.5	18.4	12.1
<b>Total revenues</b>	<b>1,348.8</b>	<b>1,341.3</b>	<b>7.5</b>	<b>1,341.3</b>	<b>1,047.9</b>	<b>293.4</b>
Cost of revenues from consolidated clean coal production plants	1,408.6	1,351.5	57.1	1,351.5	1,058.9	292.6
Compensation	72.6	62.0	10.6	62.0	50.3	11.7
Operating	25.4	21.8	3.6	21.8	36.6	(14.8)
Interest	109.8	103.0	6.8	103.0	89.0	14.0
Depreciation	19.2	15.2	4.0	15.2	3.8	11.4
<b>Total expenses</b>	<b>1,635.6</b>	<b>1,553.5</b>	<b>82.1</b>	<b>1,553.5</b>	<b>1,238.6</b>	<b>314.9</b>
Loss before income taxes	(286.8)	(212.2)	(74.6)	(212.2)	(190.7)	(21.5)
Benefit for income taxes	(317.5)	(276.0)	(41.5)	(276.0)	(212.3)	(63.7)
Net earnings	30.7	63.8	(33.1)	63.8	21.6	42.2
Net earnings attributable to noncontrolling interests	27.0	30.6	(3.6)	30.6	23.2	7.4
Net earnings (loss) attributable to controlling interests	\$ 3.7	\$ 33.2	\$ (29.5)	\$ 33.2	\$ (1.6)	\$ 34.8
Diluted net earnings (loss) per share	\$ 0.02	\$ 0.19	\$ (0.17)	\$ 0.19	\$ (0.01)	\$ 0.20
Identifiable assets at December 31	\$ 1,639.8	\$ 1,284.0		\$ 1,284.0	\$ 1,048.9	
<b>EBITDAC</b>						
Net earnings	\$ 30.7	\$ 63.8	\$ (33.1)	\$ 63.8	\$ 21.6	\$ 42.2
Benefit for income taxes	(317.5)	(276.0)	(41.5)	(276.0)	(212.3)	(63.7)
Interest	109.8	103.0	6.8	103.0	89.0	14.0
Depreciation	19.2	15.2	4.0	15.2	3.8	11.4
<b>EBITDAC</b>	<b>\$ (157.8)</b>	<b>\$ (94.0)</b>	<b>\$ (63.8)</b>	<b>\$ (94.0)</b>	<b>\$ (97.9)</b>	<b>\$ 3.9</b>

**Revenues** - Revenues in the corporate segment consist of the following:

- Revenues from consolidated clean coal production plants represents revenues from the consolidated IRC Section 45 facilities that we operate and control under lease arrangements, and the investments in which we have a majority ownership position and maintain control over the operations of the related plants, including those that are currently not operating. When we relinquish control in connection with the sale of majority ownership interests in our investments, we deconsolidate these operations.

The increases in 2016 and 2015 are due to increased production of clean coal.



- Royalty income from clean coal licenses represents revenues related to Chem-Mod LLC. We held a 46.5% controlling interest in Chem-Mod. As Chem-Mod's manager, we are required to consolidate its operations.

The decrease in royalty income in 2016 compared to 2015 was due to reductions in production of refined coal by Chem-Mod's licenses. The increase in royalty income in 2015 compared to 2014 was due to increased production of refined coal by Chem-Mod's licensees.

Expenses related to royalty income of Chem-Mod were \$2.4 million, \$3.0 million and \$3.1 million in 2016, 2015 and 2014, respectively. These expenses are included in the operating expenses discussed below.

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

The losses in 2016, 2015 and 2014 were low because the vast majority of our operations are now consolidated.

- Other net revenues include the following: In 2016, we recorded \$0.8 million of rental income related to our new headquarters facility. We also recognized \$0.8 million of equity basis accounting losses related to our legacy investments. In addition, we recognized a \$1.3 million impairment loss related to clean coal production plants including engineering costs of \$0.7 million incurred for two locations that will not be used.

In 2015, we settled litigation against certain former U.K. executives and their advisors for a pretax \$31.0 million gain (\$22.3 million net of costs and taxes). Incremental expenses that arose in connection with this matter will result in after-tax charges of approximately \$4.5 million per quarter through June 30, 2017, which will also be presented as an adjustment to the corporate segment. Also in 2015 we recognized \$0.7 million of equity basis accounting losses related to our legacy investments and \$0.2 million of rental income related to our new headquarters facility.

In 2014, other net revenues primarily included a pretax gains of \$25.6 million, related to the 2014 acquisition of an additional ownership interest in seven 2009 Era Plants and five 2011 Era Plants from a co-investor. We have consolidated the operations of the limited liability companies that own these plants effective as of the acquisition dates. In addition, in 2014 we also recognized a \$1.8 million gain adjustment related to the 2013 acquisition of additional ownership interests in twelve 2009 Era Plants, a \$2.0 million impairment loss, under equity method accounting, of an additional 4% investment in the global operations of C-Quest Technologies LLC and C-Quest Technologies International LLC, a \$0.5 million loss related to two legacy investments and a \$10.9 million impairment loss related to two of our clean coal production plants which permanently stopped operations. We also realized a \$1.9 million hedge gain related to the funding of the Crombie/OAMPS acquisition and earned \$2.5 million of interest on cash deposited in Australia to fund the Crombie/OAMPS acquisition.

**Cost of revenues** - Cost of revenues from consolidated clean coal production plants in 2016, 2015 and 2014 consists of the cost of coal, labor, equipment maintenance, chemicals, supplies, management fees and depreciation incurred by the clean coal production plants to generate the consolidated revenues discussed above, including the costs to run the leased facilities.

**Compensation expense** - Compensation expense for 2016, 2015 and 2014, respectively, was \$72.6 million, \$62.0 million and \$50.3 million.

The \$10.6 million increase in 2016 compared to 2015 was primarily due to an increase in retention agreement compensation related to the litigation settlement, an increase in incentive compensation due to clean energy performance and an increase in benefits expense.

The \$11.7 million increase in 2015 compared to 2014 was primarily due to retention agreement compensation related to the litigation settlement, compensation for corporate staff working outside the U.S., an increase in incentive compensation due to clean energy performance, offset by the reduction in expense related to the 2014 de-risking strategy of our U.S. defined pension plan.

**Operating expense** - Operating expense for 2016 includes banking and related fees of \$3.2 million, external professional fees and other due diligence costs related to 2016 acquisitions of \$3.9 million, other corporate and clean energy related expenses of \$5.7 million, \$4.8 million for a biennial corporate-wide meeting, corporate related marketing costs of \$7.0 million and \$0.8 million related to the litigation settlement.

Operating expense for 2015 includes banking and related fees of \$2.7 million, external professional fees and other due diligence costs related to 2015 acquisitions of \$3.7 million, other corporate and clean energy related expenses of \$9.9 million, \$3.8 million for a biennial corporate-wide meeting and \$1.7 million related to the litigation settlement.

Operating expense for 2014 includes banking and related fees of \$2.7 million, external professional fees and other due diligence costs related to 2014 acquisitions of \$18.9 million, other corporate and clean energy related expenses of \$12.8 million and \$2.2 million for a biennial corporate-wide meeting.

**Interest expense** - The increase in interest expense in 2016 compared to 2015 and 2015 compared to 2014 was due to the following:

<b>Change in interest expense related to</b>	<b><u>2016 / 2015</u></b>	<b><u>2015 / 2014</u></b>
Interest on borrowings from our Credit Agreement	\$ 2.2	\$ (0.2)
Interest on the \$600.0 million note funded on February 27, 2014	-	5.2
Interest on the \$700.0 million note funded on June 24, 2014	-	13.1
Interest on the \$100.0 million Series A Note that was paid off on August 3, 2014	-	(3.7)
Interest on the \$275.0 million note funded on June 2, 2016	7.2	-
Interest on the \$50.0 million 2016 maturity of the Series B Note that was paid off on November 30, 2016	(0.3)	-
Interest on the \$100.0 million note funded on December 1, 2016	0.3	-
Capitalization of interest costs related to the purchase and development of our new headquarters building	(2.6)	(0.4)
Net change in interest expense	<u>\$ 6.8</u>	<u>\$ 14.0</u>

The capitalization of interest costs related to the purchase and development of our new corporate headquarters building will occur until the development of it is completed in early 2017.

**Depreciation** - The increase in depreciation expense in 2016 compared to 2015 primarily relates to clean coal plants re-deployed in 2016 and 2015. The increase in depreciation expense in 2015 compared to 2014, primarily relates to the assets of the additional ownership interests in the clean coal plants that we acquired from co-investors in 2014 and clean coal plants re-deployed in 2015.

**Benefit for income taxes** - We allocate the provision for income taxes to the brokerage and risk management segments using local statutory rates. As a result, the provision for income taxes for the corporate segment reflects the entire benefit to us of the IRC Section 45 credits generated, because that is the segment which produced the credits. The law that provides for IRC Section 45 tax credits substantially expires in December 2019 for our fourteen 2009 Era Plants and in December 2021 for our twenty 2011 Era Plants. Our consolidated effective tax rate was (24.7)%, (32.6)% and (12.3)% for 2016, 2015 and 2014, respectively. The tax rates for 2016, 2015 and 2014 were lower than the statutory rate primarily due to the amount of IRC Section 45 tax credits recognized during the year. There were \$194.4 million, \$181.3 million and \$145.5 million of tax credits produced and recognized in 2016, 2015 and 2014, respectively.

**Potential U.S. Federal income tax law changes** - The value of our tax credits could be impacted by changes in the tax code as a result of the recent presidential and congressional elections in the U.S. Congress could modify or repeal IRC Section 45 and remove the tax credits (either prospectively or through the elimination of the carryover of the credits), which would adversely affect the value of our investment. Also, if Congress reduces tax rates, although we might pay less in taxes overall, it would reduce the tax benefit of operating costs associated with the production of refined coal. Although we are unable to predict how a reduction in tax rates during 2017 would affect our cash taxes paid in 2017, we estimate that if the U.S. Federal corporate income tax rate had been reduced from 35% to 20% and if the Alternative Minimum Tax had been eliminated as of January 1, 2016, our cash taxes paid for fiscal 2016 would have been \$39.1 million rather than \$66.1 million.

**Net earnings attributable to noncontrolling interests** - The amounts reported in this line for 2016, 2015 and 2014 primarily include noncontrolling interest earnings of \$32.7 million, \$36.9 million and \$35.3 million, respectively, related to the non-Gallagher owned interest in Chem-Mod. As of December 31, 2016, 2015 and 2014, we held a 46.5% controlling interest in Chem-Mod. Also, included in net earnings attributable to noncontrolling interests are offsetting amounts related to non-Gallagher owned interests in several clean energy investments.

The following provides non-GAAP information that we believe is helpful when comparing 2016, 2015 and 2014 operating results for the corporate segment (in millions):

Description	2016			2015			2014		
	Pretax Loss	Income Tax Benefit	Net Earnings (Loss)	Pretax Loss	Income Tax Benefit	Net Earnings (Loss)	Pretax Loss	Income Tax Benefit	Net Earnings (Loss)
Interest and banking costs	\$ (112.8)	\$ 45.1	\$ (67.7)	\$ (105.4)	\$ 42.1	\$ (63.3)	\$ (91.2)	\$ 36.5	\$ (54.7)
Clean energy related (1)	(133.2)	247.6	114.4	(116.1)	217.0	100.9	(88.7)	179.2	90.5
Acquisition costs	(4.6)	0.7	(3.9)	(4.3)	0.6	(3.7)	(23.1)	3.3	(19.8)
Corporate	(43.0)	20.0	(23.0)	(33.2)	14.8	(18.4)	(21.5)	2.3	(19.2)
Impact from re-consolidation accounting gains (2)	-	-	-	-	-	-	22.6	(8.5)	14.1
Litigation settlement (3)	(20.2)	4.1	(16.1)	16.2	1.5	17.7	-	-	-
Retirement plan de-risking strategies (4)	-	-	-	-	-	-	(12.0)	(0.5)	(12.5)
Reported full year	(313.8)	317.5	3.7	(242.8)	276.0	33.2	(213.9)	212.3	(1.6)
Impact from re-consolidation accounting gains (2)	-	-	-	-	-	-	(22.6)	8.5	(14.1)
Litigation settlement (3)	20.2	(4.1)	16.1	(16.2)	(1.5)	(17.7)	-	-	-
Retirement plan de-risking strategies (4)	-	-	-	-	-	-	12.0	0.5	12.5
Adjusted full year	<u>\$ (293.6)</u>	<u>\$ 313.4</u>	<u>\$ 19.8</u>	<u>\$ (259.0)</u>	<u>\$ 274.5</u>	<u>\$ 15.5</u>	<u>\$ (224.5)</u>	<u>\$ 221.3</u>	<u>\$ (3.2)</u>

- (1) Pretax earnings are presented net of amounts attributable to noncontrolling interests of \$27.0 million in 2016, \$30.6 million in 2015 and \$23.2 million in 2014.
- (2) Non-cash gain from re-consolidation accounting gains related to clean-energy investments recorded in the first quarter of 2014 and related tax credit recognition.
- (3) During the third quarter of 2015, we settled litigation against certain former U.K. executives and their advisors for a pretax gain of \$31.0 million (\$22.3 million net of costs and taxes in third quarter). Incremental expenses that arose in connection with this matter will result in after-tax charges of up to \$4.5 million per quarter through June 30, 2017.
- (4) In fourth quarter 2014, we recognized a non-cash after-tax settlement charge of \$12.5 million related to retirement plan de-risking strategies.

During 2017 we will be relocating our corporate office headquarters to a nearby suburb of Chicago. One-time move and after-tax lease abandonment charges are expected to total approximately \$2.5 million, \$4.0 million and \$1.5 million in first, second and third quarters of 2017. These charges will be presented in the corporate segment.

Interest and banking costs includes expenses related to our debt. Clean energy related includes the operating results related to our investments in clean coal production plants and Chem-Mod. Acquisition costs include professional fees, due diligence and other costs incurred related to our acquisitions. Corporate consists of overhead allocations mostly related to corporate staff compensation, costs related to biennial company-wide award, cross-selling and motivational meetings for our production staff and field management, expenses related to our new corporate headquarters, corporate related marketing costs, and in 2016 and 2015, retention agreement compensation related to the litigation settlement.

**Clean energy investments** - We have investments in limited liability companies that own 29 clean coal production plants developed by us and five clean coal production plants we purchased from a third party on September 1, 2013. All 34 plants produce refined coal using proprietary technologies owned by Chem-Mod. We believe that the production and sale of refined coal at these plants are qualified to receive refined coal tax credits under IRC Section 45. The fourteen plants which were placed in service prior to December 31, 2009 (which we refer to as the 2009 Era Plants) can receive tax credits through 2019 and the twenty plants which were placed in service prior to December 31, 2011 (which we refer to as the 2011 Era Plants) can receive tax credits through 2021.

The following table provides a summary of our clean coal plant investments as of December 31, 2016 (in millions):

	<b>Our Tax-Effectuated Book Value At December 31, 2016</b>	<b>Additional Required Tax-Effectuated Capital Investment</b>	<b>Low Range 2017 After-tax Earnings</b>	<b>High Range 2017 After-tax Earnings</b>
<b><u>Investments that own 2009 Era Plants</u></b>				
12 Under long-term production contracts	\$ 8.6	\$ -	\$ 19.0	\$ 21.0
2 In early stages of negotiations for long-term production contracts	-	Not Estimable	Not Estimable	Not Estimable
<b><u>Investments that own 2011 Era Plants</u></b>				
19 Under long-term production contracts	41.6	1.6	82.0	92.0
1 In early stages of negotiations for long-term production contracts	0.2	Not Estimable	Not Estimable	Not Estimable
<b>Chem-Mod royalty income, net of noncontrolling interests</b>	2.4	-	16.0	20.0

The estimated earnings information in the table reflects management's current best estimate of the 2017 low and high ranges of after-tax earnings based on early production estimates from the host utilities, other operating assumptions, and U.S. Federal income tax laws in place at December 31, 2016. However, coal-fired power plants may not ultimately produce refined fuel at estimated levels due to seasonal electricity demand, production costs, natural gas prices, weather conditions, as well as many other operational, regulatory and environmental compliance reasons. Future changes in EPA regulations or U.S. Federal income tax laws might materially impact these estimates.

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

We may sell ownership interests in some or all of the plants to co-investors and relinquish control of the plants, thereby becoming a non-controlling, minority investor. In any limited liability company where we are a non-controlling, minority investor, the membership agreement for the operations contains provisions that preclude an individual member from being able to make major decisions that would denote control. As of any future date we become a non-controlling, minority investor, we would deconsolidate the entity and subsequently account for the investment using equity method accounting.

We currently have \$2.7 million of construction commitments related to our refined coal plants.

We are aware that some of the coal-fired power plants that purchase the refined coal are considering changing to burning natural gas rather than coal, or shutting down completely for economic reasons. The entities that own such plants are prepared to move the refined coal plants to another coal-fired power plant, if necessary. If these potential developments were to occur, we estimate those refined coal plants will not operate for 12 to 18 months during their movement and redeployment, and the new coal-fired power plant may be a higher or lower volume plant, all of which could have a material impact on the amount of tax credits that are generated by these plants.

There is a provision in IRC Section 45 that phases out the tax credits if the coal reference price per ton, based on market prices, reaches certain levels as follows:

<b>Calendar Year</b>	<b>IRS Reference Price per Ton</b>	<b>IRS Beginning Phase Out Price</b>	<b>IRS 100% Phase Out Price</b>	<b>Conclusion</b>
2005	\$36.36	\$67.94	\$76.69	No phase out
2006	42.78	70.40	79.15	No phase out
2007	48.35	72.85	81.60	No phase out
2008	45.56	75.13	83.88	No phase out
2009	39.72	76.84	85.59	No phase out
2010	54.74	77.78	86.53	No phase out
2011	55.66	78.41	87.16	No phase out
2012	58.49	80.25	89.00	No phase out
2013	58.23	81.69	90.44	No phase out
2014	56.88	81.82	90.57	No phase out
2015	57.64	83.17	91.92	No phase out
2016	53.74	84.38	93.13	No phase out
2017	(1)	(1)	(1)	(1)

(1) The IRS will not release the factors for 2017 until April or May 2017. Based on our analysis of the factors used in the IRS’ phase out calculations, it is our belief that there will be no phase out in 2017.

See the risk factors regarding our IRC Section 45 investments under Item 1A, “Risk Factors.” for a more detailed discussion of these and other factors could impact the information above. See Note 13 to the consolidated financial statements for more information regarding risks and uncertainties related to these investments.

### Financial Condition and Liquidity

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations. The insurance brokerage industry is not capital intensive. Historically, our capital requirements have primarily included dividend payments on our common stock, repurchases of our common stock, funding of our investments, acquisitions of brokerage and risk management operations and capital expenditures.

### Cash Flows From Operating Activities

Historically, we have depended on our ability to generate positive cash flow from operations to meet a substantial portion of our cash requirements. We believe that our cash flows from operations and borrowings under our Credit Agreement will provide us with adequate resources to meet our liquidity needs in the foreseeable future. To fund acquisitions made during 2016, 2015 and 2014, we relied on a combination of net cash flows from operations, proceeds from borrowings under our Credit Agreement, proceeds from issuances of senior unsecured notes, issuances of our common stock, and a secondary public offering of our common stock in April 2014, in which 21.85 million shares of our stock were issued for net proceeds, after underwriting discounts and other expenses related to this offering, of \$911.4 million.

Cash provided by operating activities was \$622.1 million, \$652.6 million and \$436.6 million for 2016, 2015 and 2014, respectively. The decrease in cash provided by operating activities in 2016 compared to 2015 was primarily due to timing differences in the receipts and disbursements of client fiduciary related balances in 2016 compared to 2015. The following table summarizes three lines from our consolidated statement of cash flows and provides information that management believes is helpful when comparing changes in client fiduciary related balances for 2016, 2015 and 2014 (in millions):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Change in restricted cash	\$ (50.3)	\$ (45.6)	\$ (62.1)
Change in premiums receivable	(242.8)	(209.3)	95.3
Change in premiums payable	352.9	406.6	60.0
Net cash provided by client fiduciary related balances	<u>\$ 59.8</u>	<u>\$ 151.7</u>	<u>\$ 93.2</u>

In addition, cash provided by operating activities for 2016 was impacted by an unrealized foreign currency measurement loss of \$112.7 million compared to an unrealized foreign currency measurement loss of \$154.4 million in 2015 and by acquisition related integration costs in 2016 and 2015. The increase in cash provided by operating activities in 2015 compared to 2014 was primarily due to favorable timing differences in the payment of accrued liabilities and an increased amount of non-cash charges in 2015 compared to 2014, partially offset by cash used in 2015 in the production and sale of refined coal at the plants qualified to

receive refined coal tax credits under IRC Section 45. In addition, cash provided by operating activities for 2015 was adversely impacted by an unrealized foreign currency measurement loss of \$154.4 million compared to an unrealized foreign currency measurement loss of \$141.5 million in 2014 and an increase in acquisition related integration costs in 2015. Also negatively impacting cash provided by operating activities between 2015 and 2014 was cash payments related to compensation-based retention agreements. During second quarter 2015, we entered into compensation-based retention agreements with certain key employees of our international brokerage operations. We estimate that these retention agreements will add after-tax charges of approximately \$4.5 million per quarter through June 30, 2017 to our compensation expense. Our cash flows from operating activities are primarily derived from our earnings from operations, as adjusted for realized gains and losses, and our non-cash expenses, which include depreciation, amortization, change in estimated acquisition earnout payables, deferred compensation, restricted stock, and stock-based and other non-cash compensation expenses. Cash provided by operating activities can be unfavorably impacted by the amount of IRC Section 45 tax credits recognized compared to the amount of tax credits actually used during the respective periods. Excess tax credits produced during the period result in an increase to our deferred tax assets, which is a net use of cash related to operating activities.

When assessing our overall liquidity, we believe that the focus should be on net earnings as reported in our consolidated statement of earnings, adjusted for non-cash items (i.e., EBITDAC), and cash provided by operating activities in our consolidated statement of cash flows. Net earnings attributable to controlling interests were \$414.4 million and \$356.8 million. Consolidated EBITDAC was \$849.6 million and \$771.3 million for 2016 and 2015, respectively. We believe that EBITDAC items are indicators of trends in liquidity. From a balance sheet perspective, we believe the focus should not be on premium and fees receivable, premiums payable or restricted cash for trends in liquidity. Net cash flows provided by operations will vary substantially from quarter to quarter and year to year because of the variability in the timing of premiums and fees receivable and premiums payable. We believe that in order to consider these items in assessing our trends in liquidity, they should be looked at in a combined manner, because changes in these balances are interrelated and are based on the timing of premium payments, both to and from us. In addition, funds legally restricted as to our use relating to premiums and clients' claim funds held by us in a fiduciary capacity are presented in our consolidated balance sheet as "Restricted Cash" and have not been included in determining our overall liquidity.

Our policy for funding our defined benefit pension plan is to contribute amounts at least sufficient to meet the minimum funding requirements under the IRC. The Employee Retirement Security Act of 1974, as amended (which we refer to as ERISA), could impose a minimum funding requirement for our plan. We were not required to make any minimum contributions to the plan for the 2016 and 2015 plan years. Funding requirements are based on the plan being frozen and the aggregate amount of our historical funding. The plan's actuaries determine contribution rates based on our funding practices and requirements. Funding amounts may be influenced by future asset performance, the level of discount rates and other variables impacting the assets and/or liabilities of the plan. In addition, amounts funded in the future, to the extent not due under regulatory requirements, may be affected by alternative uses of our cash flows, including dividends, acquisitions and common stock repurchases. During 2016 and 2015 we did not make discretionary contributions to the plan. We are not considering making additional discretionary contributions to the plan in 2017, but may be required to make significantly larger minimum contributions to the plan in future periods.

See Note 12 to our consolidated financial statements for additional information required to be disclosed relating to our defined benefit postretirement plans. We are required to recognize an accrued benefit plan liability for our underfunded defined benefit pension and unfunded retiree medical plans (which we refer to together as the Plans). The offsetting adjustment to the liabilities required to be recognized for the Plans is recorded in "Accumulated Other Comprehensive Earnings (Loss)," net of tax, in our consolidated balance sheet. We will recognize subsequent changes in the funded status of the Plans through the income statement and as a component of comprehensive earnings, as appropriate, in the year in which they occur. Numerous items may lead to a change in funded status of the Plans, including actual results differing from prior estimates and assumptions, as well as changes in assumptions to reflect information available at the respective measurement dates.

In August 2014, we decided to pursue a pension de-risking strategy to reduce the size of our long-term U.S. defined benefit pension plan obligations and the volatility of these obligations on our balance sheet. On September 12, 2014, the fiduciaries of the plan began offering certain former employees who were participants in the plan, the option of receiving the value of their pension benefit in a lump sum payment or as an accelerated reduced annuity, in lieu of monthly annuity payments when they retire. The voluntary offer was made to approximately 2,500 terminated, vested participants in the plan whose employment terminated with the company prior to August 1, 2014 and who had not commenced benefit payments as of November 1, 2014. Eligible participants had from September 12, 2014 to November 30, 2014 to accept the offer, and the lump-sum payments were made in November and December of 2014, and the accelerated reduced annuity payments began as of December 1, 2014. The aggregate lump sum payout made in fourth quarter 2014 was \$43.3 million. All payouts related to this offer were made using assets from the plan. This lump sum payout project reduced the Plan's pension benefit obligation by approximately \$60.0 million, while improving its pension underfunding by almost \$17.0 million as of December 31, 2014. Due to this significant obligation settlement, we incurred a non-cash pre-tax charge of approximately \$12.0 million in fourth quarter 2014, as a result of the U.S. GAAP requirement to expense the portion of the unrealized actuarial losses currently recognized as accumulated other comprehensive loss, based on a ratio of the liability settled to the total liability within the plan at December 31, 2014.

In 2016, the funded status of the Plans was unfavorably impacted by a decrease in the discount rates used in the measurement of the pension liabilities at December 31, 2016, the impact of which was approximately \$8.2 million. However, the funded status was favorably impacted by returns on the plan's assets being higher in 2016 than anticipated by approximately \$0.3 million and improvements in the mortality assumptions of \$4.3 million and other pension gains of \$4.4 million. The net change in the funded status of the Plan in 2016 resulted in a decrease in noncurrent liabilities in 2016 of \$0.8 million. While the change in funded status of the Plans had no direct impact on our cash flows from operations in 2016, 2015 and 2014, potential changes in the pension regulatory environment and investment losses in our pension plan have an effect on our capital position and could require us to make significant contributions to our defined benefit pension plan and increase our pension expense in future periods.

### **Cash Flows From Investing Activities**

**Capital Expenditures** - Net capital expenditures were \$217.8 million, \$99.0 million and \$81.5 million for 2016, 2015 and 2014, respectively, of which \$112.1 million, \$13.3 million and \$16.3 million, respectively, related to expenditures on our new corporate headquarters building. In 2017, we expect total expenditures for capital improvements to be approximately \$135.0 million, part of which is related to expenditures on our new corporate headquarters building (approximately \$20.0 million), office moves and expansions and updating computer systems and equipment. Relating to the development of our new corporate headquarters, we expect to receive property tax related credits under a tax-increment financing note from Rolling Meadows, Illinois and an Illinois state Edge tax credit. Incentives from these two programs could total between \$60.0 million and \$80.0 million over a fifteen-year period. The net capital expenditures in 2016, 2015 and 2014 primarily related to capitalized costs associated with expenditures on our new corporate headquarters building in 2016 and 2015 and the implementation of new accounting and financial reporting systems and several other system initiatives that occurred in 2016, 2015 and 2014.

**Acquisitions** - Cash paid for acquisitions, net of cash acquired, was \$327.3 million, \$342.3 million and \$1,918.3 million in 2016, 2015 and 2014, respectively. The decreased use of cash for acquisitions in 2016 compared to 2015 was primarily due to a decrease in the number of acquisitions that occurred in 2016. The decreased use of cash for acquisitions in 2015 compared to 2014 was primarily due to a decrease in the number of acquisitions that occurred in 2015. In addition, during 2016, 2015 and 2014 we issued 2.0 million shares (\$89.6 million), 7.3 million shares (\$338.9 million) and 6.5 million shares (\$292.8 million), respectively, of our common stock as payment for a portion of the total consideration paid for acquisitions and earnout payments. We completed 37, 44 and 60 acquisitions in 2016, 2015 and 2014, respectively. Annualized revenues of businesses acquired in 2016, 2015 and 2014 totaled approximately \$137.9 million, \$230.8 million and \$761.2 million, respectively. In 2017, we expect to use our debt, cash from operations and our common stock to fund all or a portion of acquisitions we complete.

**Dispositions** - During 2016, 2015 and 2014, we sold several books of business and recognized one-time gains of \$6.6 million, \$6.7 million and \$7.3 million, respectively. We received cash proceeds of \$7.8 million, \$9.2 million and \$8.2 million, respectively, related to these transactions.

**Clean Energy Investments** - During the period from 2009 through 2016, we have made significant investments in clean energy operations capable of producing refined coal that we believe qualifies for tax credits under IRC Section 45. Our current estimate of the 2017 annual net after tax earnings, including IRC Section 45 tax credits, which will be produced from all of our clean energy investments in 2017, is \$117.0 million to \$133.0 million. The IRC Section 45 tax credits generate positive cash flow by reducing the amount of Federal income taxes we pay, which is offset by the operating expenses of the plants, by capital expenditures related to the redeployment, and in some cases the relocation of refined coal plants. We anticipate positive net cash flow related to IRC Section 45 activity in 2017. However, there are several variables that can impact net cash flow from clean energy investments in any given year. Therefore, accurately predicting positive or negative cash flow in particular future periods is not possible at this time. Nonetheless, if current ownership interests remain the same, if capital expenditures related to redeployment and relocation of refined coal plants remain as currently anticipated, and if we continue to generate sufficient taxable income to use the tax credits produced by our IRC Section 45 investments, we anticipate that these investments will continue to generate positive net cash flows for the period 2017 through at least 2021. While we cannot precisely forecast the cash flow impact in any particular period, we anticipate that the net cash flow impact of these investments will be positive overall. Please see "Clean energy investments" on pages 48 to 50 for a more detailed description of these investments (including the reference therein to risks and uncertainties).

### **Cash Flows From Financing Activities**

On April 8, 2016 we entered into an amendment and restatement to our multicurrency credit agreement dated September 19, 2013 (which we refer to as the Credit Agreement), with a group of fifteen financial institutions. The amendment and restatement, among other things, extended the expiration date of the Credit Agreement from September 19, 2018 to April 8, 2021 and increased the revolving credit commitment from \$600.0 million to \$800.0 million, of which \$75.0 million may be used for issuances of standby or commercial letters of credit and up to \$75.0 million may be used for the making of swing loans, (as defined in the Credit Agreement). We may from time to time request, subject to certain conditions, an increase in the revolving credit commitment under the Credit Agreement up to a maximum aggregate revolving credit commitment of \$1,100.0 million. There were \$278.0 million of borrowings outstanding under the Credit Agreement at December 31, 2016. Due to the outstanding borrowing and letters of credit, \$500.9 million remained available for potential borrowings under the Credit Agreement at December 31, 2016.

We use the Credit Agreement to post letters of credit and to borrow funds to supplement our operating cash flows from time to time. During 2016, we borrowed an aggregate of \$2,740.0 million and repaid \$2,657.0 million under our Credit Agreement. Principal uses of the 2016 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes. During 2015, we borrowed an aggregate of \$849.0 million and repaid \$794.0 million under our Credit Agreement. Principal uses of the 2015 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes. During 2014, we borrowed an aggregate of \$1,109.9 million and repaid \$1,500.4 million under our Credit Agreement. Principal uses of the 2014 borrowings under the Credit Agreement were to fund acquisitions, earnout payments related to acquisitions and general corporate purposes.

We have a secured revolving loan facility (which we refer to as the Premium Financing Debt Facility), that provides funding for the three Australian (AU) and New Zealand (NZ) premium finance subsidiaries. The Premium Financing Debt Facility is comprised of: (i) Facility B, which is separated into AU\$150.0 million and NZ\$35.0 million tranches, (ii) Facility C, an AU\$25.0 million equivalent multi-currency overdraft tranche and (iii) Facility D, a NZ\$15.0 million equivalent multi-currency overdraft tranche. The Premium Financing Debt Facility expires May 18, 2017. At December 31, 2016, \$125.6 million of borrowings were outstanding under the Premium Financing Debt Facility.

We use the Premium Financing Debt Facility to borrow funds to fund the premium financing activities of three of our Australian (AU) and New Zealand (NZ) subsidiaries. In 2016 and 2015, we had net borrowings of \$(12.2) million and \$23.9 million, respectively, on the Premium Financing Debt Facility.

At December 31, 2016, we had \$2,728.0 million of corporate-related borrowings outstanding under separate note purchase agreements entered into in the period 2007 to 2016 and a cash and cash equivalent balance of \$545.5 million. See Note 7 to our consolidated financial statements for a discussion of the terms of the note purchase agreements and the Credit Agreement.

We completed a \$275.0 million, ten year maturity, private placement debt transaction in 2016, with a weighted average interest rate of 4.47%. In 2016, we entered into a pre-issuance interest rate hedging transaction related to the \$175.0 million 10 year tranche of the \$275.0 million private placement debt. We realized a cash gain of approximately \$1.0 million on the hedging transaction that will be recognized on a pro rata basis as a reduction in our reported interest expense over the ten year life of the debt.

On November 30, 2016, we funded the \$50.0 million 2016 maturity of our Series C note.

We completed a \$100.0 million, eleven year maturity, private placement debt transaction on December 1, 2016, with an interest rate of 3.46%. A portion of the proceeds was used to fund the \$50.0 million of private placement debt that matured on November 30, 2016.

We anticipate raising at least \$300.0 million in the second half of 2017, primarily to refinance the August 2017, \$300.0 million maturity of our Series B note.

The note purchase agreements, the Credit Agreement and the Premium Financing Debt Facility contain various financial covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2016.

**Dividends** - Our board of directors determines our dividend policy. Our board of directors determines dividends on our common stock on a quarterly basis after considering our available cash from earnings, our anticipated cash needs and current conditions in the economy and financial markets.

In 2016, we declared \$272.5 million in cash dividends on our common stock, or \$1.52 per common share. On December 16, 2016, we paid a fourth quarter dividend of \$0.38 per common share to shareholders of record as of December 2, 2016. On January 25, 2017, we announced a quarterly dividend for first quarter 2017 of \$0.39 per common share. If the dividend is maintained at \$0.39 per common share throughout 2017, this dividend level would result in an annualized net cash used by financing activities in 2017 of approximately \$278.1 million (based on the outstanding shares as of December 31, 2016), or an anticipated increase in cash used of approximately \$5.9 million compared to 2016. We can make no assurances regarding the amount of any future dividend payments.

**Common Stock Repurchases** - We have in place a common stock repurchase plan approved by our board of directors. We repurchased 2.3 million shares of our common stock at cost of \$101.0 million (7.7 million remain available). We did not repurchase any shares in 2015 and 2014. Under the provisions of the repurchase plan, we were authorized to repurchase approximately 10,000,000 additional shares at December 31, 2016. The plan authorizes the repurchase of our common stock at such times and prices as we may deem advantageous, in transactions on the open market or in privately negotiated transactions. We are under no commitment or obligation to repurchase any particular number of shares, and the plan may be suspended at any time at our discretion. Funding for share repurchases may come from a variety of sources, including cash from operations, short-term or long-term borrowings under our Credit Agreement or other sources. There were no common stock repurchases made in 2015 and 2014 that impacted our consolidated financial statements.



**At-the-Market Equity Program** - On November 20, 2013, we entered into an Equity Distribution Agreement with Morgan Stanley & Co. LLC, pursuant to which we may offer and sell, from time to time, up to \$200 million (of which \$15.6 million is remaining) of our common stock through Morgan Stanley as sales agent. Pursuant to the agreement, shares may be sold by means of ordinary brokers' transactions, including on the New York Stock Exchange, at market prices prevailing at the time of sale, at prices related to the prevailing market prices, or at negotiated prices, in block transactions, or as otherwise agreed upon by us and Morgan Stanley. During 2016, we did not sell any shares of our common stock under the program.

**Common Stock Issuances** - Another source of liquidity to us is the issuance of our common stock pursuant to our stock option and employee stock purchase plans. Proceeds from the issuance of common stock under these plans were \$45.6 million in 2016, \$54.1 million in 2015 and \$56.3 million in 2014.

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

### Contractual Obligations and Commitments

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Notes 7, 13 and 15 to our consolidated financial statements for additional discussion of these obligations and commitments. Our future minimum cash payments, including interest, associated with our contractual obligations pursuant to our note purchase agreements and Credit Agreement, operating leases and purchase commitments as of December 31, 2016 are as follows (in millions):

Contractual Obligations	Payments Due by Period						Total
	2017	2018	2019	2020	2021	Thereafter	
Note purchase agreements	\$ 300.0	\$ 100.0	\$ 100.0	\$ 100.0	\$ 75.0	\$ 1,775.0	\$ 2,450.0
Credit Agreement	278.0	-	-	-	-	-	278.0
Premium Financing Debt Facility	125.6	-	-	-	-	-	125.6
Interest on debt	113.5	93.3	89.0	84.4	79.5	280.5	740.2
Total debt obligations	817.1	193.3	189.0	184.4	154.5	2,055.5	3,593.8
Operating lease obligations	101.1	83.8	68.4	56.4	45.8	112.9	468.4
Less sublease arrangements	(0.8)	(0.4)	(0.1)	(0.1)	-	(0.1)	(1.5)
Outstanding purchase obligations	50.6	32.1	16.6	7.7	1.7	-	108.7
Total contractual obligations	\$ 968.0	\$ 308.8	\$ 273.9	\$ 248.4	\$ 202.0	\$ 2,168.3	\$ 4,169.4

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. Outstanding purchase commitments in the table above include \$10.6 million related to expenditures on our new corporate headquarters building. In addition, due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2016, we are unable to make reasonably reliable estimates of the period in which cash settlements may be made with the respective taxing authorities. Therefore, \$14.5 million of unrecognized tax benefits have been excluded from the contractual obligations table above. See Note 17 to our consolidated financial statements for a discussion on income taxes.

See Note 7 to our consolidated financial statements for a discussion of the terms of the Credit Agreement and note purchase agreements.

### Off-Balance Sheet Arrangements

**Off-Balance Sheet Commitments** - Our total unrecorded commitments associated with outstanding letters of credit, financial guarantees and funding commitments as of December 31, 2016 are as follows (in millions):

Off-Balance Sheet Commitments	Amount of Commitment Expiration by Period						Total
	2017	2018	2019	2020	2021	Thereafter	Amounts Committed
Letters of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21.1	\$ 21.1
Financial guarantees	0.2	0.2	0.2	0.2	0.2	1.4	2.4
Funding commitments	2.7	-	-	-	-	0.7	3.4
Total commitments	\$ 2.9	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 23.2	\$ 26.9

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements. See Note 15 to our consolidated financial statements for a discussion of our funding commitments related to our corporate segment and the Off-Balance Sheet Debt section below for a discussion of other letters of credit. All of the letters of credit represent multiple year commitments that have annual, automatic renewing provisions and are classified by the latest commitment date.

Since January 1, 2002, we have acquired 420 companies, all of which were accounted for using the acquisition method for recording business combinations. Substantially all of the purchase agreements related to these acquisitions contain provisions for potential earnout obligations. For all of our acquisitions made in the period from 2013 to 2016 that contain potential earnout obligations, such obligations are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration for the respective acquisition. The amounts recorded as earnout payables are primarily based upon estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The aggregate amount of the maximum earnout obligations related to these acquisitions was \$527.2 million, of which \$242.3 million was recorded in our consolidated balance sheet as of December 31, 2016 based on the estimated fair value of the expected future payments to be made.

**Off-Balance Sheet Debt** - Our unconsolidated investment portfolio includes investments in enterprises where our ownership interest is between 1% and 50%, in which management has determined that our level of influence and economic interest is not sufficient to require consolidation. As a result, these investments are accounted for under the equity method. None of these unconsolidated investments had any outstanding debt at December 31, 2016 and 2015 that was recourse to us.

At December 31, 2016, we had posted two letters of credit totaling \$9.3 million, in the aggregate, related to our self-insurance deductibles, for which we have recorded a liability of \$12.3 million. We have an equity investment in a rent-a-captive facility, which we use as a placement facility for certain of our insurance brokerage operations. At December 31, 2016, we had posted seven letters of credit totaling \$6.3 million to allow certain of our captive operations to meet minimum statutory surplus requirements and for additional collateral related to premium and claim funds held in a fiduciary capacity, one letter of credit totaling \$5.0 million to support our potential obligation under a client's insurance program and one letter of credit totaling \$0.5 million as a security deposit for a 2015 acquisition's lease. These letters of credit have never been drawn upon.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

We are exposed to various market risks in our day to day operations. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest and foreign currency exchange rates and equity prices. The following analyses present the hypothetical loss in fair value of the financial instruments held by us at December 31, 2016 that are sensitive to changes in interest rates. The range of changes in interest rates used in the analyses reflects our view of changes that are reasonably possible over a one-year period. This discussion of market risks related to our consolidated balance sheet includes estimates of future economic environments caused by changes in market risks. The effect of actual changes in these market risk factors may differ materially from our estimates. In the ordinary course of business, we also face risks that are either nonfinancial or unquantifiable, including credit risk and legal risk. These risks are not included in the following analyses.

Our invested assets are primarily held as cash and cash equivalents, which are subject to various market risk exposures such as interest rate risk. The fair value of our portfolio of cash and our cash equivalents as of December 31, 2016 approximated its carrying value due to its short-term duration. We estimated market risk as the potential decrease in fair value resulting from a hypothetical one-percentage point increase in interest rates for the instruments contained in the cash and cash equivalents investment portfolio. The resulting fair values were not materially different from their carrying values at December 31, 2016.

As of December 31, 2016, we had \$2,450.0 million of borrowings outstanding under our various note purchase agreements. The aggregate estimated fair value of these borrowings at December 31, 2016 was \$2,545.0 million due to the long-term duration and fixed interest rates associated with these debt obligations. No active or observable market exists for our private placement long-term debt. Therefore, the estimated fair value of this debt is based on the income valuation approach, which is a valuation technique that converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. Because our debt issuances generate a measurable income stream for each lender, the income approach was deemed to be an appropriate methodology for valuing the private placement long-term debt. The methodology used calculated the original deal spread at the time of each debt issuance, which was equal to the difference between the yield of each issuance (the coupon rate) and the equivalent benchmark treasury yield at that time. The market spread as of the valuation date was calculated, which is equal to the difference between an index for investment grade insurers and the equivalent benchmark treasury yield today. An implied premium or discount to the par value of each debt issuance based on the difference between the origination deal spread and market as of the valuation date was then calculated. The index we relied on to represent investment graded insurers was the Bloomberg Valuation Services (BVAL) U.S. Insurers BBB index. This index is comprised primarily of insurance brokerage firms and was representative of the industry in which we operate. For the purposes of our analysis, the average BBB rate was assumed to be the appropriate borrowing rate for us based on our current estimated credit rating.

We estimated market risk as the potential impact on the value of the debt recorded in our consolidated balance sheet resulting from a hypothetical one-percentage point decrease in our weighted average borrowing rate as of December 31, 2016 and the resulting fair values would be \$241.6 million higher than their carrying value (or \$2,691.6 million). We estimated market risk as the potential impact on the value of the debt recorded in our consolidated balance sheet resulting from a hypothetical one-percentage point increase in our weighted average borrowing rate as of December 31, 2016 and the resulting fair values would be \$40.5 million lower than their carrying value (or \$2,409.5 million).

As of December 31, 2016, we had \$278.0 million of borrowings outstanding under our Credit Agreement. The fair value of these borrowings approximate their carrying value due to their short-term duration and variable interest rates associated with these debt obligations. Market risk is estimated as the potential increase in fair value resulting from a hypothetical one-percentage point decrease in our weighted average short-term borrowing rate at December 31, 2016 and the resulting fair value is not be materially different from their carrying value.

At December 31, 2016, we had \$125.6 million of borrowings outstanding under our Premium Financing Debt Facility. The fair value of these borrowings approximate their carrying value due to their short-term duration and variable interest rates associated with these debt obligations. Market risk is estimated as the potential increase in fair value resulting from a hypothetical one-percentage point decrease in our weighted average short-term borrowing rate at December 31, 2016, and the resulting fair value is not materially different from their carrying value.

We are subject to foreign currency exchange rate risk primarily from one of our larger U.K. based brokerage subsidiaries that incurs expenses denominated primarily in British pounds while receiving a substantial portion of its revenues in U.S. dollars. In addition, we are subject to foreign currency exchange rate risk from our U.K., Australian, Canadian, Indian, Jamaican, New Zealand, Norwegian, Singaporean and various Caribbean and South American operations because we transact business in their local denominated currencies. Foreign currency gains (losses) related to this market risk are recorded in earnings before income taxes as transactions occur. Assuming a hypothetical adverse change of 10% in the average foreign currency exchange rate for 2016 (a weakening of the U.S. dollar), earnings before income taxes would have increased by approximately \$6.7 million. Assuming a hypothetical favorable change of 10% in the average foreign currency exchange rate for 2016 (a strengthening of the U.S. dollar), earnings before income taxes would have decreased by approximately \$11.5 million. We are also subject to foreign currency exchange rate risk associated with the translation of local currencies of our foreign subsidiaries into U.S. dollars. We manage the balance sheets of our foreign subsidiaries, where practical, such that foreign liabilities are matched with equal foreign assets, maintaining a “balanced book” which minimizes the effects of currency fluctuations. However, our consolidated financial position is exposed to foreign currency exchange risk related to intra-entity loans between our U.S. based subsidiaries and our non-U.S. based subsidiaries that are denominated in the respective local foreign currency. A transaction that is in a foreign currency is first remeasured at the entity’s functional (local) currency, where applicable, (which is an adjustment to consolidated earnings) and then translated to the reporting (U.S. dollar) currency (which is an adjustment to consolidated stockholders’ equity) for consolidated reporting purposes. If the transaction is already denominated in the foreign entity’s functional currency, only the translation to U.S. dollar reporting is necessary. The remeasurement process required by U.S. GAAP for such foreign currency loan transactions will give rise to a consolidated unrealized foreign exchange gain or loss, which could be material, that is recorded in accumulated other comprehensive earnings (loss).

Historically, we have not entered into derivatives or other similar financial instruments for trading or speculative purposes. However, with respect to managing foreign currency exchange rate risk in India, Norway and the U.K., we have periodically purchased financial instruments when market opportunities arose to minimize our exposure to this risk. During 2016, 2015 and 2014, we had several monthly put/call options in place with an external financial institution that are designed to hedge a significant portion of our future U.K. currency revenues (in 2016) and disbursements (in 2015) through various future payment dates. In addition, during 2016, we had several monthly put/call options in place with an external financial institution that were designed to hedge a significant portion of our Indian currency disbursements through various future payment dates. Although these hedging strategies were designed to protect us against significant U.K. and India currency exchange rate movements, we are still exposed to some foreign currency exchange rate risk for the portion of the payments and currency exchange rate that are unhedged. The impact of these hedging strategies was not material to our consolidated financial statements for 2016, 2015 and 2014. See Note 18 to our consolidated financial statements for the changes in fair value of these derivative instruments reflected in comprehensive earnings in 2016, 2015 and 2014. We entered into an AU\$400.0 million foreign currency derivative investment contract that we executed on April 16, 2014 in connection with the signing of the agreement to acquire the Crombie/OAMPS operations. This contract was designed to hedge a portion of the AU dollar denominated purchase price consideration of this acquisition. The derivative investment contract was exercised on June 16, 2014, the date that the Crombie/OAMPS transaction closed. In second quarter 2014, we recorded a pretax gain of \$1.9 million related to this derivative investment contract. These contracts were designed to hedge a portion of the GBP denominated purchase price consideration of this acquisition.

**Item 8. Financial Statements and Supplementary Data.**

**Arthur J. Gallagher & Co.**  
**Consolidated Statement of Earnings**  
**(In millions, except per share data)**

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Commissions	\$ 2,439.1	\$ 2,338.7	\$ 2,083.0
Fees	1,492.8	1,432.3	1,258.3
Supplemental commissions	147.0	125.5	104.0
Contingent commissions	107.2	93.7	84.7
Investment income	53.3	54.2	41.3
Gains on books of business sales	6.6	6.7	7.3
Revenues from clean coal activities	1,350.1	1,310.8	1,029.5
Other net revenues	(1.3)	30.5	18.4
Total revenues	<u>5,594.8</u>	<u>5,392.4</u>	<u>4,626.5</u>
Compensation	2,538.9	2,428.9	2,167.6
Operating	797.7	840.7	743.1
Cost of revenues from clean coal activities	1,408.6	1,351.5	1,058.9
Interest	109.8	103.0	89.0
Depreciation	103.6	93.9	69.4
Amortization	247.2	240.3	189.5
Change in estimated acquisition earnout payables	32.1	40.6	17.5
Total expenses	<u>5,237.9</u>	<u>5,098.9</u>	<u>4,335.0</u>
Earnings before income taxes	356.9	293.5	291.5
Benefit for income taxes	(88.1)	(95.6)	(36.0)
Net earnings	445.0	389.1	327.5
Net earnings attributable to noncontrolling interests	30.6	32.3	24.1
Net earnings attributable to controlling interests	<u>\$ 414.4</u>	<u>\$ 356.8</u>	<u>\$ 303.4</u>
Basic net earnings per share	\$ 2.33	\$ 2.07	\$ 1.98
Diluted net earnings per share	2.32	2.06	1.97
Dividends declared per common share	1.52	1.48	1.44

See notes to consolidated financial statements.

**Arthur J. Gallagher & Co.**  
**Consolidated Statement of Comprehensive Earnings**  
(In millions)

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net earnings	\$ 445.0	\$ 389.1	\$ 327.5
Change in pension liability, net of taxes	(4.4)	1.3	(18.6)
Foreign currency translation	(231.8)	(261.1)	(238.4)
Change in fair value of derivative instruments, net of taxes	(4.9)	(2.1)	(1.0)
Comprehensive earnings	203.9	127.2	69.5
Comprehensive earnings attributable to noncontrolling interests	35.1	25.9	31.5
Comprehensive earnings attributable to controlling interests	\$ 168.8	\$ 101.3	\$ 38.0

See notes to consolidated financial statements

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

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 545.5	\$ 480.4
Restricted cash	1,392.1	1,412.1
Premiums and fees receivable	1,844.8	1,734.0
Other current assets	633.7	587.2
Total current assets	4,416.1	4,213.7
Fixed assets - net	377.6	249.0
Deferred income taxes	796.5	643.5
Other noncurrent assets	504.3	442.6
Goodwill - net	3,767.8	3,662.9
Amortizable intangible assets - net	1,627.3	1,698.8
Total assets	\$ 11,489.6	\$ 10,910.5
Premiums payable to insurance and reinsurance companies	\$ 2,996.1	\$ 2,877.1
Accrued compensation and other accrued liabilities	772.1	812.7
Unearned fees	69.0	61.3
Other current liabilities	70.9	54.0
Premium financing borrowings	125.6	137.0
Corporate related borrowings - current	578.0	245.0
Total current liabilities	4,611.7	4,187.1
Corporate related borrowings - noncurrent	2,144.6	2,071.7
Other noncurrent liabilities	1,077.5	963.5
Total liabilities	7,833.8	7,222.3
Stockholders' equity:		
Common stock - authorized 400.0 shares; issued and outstanding 178.3 shares in 2016 and 176.9 shares in 2015	178.3	176.9
Capital in excess of par value	3,265.5	3,209.4
Retained earnings	916.4	774.5
Accumulated other comprehensive loss	(763.6)	(522.5)
Stockholders' equity attributable to controlling interests	3,596.6	3,638.3
Stockholders' equity attributable to noncontrolling interests	59.2	49.9
Total stockholders' equity	3,655.8	3,688.2
Total liabilities and stockholders' equity	\$ 11,489.6	\$ 10,910.5

See notes to consolidated financial statements.

**Arthur J. Gallagher & Co.**  
**Consolidated Statement of Cash Flows**  
(In millions)

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:			
Net earnings	\$ 445.0	\$ 389.1	\$ 327.5
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net gain on investments and other	(6.5)	(6.6)	(23.0)
Depreciation and amortization	350.8	334.2	258.9
Change in estimated acquisition earnout payables	32.1	40.6	17.5
Amortization of deferred compensation and restricted stock	28.5	22.7	22.9
Stock-based and other noncash compensation expense	14.7	11.2	10.6
Effect of changes in foreign exchange rate	(3.0)	(0.2)	(0.5)
Net change in restricted cash	(50.3)	(45.6)	(62.1)
Net change in premiums receivable	(242.8)	(209.3)	95.3
Net change in premiums payable	352.9	406.6	60.0
Net change in other current assets	(55.2)	(34.7)	(150.5)
Net change in accrued compensation and other accrued liabilities	69.1	217.8	191.6
Net change in fees receivable/unearned fees	2.8	(49.6)	(26.0)
Net change in income taxes payable	(10.8)	(18.5)	4.9
Net change in deferred income taxes	(158.0)	(161.2)	(126.1)
Net change in other noncurrent assets and liabilities	(34.5)	(89.5)	(22.9)
Unrealized foreign currency remeasurement loss	(112.7)	(154.4)	(141.5)
Net cash provided by operating activities	<u>622.1</u>	<u>652.6</u>	<u>436.6</u>
Cash flows from investing activities:			
Net additions to fixed assets	(217.8)	(99.0)	(81.5)
Cash paid for acquisitions, net of cash acquired	(327.3)	(342.3)	(1,918.3)
Net proceeds from sales of operations/books of business	7.8	9.2	8.2
Net funding of investment transactions	(31.9)	(29.5)	(20.1)
Net cash used by investing activities	<u>(569.2)</u>	<u>(461.6)</u>	<u>(2,011.7)</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock	45.6	203.3	997.0
Tax impact from issuance of common stock	6.5	5.3	6.9
Repurchases of common stock	(101.0)	-	-
Payments to noncontrolling interests	(41.8)	(39.9)	(34.3)
Dividends paid	(272.2)	(257.5)	(223.1)
Net borrowings on premium financing debt facility	(12.2)	23.9	7.5
Borrowings on line of credit facilities	2,740.0	849.0	1,109.9
Repayments on line of credit facilities	(2,657.0)	(794.0)	(1,500.4)
Borrowings of corporate related long-term debt	376.0	-	1,300.0
Repayments of corporate related long-term debt	(50.0)	-	(100.0)
Net cash provided (used) by financing activities	<u>33.9</u>	<u>(9.9)</u>	<u>1,563.5</u>
Effect of changes in foreign exchange rates on cash and cash equivalents	<u>(21.7)</u>	<u>(15.1)</u>	<u>27.9</u>
Net increase in cash and cash equivalents	65.1	166.0	16.3
Cash and cash equivalents at beginning of year	480.4	314.4	298.1
Cash and cash equivalents at end of year	<u>\$ 545.5</u>	<u>\$ 480.4</u>	<u>\$ 314.4</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 112.8	\$ 103.9	\$ 82.5
Income taxes paid	66.1	78.3	72.9

See notes to consolidated financial statements.

**Arthur J. Gallagher & Co.**  
**Consolidated Statement of Stockholders' Equity**  
(In millions)

	<u>Common Stock</u>		<u>Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Comprehensive Earnings (Loss)</u>	<u>Noncontrolling Interests</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at December 31, 2013	133.6	\$133.6	\$ 1,358.1	\$ 596.4	\$ (2.6)	\$ 29.3	\$ 2,114.8
Net earnings	-	-	-	303.4	-	24.1	327.5
Net purchase of subsidiary shares from noncontrolling interests	-	-	-	-	-	49.3	49.3
Dividends paid to noncontrolling interests	-	-	-	-	-	(34.4)	(34.4)
Net change in pension asset/liability, net of taxes of (\$12.4) million	-	-	-	-	(18.6)	-	(18.6)
Foreign currency translation	-	-	-	-	(238.4)	7.4	(231.0)
Change in fair value of derivative instruments, net of taxes of (\$0.7) million	-	-	-	-	(1.0)	-	(1.0)
Compensation expense related to stock option plan grants	-	-	9.5	-	-	-	9.5
Tax impact from issuance of common stock	-	-	6.9	-	-	-	6.9
Common stock issued in:							
Fifty-three purchase transactions	6.5	6.5	292.8	-	-	-	299.3
Stock option plans	1.6	1.6	42.6	-	-	-	44.2
Employee stock purchase plan	0.3	0.3	12.1	-	-	-	12.4
Deferred compensation and restricted stock	0.1	0.1	8.4	-	-	-	8.5
Stock issuance under dribble-out program	0.6	0.6	28.4	-	-	-	29.0
Stock issuance from public offering	21.9	21.9	889.5	-	-	-	911.4
Other compensation expense	-	-	1.1	-	-	-	1.1
Cash dividends declared on common stock	-	-	-	(223.8)	-	-	(223.8)
Balance at December 31, 2014	164.6	164.6	2,649.4	676.0	(260.6)	75.7	3,305.1
Net earnings	-	-	-	356.8	-	32.3	389.1
Net purchase of subsidiary shares from noncontrolling interests	-	-	-	-	-	(15.0)	(15.0)
Dividends paid to noncontrolling interests	-	-	-	-	-	(36.7)	(36.7)
Net change in pension asset/liability, net of taxes of \$0.9 million	-	-	-	-	1.3	-	1.3
Foreign currency translation	-	-	-	-	(261.1)	(6.4)	(267.5)
Change in fair value of derivative instruments, net of taxes of (\$1.4) million	-	-	-	-	(2.1)	-	(2.1)
Compensation expense related to stock option plan grants	-	-	11.2	-	-	-	11.2
Tax impact from issuance of common stock	-	-	5.3	-	-	-	5.3
Common stock issued in:							
Thirty-nine purchase transactions	7.3	7.3	338.9	-	-	-	346.2
Stock option plans	1.4	1.4	39.0	-	-	-	40.4
Employee stock purchase plan	0.3	0.3	13.5	-	-	-	13.8
Deferred compensation and restricted stock	0.2	0.2	6.0	-	-	-	6.2
Stock issuance under dribble-out program	3.1	3.1	146.1	-	-	-	149.2
Cash dividends declared on common stock	-	-	-	(258.3)	-	-	(258.3)
Balance at December 31, 2015	176.9	\$176.9	\$ 3,209.4	\$ 774.5	\$ (522.5)	\$ 49.9	\$ 3,688.2

See notes to consolidated financial statements.



**Arthur J. Gallagher & Co.**  
**Consolidated Statement of Stockholders' Equity (continued)**  
(In millions)

	Common Stock		Capital in	Retained	Accumulated Other	Noncontrolling	Total
	Shares	Amount	Excess of Par Value	Earnings	Comprehensive Earnings (Loss)	Interests	
Balance at December 31, 2015	176.9	\$176.9	\$ 3,209.4	\$ 774.5	\$ (522.5)	\$ 49.9	\$ 3,688.2
Net earnings	-	-	-	414.4	-	30.6	445.0
Net purchase of subsidiary shares from noncontrolling interests	-	-	-	-	-	8.3	8.3
Dividends paid to noncontrolling interests	-	-	-	-	-	(34.1)	(34.1)
Net change in pension asset/liability, net of taxes of (\$2.9) million	-	-	-	-	(4.4)	-	(4.4)
Foreign currency translation	-	-	-	-	(231.8)	4.5	(227.3)
Change in fair value of derivative instruments, net of taxes of (\$3.2) million	-	-	-	-	(4.9)	-	(4.9)
Compensation expense related to stock option plan grants	-	-	14.7	-	-	-	14.7
Tax impact from issuance of common stock	-	-	6.5	-	-	-	6.5
Common stock issued in:							
Nine purchase transactions	2.0	2.0	89.6	-	-	-	91.6
Stock option plans	1.1	1.1	28.6	-	-	-	29.7
Employee stock purchase plan	0.4	0.4	15.5	-	-	-	15.9
Deferred compensation and restricted stock	0.2	0.2	(0.1)	-	-	-	0.1
Common stock repurchases	(2.3)	(2.3)	(98.7)	-	-	-	(101.0)
Cash dividends declared on common stock	-	-	-	(272.5)	-	-	(272.5)
Balance at December 31, 2016	<u>178.3</u>	<u>\$178.3</u>	<u>\$ 3,265.5</u>	<u>\$ 916.4</u>	<u>\$ (763.6)</u>	<u>\$ 59.2</u>	<u>\$ 3,655.8</u>

See notes to consolidated financial statements.

**Arthur J. Gallagher & Co.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016**

**1. Summary of Significant Accounting Policies**

**Nature of Operations** - Arthur J. Gallagher & Co. and its subsidiaries, collectively referred to herein as we, our, us or the company, provide insurance brokerage and risk management services to a wide variety of commercial, industrial, institutional and governmental organizations through three reportable operating segments. Commission and fee revenue generated by the brokerage segment is primarily related to the negotiation and placement of insurance for our clients. Fee revenue generated by the risk management segment is primarily related to claims management, information management, risk control consulting (loss control) services and appraisals in the property/casualty market. Investment income and other revenue are generated from our premium financing operations and our investment portfolio, which includes invested cash and restricted funds, as well as clean energy and other investments. We are headquartered in Itasca, Illinois, have operations in 33 countries and offer client-service capabilities in more than 150 countries globally through a network of correspondent insurance brokers and consultants.

**Basis of Presentation** - The accompanying consolidated financial statements include our accounts and all of our majority-owned subsidiaries (50% or greater ownership). Substantially all of our investments in partially owned entities in which our ownership is less than 50% are accounted for using the equity method based on the legal form of our ownership interest and the applicable ownership percentage of the entity. However, in situations where a less than 50%-owned investment has been determined to be a variable interest entity (which we refer to as a VIE) and we are deemed to be the primary beneficiary in accordance with the variable interest model of consolidation, we will consolidate the investment into our consolidated financial statements. For partially owned entities accounted for using the equity method, our share of the net earnings of these entities is included in consolidated net earnings. All material intercompany accounts and transactions have been eliminated in consolidation.

In the preparation of our consolidated financial statements as of December 31, 2016, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition in our consolidated financial statements and/or disclosure in the notes thereto.

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

**Revenue Recognition** - Our revenues are derived from commissions, fees and investment income.

We recognize commission revenues at the later of the billing or the effective date of the related insurance policies, net of an allowance for estimated policy cancellations. We recognize commission revenues related to installment premiums as the installments are billed. We recognize supplemental commission revenues using internal data and information received from insurance carriers that allows us to reasonably estimate the supplemental commissions earned in the period. A supplemental commission is a commission paid by an insurance carrier that is above the base commission paid, is determined by the insurance carrier, and is established annually in advance of the contractual period based on historical performance criteria. We recognize contingent commissions and commissions on premiums directly billed by insurance carriers as revenue when we have obtained the data necessary to reasonably determine such amounts. Typically, we cannot reasonably determine these types of commission revenues until we have received the cash or the related policy detail or other carrier specific information from the insurance carrier. A contingent commission is a commission paid by an insurance carrier based on the overall profit and/or volume of the business placed with that insurance carrier during a particular calendar year and is determined after the contractual period. Commissions on premiums billed directly by insurance carriers to the insureds generally relate to a large number of property/casualty insurance policy transactions, each with small premiums, and comprise a substantial portion of the revenues generated by our employee benefit brokerage operations. Under these direct bill arrangements, the insurance carrier controls the entire billing and policy issuance process. We record the income effects of subsequent premium adjustments when the adjustments become known.

Fee revenues generated from the brokerage segment primarily relate to fees negotiated in lieu of commissions that we recognize in the same manner as commission revenues. Fee revenues generated from the risk management segment relate to third party claims administration, loss control and other risk management consulting services, which we provide over a period of time, typically one year. We recognize these fee revenues ratably as the services are rendered, and record the income effects of subsequent fee adjustments when the adjustments become known.

We deduct brokerage expense from gross revenues in our determination of our total revenues. Brokerage expense represents commissions paid to sub-brokers related to the placement of certain business by our brokerage segment. We recognize this expense in the same manner as commission revenues.

Premiums and fees receivable in the accompanying consolidated balance sheet are net of allowances for estimated policy cancellations and doubtful accounts. The allowance for estimated policy cancellations was \$7.1 million and \$7.4 million at December 31, 2016 and 2015, respectively, which represents a reserve for future reversals in commission and fee revenues related to the potential cancellation of client insurance policies that were in force as of each year end. The allowance for doubtful accounts was \$12.8 million and \$13.3 million at December 31, 2016 and 2015, respectively. We establish the allowance for estimated policy cancellations through a charge to revenues and the allowance for doubtful accounts through a charge to operating expenses. Both of these allowances are based on estimates and assumptions using historical data to project future experience. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein. We periodically review the adequacy of these allowances and make adjustments as necessary.

Investment income primarily includes interest and dividend income (including interest income from our premium financing operations), which is accrued as it is earned. Gains on books of business sales represent one-time gains related to sales of brokerage related businesses, which are primarily recognized on a cash received basis. Revenues from clean coal activities include revenues from consolidated clean coal production plants, royalty income from clean coal licenses and income (loss) related to unconsolidated clean coal production plants, all of which are recognized as earned. Revenues from consolidated clean coal production plants represent sales of refined coal. Royalty income from clean coal licenses represents fee income related to the use of clean coal technologies. Income (loss) from unconsolidated clean coal production plants includes income (losses) related to our equity portion of the pretax results of the clean coal production plants and production based installment sale income from majority investors.

**Claims Handling Obligations** - We are obligated under certain circumstances to provide future claims handling and certain administrative services for our former global risks brokerage clients in the U.K. Our obligation is the result of following the industry practice of insurance brokers providing future claims handling and administrative services to former clients. In addition, under certain circumstances, our risk management segment operations are contractually obligated to provide contract claim settlement and administration services to our former clients. Accordingly, we record a liability for these deferred run-off obligations based on the estimated costs to provide these future services to former clients. This liability is based on estimates and assumptions using historical data to project future experience. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein. We periodically review (at least annually) the adequacy of this liability and will make adjustments as necessary.

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

**Cash and Cash Equivalents** - Short-term investments, consisting principally of cash and money market accounts that have average maturities of 90 days or less, are considered cash equivalents.

**Restricted Cash** - In our capacity as an insurance broker, we collect premiums from insureds and, after deducting our commissions and/or fees, remit these premiums to insurance carriers. We hold unremitted insurance premiums in a fiduciary capacity until we disburse them, and the use of such funds is restricted by laws in certain states and foreign jurisdictions in which our subsidiaries operate. Various state and foreign agencies regulate insurance brokers and provide specific requirements that limit the type of investments that may be made with such funds. Accordingly, we invest these funds in cash and U.S. Treasury fund accounts. We can earn interest income on these unremitted funds, which is included in investment income in the accompanying consolidated statement of earnings. These unremitted amounts are reported as restricted cash in the accompanying consolidated balance sheet, with the related liability reported as premiums payable to insurance and reinsurance companies. Additionally, several of our foreign subsidiaries are required by various foreign agencies to meet certain liquidity and solvency requirements. We were in compliance with these requirements at December 31, 2016.

Related to our third party administration business and in certain of our brokerage operations, we are responsible for client claim funds that we hold in a fiduciary capacity. We do not earn any interest income on the funds held. These client funds have been included in restricted cash, along with a corresponding liability in premiums payable to insurance and reinsurance companies in the accompanying consolidated balance sheet.

**Derivative Instruments** - In the normal course of business, we are exposed to the impact of foreign currency fluctuations that impact our results of operations and cash flows. We utilize a foreign currency risk management program involving foreign currency derivatives that consist of several monthly put/call options designed to hedge a portion of our future foreign currency disbursements through various future payment dates. To mitigate the counterparty credit risk we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors. These derivative instrument contracts are cash flow hedges that qualify for hedge accounting and primarily hedge against fluctuations between changes in the GBP and Indian Rupee versus the U.S. dollar. Changes in fair value of the derivative instruments are reflected in other comprehensive earnings in the accompanying consolidated balance sheet. The impact of the hedge at maturity is recognized in the income statement as a component of investment income, compensation and operating expenses depending on the nature of the

hedged item. These derivative instrument contracts are periodically monitored for hedge ineffectiveness, the amount of which has not been material to the accompanying consolidated financial statements. We do not use derivatives for trading or speculative purposes. In 2014, other net revenues also includes a gain of \$1.9 million related to an AU\$400.0 million foreign currency derivative investment contract that we executed on April 16, 2014 in connection with the signing of the agreement to acquire the Crombie/OAMPS operations, headquartered in Australia. This contract was designed to hedge a portion of the AU dollar denominated purchase price consideration of this acquisition. The derivative investment contract was exercised on June 16, 2014, the date that the Crombie/OAMPS transaction closed.

**Premium Financing** - Seven subsidiaries of the brokerage segment make short-term loans (generally with terms of twelve months or less) to our clients to finance premiums. These premium financing contracts are structured to minimize potential bad debt expense to us. Such receivables are generally considered delinquent after seven days of the payment due date. In normal course, insurance policies are cancelled within one month of the contractual payment due date if the payment remains delinquent. We recognize interest income as it is earned over the life of the contract using the “level-yield” method. Unearned interest related to contracts receivable is included in the receivable balance in the accompanying consolidated balance sheet. The outstanding loan receivable balance was \$241.2 million and \$220.2 million at December 31, 2016 and 2015, respectively.

**Fixed Assets** - We carry fixed assets at cost, less accumulated depreciation, in the accompanying consolidated balance sheet. We periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Under those circumstances, if the fair value were less than the carrying amount of the asset, we would recognize a loss for the difference. Depreciation for fixed assets is computed using the straight-line method over the following estimated useful lives:

	<u>Useful Life</u>
Office equipment	Three to ten years
Furniture and fixtures	Three to ten years
Computer equipment	Three to five years
Building	Fifteen to forty years
Software	Three to five years
Refined fuel plants	Ten years
Leasehold improvements	Shorter of the lease term or useful life of the asset

**Intangible Assets** - Intangible assets represent the excess of cost over the estimated fair value of net tangible assets of acquired businesses. Our primary intangible assets are classified as either goodwill, expiration lists, non-compete agreements or trade names. Expiration lists, non-compete agreements and trade names are amortized using the straight-line method over their estimated useful lives (three to fifteen years for expiration lists, three to five years for non-compete agreements and five to fifteen years for trade names), while goodwill is not subject to amortization. The establishment of goodwill, expiration lists, non-compete agreements and trade names and the determination of estimated useful lives are primarily based on valuations we receive from qualified independent appraisers. The calculations of these amounts are based on estimates and assumptions using historical and projected financial information and recognized valuation methods. Different estimates or assumptions could produce different results. We carry intangible assets at cost, less accumulated amortization, in the accompanying consolidated balance sheet.

We review all of our intangible assets for impairment periodically (at least annually for goodwill) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. We perform such impairment reviews at the division (i.e., reporting unit) level with respect to goodwill and at the business unit level for amortizable intangible assets. In reviewing intangible assets, if the fair value were less than the carrying amount of the respective (or underlying) asset, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings as a component of amortization expense. Based on the results of impairment reviews in 2016, 2015 and 2014, we wrote off \$1.8 million, \$11.5 million and \$1.8 million, respectively, of amortizable intangible assets primarily related to prior year acquisitions of our brokerage segment, which is included in amortization expense in the accompanying consolidated statement of earnings. The determinations of impairment indicators and fair value are based on estimates and assumptions related to the amount and timing of future cash flows and future interest rates. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

**Income Taxes** - Our tax rate reflects the statutory tax rates applicable to our taxable earnings and tax planning in the various jurisdictions in which we operate. Significant judgment is required in determining the annual effective tax rate and in evaluating uncertain tax positions. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in our tax return. We evaluate our tax positions using a two-step process. The first step involves recognition. We determine whether it is more likely than not that a tax position will be sustained upon tax examination based solely on the technical merits of the position. The technical merits of a tax position are derived from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings and case law) and their applicability to the facts and circumstances of the position. If a tax position does not meet the “more likely than not” recognition threshold, we do not recognize the benefit of that position in the financial statements. The second step is measurement. A tax position that meets the “more likely than not” recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that has a likelihood of greater than 50% of being realized upon ultimate resolution with a taxing authority.

Uncertain tax positions are measured based upon the facts and circumstances that exist at each reporting period and involve significant management judgment. Subsequent changes in judgment based upon new information may lead to changes in recognition, derecognition and measurement. Adjustments may result, for example, upon resolution of an issue with the taxing authorities, or expiration of a statute of limitations barring an assessment for an issue. We recognize interest and penalties, if any, related to unrecognized tax benefits in our provision for income taxes.

Tax law requires certain items to be included in our tax returns at different times than such items are reflected in the financial statements. As a result, the annual tax expense reflected in our consolidated statements of earnings is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible in our tax returns, and some differences are temporary and reverse over time, such as depreciation expense and amortization expense deductible for income tax purposes. Temporary differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which a tax payment has been deferred, or expense which has been deducted in the tax return but has not yet been recognized in the financial statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in tax returns in future years for which a benefit has already been recorded in the financial statements.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to fully use a deduction or credit in a specific jurisdiction. In assessing the need for the recognition of a valuation allowance for deferred tax assets, we consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized and adjust the valuation allowance accordingly. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income by jurisdiction, tax-planning strategies that would result in the realization of deferred tax assets and the presence of taxable income in prior carryback years. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable.

**Fair Value of Financial Instruments** - Fair value accounting establishes a framework for measuring fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). This framework includes a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value.

The classification of a financial instrument within the valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels of the hierarchy in order of priority of inputs to the valuation technique are defined as follows:

- Level 1 - Valuations are based on unadjusted quoted prices in active markets for identical financial instruments;
- Level 2 - Valuations are based on quoted market prices, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument; and
- Level 3 - Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management’s own assumptions about the assumptions a market participant would use in pricing the financial instrument.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheet for cash and cash equivalents, restricted cash, premiums and fees receivable, premiums payable to insurance carriers, accrued salaries and bonuses, accounts payable and other accrued liabilities, unearned fees and income taxes payable, at December 31, 2016 and 2015, approximate fair value because of the short-term duration of these instruments. See Note 3 to our consolidated financial statements for the fair values related to the establishment of intangible assets and the establishment and adjustment of earnout payables. See Note 7 to our consolidated financial statements for the fair values related to borrowings outstanding at December 31, 2016 and 2015 under our debt agreements. See Note 12 to our consolidated financial statements for the fair values related to investments at December 31, 2016 and 2015 under our defined benefit pension plan.

**Litigation** - We are the defendant in various legal actions related to claims, lawsuits and proceedings incident to the nature of our business. We record liabilities for loss contingencies, including legal costs (such as fees and expenses of external lawyers and other service providers) to be incurred, when it is probable that a liability has been incurred on or before the balance sheet date and the amount of the liability can be reasonably estimated. We do not discount such contingent liabilities. To the extent recovery of such losses and legal costs is probable under our insurance programs, we record estimated recoveries concurrently with the losses recognized. Significant management judgment is required to estimate the amounts of such contingent liabilities and the related insurance recoveries. In order to assess our potential liability, we analyze our litigation exposure based on available information, including consultation with outside counsel handling the defense of these matters. As these liabilities are uncertain by their nature, the recorded amounts may change due to a variety of different factors, including new developments in, or changes in approach, such as changing the settlement strategy as applicable to each matter.

**Retention bonus arrangements** - In connection with the hiring and retention of both new talent and experienced personnel, including our senior management, brokers and other key personnel, we have entered into various agreements with key employees setting up the conditions for the cash payment of certain retention bonuses. These bonuses are an incentive for these employees to remain with the company, for a fixed period of time, to allow us to capitalize on their knowledge and experience. We have various forms of retention bonus arrangements; some are paid up front and some are paid at the end of the term, but all are contingent upon successfully completing a minimum period of employment. A retention bonus that is paid to an employee upfront that is contingent on a certain minimum period of employment, will be initially classified as a prepaid asset and amortized to compensation expense as the future services are rendered over the duration of the stay period. A retention bonus that is paid to an employee at the end of the term that is contingent on a certain minimum period of employment, will be accrued as a liability through compensation expense as the future services are rendered over the duration of the stay period. If an employee leaves prior to the required time frame to earn the retention bonus outright, then all or any portion that is ultimately unearned or refundable, and recovered by the company if prepaid, is forfeited and reversed through compensation expense.

**Stock-Based Compensation** - We have several employee equity-settled and cash-settled share-based compensation plans. Equity-settled share-based payments to employees include grants of stock options, performance stock units and restricted stock units and are measured based on estimated grant date fair value. We have elected to use the Black-Scholes option pricing model to determine the fair value of stock options on the dates of grant. Performance stock units are measured on the probable outcome of the performance conditions applicable to each grant. Restricted stock units are measured based on the fair market values of the underlying stock on the dates of grant. Shares are issued on the vesting dates net of the minimum statutory tax withholding requirements, as applicable, to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of performance stock units and restricted stock units outstanding. Furthermore, we record the liability for withholding amounts to be paid by us as a reduction to additional paid-in capital when paid.

Cash-settled share-based payments to employees include awards under our Performance Unit Program and stock appreciation rights. The fair value of the amount payable to employees in respect of cash-settled share-based payments is recognized as compensation expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in fair value of the liability are recognized as compensation expense.

We recognize share-based compensation expense over the requisite service period for awards expected to ultimately vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs from original estimates.

**Employee Stock Purchase Plan** - We have an employee stock purchase plan (which we refer to as the ESPP), under which the sale of 8.0 million shares of our common stock has been authorized. Eligible employees may contribute up to 15% of their compensation towards the quarterly purchase of our common stock at a purchase price equal to 95% of the lesser of the fair market value of our common stock on the first business day or the last business day of the quarterly offering period. Eligible employees may annually purchase shares of our common stock with an aggregate fair market value of up to \$25,000 (measured as of the first day of each quarterly offering period of each calendar year), provided that no employee may purchase more than 2,000 shares of our common stock under the ESPP during any calendar year. At December 31, 2016, 7.5 million shares of our common stock was reserved for future issuance under the ESPP.

**Defined Benefit Pension and Other Postretirement Plans** - We recognize in our consolidated balance sheet, an asset for our defined benefit postretirement plans' overfunded status or a liability for our plans' underfunded status. We recognize changes in the funded status of our defined benefit postretirement plans in comprehensive earnings in the year in which the changes occur. We use December 31 as the measurement date for our plans' assets and benefit obligations. See Note 12 to our consolidated financial statements for additional information required to be disclosed related to our defined benefit postretirement plans.

## **2. Effect of New Accounting Pronouncements**

### **Leases**

In February 2016, the Financial Accounting Standards Board (which we refer to as the FASB) issued Accounting Standards Update (which we refer to as ASU) 2016-02, Leases (Topic 842). Under this new accounting guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This new guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This new guidance is effective for first quarter 2019, and requires a modified retrospective adoption, with early adoption permitted.

We anticipate this guidance will have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the new guidance, we currently believe the most significant impact relates to our real estate operating leases and the related recognition of right-of-use assets and lease liabilities in both noncurrent assets and noncurrent liabilities in our consolidated balance sheet.

### **Stock Compensation**

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This new accounting guidance requires that all companies recognize the income tax effects of awards in the income statement when the awards vest or are settled, rather than maintaining an APIC pool and recognizing the tax benefits in excess of compensation costs through stockholders' equity. As it relates to forfeitures, the new guidance allows for companies to choose whether to continue to estimate forfeitures or account for forfeitures as they occur. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption was permitted and the new guidance may be applied either retrospectively or on a prospective basis. Management believes that the adoption of this guidance will not have a material impact on our consolidated financial statements.

### **Cash Receipts and Cash Payments**

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), (ASU 2016-15). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under ASC 230, Statement of Cash Flows. This new guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are currently reviewing the new guidance, and the impact from its adoption on our consolidated financial statements cannot be determined at this time.

### **Consolidations**

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. This new accounting guidance affects consolidation of variable interest entities in certain situations involving entities under common control. This new guidance is effective beginning on January 1, 2017 and is to be applied to all periods since adoption of ASU No. 2015-02, which we adopted effective January 1, 2016. We do not expect that the adoption of this new guidance will have a material effect on our consolidated financial statements.

### **Income Taxes**

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This new accounting guidance allows entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current guidance does not allow recognition until the asset has been sold to an outside party. This new guidance is effective beginning on January 1, 2018 and is to be applied on a modified retrospective basis. Early adoption is permitted. We have not yet determined the effect that adoption of this guidance will have on our consolidated financial statements.

### **Restricted Cash**

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This new accounting guidance addresses the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for all entities. We are currently assessing the impact that adopting this new guidance will have on our consolidated financial statements.

### **Consolidations**

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. This new accounting guidance on consolidations eliminates the deferral granted to investment companies from applying the variable interest entities guidance and makes targeted amendments to the current consolidation guidance. The new guidance applies to all entities involved with limited partnerships or similar entities and will require re-evaluation of these entities under the revised guidance, which could have changed previous consolidation conclusions. The new guidance was effective in first quarter 2016 and has been applied by us. The adoption of this guidance did not have a material impact on our consolidated financial statements.

### **Debt Issuance Costs**

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This new accounting guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new guidance was effective in first quarter 2016 and has been applied by us on a retrospective basis. Accordingly, we have reclassified debt issuance costs of \$3.3 million previously included in Other non-current assets to Corporate related borrowings - noncurrent in our consolidated balance sheet as of December 31, 2015.

### **Intangibles - Goodwill and Other**

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This new guidance provides additional information to help entities determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. The new guidance was effective in first quarter 2016 and has been applied by us. The adoption of this guidance did not have a material impact on our consolidated financial statements.

### **Business Combinations**

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The new accounting guidance requires that measurement period adjustments be recognized in the reporting period in which the adjustment amount is determined rather than retrospectively applying the change to the acquisition date. The new guidance was effective in first quarter 2016 and was applied by us. The adoption of this guidance did not have a material impact on our consolidated financial statements.

### **Income Taxes**

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The new accounting guidance requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent components. ASU 2015-17 is effective in first quarter 2017. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. We early adopted ASU 2015-17 during first quarter 2016 on a retrospective basis. Accordingly, we reclassified the current deferred taxes to noncurrent in our December 31, 2015 consolidated balance sheet, which increased Noncurrent deferred tax assets by \$122.1 million and increased Other noncurrent liabilities by \$4.6 million. See Note 17 to our consolidated financial statements for a discussion on income tax balances.

### **Revenue Recognition**

In 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as a Topic, ASC 606, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance is effective for us in first quarter 2018 and early adoption is permitted beginning in first quarter 2017. Two methods of transition are permitted upon adoption: full retrospective and modified retrospective. Under the full retrospective method, prior periods would be restated under the new revenue standard, providing a comparable view across all periods presented. Under the modified retrospective method, prior periods would not be restated. Rather, revenues and other disclosures for pre-2018 periods would be provided in the notes to the financial statements as previously reported under the current revenue guidance. We will adopt this new guidance in the first quarter 2018. We are evaluating both methods of transition; however, we currently anticipate adopting the new guidance using the full retrospective method to restate each prior reporting period presented.

A preliminary assessment to determine the impacts of the new accounting standard has been performed. We are currently implementing new accounting and operational processes which will be impacted by the new guidance, but we are unable to provide information on quantitative impacts at this time. We anticipate this standard will have a material impact on individual lines in our consolidated financial statements, but we do not expect it will have as material an impact on our results of operations on an annual basis. The primary impacts of the new standard to our product and service lines are anticipated to be as follows:

#### **Brokerage segment**

**Revenue** - We currently recognize revenue for some of our brokerage activities such as direct bill and contingent commission revenue over a period of time either due to the transfer of value to our customers or as the remuneration becomes determinable. Under the new guidance, these revenues will be substantially recognized at a point in time on the effective date of the associated policies when control of the policy transfers to the customer. Conversely under the new guidance we may need to defer certain revenues to reflect delivery of services over the contract period. As a result, revenue from certain arrangements will be recognized in earlier periods under the new guidance in comparison to our current accounting policies and others will be recognized in later periods. We have not yet identified the net effect of all of these changes on the timing and amount of revenue recognized for annual and interim periods.



**Expense** - Amendments to ASC Topic 340, Other Assets and Deferred Costs, require the capitalization of costs to obtain and costs to fulfill customer contracts, which are currently expensed as incurred. The assets recognized for the costs to obtain and/or fulfill a contract will be amortized on a systematic basis that is consistent with the transfer of the services to which the asset relates. We are currently determining the nature and quantifying the amount of costs that would qualify for capitalization and the amount of amortization that will be recognized in each period.

**Risk management segment**

We are currently assessing the timing and measurement of revenue recognition under the new guidance for our risk management segment, specifically third party administration contracts among others, and anticipate that more revenue will be initially deferred and recognized over a longer future period of time than under our current accounting policies.

**Corporate segment**

We expect that the timing related to recognition of revenue in our corporate segment will remain substantially unchanged.

**3. Business Combinations**

During 2016, we acquired substantially all of the net assets of the following firms in exchange for our common stock and/or cash. These acquisitions have been accounted for using the acquisition method for recording business combinations (in millions except share data):

<u>Name and Effective Date of Acquisition</u>	<u>Common Shares Issued</u> (000s)	<u>Common Share Value</u>	<u>Cash Paid</u>	<u>Accrued Liability</u>	<u>Escrow Deposited</u>	<u>Recorded Earnout Payable</u>	<u>Total Recorded Purchase Price</u>	<u>Maximum Potential Earnout Payable</u>
Bomford, Couch & Wilson, Inc. February 1, 2016	-	\$ -	\$ 0.9	\$ -	\$ -	\$ 1.4	\$ 2.3	\$ 2.1
White & Company Insurance, Inc. February 1, 2016	494	17.4	-	-	1.9	-	19.3	-
Joseph Distel & Company, Inc. March 1, 2016	-	-	1.3	-	0.2	-	1.5	-
Vincent L. Braband Insurance, Inc. March 1, 2016	-	-	3.0	-	0.3	0.4	3.7	1.1
Kane's Insurance Management Operations (KIM) March 31, 2016	-	-	30.8	-	-	-	30.8	-
Capitol Benefits Group, Inc. April 1, 2016	-	-	3.3	-	0.1	0.4	3.8	2.8
Charles Allen Agency, Inc. April 1, 2016	-	-	2.8	-	0.2	0.2	3.2	0.7
Hagan Newkirk Financial Services, Inc. April 1, 2016	-	-	4.3	-	0.1	0.9	5.3	3.1
Insurance Plans Agency, Inc. April 1, 2016	51	2.3	-	-	0.1	0.2	2.6	1.5
KDC Associates, LLC (KDC) April 1, 2016	-	-	20.7	-	1.8	3.9	26.4	7.5
Hogan Insurance Services, Inc. May 1, 2016	172	7.4	-	-	0.8	1.1	9.3	2.0

<u>Name and Effective Date of Acquisition</u>	<u>Common Shares Issued</u> (000s)	<u>Common Share Value</u>	<u>Cash Paid</u>	<u>Accrued Liability</u>	<u>Escrow Deposited</u>	<u>Recorded Earnout Payable</u>	<u>Total Recorded Purchase Price</u>	<u>Maximum Potential Earnout Payable</u>
McNeary, Inc. (MNI) May 1, 2016	572	\$ 22.0	\$ -	\$ -	\$ 5.0	\$ 0.4	\$ 27.4	\$ 5.5
Ashmore & Associates Insurance Agency, LLC May 1, 2016	-	-	7.7	-	0.4	0.6	8.7	1.7
KRW Insurance Agency, Inc. June 1, 2016	139	5.9	-	-	0.7	1.0	7.6	1.6
Buchholz Planning Corporation June 1, 2016	-	-	3.9	-	0.1	2.5	6.5	6.0
Blue Horizon Insurance Services, Inc. July 1, 2016	-	-	3.4	-	0.4	0.5	4.3	1.0
Brim AB (BRM) July 1, 2016	-	-	23.5	6.5	-	-	30.0	-
Gabor Insurance Services, Inc. July 1, 2016	-	-	14.1	-	0.5	-	14.6	-
Victory Insurance Agency, Inc. (VIA) July 1, 2016	422	20.9	-	2.3	-	2.6	25.8	4.5
Orb Financial Services Limited August 1, 2016	-	-	3.1	-	0.4	2.0	5.5	2.7
Altman & Cronin Benefit Consultants, LLC (ACB) November 1, 2016	-	-	31.4	-	2.5	6.6	40.5	19.3
Regency Insurance Group, Inc. (RIG) November 1, 2016	-	-	19.2	-	1.0	-	20.2	-
Argentis (ARG) November 1, 2016	-	-	15.1	0.2	2.2	5.0	22.5	14.5
Group Insurance Associates, Inc. December 1, 2016	-	-	9.2	-	0.3	3.0	12.5	6.5
MW Bagnall Company December 1, 2016	-	-	5.3	-	0.2	1.1	6.6	5.4
National Ethics Association December 1, 2016	-	-	15.6	-	1.7	-	17.3	-
Eleven other acquisitions completed in 2016	-	-	29.4	0.1	1.3	10.7	41.5	18.0
	<u>1,850</u>	<u>\$ 75.9</u>	<u>\$ 248.0</u>	<u>\$ 9.1</u>	<u>\$ 22.2</u>	<u>\$ 44.5</u>	<u>\$ 399.7</u>	<u>\$ 107.5</u>

Common shares issued in connection with acquisitions are valued at closing market prices as of the effective date of the applicable acquisition. We record escrow deposits that are returned to us as a result of adjustments to net assets acquired as reductions of goodwill when the escrows are settled. The maximum potential earnout payables disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid pursuant to the terms of the purchase agreement for the applicable acquisition. The amounts recorded as earnout payables, which are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date, are measured at fair

value as of the acquisition date and are included on that basis in the recorded purchase price consideration in the foregoing table. We will record subsequent changes in these estimated earnout obligations, including the accretion of discount, in our consolidated statement of earnings when incurred.

The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements, which is a Level 3 fair value measurement. In determining fair value, we estimated the acquired entity's future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. Revenue growth rates generally ranged from 3.5% to 16.0% for our 2016 acquisitions. We estimated future payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. We then discounted these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that reflect the ability of the acquired entity to achieve the targets. These discount rates generally ranged from 8.0% to 9.5% for our 2016 acquisitions. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations.

During 2016, 2015 and 2014, we recognized \$16.9 million, \$16.2 million and \$14.5 million, respectively, of expense in our consolidated statement of earnings related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. In addition, during 2016, 2015 and 2014, we recognized \$15.2 million, \$24.4 million and \$3.0 million of expense, respectively, related to net adjustments in the estimated fair value of the liability for earnout obligations in connection with revised projections of future performance for 101, 105 and 67 acquisitions, respectively. The aggregate amount of maximum earnout obligations related to acquisitions made in 2013 and subsequent years was \$527.2 million as of December 31, 2016, of which \$242.3 million was recorded in the consolidated balance sheet as of that date based on the estimated fair value of the expected future payments to be made. The aggregate amount of maximum earnout obligations related to acquisitions made in 2012 and subsequent years was \$565.4 million as of December 31, 2015, of which \$229.7 million was recorded in the consolidated balance sheet as of that date based on the estimated fair value of the expected future payments to be made.

The following is a summary of the estimated fair values of the net assets acquired at the date of each acquisition made in 2016 (in millions):

	<b>KIM</b>	<b>KDC</b>	<b>MNI</b>	<b>BRM</b>	<b>VIA</b>	<b>ACB</b>	<b>RIG</b>	<b>ARG</b>	<b>Twenty-nine Other Acquisitions</b>	<b>Total</b>
Cash	\$ 2.2	\$ 0.3	\$ 3.0	\$ 0.5	\$ 0.2	\$ -	\$ 0.6	\$ 1.4	\$ 5.1	\$ 13.3
Other current assets	1.8	9.3	1.7	36.0	2.1	1.3	0.6	0.4	14.0	67.2
Fixed assets	0.4	0.1	0.1	0.6	0.1	-	-	-	2.3	3.6
Noncurrent assets	1.2	-	-	-	-	-	-	0.3	-	1.5
Goodwill	9.2	12.1	19.5	19.7	18.5	19.9	10.5	12.1	103.9	225.4
Expiration lists	20.0	13.8	13.8	14.6	11.3	18.9	9.3	24.1	92.3	218.1
Non-compete agreements	-	0.1	0.1	0.6	0.4	0.4	0.2	-	1.0	2.8
Trade names	-	-	0.1	0.3	-	-	-	-	-	0.4
<b>Total assets acquired</b>	<b>34.8</b>	<b>35.7</b>	<b>38.3</b>	<b>72.3</b>	<b>32.6</b>	<b>40.5</b>	<b>21.2</b>	<b>38.3</b>	<b>218.6</b>	<b>532.3</b>
Current liabilities	3.9	8.9	2.2	33.2	2.2	-	1.0	0.8	14.8	67.0
Noncurrent liabilities	0.1	0.4	8.7	9.1	4.6	-	-	15.0	27.7	65.6
<b>Total liabilities assumed</b>	<b>4.0</b>	<b>9.3</b>	<b>10.9</b>	<b>42.3</b>	<b>6.8</b>	<b>-</b>	<b>1.0</b>	<b>15.8</b>	<b>42.5</b>	<b>132.6</b>
<b>Total net assets acquired</b>	<b>\$ 30.8</b>	<b>\$ 26.4</b>	<b>\$ 27.4</b>	<b>\$ 30.0</b>	<b>\$ 25.8</b>	<b>\$ 40.5</b>	<b>\$ 20.2</b>	<b>\$ 22.5</b>	<b>\$ 176.1</b>	<b>\$ 399.7</b>

Among other things, these acquisitions allow us to expand into desirable geographic locations, further extend our presence in the retail and wholesale insurance brokerage services and risk management industries and increase the volume of general services currently provided. The excess of the purchase price over the estimated fair value of the tangible net assets acquired at the acquisition date was allocated to goodwill, expiration lists, non-compete agreements and trade names in the amounts of \$225.4 million, \$218.1 million, \$2.8 million and \$0.4 million, respectively, within the brokerage segment.

Provisional estimates of fair value are established at the time of the acquisition and are subsequently reviewed within the first year of operations subsequent to the acquisition date to determine the necessity for adjustments. The fair value of the tangible assets and liabilities for each applicable acquisition at the acquisition date approximated their carrying values. The fair value of expiration lists was established using the excess earnings method, which is an income approach based on estimated financial projections developed by management for each acquired entity using market participant assumptions. Revenue growth and attrition rates generally ranged from 1.0% to 3.0% and 2.5% to 12.5% for our 2016 acquisitions, respectively, for which a valuation was performed. We estimate the fair value as the present value of the benefits anticipated from ownership of the subject customer list in excess of returns required on the investment in contributory assets necessary to realize those benefits. The rate used to discount the net benefits was based on a risk-adjusted rate that takes into consideration market-based rates of return and reflects the risk of the asset relative to the acquired business. These discount rates generally ranged from 12.0% to 19.0% for our 2016 acquisitions, for which a valuation was performed. The fair value of non-compete agreements was established using the profit differential method, which is an income approach based on estimated financial projections developed by management for the acquired company using market participant assumptions and various non-compete scenarios.

Of the \$218.1 million of expiration lists, \$2.8 million of non-compete agreements and \$0.4 million of trade names related to the 2016 acquisitions, \$92.6 million, \$1.4 million and \$0.4 million, respectively, is not expected to be deductible for income tax purposes. Accordingly, we recorded a deferred tax liability of \$27.3 million, and a corresponding amount of goodwill, in 2016 related to the nondeductible amortizable intangible assets.

Our consolidated financial statements for the year ended December 31, 2016 include the operations of the acquired entities from their respective acquisition dates. The following is a summary of the unaudited pro forma historical results, as if these entities had been acquired at January 1, 2015 (in millions, except per share data):

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Total revenues	\$ 5,663.7	\$ 5,528.6
Net earnings attributable to controlling interests	420.6	361.9
Basic earnings per share	2.36	2.08
Diluted earnings per share	2.35	2.07

The unaudited pro forma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had these acquisitions occurred at January 1, 2015, nor are they necessarily indicative of future operating results. Annualized revenues of entities acquired in 2016 totaled approximately \$137.9 million. Total revenues and net earnings recorded in our consolidated statement of earnings for 2016 related to the 2016 acquisitions in the aggregate were \$73.3 million and \$4.2 million, respectively.

#### **4. Other Current Assets**

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

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Premium finance advances and loans	\$ 241.2	\$ 220.2
Accrued supplemental, direct bill and other receivables	177.2	181.1
Refined coal production related receivables	136.9	108.1
Prepaid expenses	78.4	77.8
Total other current assets	<u>\$ 633.7</u>	<u>\$ 587.2</u>

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

## 5. Fixed Assets

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

	December 31,	
	2016	2015
Office equipment	\$ 22.5	\$ 21.1
Furniture and fixtures	96.7	92.7
Leasehold improvements	107.8	106.1
Computer equipment	131.4	143.4
Land and buildings - corporate headquarters	141.7	-
Software	268.4	228.3
Other	10.0	10.0
Work in process - includes \$30.0 million related to our corporate headquarters in 2015	10.6	46.3
	<u>789.1</u>	<u>647.9</u>
Accumulated depreciation	(411.5)	(398.9)
Net fixed assets	<u>\$ 377.6</u>	<u>\$ 249.0</u>

The amounts in work in process in the table above primarily are for capitalized expenditures incurred related to IT development projects in 2016 and 2015. Also included in work in process in 2015 are capitalized expenditures incurred related to our new corporate headquarters building. In fourth quarter 2016, we reclassified work in process type assets related to our new corporate headquarters and other projects of \$46.3 million, included in Other noncurrent assets, to Fixed assets in our consolidated balance sheet as of December 31, 2015.

## 6. Intangible Assets

The carrying amount of goodwill at December 31, 2016 and 2015 allocated by domestic and foreign operations is as follows (in millions):

	Risk			Total
	Brokerage	Management	Corporate	
<b>At December 31, 2016</b>				
United States	\$ 2,115.0	\$ 23.5	\$ -	\$ 2,138.5
United Kingdom	662.2	4.3	-	666.5
Canada	292.2	-	-	292.2
Australia	382.7	-	-	382.7
New Zealand	205.0	0.3	-	205.3
Other foreign	79.8	-	2.8	82.6
Total goodwill - net	<u>\$ 3,736.9</u>	<u>\$ 28.1</u>	<u>\$ 2.8</u>	<u>\$ 3,767.8</u>
<b>At December 31, 2015</b>				
United States	\$ 1,946.9	\$ 23.5	\$ -	\$ 1,970.4
United Kingdom	779.3	3.5	-	782.8
Canada	282.6	-	-	282.6
Australia	380.1	-	-	380.1
New Zealand	204.2	0.3	-	204.5
Other foreign	42.5	-	-	42.5
Total goodwill - net	<u>\$ 3,635.6</u>	<u>\$ 27.3</u>	<u>\$ -</u>	<u>\$ 3,662.9</u>

The changes in the carrying amount of goodwill for 2016 and 2015 are as follows (in millions):

	<u>Brokerage</u>	<u>Risk Management</u>	<u>Corporate</u>	<u>Total</u>
Balance as of January 1, 2015	\$ 3,427.5	\$ 22.1	\$ -	\$ 3,449.6
Goodwill acquired during the year	352.6	2.0	-	354.6
Goodwill related to transfers of operations between segments	(3.4)	3.4	-	-
Goodwill adjustments related to appraisals and other acquisition adjustments	25.3	-	-	25.3
Foreign currency translation adjustments during the year	(166.4)	(0.2)	-	(166.6)
Balance as of December 31, 2015	3,635.6	27.3	-	3,662.9
Goodwill acquired during the year	222.6	-	2.8	225.4
Goodwill adjustments related to appraisals and other acquisition adjustments	1.8	1.6	-	3.4
Foreign currency translation adjustments during the year	(123.1)	(0.8)	-	(123.9)
Balance as of December 31, 2016	<u>\$ 3,736.9</u>	<u>\$ 28.1</u>	<u>\$ 2.8</u>	<u>\$ 3,767.8</u>

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

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Expiration lists	\$ 2,757.6	\$ 2,613.3
Accumulated amortization - expiration lists	(1,143.0)	(934.7)
	<u>1,614.6</u>	<u>1,678.6</u>
Non-compete agreements	49.3	43.7
Accumulated amortization - non-compete agreements	(42.1)	(34.8)
	<u>7.2</u>	<u>8.9</u>
Trade names	24.0	25.7
Accumulated amortization - trade names	(18.5)	(14.4)
	<u>5.5</u>	<u>11.3</u>
Net amortizable assets	<u>\$ 1,627.3</u>	<u>\$ 1,698.8</u>

Estimated aggregate amortization expense for each of the next five years is as follows (in millions):

2017	\$ 239.6
2018	226.8
2019	213.1
2020	197.0
2021	174.5
Total	<u>\$ 1,051.0</u>

## 7. Credit and Other Debt Agreements

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

	December 31,	
	2016	2015
Note Purchase Agreements:		
Semi-annual payments of interest, fixed rate of 6.44%, balloon due 2017	\$ 300.0	\$ 300.0
Semi-annual payments of interest, fixed rate of 5.85%, \$50 million due in 2018 and 2019	100.0	150.0
Semi-annual payments of interest, fixed rate of 2.80%, balloon due 2018	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.20%, balloon due 2019	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.99%, balloon due 2020	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.48%, balloon due 2020	50.0	50.0
Semi-annual payments of interest, fixed rate of 5.18%, balloon due 2021	75.0	75.0
Semi-annual payments of interest, fixed rate of 3.69%, balloon due 2022	200.0	200.0
Semi-annual payments of interest, fixed rate of 5.49%, balloon due 2023	50.0	50.0
Semi-annual payments of interest, fixed rate of 4.13%, balloon due 2023	200.0	200.0
Semi-annual payments of interest, fixed rate of 4.58%, balloon due 2024	325.0	325.0
Semi-annual payments of interest, fixed rate of 4.31%, balloon due 2025	200.0	200.0
Semi-annual payments of interest, fixed rate of 4.73%, balloon due 2026	175.0	175.0
Semi-annual payments of interest, fixed rate of 4.36%, balloon due 2026	150.0	150.0
Semi-annual payments of interest, fixed rate of 4.40%, balloon due 2026	175.0	-
Semi-annual payments of interest, fixed rate of 3.46%, balloon due 2027	100.0	-
Semi-annual payments of interest, fixed rate of 4.55%, balloon due 2028	75.0	-
Semi-annual payments of interest, fixed rate of 4.98%, balloon due 2029	100.0	100.0
Semi-annual payments of interest, fixed rate of 4.70%, balloon due 2031	25.0	-
Total Note Purchase Agreements	<u>2,450.0</u>	<u>2,125.0</u>
Credit Agreement:		
Periodic payments of interest and principal, prime or LIBOR plus up to 1.45%, was to expires September 19, 2018, replaced with amended and restated facility on April 8, 2016 (see below)	278.0	195.0
Premium Financing Debt Facility - expires May 18, 2017:		
Periodic payments of interest and principal, Interbank rates plus 1.05% for Facility B; plus 0.55% for Facilities C and D		
Facility B		
AUD denominated tranche	100.7	101.2
NZD denominated tranche	9.0	8.5
Facility C and D		
AUD denominated tranche	5.6	17.2
NZD denominated tranche	10.3	10.1
Total Premium Financing Debt Facility	<u>125.6</u>	<u>137.0</u>
Total corporate and other debt	2,853.6	2,457.0
Less unamortized debt acquisition costs on Note Purchase Agreements	(5.4)	(3.3)
Net total corporate and other debt	<u>\$ 2,848.2</u>	<u>\$ 2,453.7</u>

**Note Purchase Agreements** - We are a party to an amended and restated note purchase agreement dated December 19, 2007, with certain accredited institutional investors, pursuant to which we issued and sold \$300.0 million in aggregate principal amount of our 6.44% Senior Notes, Series B, due August 3, 2017, in a private placement. These notes require semi-annual payments of interest that are due in February and August of each year.

We are a party to a note purchase agreement dated November 30, 2009, with certain accredited institutional investors, pursuant to which we issued and sold \$150.0 million in aggregate principal amount of our 5.85% Senior Notes, Series C, due in three equal installments on November 30, 2016, November 30, 2018 and November 30, 2019, in a private placement. These notes require semi-annual payments of interest that are due in May and November of each year. On November 30, 2016, we funded the \$50.0 million 2016 maturity of our Series C note.

We are a party to a note purchase agreement dated February 10, 2011, with certain accredited institutional investors, pursuant to which we issued and sold \$75.0 million in aggregate principal amount of our 5.18% Senior Notes, Series D, due February 10, 2021 and \$50.0 million in aggregate principal amount of our 5.49% Senior Notes, Series E, due February 10, 2023, in a private placement. These notes require semi-annual payments of interest that are due in February and August of each year.

We are a party to a note purchase agreement dated July 10, 2012, with certain accredited institutional investors, pursuant to which we issued and sold \$50.0 million in aggregate principal amount of our 3.99% Senior Notes, Series F, due July 10, 2020, in a private placement. These notes require semi-annual payments of interest that are due in January and July of each year.

We are a party to a note purchase agreement dated June 14, 2013, with certain accredited institutional investors, pursuant to which we issued and sold \$200.0 million in aggregate principal amount of our 3.69% Senior Notes, Series G, due June 14, 2022, in a private placement. These notes require semi-annual payments of interest that are due in June and December of each year.

We are a party to a note purchase agreement dated December 20, 2013, with certain accredited investors, pursuant to which we issued and sold \$325.0 million in aggregate principal amount of our 4.58% Senior Notes, Series H, due February 27, 2024, \$175.0 million in aggregate principal amount of our 4.73% Senior Notes, Series I, due February 27, 2026 and \$100.0 million in aggregate principal amount of our 4.98% Senior Notes, Series J, due February 27, 2029. These notes will require semi-annual payments of interest that due in February and August of each year. The funding of this note purchase agreement occurred on February 27, 2014. We incurred approximately \$1.4 million of debt acquisition costs that was capitalized and will be amortized on a pro rata basis over the life of the debt.

We are a party to a note purchase agreement dated June 24, 2014, with certain accredited institutional investors, pursuant to which we issued and sold \$50.0 million in aggregate principal amount of our 2.80% Senior Notes, Series K, due June 24, 2018, \$50.0 million in aggregate principal amount of our 3.20% Senior Notes, Series L, due June 24, 2019, \$50.0 million in aggregate principal amount of our 3.48% Senior Notes, Series M, due June 24, 2020, \$200.0 million in aggregate principal amount of our 4.13% Senior Notes, Series N, due June 24, 2023, \$200.0 million in aggregate principal amount of our 4.31% Senior Notes, Series O, due June 24, 2025 and \$150.0 million in aggregate principal amount of our 4.36% Senior Notes, Series P, due June 24, 2026. These notes require semi-annual payments of interest that are due in June and December of each year. We incurred approximately \$2.6 million of debt acquisition costs that was capitalized and will be amortized on a pro rata basis over the life of the debt.

We are a party to a note purchase agreement dated June 2, 2016, with certain accredited institutional investors, pursuant to which we issued and sold \$175.0 million in aggregate principal amount of our 4.40% Senior Notes, Series Q, due June 2, 2026, \$75.0 million in aggregate principal amount of our 4.55% Senior Notes, Series R, due June 2, 2028 and \$25.0 million in aggregate principal amount of our 4.70% Senior Notes, Series S, due June 2, 2031. These notes require semi-annual payments of interest that are due in June and December of each year. We incurred approximately \$1.2 million of debt acquisition costs that was capitalized and will be amortized on a pro rata basis over the life of the debt. In addition, we realized a cash gain of approximately \$1.0 million on the hedging transaction that will be recognized on a pro rata basis as a reduction in our reported interest expense over the ten year life of the debt.

We are a party to a note purchase agreement dated December 1, 2016, with certain accredited institutional investors, pursuant to which we issued and sold \$100.0 million in aggregate principal amount of our 3.46% Senior Notes, Series T, due December 1, 2027, in a private placement. These notes require semi-annual payments of interest that are due in June and December of each year.

Under the terms of the note purchase agreements described above, we may redeem the notes at any time, in whole or in part, at 100% of the principal amount of such notes being redeemed, together with accrued and unpaid interest and a “make-whole amount”. The “make-whole amount” is derived from a net present value computation of the remaining scheduled payments of principal and interest using a discount rate based on the U.S. Treasury yield plus 0.5% and is designed to compensate the purchasers of the notes for their investment risk in the event prevailing interest rates at the time of prepayment are less favorable than the interest rates under the notes. We do not currently intend to prepay any of the notes.

The note purchase agreements described above contain customary provisions for transactions of this type, including representations and warranties regarding us and our subsidiaries and various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2016. The note purchase agreements also provide customary events of default, generally with corresponding grace periods, including, without limitation, payment defaults with respect to the notes, covenant defaults, cross-defaults to other agreements evidencing our or our subsidiaries’ indebtedness, certain judgments against us or our subsidiaries and events of bankruptcy involving us or our material subsidiaries.

The notes issued under the note purchase agreement are senior unsecured obligations of ours and rank equal in right of payment with our Credit Agreement discussed below.



**Credit Agreement** - On April 8, 2016, we entered into an amendment and restatement to our multicurrency credit agreement dated September 19, 2013, (which we refer to as the Credit Agreement) with a group of fifteen financial institutions. The amendment and restatement, among other things, extended the expiration date of the Credit Agreement from September 19, 2018 to April 8, 2021 and increased the revolving credit commitment from \$600.0 million to \$800.0 million, of which up to \$75.0 million may be used for issuances of standby or commercial letters of credit and up to \$75.0 million may be used for the making of swing loans (as defined in the Credit Agreement). We may from time to time request, subject to certain conditions, an increase in the revolving credit commitment under the Credit Agreement up to a maximum aggregate revolving credit commitment of \$1,100.0 million.

The Credit Agreement provides that we may elect that each borrowing in U.S. dollars be either base rate loans or eurocurrency loans, each as defined in the Credit Agreement. However, the Credit Agreement provides that all loans denominated in currencies other than U.S. dollars will be eurocurrency loans. Interest rates on base rate loans and outstanding drawings on letters of credit in U.S. dollars under the Credit Agreement will be based on the base rate, as defined in the Credit Agreement, plus a margin of 0.00% to 0.45%, depending on the financial leverage ratio we maintain. Interest rates on eurocurrency loans or outstanding drawings on letters of credit in currencies other than U.S. dollars under the Credit Agreement will be based on adjusted LIBOR, as defined in the Credit Agreement, plus a margin of 0.85% to 1.45%, depending on the financial leverage ratio we maintain. Interest rates on swing loans will be based, at our election, on either the base rate or an alternate rate that may be quoted by the lead lender. The annual facility fee related to the Credit Agreement is 0.15% and 0.30% of the revolving credit commitment, depending on the financial leverage ratio we maintain. In connection with entering into the Credit Agreement, we incurred approximately \$2.0 million of debt acquisition costs that were capitalized and will be amortized on a pro rata basis over the term of the Credit Agreement.

The terms of the Credit Agreement include various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2016. The Credit Agreement also includes customary provisions for transactions of this type, including events of default, with corresponding grace periods and cross-defaults to other agreements evidencing our indebtedness.

At December 31, 2016, \$21.1 million of letters of credit (for which we had \$12.3 million of liabilities recorded at December 31, 2016) were outstanding under the Credit Agreement. See Note 15 to our consolidated financial statements for a discussion of the letters of credit. There were \$278.0 million of borrowings outstanding under the Credit Agreement at December 31, 2016. Accordingly, at December 31, 2016, \$500.9 million remained available for potential borrowings, of which \$53.9 million was available for additional letters of credit.

**Premium Financing Debt Facility** - On May 18, 2015 we entered into a Syndicated Facility Agreement, revolving loan facility, which we refer to as the Premium Financing Debt Facility, that provides funding for the three acquired Australian (AU) and New Zealand (NZ) premium finance subsidiaries. The Premium Financing Debt Facility is comprised of: (i) Facility B is separate AU\$150.0 million and NZ\$35.0 million tranches, (ii) Facility C is an AU\$25.0 million equivalent multi-currency overdraft tranche and (iii) Facility D is a NZ\$15.0 million equivalent multi-currency overdraft tranche. The Premium Financing Debt Facility expires May 18, 2017.

The interest rates on Facility B are Interbank rates, which vary by tranche, duration and currency, plus a margin of 1.05%. The interest rates on Facilities C and D are 30 day Interbank rates, plus a margin of 0.55%. The annual fee for Facility B is 0.4725% of the undrawn commitments for the two tranches of the facility. The annual fee for Facilities C and D is 0.50% of the total commitments of the facilities.

The terms of our Premium Financing Debt Facility include various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of December 31, 2016. The Premium Financing Debt Facility also includes customary provisions for transactions of this type, including events of default, with corresponding grace periods and cross-defaults to other agreements evidencing our indebtedness. Facilities B, C and D are secured by the premium finance receivables of the Australian and New Zealand premium finance subsidiaries.

At December 31, 2016, AU\$139.0 million and NZ\$13.0 million of borrowings were outstanding under Facility B, AU\$7.7 million of borrowings were outstanding under Facility C and NZ\$14.9 million of borrowings were outstanding under Facility D. Accordingly, as of December 31, 2016, AU\$11.0 million and NZ\$22.0 million remained available for potential borrowing under Facility B, and AU\$17.3 million and NZ\$0.1 million under Facilities C and D, respectively.

See Note 15 to these consolidated financial statements for additional discussion on our contractual obligations and commitments as of December 31, 2016.

The aggregate estimated fair value of the \$2,450.0 million in debt under the note purchase agreements at December 31, 2016 was \$2,545.0 million due to the long-term duration and fixed interest rates associated with these debt obligations. No active or observable market exists for our private long-term debt. Therefore, the estimated fair value of this debt is based on discounted future cash flows, which is a Level 3 fair value measurement, using current interest rates available for debt with similar terms and remaining maturities. The estimated fair value of this debt is based on the income valuation approach, which is a valuation technique that converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. Because our debt issuances generate a measurable income stream for each lender, the income approach was deemed to be an appropriate methodology for valuing the private placement long-term debt. The methodology used calculated the original deal spread at the time of each debt issuance, which was equal to the difference between the yield of each issuance (the coupon rate) and the equivalent benchmark treasury yield at that time. The market spread as of the valuation date was calculated, which is equal to the difference between an index for investment grade insurers and the equivalent benchmark treasury yield today. An implied premium or discount to the par value of each debt issuance based on the difference between the origination deal spread and market as of the valuation date was then calculated. The index we relied on to represent investment graded insurers was the Bloomberg Valuation Services (BVAL) U.S. Insurers BBB index. This index is comprised primarily of insurance brokerage firms and was representative of the industry in which we operate. For the purposes of our analysis, the average BBB rate was assumed to be the appropriate borrowing rate for us based on our current estimated credit rating. The estimated fair value of the \$278.0 million of borrowings outstanding under our Credit Agreement approximate their carrying value due to their short-term duration and variable interest rates. The estimated fair value of the \$125.6 million of borrowings outstanding under our Premium Financing Debt Facility approximates their carrying value due to their short-term duration and variable interest rates.

## 8. Earnings per Share

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

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net earnings attributable to controlling interests	\$ 414.4	\$ 356.8	\$ 303.4
Weighted average number of common shares outstanding	177.6	172.2	152.9
Dilutive effect of stock options using the treasury stock method	0.8	1.0	1.4
Weighted average number of common and common equivalent shares outstanding	178.4	173.2	154.3
Basic net earnings per share	\$ 2.33	\$ 2.07	\$ 1.98
Diluted net earnings per share	\$ 2.32	\$ 2.06	\$ 1.97

Options to purchase 5.9 million, 3.5 million and 1.6 million shares of our common stock were outstanding at December 31, 2016, 2015 and 2014, respectively, but were not included in the computation of the dilutive effect of stock options for the year then ended. These stock options were excluded from the computation because the options' exercise prices were greater than the average market price of our common shares during the respective period and, therefore, would be anti-dilutive to earnings per share under the treasury stock method.

## 9. Stock Option Plans

On May 13, 2014, our stockholders approved the Arthur J. Gallagher 2014 Long-Term Incentive Plan (which we refer to as the LTIP), which replaced our previous stockholder-approved Arthur J. Gallagher & Co. 2011 Long-Term Incentive Plan (which we refer to as the 2011 LTIP). The LTIP term began May 13, 2014 and terminates on the date of the annual meeting of stockholders in 2021, unless terminated earlier by our board of directors. All of our officers, employees and non-employee directors are eligible to receive awards under the LTIP. The compensation committee of our board of directors determines the participants under the LTIP. The LTIP provides for non-qualified and incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance units, any or all of which may be made contingent upon the achievement of performance criteria. A stock appreciation right entitles the holder to receive, upon exercise and subject to withholding taxes, cash or shares of our common stock (which may be restricted stock) with a value equal to the difference between the fair market value of our common stock on the exercise date and the base price of the stock appreciation right. Subject to the LTIP limits, the compensation committee has the discretionary authority to determine the size of an award.

Shares of our common stock available for issuance under the LTIP include authorized and unissued shares of common stock or authorized and issued shares of common stock reacquired and held as treasury shares or otherwise, or a combination thereof. The number of available shares will be reduced by the aggregate number of shares that become subject to outstanding awards granted under the LTIP. To the extent that shares subject to an outstanding award granted under either the LTIP or the 2011 LTIP are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or by reason of the settlement of such award in cash, then such shares will again be available for grant under the LTIP. Shares withheld to satisfy tax withholding requirements upon the vesting of awards other than stock options and stock appreciation rights will also be available for grant under the LTIP. Shares that are subject to a stock appreciation right and were not issued upon the net settlement or net exercise of such stock appreciation right, shares that are used to pay the exercise price of an option, delivered to or withheld by us to pay withholding taxes related to stock options or stock appreciation rights, and shares that are purchased on the open market with the proceeds of an option exercise, may not again be made available for issuance.

The maximum number of shares available under the LTIP for restricted stock, restricted stock unit awards and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 1.0 million as of December 31, 2016. To the extent necessary to be qualified performance-based compensation under Section 162(m) of the Internal Revenue Code (which we refer to as the IRC); (i) the maximum number of shares with respect to which options or stock appreciation rights or a combination thereof that may be granted during any fiscal year to any person is 200,000; (ii) the maximum number of shares with respect to which performance-based restricted stock or restricted stock units that may be granted during any fiscal year to any person is 100,000; and (iii) the maximum amount that may be payable with respect to cash-settled performance units granted during any fiscal year to any person is \$5.0 million; and (iv) the maximum number of shares with respect to which stock-settled performance units may be granted during any fiscal year to any person is 100,000.

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

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

On March 17, 2016, the compensation committee granted 2,576,000 options to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2019, 2020 and 2021, respectively. On March 11, 2015, the compensation committee granted 1,941,000 options to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2018, 2019 and 2020, respectively. On March 12, 2014, the compensation committee granted 1,923,000 options to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2017, 2018 and 2019, respectively. The 2016, 2015 and 2014 options expire seven years from the date of grant, or earlier in the event of termination of the employee. For certain of our executive officers age 55 or older, stock options awarded in 2016, 2015, 2014 and 2013 are no longer subject to forfeiture upon such officers' departure from the company after two years from the date of grant.

Our stock option plans provide for the immediate vesting of all outstanding stock option grants in the event of a change in control of our company, as defined in the applicable plan documents.

During 2016, 2015 and 2014, we recognized \$14.7 million, \$11.2 million and \$9.5 million, respectively, of compensation expense related to our stock option grants.

For purposes of expense recognition in 2016, 2015 and 2014, the estimated fair values of the stock option grants are amortized to expense over the options' vesting period. We estimated the fair value of stock options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Expected dividend yield	3.0%	3.0%	3.0%
Expected risk-free interest rate	1.6%	1.8%	1.8%
Volatility	27.7%	28.2%	28.9%
Expected life (in years)	5.5	5.5	5.5

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Because our employee and director stock options have characteristics significantly different from those of traded options, and because changes in the selective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee and non-employee director stock options. The weighted average fair value per option for all options granted during 2016, 2015 and 2014, as determined on the grant date using the Black-Scholes option pricing model, was \$8.45, \$9.25 and \$9.66, respectively.

The following is a summary of our stock option activity and related information for 2016, 2015 and 2014 (in millions, except exercise price and year data):

	<b>Shares Under Option</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value</b>
<b>Year Ended December 31, 2016</b>				
Beginning balance	8.8	\$ 39.25		
Granted	2.6	43.72		
Exercised	(1.1)	29.50		
Forfeited or canceled	-	-		
Ending balance	<u>10.3</u>	<u>\$ 41.40</u>	<u>4.15</u>	<u>\$ 108.8</u>
Exercisable at end of year	<u>2.2</u>	<u>\$ 32.37</u>	<u>1.73</u>	<u>\$ 43.7</u>
Ending vested and expected to vest	<u>10.1</u>	<u>\$ 41.34</u>	<u>4.12</u>	<u>\$ 107.5</u>
<b>Year Ended December 31, 2015</b>				
Beginning balance	8.4	\$ 35.49		
Granted	1.9	46.19		
Exercised	(1.4)	27.59		
Forfeited or canceled	(0.1)	27.59		
Ending balance	<u>8.8</u>	<u>\$ 39.25</u>	<u>4.16</u>	<u>\$ 36.7</u>
Exercisable at end of year	<u>2.1</u>	<u>\$ 28.54</u>	<u>1.92</u>	<u>\$ 25.9</u>
Ending vested and expected to vest	<u>8.7</u>	<u>\$ 39.15</u>	<u>4.13</u>	<u>\$ 36.6</u>
<b>Year Ended December 31, 2014</b>				
Beginning balance	8.3	\$ 31.35		
Granted	1.9	46.86		
Exercised	(1.6)	28.80		
Forfeited or canceled	(0.2)	28.36		
Ending balance	<u>8.4</u>	<u>\$ 35.49</u>	<u>3.96</u>	<u>\$ 97.2</u>
Exercisable at end of year	<u>2.6</u>	<u>\$ 26.91</u>	<u>1.87</u>	<u>\$ 52.8</u>
Ending vested and expected to vest	<u>8.3</u>	<u>\$ 35.38</u>	<u>3.93</u>	<u>\$ 96.6</u>

Options with respect to 4.4 million shares (less any shares of restricted stock issued under the LTIP - see Note 11 to our consolidated financial statements) were available for grant under the LTIP at December 31, 2016.

The total intrinsic value of options exercised during 2016, 2015 and 2014 amounted to \$19.3 million, \$27.0 million and \$30.5 million, respectively. At December 31, 2016, we had approximately \$41.4 million of total unrecognized compensation cost related to nonvested options. We expect to recognize that cost over a weighted average period of approximately four years.

Other information regarding stock options outstanding and exercisable at December 31, 2016 is summarized as follows (in millions, except exercise price and year data):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 23.76 - \$ 35.71	2.3	1.52	\$ 31.54	1.8	\$ 30.65
35.95 - 39.17	1.5	3.20	39.15	0.4	39.12
43.71 - 43.71	2.6	6.21	43.71	-	-
46.17 - 49.55	3.9	4.70	46.53	-	-
<b>\$ 23.76 - \$ 49.55</b>	<b>10.3</b>	<b>4.15</b>	<b>\$ 41.40</b>	<b>2.2</b>	<b>\$ 32.37</b>

## 10. Deferred Compensation

We have a Deferred Equity Participation Plan, (which we refer to as the DEPP), which is a non-qualified plan that generally provides for distributions to certain of our key executives when they reach age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) or upon or after their actual retirement. Under the provisions of the DEPP, we typically contribute cash in an amount approved by the compensation committee to a rabbi trust on behalf of the executives participating in the DEPP, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. Distributions under the DEPP may not normally be made until the participant reaches age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) and are subject to forfeiture in the event of voluntary termination of employment prior to then. DEPP awards are generally made annually in the first quarter. In the second quarter of 2016, we made awards under sub-plans of the DEPP for certain production staff, which generally provide for vesting and/or distributions no sooner than five years from the date of awards, although certain awards vest and/or distribute after earlier of fifteen years or the participant reaching age 65. All contributions to the plan (including sub-plans) deemed to be invested in shares of our common stock are distributed in the form of our common stock and all other distributions are paid in cash.

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

In the first quarter of each of 2016, 2015 and 2014, the compensation committee approved \$10.1 million, \$8.9 million and \$9.2 million, respectively, of awards in the aggregate to certain key executives under the DEPP that were contributed to the rabbi trust in the first quarters of 2016, 2015 and 2014. We contributed cash to the rabbi trust and instructed the trustee to acquire a specified number of shares of our common stock on the open market to fund these 2016, 2015 and 2014 awards. In the second quarter of 2013, we instructed the trustee for the DEPP to liquidate all investments held under the DEPP, other than our common stock, and use the proceeds to purchase additional shares of our common stock on the open market. As a result, the DEPP sold all of the funded cash award assets and purchased 1.2 million shares of our common stock at an aggregate cost of \$52.4 million during the second quarter of 2013. During 2016, 2015 and 2014, we charged \$7.5 million, \$7.2 million and \$7.4 million, respectively, to compensation expense related to these awards.

In 2016, the compensation committee approved \$13.6 million of awards under the sub-plans referred to above, which were contributed to the rabbi trust in second quarter 2016. During 2016, we charged \$1.3 million to compensation expense related to these awards. There were no distributions from the sub-plans during 2016.

At December 31, 2016 and 2015, we recorded \$46.8 million (related to 2.4 million shares) and \$33.5 million (related to 2.1 million shares), respectively, of unearned deferred compensation as a reduction of capital in excess of par value in the accompanying consolidated balance sheet. The total intrinsic value of our unvested equity based awards under the plan at December 31, 2016 and 2015 was \$125.5 million and \$85.2 million, respectively. During 2016, 2015 and 2014, cash and equity awards with an aggregate fair value of \$7.6 million, \$2.3 million and \$18.8 million, respectively, were vested and distributed to employees under the DEPP.

We have a Deferred Cash Participation Plan (which we refer to as the DCP), which is a non-qualified deferred compensation plan for certain key employees, other than executive officers, that generally provides for vesting and/or distributions no sooner than five years from the date of awards. Under the provisions of the DCP, we typically contribute cash in an amount approved by the compensation committee to the rabbi trust on behalf of the executives participating in the DCP, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. In the first quarter of each of 2016 and 2015, the compensation committee approved \$3.1 million and \$2.7 million, respectively, of awards in the aggregate to certain key executives under the DCP that were contributed to the rabbi trust in first quarter 2016 and 2015, respectively. During 2016 and 2015 we charged \$1.5 million and \$1.1 million to compensation expense related to these awards. There were no distributions from the DCP during 2016 and 2015.

## 11. Restricted Stock, Performance Share and Cash Awards

### Restricted Stock Awards

As discussed in Note 9 to our consolidated financial statements, on May 13, 2014, our stockholders approved the LTIP, which replaced our previous stockholder-approved 2011 LTIP. The LTIP provides for the grant of a stock award either as restricted stock or as restricted stock units. In either case, the compensation committee may determine that the award will be subject to the attainment of performance measures over an established performance period. Stock awards and the related dividend equivalents are non-transferable and subject to forfeiture if the holder does not remain continuously employed with us during the applicable restriction period or, in the case of a performance-based award, if applicable performance measures are not attained. The compensation committee will determine all of the terms relating to the satisfaction of performance measures and the termination of a restriction period, or the forfeiture and cancellation of a restricted stock award upon a termination of employment, whether by reason of disability, retirement, death or any other reason. The compensation committee may grant unrestricted shares of common stock or units representing the right to receive shares of common stock to employees who have attained age 62.

The agreements awarding restricted stock units under the LTIP will specify whether such awards may be settled in shares of our common stock, cash or a combination of shares and cash and whether the holder will be entitled to receive dividend equivalents, on a current or deferred basis, with respect to such award. Prior to the settlement of a restricted stock unit, the holder of a restricted stock unit will have no rights as a stockholder of the company. The maximum number of shares available under the LTIP for restricted stock, restricted stock units and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 2.0 million. At December 31, 2016, 1.0 million shares were available for grant under the LTIP for such awards.

Prior to May 12, 2009, we had a restricted stock plan for our directors, officers and certain other employees, which was superseded by the 2009 LTIP. Under the provisions of that plan, we were authorized to issue 4.0 million restricted shares or related stock units of our common stock. The compensation committee was responsible for the administration of the plan. Each award granted under the plan represented a right of the holder of the award to receive shares of our common stock, cash or a combination of shares and cash, subject to the holder's continued employment with us for a period of time after the date the award is granted. The compensation committee determined each recipient of an award under the plan, the number of shares of common stock subject to such award and the period of continued employment required for the vesting of such award.

In 2016, 2015 and 2014, we granted 479,167, 394,975 and 376,541 restricted stock units, respectively, to employees under the LTIP, with an aggregate fair value of \$20.4 million, \$16.7 million and \$16.0 million, respectively, at the date of grant.

The 2016, 2015 and 2014 restricted stock units vest as follows: 466,600 units granted in first quarter 2016, 362,600 units granted in first quarter 2015 and 323,550 units granted in first quarter 2014, vest in full based on continued employment through March 17, 2021, March 11, 2020 and March 12, 2018, respectively, while the other 2016, 2015 and 2014 restricted stock unit awards generally vest in full based on continued employment through the vesting period on the anniversary date of the grant. In the third quarter of 2014, we granted 33,741 restricted stock units to employees with an aggregate fair value of \$1.5 million at the date of grant. These grants vest at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2015, 2016 and 2017, respectively from the date of grant. For certain of our executive officers age 55 or older, restricted stock units awarded in 2016, 2015 and 2014 are no longer subject to forfeiture upon such officers' departure from the company after two years from the date of grant.

The vesting periods of the 2016, 2015 and 2014 restricted stock unit awards are as follows (in actual shares):

<u>Vesting Period</u>	<u>Restricted Stock Units Granted</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
One year	27,417	22,175	19,250
Three years	-	-	33,741
Four years	-	9,200	323,550
Five years	451,750	363,600	-
Total shares granted	<u>479,167</u>	<u>394,975</u>	<u>376,541</u>

We account for restricted stock unit awards at historical cost, which equals its fair market value at the date of grant, which is amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair value of our common stock that is owed to the participants do not have any impact on the amounts recorded in our consolidated financial statements. During 2016, 2015 and 2014, we charged \$18.2 million, \$14.4 million and \$12.7 million, respectively, to compensation expense related to restricted stock awards granted in 2007 through 2016. The total intrinsic value of unvested restricted stock at December 31, 2016 and 2015 was \$80.0 million and \$56.1 million, respectively. During 2016 and 2015, equity awards (including accrued dividends) with an aggregate fair value of \$14.2 million and \$10.2 million were vested and distributed to employees under this plan.

### **Performance Share Awards**

On March 17, 2016, March 11, 2015 and March 12, 2014, pursuant to the LTIP, the compensation committee approved 72,900, 53,900 and 48,850, respectively of provisional performance unit awards, with an aggregate fair value of \$3.2 million, \$2.5 million and \$2.3 million, respectively, for future grants to our officers. Each performance unit award was equivalent to the value of one share of our common stock on the date such provisional award was approved. These awards are subject to a one-year performance period based on our financial performance and a two-year vesting period. At the discretion of the compensation committee and determined based on our performance, the eligible officer will be granted a percentage of the provisional performance unit award that equates to the EBITAC growth achieved (as specified in the applicable grant agreement). At the end of the performance period, eligible participants will be granted a number of units based on achievement of the performance goal and subject to approval by the compensation committee. Granted units for the 2016, 2015 and 2014 provisional awards will fully vest based on continuous employment through March 17, 2019, March 11, 2018 and March 12, 2017, respectively, and will be settled in shares of our common stock on a one-for-one basis as soon as practicable in 2019, 2018 and 2017, respectively. For certain of our executive officers age 55 or older, awards granted in 2016 and 2015 are no longer subject to forfeiture upon such officers' departure from the company after two years from the date of grant. If an eligible employee leaves us prior to the vesting date, the entire award will be forfeited. During 2016, we charged \$2.9 million to compensation expense related to performance share unit awards. The total intrinsic value of unvested restricted stock at December 31, 2016 was \$8.9 million.

### **Cash Awards**

On March 17, 2016, pursuant to our Performance Unit Program (which we refer to as the Program), the compensation committee approved provisional cash awards of \$17.4 million in the aggregate for future grants to our officers and key employees that are denominated in units (397,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. The Program consists of a one-year performance period based on our financial performance and a two-year vesting period. At the discretion of the compensation committee and determined based on our performance, the eligible officer or key employee will be granted a percentage of the provisional cash award units that equates to the EBITAC growth achieved (as defined in the Program). At the end of the performance period, eligible participants will be granted a number of units based on achievement of the performance goal and subject to approval by the compensation committee. Granted units for the 2016 provisional award will fully vest based on continuous employment through January 1, 2019. For certain of our executive officers age 55 or older, awards granted under the Program in 2016 are no longer subject to forfeiture upon such officers' departure from the company after two years from the date of the provisional award. The ultimate award value will be equal to the trailing twelve-month stock price on December 31, 2018, multiplied by the number of units subject to the award, but limited to between 0.5 and 1.5 times the original value of the units determined as of the grant date. The fair value of the awarded units will be paid out in cash as soon as practicable in 2019. If an eligible employee leaves us prior to the vesting date, the entire award will be forfeited. We did not recognize any compensation expense during 2016 related to the 2016 provisional award under the Program. Based on company performance for 2016, we expect to grant 385,000 units under the Program in first quarter 2017 that will fully vest on January 1, 2019.

On March 11, 2015, pursuant to the Program, the compensation committee approved the provisional cash awards of \$14.6 million in the aggregate for future grants to our officers and key employees that are denominated in units (315,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2015 provisional award were similar to the terms of the 2016 provisional awards. Based on our performance for 2015, we granted 294,000 units under the Program in first quarter 2016 that will fully vest on January 1, 2018. During 2016, we charged \$6.6 million to compensation expense related to these awards. We did not recognize any compensation expense during 2015 related to the 2015 awards.

On March 12, 2014, pursuant to the Program, the compensation committee approved the provisional cash awards of \$10.8 million in the aggregate for future grants to our officers and key employees that are denominated in units (229,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2014 provisional award were similar to the terms of the 2015 provisional awards. Based on our performance for 2014, we granted 220,000 units under the Program in first quarter 2015 that will fully vest on January 1, 2017. During 2016 and 2015, we charged \$4.5 million and \$4.9 million to compensation expense related to these awards. We did not recognize any compensation expense during 2014 related to the 2014 awards.

On March 13, 2013, pursuant to the Program, the compensation committee approved the provisional cash awards of \$10.5 million in the aggregate for future grants to our officers and key employees that are denominated in units (269,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2013 provisional award were similar to the terms of the 2015 provisional awards. Based on our performance for 2013, we granted 263,000 units under the Program in the first quarter of 2014 that will fully vest on January 1, 2016. During 2015 and 2014, we charged \$5.3 million and \$5.9 million, respectively, to compensation expense related to the 2013 awards. We did not recognize any compensation expense during 2016 related to the 2013 awards. During 2016, cash awards related to the 2013 provisional awards with an aggregate fair value of \$11.2 million (246,000 units in the aggregate) were vested and distributed to employees under the Program.

During 2015, cash awards related to the 2012 provisional awards with an aggregate fair value of \$15.8 million (342,000 units in the aggregate) were vested and distributed to employees under the Program. During 2014, cash awards related to the 2011 provisional awards with an aggregate fair value of \$17.6 million (411,000 units in the aggregate) were vested and distributed to employees under the Program.

## 12. Retirement Plans

We have a noncontributory defined benefit pension plan that, prior to July 1, 2005, covered substantially all of our domestic employees who had attained a specified age and one year of employment. Benefits under the plan were based on years of service and salary history. In 2005, we amended our defined benefit pension plan to freeze the accrual of future benefits for all U.S. employees, effective on July 1, 2005. Since the plan is frozen, there is no difference between the projected benefit obligation and accumulated benefit obligation at December 31, 2016 and 2015. In the table below, the service cost component represents plan administration costs that are incurred directly by the plan. A reconciliation of the beginning and ending balances of the pension benefit obligation and fair value of plan assets and the funded status of the plan is as follows (in millions):

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Change in pension benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 261.8	\$ 272.0
Service cost	1.5	1.1
Interest cost	10.8	10.8
Net actuarial loss (gain)	1.8	(10.4)
Benefits paid	(14.6)	(11.7)
Benefit obligation at end of year	<u>\$ 261.3</u>	<u>\$ 261.8</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 207.5	\$ 217.2
Actual return on plan assets	14.9	2.0
Contributions by the company	-	-
Benefits paid	(14.6)	(11.7)
Fair value of plan assets at end of year	<u>\$ 207.8</u>	<u>\$ 207.5</u>
Funded status of the plan (underfunded)	<u>\$ (53.5)</u>	<u>\$ (54.3)</u>
<b>Amounts recognized in the consolidated balance sheet consist of:</b>		
Noncurrent liabilities - accrued benefit liability	\$ (53.5)	\$ (54.3)
Accumulated other comprehensive loss - net actuarial loss	67.9	71.8
Net amount included in retained earnings	<u>\$ 14.4</u>	<u>\$ 17.5</u>



The components of the net periodic pension benefit cost for the plan and other changes in plan assets and obligations recognized in earnings and other comprehensive earnings consist of the following (in millions):

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Net periodic pension cost:</b>			
Service cost	\$ 1.5	\$ 1.1	\$ 0.7
Interest cost on benefit obligation	10.8	10.8	12.7
Expected return on plan assets	(14.6)	(15.3)	(18.7)
Amortization of net loss	5.3	6.2	2.3
Settlement	-	-	12.0
Net periodic benefit cost	<u>3.0</u>	<u>2.8</u>	<u>9.0</u>
<b>Other changes in plan assets and obligations recognized in other comprehensive earnings:</b>			
Net loss incurred	1.4	2.9	42.5
Settlement recognition	-	-	(12.0)
Amortization of net loss	(5.3)	(6.2)	(2.3)
Total recognized in other comprehensive loss	<u>(3.9)</u>	<u>(3.3)</u>	<u>28.2</u>
Total recognized in net periodic pension cost and other comprehensive loss	<u>\$ (0.9)</u>	<u>\$ (0.5)</u>	<u>\$ 37.2</u>
<b>Estimated amortization for the following year:</b>			
Amortization of net loss	<u>\$ 5.5</u>	<u>\$ 5.9</u>	<u>\$ 6.0</u>

The following weighted average assumptions were used at December 31 in determining the plan's pension benefit obligation:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Discount rate	4.00%	4.25%
Weighted average expected long-term rate of return on plan assets	7.25%	7.25%

The following weighted average assumptions were used at January 1 in determining the plan's net periodic pension benefit cost:

	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Discount rate	4.25%	4.00%	4.75%
Weighted average expected long-term rate of return on plan assets	7.25%	7.25%	7.50%

The following benefit payments are expected to be paid by the plan (in millions):

2017	\$ 11.8
2018	12.3
2019	12.9
2020	13.4
2021	14.1
Years 2022 to 2026	77.5

The following is a summary of the plan's weighted average asset allocations at December 31 by asset category:

<b>Asset Category</b>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Equity securities	61.0%	59.0%
Debt securities	33.0%	33.0%
Real estate	6.0%	8.0%
Total	<u>100.0%</u>	<u>100.0%</u>

Plan assets are invested in various pooled separate accounts under annuity contracts managed by two life insurance carriers. The plan's investment policy provides that investments will be allocated in a manner designed to provide a long-term investment return greater than the actuarial assumptions, maximize investment return commensurate with risk and to comply with the Employee Income Retirement Security Act of 1974, as amended (which we refer to as ERISA), by investing the funds in a manner consistent with ERISA's fiduciary standards. The weighted average expected long-term rate of return on plan assets assumption was determined based on a review of the asset allocation strategy of the plan using expected ten-year return assumptions for all of the asset classes in which the plan was invested at December 31, 2016 and 2015. The ten-year return assumptions used in the valuation were based on data provided by the plan's external investment advisors.

The following is a summary of the plan's assets carried at fair value as of December 31 by level within the fair value hierarchy (in millions):

<u>Fair Value Hierarchy</u>	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Level 1	\$ -	\$ -
Level 2	108.1	106.8
Level 3	99.7	100.7
Total fair value	<u>\$ 207.8</u>	<u>\$ 207.5</u>

The plan's Level 2 assets consist of ownership interests in various pooled separate accounts within a life insurance carrier's group annuity contract. The fair value of the pooled separate accounts is determined based on the net asset value of the respective funds, which is obtained from the carrier and determined each business day with issuances and redemptions of units of the funds made based on the net asset value per unit as determined on the valuation date. We have not adjusted the net asset values provided by the carrier. There are no restrictions as to the plan's ability to redeem its investment at the net asset value of the respective funds as of the reporting date. The plan's Level 3 assets consist of pooled separate accounts within another life insurance carrier's annuity contracts for which fair value has been determined by an independent valuation. Due to the nature of these annuity contracts, our management makes assumptions to determine how a market participant would price these Level 3 assets. In determining fair value, the future cash flows to be generated by the annuity contracts were estimated using the underlying benefit provisions specified in each contract, market participant assumptions and various actuarial and financial models. These cash flows were then discounted to present value using a risk-adjusted rate that takes into consideration market based rates of return and probability-weighted present values.

The following is a reconciliation of the beginning and ending balances for the Level 3 assets of the plan measured at fair value (in millions):

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Fair value at January 1	\$ 100.7	\$ 101.1
Settlements	(7.5)	-
Unrealized gains	6.5	(0.4)
Fair value at December 31	<u>\$ 99.7</u>	<u>\$ 100.7</u>

We were not required under the Internal Revenue Code (which we refer to as IRC) to make any minimum contributions to the plan for each of the 2016, 2015 and 2014 plan years. This level of required funding is based on the plan being frozen and the aggregate amount of our historical funding. During 2016, 2015 and 2014 we did not make discretionary contributions to the plan.

In August 2014, we decided to pursue a pension de-risking strategy to reduce the size of our long-term U.S. defined benefit pension plan obligations and the volatility of these obligations on our balance sheet. On September 12, 2014, the fiduciaries of the plan began offering certain former employees who were participants in the plan, the option of receiving the value of their pension benefit in a lump sum payment or as an accelerated reduced annuity, in lieu of monthly annuity payments when they retire. The voluntary offer was made to approximately 2,500 terminated, vested participants in the plan whose employment terminated with the company prior to August 1, 2014 and who had not commenced benefit payments as of November 1, 2014. Eligible participants had from September 12, 2014 to November 30, 2014 to accept the offer, and the lump-sum payments were made in November and December of 2014, and the accelerated reduced annuity payments began as of December 1, 2014. The aggregate lump sum payout made in fourth quarter 2014 was \$43.3 million. All payouts related to this offer were made using assets from the plan. This lump sum payout project reduced the Plan's pension benefit obligation by approximately \$60.0 million, while improving its pension underfunding by almost \$17.0 million as of December 31, 2014. We recorded a non-cash pretax settlement charge of \$12.0 million in the fourth quarter of 2014 based on the number of participants accepting the lump sum payment option, the actual return on plan assets and various actuarial assumptions, including discount rate, long-term rate of return on assets, retirement age and mortality at the remeasurement date.

We also have a qualified contributory savings and thrift (401(k)) plan covering the majority of our domestic employees. For eligible employees who have met the plan's age and service requirements to receive matching contributions, we match 100% of pre-tax and Roth elective deferrals up to a maximum of 5.0% of eligible compensation, subject to Federal limits on plan contributions and not in excess of the maximum amount deductible for Federal income tax purposes. Effective January 1, 2014, employees must be employed and eligible for the plan on the last day of the plan year to receive a matching contribution, subject to certain exceptions enumerated in the plan document. Matching contributions are subject to a five-year graduated vesting schedule. We expensed \$48.7 million, \$42.5 million and \$38.0 million related to the plan in 2016, 2015 and 2014, respectively.

We also have a nonqualified deferred compensation plan, the Supplemental Savings and Thrift Plan, for certain employees who, due to Internal Revenue Service (which we refer to as the IRS) rules, cannot take full advantage of our matching contributions under the 401(k) plan. The plan permits these employees to annually elect to defer a portion of their compensation until their retirement or a future date. Our matching contributions to this plan (up to a maximum of the lesser of a participant's elective deferral of base salary, annual bonus and commissions or 5.0% of eligible compensation, less matching amounts contributed under the 401(k) plan) are also at the discretion of our board of directors. We contributed \$5.6 million, \$4.7 million and \$3.7 million to a rabbi trust maintained under the plan in 2016, 2015 and 2014, respectively. The fair value of the assets in the plan's rabbi trust at December 31, 2016 and 2015, including employee contributions and investment earnings, was \$263.3 million and \$201.2 million, respectively, and has been included in other noncurrent assets and the corresponding liability has been included in other noncurrent liabilities in the accompanying consolidated balance sheet.

We also have several foreign benefit plans, the largest of which is a defined contribution plan that provides for us to make contributions of 5.0% of eligible compensation. In addition, the plan allows for voluntary contributions by U.K. employees, which we match 100%, up to a maximum of an additional 5.0% of eligible compensation. Net expense for foreign retirement plans amounted to \$30.6 million, \$31.7 million and \$29.7 million in 2016, 2015 and 2014, respectively.

In 1992, we amended our health benefits plan to eliminate retiree coverage, except for retirees and those employees who had already attained a specified age and length of service at the time of the amendment. The retiree health plan is contributory, with contributions adjusted annually, and is funded on a pay-as-you-go basis. The postretirement benefit obligation and the unfunded status of the plan as of December 31, 2016 and 2015 were \$2.7 million and \$2.7 million, respectively. The net periodic postretirement benefit (income) cost of the plan amounted to (\$0.3 million), (\$0.3 million) and (\$0.5 million) in 2016, 2015 and 2014, respectively.

### 13. Investments

The following is a summary of our investments and the related funding commitments (in millions):

	December 31, 2016		December 31,
	Assets	Funding Commitments	2015 Assets
Chem-Mod LLC	\$ 4.0	\$ -	\$ 4.0
Chem-Mod International LLC	2.0	-	2.0
C-Quest Technology LLC and C-Quest Technologies International LLC	-	-	-
Clean-coal investments:			
Controlling interest in six limited liability companies that own fourteen 2009 Era Clean Coal Plants	14.3	-	13.9
Non-controlling interest in one limited liability companies that owns one 2011 Era Clean Coal Plants	0.7	-	0.8
Controlling interest in seventeen limited liability companies that own nineteen 2011 Era Clean Coal Plants	69.0	2.7	60.3
Other investments	3.7	0.7	2.6
Total investments	\$ 93.7	\$ 3.4	\$ 83.6

**Chem-Mod LLC** - At December 31, 2016, we held a 46.5% controlling interest in Chem-Mod. Chem-Mod possesses the exclusive marketing rights, in the U.S. and Canada, for technologies used to reduce emissions created during the combustion of coal. The refined coal production plants discussed below, as well as those owned by other unrelated parties, license and use Chem-Mod's proprietary technologies, The Chem-Mod™ Solution, in the production of refined coal. The Chem-Mod™ Solution uses a dual injection sorbent system to reduce mercury, sulfur dioxide and other emissions at coal-fired power plants.

We believe that the application of The Chem-Mod™ Solution qualifies for refined coal tax credits under IRC Section 45 when used with refined coal production plants placed in service by December 31, 2011 or 2009. Chem-Mod has been marketing its technologies principally to coal-fired power plants owned by utility companies, including those utilities that are operating with the IRC Section 45 refined coal production plants in which we hold an investment.

Chem-Mod is determined to be a variable interest entity (which we refer to as a VIE). We are the manager (decision maker) of Chem-Mod and therefore consolidate its operations into our consolidated financial statements. At December 31, 2016, total assets and total liabilities of this VIE included in our consolidated balance sheet were \$11.1 million and \$0.8 million, respectively. At December 31, 2015, total assets and total liabilities of this VIE were \$10.3 million and \$0.9 million, respectively. For 2016, total revenues and expenses were \$63.5 million and \$2.4 million, respectively. For 2015, total revenues and expenses were \$72.1 million and \$3.0 million, respectively. We are under no obligation to fund Chem-Mod's operations in the future.

**Chem-Mod International LLC** - At December 31, 2016, we held a 31.5% non-controlling ownership interest in Chem-Mod International. Chem-Mod International has the rights to market The Chem-Mod™ Solution in countries other than the U.S. and Canada. Such marketing activity has been limited to date.

**C-Quest Technology LLC and C-Quest Technologies International LLC (together, C-Quest)** - At December 31, 2016, we held a non-controlling 12% interest in C-Quest's global entities. C-Quest possesses rights, information and technology for the reduction of carbon dioxide emissions created by burning fossil fuels. Thus far, C-Quest's operations have been limited to laboratory testing. C-Quest is determined to be a VIE, but we do not consolidate this investment into our consolidated financial statements because we are not the primary beneficiary or decision maker. We have an option to acquire an additional 15% interest in C-Quest's global entities for \$7.5 million at any time on or prior to August 1, 2017.

#### **Clean Coal Investments -**

- We have investments in limited liability companies that own 34 refined coal production plants which produce refined coal using proprietary technologies owned by Chem-Mod. We believe the production and sale of refined coal at these plants is qualified to receive refined coal tax credits under IRC Section 45. The fourteen plants placed in service prior to December 31, 2009 (which we refer to as the 2009 Era Plants) are eligible to receive tax credits through 2019 and the twenty plants placed in service prior to December 31, 2011 (which we refer to as the 2011 Era Plants) are eligible to receive tax credits through 2021.
- As of December 31, 2016:
  - Thirty-one of the plants has long-term production contracts.
  - The remaining three plants are in early stages of seeking and negotiating long-term production contracts.
  - We have a non-controlling interest in one plant, which is owned by a limited liability company (which we refer to as a LLC). We have determined that this LLC is a VIE, for which we are not the primary beneficiary. At December 31, 2016, total assets and total liabilities of this VIE were \$15.7 million and \$13.4 million, respectively. For 2016, total revenues and expenses of this VIE were \$57.4 million and \$71.1 million, respectively.
- We and our co-investors each fund our portion of the on-going operations of the limited liability companies in proportion to our investment ownership percentages. Other than our portion of the on-going operational funding, there are no additional amounts that we are committed to related to funding these investments.

**Other Investments** - At December 31, 2016, we owned a non-controlling, minority interest in four venture capital funds totaling \$3.7 million, twelve certified low-income housing developments with zero carrying value and two real estate entities with zero carrying value. The low-income housing developments and real estate entities have been determined to be VIEs, but are not required to be consolidated due to our lack of control over their respective operations. At December 31, 2016, total assets and total liabilities of these VIEs were approximately \$60.0 million and \$20.0 million, respectively.

#### 14. Derivatives and Hedging Activity

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

##### Foreign Exchange Risk Management

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

##### Interest Rate Risk Management

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

We has not received or pledged any collateral related to derivative arrangements at December 31, 2016.

The notional and fair values of derivative instruments are as follows at December 31, 2016 and 2015 (in millions):

	Notional Amount		Derivatives Assets (1)		Derivative Liabilities (2)	
	2016	2015	2016	2015	2016	2015
Derivatives accounted for as hedges:						
Interest rate contracts	\$ 200.0	\$ -	\$ 11.4	\$ -	\$ -	\$ -
Foreign exchange contracts (3)	4.1	93.7	2.1	-	17.5	1.7
Total	\$ 204.1	\$ 93.7	\$ 13.5	\$ -	\$ 17.5	\$ 1.7

- (1) Included within other current assets \$12.5 million and zero at December 31, 2016 and 2015, respectively and other non-current assets \$1.0 million and zero at December 31, 2016 and 2015, respectively.
- (2) Included within other current liabilities \$11.8 million and \$1.7 million at December 31, 2016 and 2015, respectively and other non-current liabilities \$5.7 million and zero at December 31, 2016 and 2015, respectively.
- (3) Included within foreign exchange contracts at December 31, 2016 were \$78.3 million of call options offset with \$78.3 million of put options and \$61.6 million of buy forwards offset with \$57.5 million of sell forwards. Included within foreign exchange contracts at December 31, 2015 were \$137.6 million of buy forwards, partially offset by \$43.9 million of sell forwards.

The amounts of derivative gains (losses) recognized in accumulated other comprehensive loss were as follows (in millions):

	Commission Revenue	Compensation Expense	Operating Expense	Interest Expense	Total
<b>Year Ended December 31, 2016</b>					
Cash flow hedges:					
Interest rate contracts	\$ -	\$ -	\$ -	\$ 12.4	\$ 12.4
Foreign exchange contracts	(24.0)	0.1	-	-	(23.9)
Total	\$ (24.0)	\$ 0.1	\$ -	\$ 12.4	\$ (11.5)
<b>Year Ended December 31, 2015</b>					
Cash flow hedges:					
Interest rate contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign exchange contracts	(3.3)	0.3	0.2	-	(2.8)
Total	\$ (3.3)	\$ 0.3	\$ 0.2	\$ -	\$ (2.8)
<b>Year Ended December 31, 2014</b>					
Cash flow hedges:					
Interest rate contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign exchange contracts	(2.5)	0.2	0.1	-	(2.2)
Total	\$ (2.5)	\$ 0.2	\$ 0.1	\$ -	\$ (2.2)

The amounts of derivative gains (losses) reclassified from accumulated other comprehensive loss into income (effective portion) were as follows (in millions):

	<u>Commission Revenue</u>	<u>Compensation Expense</u>	<u>Operating Expense</u>	<u>Interest Expense</u>	<u>Total</u>
<b><u>Year Ended December 31, 2016</u></b>					
Cash flow hedges:					
Interest rate contracts	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1
Foreign exchange contracts	(9.1)	0.5	0.3	-	(8.3)
Total	<u>\$ (9.1)</u>	<u>\$ 0.5</u>	<u>\$ 0.3</u>	<u>\$ 0.1</u>	<u>\$ (8.2)</u>
<b><u>Year Ended December 31, 2015</u></b>					
Cash flow hedges:					
Interest rate contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign exchange contracts	0.7	-	-	-	0.7
Total	<u>\$ 0.7</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.7</u>
<b><u>Year Ended December 31, 2014</u></b>					
Cash flow hedges:					
Interest rate contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign exchange contracts	0.9	(0.7)	(0.7)	-	(0.5)
Total	<u>\$ 0.9</u>	<u>\$ (0.7)</u>	<u>\$ (0.7)</u>	<u>\$ -</u>	<u>\$ (0.5)</u>

We estimate that approximately \$0.4 million of pretax losses currently included within accumulated other comprehensive loss will be reclassified into earnings in the next twelve months. The amount of gain (loss) recognized in earnings on the ineffective portion of derivatives for 2016, 2015 and 2014 was \$1.6 million, \$0.7 million and zero, respectively.

## 15. Commitments, Contingencies and Off-Balance Sheet Arrangements

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Notes 7 and 13 to our consolidated financial statements for additional discussion of these obligations and commitments. Our future minimum cash payments, including interest, associated with our contractual obligations pursuant to the note purchase agreements, Credit Agreement, Premium Financing Debt Facility, operating leases and purchase commitments at December 31, 2016 were as follows (in millions):

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>						<b>Total</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>	
Note purchase agreements	\$ 300.0	\$ 100.0	\$ 100.0	\$ 100.0	\$ 75.0	\$ 1,775.0	\$ 2,450.0
Credit Agreement	278.0	-	-	-	-	-	278.0
Premium Financing Debt Facility	125.6	-	-	-	-	-	125.6
Interest on debt	113.5	93.3	89.0	84.4	79.5	280.5	740.2
Total debt obligations	817.1	193.3	189.0	184.4	154.5	2,055.5	3,593.8
Operating lease obligations	101.1	83.8	68.4	56.4	45.8	112.9	468.4
Less sublease arrangements	(0.8)	(0.4)	(0.1)	(0.1)	-	(0.1)	(1.5)
Outstanding purchase obligations	50.6	32.1	16.6	7.7	1.7	-	108.7
Total contractual obligations	<u>\$ 968.0</u>	<u>\$ 308.8</u>	<u>\$ 273.9</u>	<u>\$ 248.4</u>	<u>\$ 202.0</u>	<u>\$ 2,168.3</u>	<u>\$ 4,169.4</u>

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. Outstanding purchase commitments in the table above include \$10.6 million related to expenditures on our new corporate headquarters building.

**Note Purchase Agreements, Credit Agreement and Premium Financing Debt Facility** - See Note 7 to our consolidated financial statements for a discussion of the terms of the note purchase agreements, the Credit Agreement and Premium Debt Facility.

**Operating Lease Obligations** - Our corporate segment's executive offices and certain subsidiary and branch facilities of our brokerage and risk management segments are located at Two Pierce Place, Itasca, Illinois, where we lease approximately 306,000 square feet of space, or approximately 60% of the building. The lease commitment on this property expires February 28, 2018. In August 2015, we announced that we will be relocating our headquarters to the city of Rolling Meadows, Illinois, which will have approximately 360,000 square feet of space and will accommodate 2,000 employees at peak capacity. We anticipate

moving to the Rolling Meadows site sometime in the first quarter of 2017. Relating to the development of our new corporate headquarters, we expect to receive property tax related credits under a tax-increment financing note from Rolling Meadows and an Illinois state Economic Development for a Growing Economy (which we refer to as Edge) tax credit. Incentives from these two programs could total between \$60.0 million and \$80.0 million over a fifteen-year period.

We generally operate in leased premises at our other locations. Certain of these leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of leases contain annual escalation clauses which are generally related to increases in an inflation index.

Total rent expense, including rent relating to cancelable leases and leases with initial terms of less than one year, amounted to \$134.2 million in 2016, \$121.6 million in 2015 and \$122.0 million in 2014.

We have leased certain office space to several non-affiliated tenants under operating sublease arrangements. In the normal course of business, we expect that certain of these leases will not be renewed or replaced. We adjust charges for real estate taxes and common area maintenance annually based on actual expenses, and we recognize the related revenues in the year in which the expenses are incurred. These amounts are not included in the minimum future rentals to be received in the contractual obligations table above.

**Outstanding Purchase Obligations** - We typically do not have a material amount of outstanding purchase obligations at any point in time. The amount disclosed in the contractual obligations table above represents the aggregate amount of unrecorded purchase obligations that we had outstanding at December 31, 2016. These obligations represent agreements to purchase goods or services that were executed in the normal course of business.

**Off-Balance Sheet Commitments** - Our total unrecorded commitments associated with outstanding letters of credit, financial guarantees and funding commitments at December 31, 2016 were as follows (in millions):

Off-Balance Sheet Commitments	Amount of Commitment Expiration by Period						Total
	2017	2018	2019	2020	2021	Thereafter	Amounts Committed
Letters of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21.1	\$ 21.1
Financial guarantees	0.2	0.2	0.2	0.2	0.2	1.4	2.4
Funding commitments	2.7	-	-	-	-	0.7	3.4
Total commitments	\$ 2.9	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 23.2	\$ 26.9

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements. See Note 13 to our consolidated financial statements for a discussion of our funding commitments related to our corporate segment and the Off-Balance Sheet Debt section below for a discussion of other letters of credit. All of the letters of credit represent multiple year commitments that have annual, automatic renewing provisions and are classified by the latest commitment date.

Since January 1, 2002, we have acquired 420 companies, all of which were accounted for using the acquisition method for recording business combinations. Substantially all of the purchase agreements related to these acquisitions contain provisions for potential earnout obligations. For all of our acquisitions made in the period from 2013 to 2016 that contain potential earnout obligations, such obligations are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration for the respective acquisition. The amounts recorded as earnout payables are primarily based upon estimated future potential operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The aggregate amount of the maximum earnout obligations related to these acquisitions was \$527.2 million, of which \$242.3 million was recorded in our consolidated balance sheet as of December 31, 2016 based on the estimated fair value of the expected future payments to be made.

**Off-Balance Sheet Debt** - Our unconsolidated investment portfolio includes investments in enterprises where our ownership interest is between 1% and 50%, in which management has determined that our level of influence and economic interest is not sufficient to require consolidation. As a result, these investments are accounted for under the equity method. None of these unconsolidated investments had any outstanding debt at December 31, 2016 or 2015 that was recourse to us.

At December 31, 2016, we had posted two letters of credit totaling \$9.3 million in the aggregate, related to our self-insurance deductibles, for which we had a recorded liability of \$12.3 million. We have an equity investment in a rent-a-captive facility, which we use as a placement facility for certain of our insurance brokerage operations. At December 31, 2016, we had posted seven letters of credit totaling \$6.3 million to allow certain of our captive operations to meet minimum statutory surplus requirements and for additional collateral related to premium and claim funds held in a fiduciary capacity, one letter of credit totaling \$5.0 million to support our potential obligation under a client's insurance program and one letter of credit totaling \$0.5 million as a security deposit for a 2015 acquisition's lease. These letters of credit have never been drawn upon.

Our commitments associated with outstanding letters of credit, financial guarantees and funding commitments at December 31, 2016 were as follows (all dollar amounts in table are in millions):

Description, Purpose and Trigger	Collateral	Compensation to Us	Maximum Exposure	Liability Recorded
<b>Venture capital funds</b>				
Funding commitment to one fund - expires in 2023 Trigger - Agreed conditions met	None	None	\$ 0.7	\$ -
<b>Other</b>				
Credit support under letters of credit for deductibles due by us on our own insurance coverages - expires after 2021 Trigger - We do not reimburse the insurance companies for deductibles the insurance companies advance on behalf of us	None	None	9.3	12.3
Credit enhancement under letters of credit for our captive insurance operations to meet minimum statutory capital requirements - expires after 2021 Trigger - Dissolution or catastrophic financial results of the operation	None	Reimbursement of LOC fees	6.3	-
Credit support under letters of credit for clients' claim funds held by our Bermuda captive insurance operation in a fiduciary capacity - expires after 2021 Trigger - Investments fall below prescribed levels	None	Reimbursement of LOC fees	5.0	-
Funding commitments on a clean energy investment - expires when payment is made Trigger - Agreed conditions met	None	None	2.7	-
Credit support under letters of credit in lieu of a security deposit for an acquisition's lease - expires 2023 Trigger - Lease payments do not get made	None	None	0.5	-
Financial guarantees of loans to 8 Canadian-based employees - expires when loan balances are reduced to zero through May 2029 - Principal and interest payments are paid quarterly Trigger - Default on loan payments	(1)	None	2.4	-
			\$ 26.9	\$ 12.3

(1) The guarantees are collateralized by shares in minority holdings of our Canadian operating companies.

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

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

In July 2014, we were named in a lawsuit which asserts that we and other defendants are liable for infringement of a patent held by Nalco Company. The complaint sought a judgment of infringement, damages, costs and attorneys' fees, and injunctive relief. Along with the other defendants, we disputed the allegation of infringement and have defended this matter vigorously. We filed a motion to dismiss the complaint on behalf of all defendants, alleging no infringement of Nalco's intellectual property. This motion and similar motions attacking amended complaints filed by Nalco, were granted. On April 20, 2016, the court dismissed Nalco's complaint and disallowed any further opportunity to amend or refile. Although Nalco has appealed this ruling, we believe that the probability of a material loss is remote. However, litigation is inherently uncertain and it is not possible for us to predict the ultimate disposition of this proceeding.



Our micro-captive advisory services are the subject of an investigation by the Internal Revenue Service (IRS). Additionally, the IRS has initiated audits for the 2012 tax year of over 100 of the micro-captive insurance companies organized and/or managed by us. Among other matters, the IRS is investigating whether we have been acting as a tax shelter promoter in connection with these operations. While the IRS has not made any specific allegations relating to our operations, if the IRS were to successfully assert that the micro-captives organized and/or managed by us do not meet the requirements of IRC Section 831(b), we could be held liable to pay monetary claims by the IRS and/or our micro-captive clients, and our future earnings from our micro-captive operations could be materially adversely affected, any of which events, could negatively impact the overall captive business and adversely affect our consolidated results of operations and financial condition. Due to the fact that the IRS has not made any allegation against us or completed all of its audits of our clients, we are not able to reasonably estimate the amount of any potential loss in connection with this investigation.

**Contingent Liabilities** - We purchase insurance to provide protection from errors and omissions (which we refer to as E&O) claims that may arise during the ordinary course of business. We currently retain the first \$5.0 million of each and every E&O claim. Our E&O insurance provides aggregate coverage for E&O losses up to \$175.0 million in excess of our retained amounts. We have historically maintained self-insurance reserves for the portion of our E&O exposure that is not insured. We periodically determine a range of possible reserve levels using actuarial techniques that rely heavily on projecting historical claim data into the future. Our E&O reserve in the December 31, 2016 consolidated balance sheet is above the lower end of the most recently determined actuarial range by \$1.7 million and below the upper end of the actuarial range by \$7.6 million. We can make no assurances that the historical claim data used to project the current reserve levels will be indicative of future claim activity. Thus, the E&O reserve level and corresponding actuarial range could change in the future as more information becomes known, which could materially impact the amounts reported and disclosed herein.

**Tax-advantaged Investments No Longer Held** - Between 1996 and 2007, we developed and then sold portions of our ownership in various energy related investments, many of which qualified for tax credits under IRC Section 29. In connection with the sales to other investors, we provided various indemnifications. As of December 31, 2016, the potential liability under these indemnifications has expired. We recorded tax benefits in connection with our ownership in these investments. At December 31, 2016, we had exposure on \$109.0 million of previously earned tax credits. In 2004, 2007 and 2009, the IRS examined several of these investments and all examinations were closed without any changes being proposed by the IRS. However, any future adverse tax audits, administrative rulings or judicial decisions could disallow any previously claimed tax credits. Because of the contingent nature of this exposure and our related assessment of its likelihood, no reserve has been recorded in our December 31, 2016 consolidated balance sheet related to this exposure.

## 16. Insurance Operations

We have ownership interests in several insurance and reinsurance companies based in the U.S., Bermuda, Gibraltar, Guernsey, Isle of Man and Malta that primarily operate segregated account “rent-a-captive” facilities. These “rent-a-captive” facilities enable our clients to receive the benefits of owning a captive insurance company without incurring certain disadvantages of ownership. Captive insurance companies, or “rent-a-captive” facilities, are created for clients to insure their risks and capture any underwriting profit and investment income, which would then be available for use by the insureds, generally to reduce future costs of their insurance programs. In general, these companies are set up as protected cell companies that are comprised of separate cell business units (which we refer to as Captive Cells) and the core regulated company (which we refer to as the Core Company). The Core Company is owned and operated by us and no insurance policies are assumed by the Core Company. All insurance is assumed or written within individual Captive Cells. Only the activity of the supporting Core Company of the rent-a-captive facility is recorded in our consolidated financial statements, including cash and stockholder’s equity of the legal entity and any expenses incurred to operate the rent-a-captive facility. Most Captive Cells reinsure individual lines of insurance coverage from external insurance companies. In addition, some Captive Cells offer individual lines of insurance coverage from one of our insurance company subsidiaries. The different types of insurance coverage include special property, general liability, products liability, medical professional liability, other liability and medical stop loss. The policies are generally claims-made. Insurance policies are written by an insurance company and the risk is assumed by each of the Captive Cells. In general, we structure these operations to have no underwriting risk on a net written basis. In situations where we have assumed underwriting risk on a net written basis, we have managed that exposure by obtaining full collateral for the underwriting risk we have assumed from our clients. We typically require pledged assets including cash and/or investment accounts or letters of credit to limit our risk.

We have a wholly owned insurance company subsidiary based in the U.S. that cedes all of its insurance risk to reinsurers or captives under facultative and quota share treaty reinsurance agreements. This company was established in fourth quarter 2014 and began writing business in December 2014. These reinsurance arrangements diversify our business and minimize our exposure to losses or hazards of an unusual nature. The ceding of insurance does not discharge us of our primary liability to the policyholder. In the event that all or any of the reinsuring companies are unable to meet their obligations, we would be liable for such defaulted amounts. Therefore, we are subject to credit risk with respect to the obligations of our reinsurers or captives. In order to minimize our exposure to losses from reinsurer credit risk and insolvencies, we have managed that exposure by obtaining full collateral for which we typically require pledged assets, including cash and/or investment accounts or letters of credit, to fully offset the risk.

Reconciliations of direct to net premiums, on a written and earned basis, for 2016, 2015 and 2014 related to the wholly-owned insurance company subsidiary discussed above are as follows (in millions):

	2016		2015		2014	
	Written	Earned	Written	Earned	Written	Earned
Direct	\$ 71.8	\$ 69.6	\$ 71.5	\$ 71.7	\$ 34.9	\$ 2.4
Assumed	5.2	4.9	4.4	5.1	2.3	0.2
Ceded	<u>(77.0)</u>	<u>(74.5)</u>	<u>(75.9)</u>	<u>(76.8)</u>	<u>(37.2)</u>	<u>(2.6)</u>
Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2016 and 2015, our insurance company subsidiary had reinsurance recoverables of \$48.3 million and \$40.1 million, respectively, related to liabilities established for ceded unearned premium reserves and loss and loss adjustment expense reserves. These reinsurance recoverables relate to direct and assumed business that has been fully ceded to our reinsurers or captives and have been included in premiums and fees receivables in the accompanying consolidated balance sheet.

## 17. Income Taxes

We and our principal domestic subsidiaries are included in a consolidated U.S. Federal income tax return. Our international subsidiaries file various income tax returns in their jurisdictions. The foreign earnings (losses) before income taxes were \$5.6 million in 2016, \$(52.1) million in 2015 and \$3.4 million in 2014. Earnings before income taxes include the impact of intercompany interest expense between domestic and foreign legal entities. Foreign intercompany interest expense was \$110.7 million in 2016, \$107.0 million in 2015 and \$76.5 million in 2014. Domestic intercompany interest income was \$110.7 million in 2016, \$107.0 million in 2015 and \$76.5 million in 2014. Significant components of earnings before income taxes and the provision for income taxes are as follows (in millions):

	Year Ended December 31,		
	2016	2015	2014
Earnings (losses) before income taxes:			
United States	\$ 351.3	\$ 345.6	\$ 288.1
Foreign, principally Australia, Canada, New Zealand and the U.K.	<u>5.6</u>	<u>(52.1)</u>	<u>3.4</u>
Total earnings before income taxes	<u>\$ 356.9</u>	<u>\$ 293.5</u>	<u>\$ 291.5</u>
Provision (benefit) for income taxes:			
Federal:			
Current	\$ 45.9	\$ 43.9	\$ 38.8
Deferred	<u>(146.7)</u>	<u>(139.4)</u>	<u>(96.6)</u>
	<u>(100.8)</u>	<u>(95.5)</u>	<u>(57.8)</u>
State and local:			
Current	8.4	18.9	19.5
Deferred	<u>(0.3)</u>	<u>(3.3)</u>	<u>(1.1)</u>
	<u>8.1</u>	<u>15.6</u>	<u>18.4</u>
Foreign:			
Current	22.4	22.9	30.5
Deferred	<u>(17.8)</u>	<u>(38.6)</u>	<u>(27.1)</u>
	<u>4.6</u>	<u>(15.7)</u>	<u>3.4</u>
Total benefit for income taxes	<u>\$ (88.1)</u>	<u>\$ (95.6)</u>	<u>\$ (36.0)</u>

A reconciliation of the provision for income taxes with the U.S. Federal statutory income tax rate is as follows (in millions, except percentages):

	<b>Year Ended December 31,</b>					
	<b>2016</b>		<b>2015</b>		<b>2014</b>	
	<b>Amount</b>	<b>% of Pretax Earnings</b>	<b>Amount</b>	<b>% of Pretax Earnings</b>	<b>Amount</b>	<b>% of Pretax Earnings</b>
Federal statutory rate	\$ 124.9	35.0	\$ 102.7	35.0	\$ 102.0	35.0
State income taxes - net of Federal benefit	5.3	1.5	10.2	3.5	12.0	4.1
Differences related to non U.S. operations	(34.1)	(9.6)	(22.6)	(7.7)	(11.2)	(3.8)
Alternative energy, foreign and other tax credits	(194.4)	(54.5)	(181.3)	(61.8)	(145.5)	(49.9)
Other permanent differences	(4.8)	(1.3)	(4.9)	(1.7)	(2.5)	(0.9)
Nondeductible employee compensation	-	-	-	-	5.4	1.9
Changes in unrecognized tax benefits	2.2	0.6	3.0	1.0	2.4	0.8
Change in valuation allowance	14.0	3.9	1.7	0.6	-	-
Change in U.K. tax rate	(1.5)	(0.4)	(4.2)	(1.4)	-	-
Other	0.3	0.1	(0.2)	(0.1)	1.4	0.5
<b>Benefit for income taxes</b>	<b>\$ (88.1)</b>	<b>(24.7)</b>	<b>\$ (95.6)</b>	<b>(32.6)</b>	<b>\$ (36.0)</b>	<b>(12.3)</b>

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in millions):

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Gross unrecognized tax benefits at January 1	\$ 15.7	\$ 12.5
Increases in tax positions for current year	2.4	2.9
Settlements	(1.4)	-
Lapse in statute of limitations	(1.8)	(1.3)
Increases in tax positions for prior years	1.8	2.1
Decreases in tax positions for prior years	(2.2)	(0.5)
<b>Gross unrecognized tax benefits at December 31</b>	<b>\$ 14.5</b>	<b>\$ 15.7</b>

The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$10.0 million and \$10.8 million at December 31, 2016 and 2015, respectively. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. At December 31, 2016 and 2015, we had accrued interest and penalties related to unrecognized tax benefits of \$2.8 million and \$1.1 million, respectively.

We file income tax returns in the U.S. and in various state, local and foreign jurisdictions. We are routinely examined by tax authorities in these jurisdictions. At December 31, 2016, our corporate returns had been examined by the IRS through calendar year 2010. The IRS is currently conducting various examinations of calendar years 2011 and 2012. In addition, a number of foreign, state, local and partnership examinations are currently ongoing. It is reasonably possible that our gross unrecognized tax benefits may change within the next twelve months. However, we believe any changes in the recorded balance would not have a significant impact on our consolidated financial statements.

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

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Deferred tax assets:		
Alternative minimum tax and other credit carryforwards	\$ 477.9	\$ 341.6
Accrued and unfunded compensation and employee benefits	219.0	197.0
Amortizable intangible assets	38.8	39.4
Compensation expense related to stock options	16.9	12.6
Accrued liabilities	31.7	34.3
Accrued pension liability	22.9	23.4
Investments	7.7	9.5
Net operating loss carryforwards	20.4	19.2
Capital loss carryforwards	16.0	2.9
Deferred rent liability	8.1	8.7
Other	3.9	7.7
	<u>863.3</u>	<u>696.3</u>
Total deferred tax assets	863.3	696.3
Valuation allowance for deferred tax assets	(66.8)	(52.8)
	<u>796.5</u>	<u>643.5</u>
Deferred tax liabilities:		
Non deductible amortizable intangible assets	310.2	307.1
Investment-related partnerships	34.5	28.7
Depreciable fixed assets	18.2	11.7
Hedging instruments	4.1	-
Other prepaid items	4.1	4.6
	<u>371.1</u>	<u>352.1</u>
Total deferred tax liabilities	371.1	352.1
Net deferred tax assets	<u>\$ 425.4</u>	<u>\$ 291.4</u>

At December 31, 2016 and 2015, \$371.1 million and \$352.1 million, respectively, have been included in noncurrent liabilities in the accompanying consolidated balance sheet. Alternative minimum tax credits of \$108.2 million have an indefinite life, general business tax credits of \$368.8 million begin to expire, if not utilized, in 2033, and state credits of \$0.9 million expire, if not used, in 2021. We expect the historically favorable trend in earnings before income taxes to continue in the foreseeable future. Accordingly, we expect to make full use of the net deferred tax assets. Valuation allowances have been established for certain foreign intangible assets and various state net operating loss carryforwards that may not be utilized in the future.

We do not provide for U.S. Federal income taxes on the undistributed earnings (\$243.0 million and \$231.9 million at December 31, 2016 and 2015, respectively) of foreign subsidiaries which are considered permanently invested outside of the U.S. The amount of unrecognized deferred tax liability on these undistributed earnings was \$15.6 million and \$10.4 million at December 31, 2016 and 2015, respectively.

## 18. Accumulated Other Comprehensive Earnings

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

	<u>Pension Liability</u>	<u>Foreign Currency Translation</u>	<u>Fair Value of Derivative Instruments</u>	<u>Accumulated Comprehensive Earnings (Loss)</u>
Balance as of January 1, 2014	\$ (25.6)	\$ 22.1	\$ 0.9	\$ (2.6)
Net change in period	<u>(18.6)</u>	<u>(238.4)</u>	<u>(1.0)</u>	<u>(258.0)</u>
Balance as of December 31, 2014	(44.2)	(216.3)	(0.1)	(260.6)
Net change in period	<u>1.3</u>	<u>(261.1)</u>	<u>(2.1)</u>	<u>(261.9)</u>
Balance as of December 31, 2015	(42.9)	(477.4)	(2.2)	(522.5)
Net change in period	<u>(4.4)</u>	<u>(231.8)</u>	<u>(4.9)</u>	<u>(241.1)</u>
Balance as of December 31, 2016	<u>\$ (47.3)</u>	<u>\$ (709.2)</u>	<u>\$ (7.1)</u>	<u>\$ (763.6)</u>

The foreign currency translation in 2016, 2015 and 2014 primarily relates to the net impact of changes in the value of the local currencies relative to the U.S. dollar for our operations in Australia, Canada, the Caribbean, India, New Zealand and the U.K. During 2016, 2015 and 2014, \$5.3 million, \$6.2 million and \$14.3 million, respectively, of expense related to the pension liability was reclassified from accumulated other comprehensive loss to compensation expense in the statement of earnings. During 2016, 2015 and 2014, \$8.2 million of expense, \$0.7 million of income and \$0.5 million of expense, respectively, related to the fair value of derivative investments was reclassified from accumulated other comprehensive loss to the statement of earnings. During 2016, 2015 and 2014, no amounts related to foreign currency translation were reclassified from accumulated other comprehensive loss to the statement of earnings.

## 19. Quarterly Operating Results (unaudited)

Quarterly operating results for 2016 and 2015 were as follows (in millions, except per share data):

	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
<b>2016</b>				
Total revenues	\$ 1,300.4	\$ 1,427.1	\$ 1,482.3	\$ 1,385.0
Total expenses	<u>1,244.7</u>	<u>1,289.6</u>	<u>1,387.4</u>	<u>1,316.2</u>
Earnings before income taxes	<u>\$ 55.7</u>	<u>\$ 137.5</u>	<u>\$ 94.9</u>	<u>\$ 68.8</u>
Net earnings attributable to controlling interests	<u>\$ 46.5</u>	<u>\$ 150.0</u>	<u>\$ 122.8</u>	<u>\$ 95.1</u>
Basic net earnings per share	<u>\$ 0.26</u>	<u>\$ 0.85</u>	<u>\$ 0.69</u>	<u>\$ 0.53</u>
Diluted net earnings per share	<u>\$ 0.26</u>	<u>\$ 0.84</u>	<u>\$ 0.69</u>	<u>\$ 0.53</u>
<b>2015</b>				
Total revenues	\$ 1,231.3	\$ 1,371.4	\$ 1,454.8	\$ 1,334.9
Total expenses	<u>1,200.4</u>	<u>1,242.9</u>	<u>1,349.1</u>	<u>1,306.5</u>
Earnings before income taxes	<u>\$ 30.9</u>	<u>\$ 128.5</u>	<u>\$ 105.7</u>	<u>\$ 28.4</u>
Net earnings attributable to controlling interests	<u>\$ 21.9</u>	<u>\$ 139.3</u>	<u>\$ 133.3</u>	<u>\$ 62.3</u>
Basic net earnings per share	<u>\$ 0.13</u>	<u>\$ 0.82</u>	<u>\$ 0.76</u>	<u>\$ 0.35</u>
Diluted net earnings per share	<u>\$ 0.13</u>	<u>\$ 0.81</u>	<u>\$ 0.75</u>	<u>\$ 0.35</u>

## 20. Segment Information

We have three reportable operating segments: brokerage, risk management and corporate. The brokerage segment is primarily comprised of our retail and wholesale insurance brokerage operations. The brokerage segment generates revenues through commissions paid by insurance underwriters and through fees charged to our clients. Our brokers, agents and administrators act as intermediaries between insurers and their customers and we do not assume net underwriting risks. The risk management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property/casualty coverages and for insurance companies that choose to outsource some or all of their property/casualty claims departments. These operations also provide claims management, loss control consulting and insurance property appraisal services. Revenues are principally generated on a negotiated per-claim or per-service fee basis. The corporate segment manages our clean energy and other investments. This segment also holds all of our corporate debt. Allocations of investment income and

certain expenses are based on reasonable assumptions and estimates primarily using revenue, headcount and other information. We allocate the provision for income taxes to the brokerage and risk management segments using the local county statutory rates. Reported operating results by segment would change if different methods were applied.

Financial information relating to our segments for 2016, 2015 and 2014 is as follows (in millions):

<b>Year Ended December 31, 2016</b>	<b>Brokerage</b>	<b>Risk Management</b>	<b>Corporate</b>	<b>Total</b>
Revenues:				
Commissions	\$ 2,439.1	\$ -	\$ -	\$ 2,439.1
Fees	775.7	717.1	-	1,492.8
Supplemental commissions	147.0	-	-	147.0
Contingent commissions	107.2	-	-	107.2
Investment income	52.3	1.0	-	53.3
Gains on books of business sales and other	6.6	-	-	6.6
Revenue from clean coal activities	-	-	1,350.1	1,350.1
Other - net gain	-	-	(1.3)	(1.3)
<b>Total revenues</b>	<b>3,527.9</b>	<b>718.1</b>	<b>1,348.8</b>	<b>5,594.8</b>
Expenses:				
Compensation	2,041.8	424.5	72.6	2,538.9
Operating	600.9	171.4	25.4	797.7
Cost of revenues from clean coal activities	-	-	1,408.6	1,408.6
Interest	-	-	109.8	109.8
Depreciation	57.2	27.2	19.2	103.6
Amortization	244.7	2.5	-	247.2
Change in estimated acquisition earnout payables	32.1	-	-	32.1
<b>Total expenses</b>	<b>2,976.7</b>	<b>625.6</b>	<b>1,635.6</b>	<b>5,237.9</b>
Earnings (loss) before income taxes	551.2	92.5	(286.8)	356.9
Provision (benefit) for income taxes	194.1	35.3	(317.5)	(88.1)
Net earnings	357.1	57.2	30.7	445.0
Net earnings attributable to noncontrolling interests	3.6	-	27.0	30.6
Net earnings attributable to controlling interests	<u>\$ 353.5</u>	<u>\$ 57.2</u>	<u>\$ 3.7</u>	<u>\$ 414.4</u>
Net foreign exchange gain	\$ 2.9	\$ -	\$ 0.1	\$ 3.0
Revenues by Geographic Area:				
United States	\$ 2,334.4	\$ 610.3	\$ 1,327.9	\$ 4,272.6
United Kingdom	686.5	25.6	-	712.1
Australia	172.5	73.0	-	245.5
Canada	134.1	4.1	-	138.2
New Zealand	120.7	5.1	-	125.8
Other foreign	79.7	-	20.9	100.6
<b>Total revenues</b>	<b>\$ 3,527.9</b>	<b>\$ 718.1</b>	<b>\$ 1,348.8</b>	<b>\$ 5,594.8</b>
<b>At December 31, 2016</b>				
Identifiable assets:				
United States	\$ 4,393.6	\$ 540.5	\$ 1,622.2	\$ 6,556.3
United Kingdom	2,321.9	61.8	-	2,383.7
Australia	894.4	56.9	-	951.3
Canada	573.3	2.8	-	576.1
New Zealand	668.9	4.4	-	673.3
Other foreign	331.3	-	17.6	348.9
<b>Total identifiable assets</b>	<b>\$ 9,183.4</b>	<b>\$ 666.4</b>	<b>\$ 1,639.8</b>	<b>\$ 11,489.6</b>
Goodwill - net	\$ 3,736.9	\$ 28.1	\$ 2.8	\$ 3,767.8
Amortizable intangible assets - net	1,613.6	13.7	-	1,627.3

<b>Year Ended December 31, 2015</b>	<b>Brokerage</b>	<b>Risk Management</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenues:</b>				
Commissions	\$ 2,338.7	\$ -	\$ -	\$ 2,338.7
Fees	705.8	726.5	-	1,432.3
Supplemental commissions	125.5	-	-	125.5
Contingent commissions	93.7	-	-	93.7
Investment income	53.6	0.6	-	54.2
Gains on books of business sales and other	6.7	-	-	6.7
Revenue from clean coal activities	-	-	1,310.8	1,310.8
Other - net gain	-	-	30.5	30.5
<b>Total revenues</b>	<b>3,324.0</b>	<b>727.1</b>	<b>1,341.3</b>	<b>5,392.4</b>
<b>Expenses:</b>				
Compensation	1,939.7	427.2	62.0	2,428.9
Operating	638.1	180.8	21.8	840.7
Cost of revenues from clean coal activities	-	-	1,351.5	1,351.5
Interest	-	-	103.0	103.0
Depreciation	54.4	24.3	15.2	93.9
Amortization	237.3	3.0	-	240.3
Change in estimated acquisition earnout payables	41.1	(0.5)	-	40.6
<b>Total expenses</b>	<b>2,910.6</b>	<b>634.8</b>	<b>1,553.5</b>	<b>5,098.9</b>
Earnings (loss) before income taxes	413.4	92.3	(212.2)	293.5
Provision (benefit) for income taxes	145.3	35.1	(276.0)	(95.6)
Net earnings	268.1	57.2	63.8	389.1
Net earnings attributable to noncontrolling interests	1.7	-	30.6	32.3
Net earnings attributable to controlling interests	\$ 266.4	\$ 57.2	\$ 33.2	\$ 356.8
Net foreign exchange gain (loss)	\$ (0.2)	\$ -	\$ 0.4	\$ 0.2
<b>Revenues by Region:</b>				
United States	\$ 2,122.1	\$ 591.8	\$ 1,327.5	\$ 4,041.4
United Kingdom	738.5	28.4	-	766.9
Australia	157.3	99.4	-	256.7
Canada	133.1	3.5	-	136.6
New Zealand	118.6	4.0	-	122.6
Other foreign	54.4	-	13.8	68.2
<b>Total revenues</b>	<b>\$ 3,324.0</b>	<b>\$ 727.1</b>	<b>\$ 1,341.3</b>	<b>\$ 5,392.4</b>
<b>At December 31, 2015</b>				
<b>Identifiable assets:</b>				
United States	\$ 4,092.8	\$ 525.2	\$ 1,264.9	\$ 5,882.9
United Kingdom	2,580.0	72.1	-	2,652.1
Australia	895.8	55.6	-	951.4
Canada	575.0	3.1	-	578.1
New Zealand	623.1	4.1	-	627.2
Other foreign	203.0	-	19.1	222.1
<b>Total identifiable assets</b>	<b>\$ 8,969.7</b>	<b>\$ 660.1</b>	<b>\$ 1,284.0</b>	<b>\$ 10,913.8</b>
Goodwill - net	\$ 3,635.6	\$ 27.3	\$ -	\$ 3,662.9
Amortizable intangible assets - net	1,677.8	21.0	-	1,698.8

<b>Year Ended December 31, 2014</b>	<b>Brokerage</b>	<b>Risk Management</b>	<b>Corporate</b>	<b>Total</b>
Revenues:				
Commissions	\$ 2,083.0	\$ -	\$ -	\$ 2,083.0
Fees	577.0	681.3	-	1,258.3
Supplemental commissions	104.0	-	-	104.0
Contingent commissions	84.7	-	-	84.7
Investment income	40.3	1.0	-	41.3
Gains on books of business sales and other	7.3	-	-	7.3
Revenue from clean coal activities	-	-	1,029.5	1,029.5
Other - net gain	-	-	18.4	18.4
<b>Total revenues</b>	<b>2,896.3</b>	<b>682.3</b>	<b>1,047.9</b>	<b>4,626.5</b>
Expenses:				
Compensation	1,703.1	414.2	50.3	2,167.6
Operating	530.1	176.4	36.6	743.1
Cost of revenues from clean coal activities	-	-	1,058.9	1,058.9
Interest	-	-	89.0	89.0
Depreciation	44.4	21.2	3.8	69.4
Amortization	186.3	3.2	-	189.5
Change in estimated acquisition earnout payables	17.6	(0.1)	-	17.5
<b>Total expenses</b>	<b>2,481.5</b>	<b>614.9</b>	<b>1,238.6</b>	<b>4,335.0</b>
Earnings (loss) before income taxes	414.8	67.4	(190.7)	291.5
Provision (benefit) for income taxes	151.0	25.3	(212.3)	(36.0)
Net earnings	263.8	42.1	21.6	327.5
Net earnings attributable to noncontrolling interests	0.9	-	23.2	24.1
Net earnings (loss) attributable to controlling interests	\$ 262.9	\$ 42.1	\$ (1.6)	\$ 303.4
Net foreign exchange gain (loss)	\$ 1.1	\$ -	\$ (0.6)	\$ 0.5
Revenues by Region:				
United States	\$ 1,873.3	\$ 532.6	\$ 1,036.9	\$ 3,442.8
United Kingdom	696.8	29.4	-	726.2
Australia	122.4	114.2	-	236.6
Canada	81.8	3.2	-	85.0
New Zealand	78.4	2.9	-	81.3
Other foreign	43.6	-	11.0	54.6
<b>Total revenues</b>	<b>\$ 2,896.3</b>	<b>\$ 682.3</b>	<b>\$ 1,047.9</b>	<b>\$ 4,626.5</b>
<b>At December 31, 2014</b>				
Identifiable assets:				
United States	\$ 3,557.1	\$ 457.5	\$ 1,032.0	\$ 5,046.6
United Kingdom	2,376.4	74.0	-	2,450.4
Australia	992.2	39.0	-	1,031.2
Canada	639.2	2.8	-	642.0
New Zealand	614.1	1.6	-	615.7
Other foreign	207.2	-	16.9	224.1
<b>Total identifiable assets</b>	<b>\$ 8,386.2</b>	<b>\$ 574.9</b>	<b>\$ 1,048.9</b>	<b>\$ 10,010.0</b>
Goodwill - net	\$ 3,427.5	\$ 22.1	\$ -	\$ 3,449.6
Amortizable intangible assets - net	1,757.3	18.7	-	1,776.0



## Report of Independent Registered Public Accounting Firm on Financial Statements

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

We have audited the accompanying consolidated balance sheet of Arthur J. Gallagher & Co. (Gallagher) as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(2)(a). These financial statements and schedule are the responsibility of Gallagher's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arthur J. Gallagher & Co. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Gallagher's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report, dated February 10, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Ernst & Young LLP

Chicago, Illinois  
February 10, 2017

## Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Exchange Act. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

In conducting our assessment of the effectiveness of its internal control over financial reporting, we have excluded eleven of the thirty-seven entities acquired in 2016, which are included in our 2016 consolidated financial statements. Collectively, these acquired entities constituted approximately 0.3% of total assets as of December 31, 2016 and approximately 0.2% of total revenues and approximately 0.1% of net earnings for the year then ended.

Based on our assessment under the framework in Internal Control – Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2016. In addition, the effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

Arthur J. Gallagher & Co.  
Itasca, Illinois  
February 10, 2017

/s/ J. Patrick Gallagher, Jr.  
J. Patrick Gallagher, Jr.  
Chairman, President and Chief Executive Officer

/s/ Douglas K. Howell  
Douglas K. Howell  
Chief Financial Officer

## Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

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

We have audited Arthur J. Gallagher & Co.'s (Gallagher) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Gallagher's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Gallagher's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of eleven of the thirty-seven entities acquired in 2016, which are included in the 2016 consolidated financial statements of Gallagher. Collectively, these acquired entities constituted approximately 0.3% of total assets as of December 31, 2016 and approximately 0.2% of total revenues and approximately 0.1% of net earnings for the year then ended. Our audit of internal control over financial reporting of Gallagher also did not include an evaluation of the internal control over financial reporting of these acquired entities.

In our opinion, Arthur J. Gallagher & Co. maintained in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Arthur J. Gallagher & Co. as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 of Arthur J. Gallagher & Co. and our report dated February 10, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Ernst & Young LLP

Chicago, Illinois  
February 10, 2017

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There were no changes in or disagreements with our accountants on matters related to accounting and financial disclosure.

## **Item 9A. Controls and Procedures.**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.**

As of December 31, 2016, our management, including our chief executive officer and chief financial officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2016.

### **Design and Evaluation of Internal Control Over Financial Reporting.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we included a report of management's assessment of the design and effectiveness of our internal controls as part of this annual report for the fiscal year ended December 31, 2016. Our independent registered public accounting firm also attested to, and reported on, the effectiveness of internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in Item 8, "Financial Statements and Supplementary Data," under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting."

### **Changes in Internal Control Over Financial Reporting.**

There has been no change in our internal control over financial reporting during the fourth fiscal quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Item 9B. Other Information.**

Not applicable.

## **Part III**

## **Item 10. Directors, Executive Officers and Corporate Governance.**

Our 2017 Proxy Statement will include the information required by this item under the headings "Board of Directors," "Security Ownership by Certain Beneficial Owners and Management - Section 16 (a) Beneficial Ownership Reporting Compliance" and "Corporate Governance," which we incorporate herein by reference.

## **Item 11. Executive Compensation.**

Our 2017 Proxy Statement will include the information required by this item under the headings "Compensation Committee Report" and "Compensation Discussion and Analysis," which we incorporate herein by reference.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Our 2017 Proxy Statement will include the information required by this item under the headings "Security Ownership by Certain Beneficial Owners and Management" and "Equity Compensation Plan Information," which we incorporate herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Our 2017 Proxy Statement will include the information required by this item under the headings “Certain Relationships and Related Transactions” and “Corporate Governance,” which we incorporate herein by reference.

### **Item 14. Principal Accountant Fees and Services.**

Our 2017 Proxy Statement will include the information required by this item under the heading “Ratification of Appointment of Independent Auditor - Principal Accountant Fees and Services,” which we incorporate herein by reference.

## **Part IV**

### **Item 15. Exhibits and Financial Statement Schedules.**

The following documents are filed as a part of this report:

1. Consolidated Financial Statements:
  - (a) Consolidated Statement of Earnings for each of the three years in the period ended December 31, 2016.
  - (b) Consolidated Balance Sheet as of December 31, 2016 and 2015.
  - (c) Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 2016.
  - (d) Consolidated Statement of Stockholders’ Equity for each of the three years in the period ended December 31, 2016.
  - (e) Notes to Consolidated Financial Statements.
  - (f) Report of Independent Registered Public Accounting Firm on Financial Statements.
  - (g) Management’s Report on Internal Control Over Financial Reporting.
  - (h) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.
2. Consolidated Financial Statement Schedules required to be filed by Item 8 of this Form:
  - (a) Schedule II - Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in our consolidated financial statements or the notes thereto.

3. Exhibits:

Included in this Form 10-K.

- |        |   |
|--------|---|
| *10.16 | Arthur J. Gallagher & Co. Deferred Equity Participation Plan amended and restated as of January 18, 2017.   |
| 21.1   | Subsidiaries of Arthur J. Gallagher & Co., including state or other jurisdiction of incorporation or organization and the names under which each does business. |
| 23.1   | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.  |
| 24.1   | Power of Attorney.  |
| 31.1   | Rule 13a-14(a) Certification of Chief Executive Officer.  |
| 31.2   | Rule 13a-14(a) Certification of Chief Financial Officer.  |
| 32.1   | Section 1350 Certification of Chief Executive Officer.  |

32.2 Section 1350 Certification of Chief Financial Officer.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

Incorporated by reference into this Form 10-K.

- 2.1 Agreement and Plan of Reorganization, dated as of August 12, 2013, by and among Arthur J. Gallagher & Co., Bollinger Holdings, Inc., Bollinger, Inc., JPGAC, LLC, Evercore Capital Partners II L.P., Evercore Partners Inc. and Management Group, LLC (incorporated by reference to the same exhibit number to the post-effective amendment No. 2 to our Form S-4 Registration Statement dated September 6, 2013, File No. 333-188651).
- 2.2 Share Purchase Agreement, dated September 4, 2013, between Gallagher, Giles and the Seller (incorporated by reference to Exhibit 2.1 to our Form 8-K Current Report dated September 6, 2013, File No. 1 09761).
- 2.3 Share Purchase Agreement, dated April 1, 2014, between Arthur J. Gallagher & Co., Oval Limited, Oval EBT Trustees Limited and certain institutional sellers, individual sellers and option holders (incorporated by reference to Exhibit 2.1 to our Form 10-Q Quarterly Report for the quarterly period ended March 31, 2014, File No. 1-09761).
- 2.4 Share Sale Agreement, amended and restated as of June 15, 2014, by and among Arthur J. Gallagher & Co., Wesfarmers Insurance Investments Pty Ltd, OAMPS Ltd, Wesfarmers Limited and Pastel Purchaser Party Limited (incorporated by reference to Exhibit 2.1 to our Form 8-K Current Report dated June 16, 2014, File No. 1 09761).
- 2.5 Share Purchase Agreement, dated as of May 19, 2014, by and among Arthur J. Gallagher & Co., Roins Financial Services Limited and Noraxis Capital Corporation (incorporated by reference to Exhibit 2.1 to our Form 8-K Current Report dated May 19, 2014, File No. 1-09761).
- 3.1 Amended and Restated Certificate of Incorporation of Arthur J. Gallagher & Co. (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2008, File No. 1-09761).
- 3.2 Amended and Restated By-Laws of Arthur J. Gallagher & Co. (incorporated by reference to Exhibit 3.1 to our Form 8-K Current Report dated October 23, 2015, File No. 1-09761).
- 4.1 Multicurrency Credit Agreement, dated as of September 19, 2013, among Arthur J. Gallagher & Co., the other borrowers party thereto, the lenders party thereto, Bank of Montreal, as administrative agent, BMO Capital Markets, as joint lead arranger and joint book runner, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citibank N.A., Barclays Bank PLC, and J.P. Morgan Securities LLC, as joint lead arrangers, joint book runners and co-syndication agents and U.S. Bank National Association, as documentation agent (incorporated by reference to the same exhibit number to our Form 8-K Current Report dated September 19, 2013, File No. 1-09761).
- 10.5 Lease Agreement between Arthur J. Gallagher & Co. and Itasca Center III Limited Partnership, a Texas limited partnership, dated July 26, 1989 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 1989, File No. 1-09761).
- 10.5.1 Amendments No. 1 to No. 15 to the Lease Agreement between Arthur J. Gallagher & Co. and HGC/Two Pierce Limited Partnership, an Illinois limited partnership, as successor to Itasca Center III Limited Partnership, a Texas limited partnership, dated May 20, 1991 to October 15, 2005 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2005, File No. 1-09761).
- 10.5.2 Amendment No. 16 to the Lease Agreement between Arthur J. Gallagher & Co. and Wells REIT-Two Pierce Place, LLC, a Delaware limited liability company, dated December 7, 2006 (incorporated by reference to the same exhibit number to our Form 8-K Current Report dated December 7, 2006, File No. 1-09761).

- \*10.11 Form of Indemnity Agreement between Arthur J. Gallagher & Co. and each of our directors and corporate officers (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended March 31, 2009, File No. 1-09761).
- \*10.12 Arthur J. Gallagher & Co. Deferral Plan for Nonemployee Directors (amended and restated as of January 1, 2011) (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761).
- \*10.14.1 Form of Change in Control Agreement between Arthur J. Gallagher & Co. and those Executive Officers hired prior to January 1, 2008 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2011, File No. 1-09761).
- \*10.14.2 Form of Change in Control Agreement between Arthur J. Gallagher & Co. and those Executive Officers hired after January 1, 2008 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2011, File No. 1-09761).
- \*10.15 The Arthur J. Gallagher & Co. Supplemental Savings and Thrift Plan, as amended and restated effective January 1, 2015 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2014, File No. 1-09761).
- \*10.16.1 Form of Deferred Equity Participation Plan Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2014, File No. 1-09761).
- \*10.17 Arthur J. Gallagher & Co. Severance Plan (effective September 15, 1997, as amended and restated effective January 1, 2010) (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2008, File No. 1-09761).
- \*10.17.1 First Amendment to the Arthur J. Gallagher & Co. Severance Plan (effective September 15, 1997, as amended and restated effective January 1, 2009) (incorporated by reference to Exhibit 10.1 to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2010, File No. 1-09761).
- \*10.18 Arthur J. Gallagher & Co. Deferred Cash Participation Plan, amended and restated as of March 11, 2015 (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended March 31, 2015, File No. 1-09761).
- \*10.26 Conformed copy of the Arthur J. Gallagher & Co. 1988 Incentive Stock Option Plan, through Amendment No. 1 as of January 19, 2005 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2009, File No. 1-09761).
- \*10.27 Conformed copy of the Arthur J. Gallagher & Co. 1988 Nonqualified Stock Option Plan, through Amendment No. 6 as of January 19, 2005 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2009, File No. 1-09761).
- \*10.28 Conformed copy of the Arthur J. Gallagher & Co. 1989 Non-Employee Directors' Stock Option Plan, through Amendment No. 6 as of May 17, 2005 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2009, File No. 1-09761).
- \*10.29 Arthur J. Gallagher & Co. Restricted Stock Plan (incorporated by reference to Exhibit 4.6 to our Form S-8 Registration Statement, File No. 333-106539).
- 10.38 Operating Agreement of Chem-Mod LLC dated as of June 23, 2004, by and among NOx II, Ltd., an Ohio limited liability company, AJG Coal, Inc., a Delaware corporation, and IQ Clean Coal LLC, a Delaware limited liability company (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2005, File No. 1-09761).
- 10.40 Operating Agreement of Chem-Mod International LLC dated as of July 8, 2005, between NOx II International, Ltd., an Ohio limited liability company and AJG Coal, Inc., a Delaware corporation, together with Amendment No. 1 dated August 2, 2005 (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2005, File No. 1-09761).
- \*10.42 Arthur J. Gallagher & Co. 2009 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.4 to our Form S-8 Registration Statement, File No. 333-159150).
- \*10.42.1 Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761).

- \*10.42.2 Form of Long-Term Incentive Plan Stock Option Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761).
- \*10.42.3 Form of Long-Term Incentive Plan Stock Appreciation Rights Award Agreement (incorporated by reference to the same exhibit number to our Form 10-K Annual Report for 2010, File No. 1-09761).
- \*10.42.4 Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for executive officers over the age of 55 (incorporated by reference to the same exhibit number to our Form 10 Q Quarterly Report for the quarterly period ended March 31, 2013, File No. 1-09761).
- \*10.42.5 Form of Long-Term Incentive Plan Stock Option Award Agreement for executive officers over the age of 55 (incorporated by reference to the same exhibit number to our Form 10 Q Quarterly Report for the quarterly period ended March 31, 2013, File No. 1-09761),
- \*10.43 Arthur J. Gallagher & Co. Performance Unit Program (incorporated by reference to the same exhibit number to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2007, File No. 1-09761).
- \*10.43.1 Form of Performance Unit Grant Agreement under the Performance Unit Program (incorporated by reference to Exhibit 10.45.1 to our Form 10-Q Quarterly Report for the quarterly period ended March 31, 2014, File No. 1-09761).
- \*10.43.2 Form of Performance Unit Grant Agreement under the Performance Unit Program for executive officers over the age of 55 (incorporated by reference to the same exhibit number to our Form 10 Q Quarterly Report for the quarterly period ended March 31, 2013, File No. 1-09761).
- \*10.44 Senior Management Incentive Plan (incorporated by reference to Exhibit 10.44 to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2015, File No. 1-09761).
- \*10.45 Arthur J. Gallagher & Co. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to our Form S-8 Registration Statement, File No. 333-174497).
- 10.46 Share Purchase Agreement, dated May 12, 2011, between Gallagher Holdings Two (UK) Limited, HLG Holdings Limited and the Shareholders of HLG Holdings Limited named therein (incorporated by reference to Exhibit 2.1 to our Form 8-K Current Report dated May 17, 2011, File No. 1-09761).
- \*10.47 Arthur J. Gallagher & Co. 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.46 to our Form 10-Q Quarterly Report for the quarterly period ended June 30, 2014, File No. 1-09761).

All other exhibits are omitted because they are not applicable, or not required, or because the required information is included in our consolidated financial statements or the notes thereto. The registrant agrees to furnish to the Securities and Exchange Commission upon request a copy of any long-term debt instruments that have been omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K.

- 
- \* Such exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to item 601 of Regulation S-K.

## **Item 16. Form 10-K Summary.**

Not applicable.



## Signatures

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 10<sup>th</sup> day of February, 2017.**

ARTHUR J. GALLAGHER & CO.

/s/ J. PATRICK GALLAGHER, JR.

By \_\_\_\_\_

J. Patrick Gallagher, Jr.

*Chairman, President and Chief Executive Officer*

**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 10<sup>th</sup> day of February, 2017 by the following persons on behalf of the Registrant in the capacities indicated.**

<u>Name</u>	<u>Title</u>
/s/ J. PATRICK GALLAGHER, JR. _____ J. Patrick Gallagher, Jr.	Chairman, President and Director (Principal Executive Officer)
/s/ DOUGLAS K. HOWELL _____ Douglas K. Howell	Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ RICHARD C. CARY _____ Richard C. Cary	Controller (Principal Accounting Officer)
*SHERRY S. BARRAT _____ Sherry S. Barrat	Director
*WILLIAM L. BAX _____ William L. Bax	Director
* D. JOHN COLDMAN _____ D. John Coldman	Director
* FRANK E. ENGLISH, JR. _____ Frank E. English, Jr.	Director
*ELBERT O. HAND _____ Elbert O. Hand	Director
*DAVID S. JOHNSON _____ David S. Johnson	Director
*KAY W. MC CURDY _____ Kay W. Mc Curdy	Director
* RALPH J. NICOLETTI _____ Ralph J. Nicoletti	Director
*NORMAN L. ROSENTHAL _____ Norman L. Rosenthal	Director

/s/ WALTER D. BAY

\*By: \_\_\_\_\_  
Walter D. Bay, Attorney-in-Fact

**Schedule II**  
**Arthur J. Gallagher & Co.**  
**Valuation and Qualifying Accounts**

	<u>Balance at Beginning of Year</u>	<u>Amounts Recorded in Earnings</u>	<u>Adjustments</u>	<u>Balance at End of Year</u>
(In millions)				
Year ended December 31, 2016				
Allowance for doubtful accounts	\$ 13.3	\$ 4.9	\$ (5.4) (1)	\$ 12.8
Allowance for estimated policy cancellations	7.4	0.2	(0.5) (2)	7.1
Accumulated amortization of expiration lists, noncompete agreements and trade names	983.9	247.2	(27.5) (3)	1,203.6
Year ended December 31, 2015				
Allowance for doubtful accounts	\$ 10.7	\$ 5.7	\$ (3.1) (1)	\$ 13.3
Allowance for estimated policy cancellations	6.8	3.6	(3.0) (2)	7.4
Accumulated amortization of expiration lists, noncompete agreements and trade names	758.8	240.3	(15.2) (3)	983.9
Year ended December 31, 2014				
Allowance for doubtful accounts	\$ 6.7	\$ 2.7	\$ 1.3 (1)	\$ 10.7
Allowance for estimated policy cancellations	4.2	(0.2)	2.8 (2)	6.8
Accumulated amortization of expiration lists, noncompete agreements and trade names	544.1	189.5	25.2 (3)	758.8

- 
- (1) Net activity of bad debt write offs and recoveries and acquired businesses.  
(2) Additions to allowance related to acquired businesses.  
(3) Elimination of fully amortized expiration lists, non-compete agreements and trade names, intangible asset/amortization reclassifications and disposal of acquired businesses.

**Arthur J. Gallagher & Co.**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended December 31, 2016**  
**Exhibit Index**

- \*10.16 Arthur J. Gallagher & Co. Deferred Equity Participation Plan amended and restated as of January 18, 2017.
- 21.1 Subsidiaries of Arthur J. Gallagher & Co., including state or other jurisdiction of incorporation or organization and the names under which each does business.
- 23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

The registrant agrees to furnish to the Securities and Exchange Commission upon request a copy of any long-term debt instruments that have been omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K.

- \* Such exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to item 601 of Regulation S-K.

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

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

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

Date: February 10, 2017

/s/ J. Patrick Gallagher, Jr.

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

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

I, Douglas K. Howell, certify that:

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

Date: February 10, 2017

/s/ Douglas K. Howell

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

**Section 1350 Certification of Chief Executive Officer**

I, J. Patrick Gallagher, Jr., the chief executive officer of Arthur J. Gallagher & Co., certify that (i) the Annual Report on Form 10-K of Arthur J. Gallagher & Co. for the twelve month period ended December 31, 2016 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: February 10, 2017

/s/ J. Patrick Gallagher, Jr.

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

**Section 1350 Certification of Chief Financial Officer**

I, Douglas K. Howell, the chief financial officer of Arthur J. Gallagher & Co., certify that (i) the Annual Report on Form 10-K of Arthur J. Gallagher & Co. for the twelve month period ended December 31, 2016 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Arthur J. Gallagher & Co. and its subsidiaries.

Date: February 10, 2017

/s/ Douglas K. Howell

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

# BOARD OF DIRECTORS

## **J. PATRICK GALLAGHER, JR.**

Chairman of the Board,  
President and Chief Executive Officer

## **SHERRY S. BARRAT<sup>2,3</sup>**

Former Vice Chairman  
Northern Trust Corporation

## **WILLIAM L. BAX<sup>1</sup>**

Former Managing Partner of  
PricewaterhouseCoopers' Chicago office

## **D. JOHN COLDMAN<sup>2</sup>**

Former Chairman of The Benfield Group

## **FRANK E. ENGLISH, JR.<sup>1</sup>**

Former Managing Director and Vice Chairman of  
Investment Banking, Morgan Stanley & Co.

## **ELBERT O. HAND<sup>2,3</sup>**

Former Chairman of the Board and Chief Executive Officer  
Hartmarx Corporation

## **DAVID S. JOHNSON<sup>2,3</sup>**

President and Chief Executive Officer of the Americas,  
Barry Callebaut AG

## **KAY W. MCCURDY<sup>2,3</sup>**

Of Counsel, Locke Lord LLP

## **RALPH J. NICOLETTI<sup>1</sup>**

Executive Vice President and Chief Financial Officer,  
Newell Brands, Inc.

## **NORMAN L. ROSENTHAL, PH.D.<sup>1</sup>**

President, Norman L. Rosenthal & Associates, Inc.

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Compensation Committee

<sup>3</sup> Member of the Nominating/Governance Committee

# EXECUTIVE MANAGEMENT COMMITTEE

## **WALTER D. BAY**

General Counsel and Secretary

## **DOUGLAS K. HOWELL**

Chief Financial Officer

## **JOEL D. CAVANESS**

Corporate VP and President – U.S. Wholesale Brokerage

## **SCOTT R. HUDSON**

Corporate VP and CEO – Risk Management

## **JAMES W. DURKIN, JR.**

Corporate VP and Chairman – Employee Benefit Consulting  
and Brokerage

## **SUSAN E. PIETRUCHA**

Chief Human Resources Officer

## **THOMAS J. GALLAGHER**

Corporate VP and CEO – Global Property/Casualty Brokerage

## **WILLIAM F. ZIEBELL**

Corporate VP and CEO – Employee Benefit Consulting  
and Brokerage

## **JAMES S. GAULT**

Corporate VP and Chairman – Global Property/Casualty Brokerage



Arthur J. Gallagher & Co. has been recognized as one of the World's Most Ethical Companies<sup>®</sup> in 2012, 2013, 2014, 2015, 2016 and 2017.



# STOCKHOLDER INFORMATION

## ANNUAL MEETING

Arthur J. Gallagher & Co.'s 2017 Annual Meeting of Stockholders will be held on May 16, 2017, at 9:00 a.m. CDT at Arthur J. Gallagher & Co., 2850 Golf Road, Rolling Meadows, IL, 60008-4050.

## REGISTRAR AND TRANSFER AGENT

Computershare Investor Services  
211 Quality Circle, Suite 210  
College Station, TX 77845  
312.360.5386  
[computershare.com/investor](http://computershare.com/investor)

## AUDITORS

Ernst & Young LLP

## STOCKHOLDER INQUIRIES

Communications regarding direct stock purchases, dividends, lost stock certificates, direct deposit of dividends, dividend reinvestment and changes of address should be directed to Stockholder Services, Computershare Investor Services (see contact information at right).

## STOCKHOLDER SERVICES

Computershare Investor Services  
P.O. Box 30170  
College Station, TX 77842-3170  
312.360.5386  
[computershare.com/investor](http://computershare.com/investor)  
Online Inquiries:  
[www-us.computershare.com/investor/contact](http://www-us.computershare.com/investor/contact)

## TRADING INFORMATION

Our common stock is listed on the New York Stock Exchange, trading under the symbol "AJG." The following Quarterly Periods table sets forth information as to the price range of our common stock for the two-year period from January 1, 2015 through December 31, 2016 and the dividends declared per common share for such period. The table reflects the range of high and low sales prices per share as reported on the New York Stock Exchange composite listing.



## QUARTERLY PERIODS

2016	High	Low	Dividends Declared Per Common Share
First	\$44.67	\$35.96	\$0.38
Second	48.64	43.17	0.38
Third	51.24	47.15	0.38
Fourth	52.34	47.16	0.38
2015			
First	\$48.71	\$44.24	\$0.37
Second	49.59	46.30	0.37
Third	48.33	39.99	0.37
Fourth	44.54	39.43	0.37

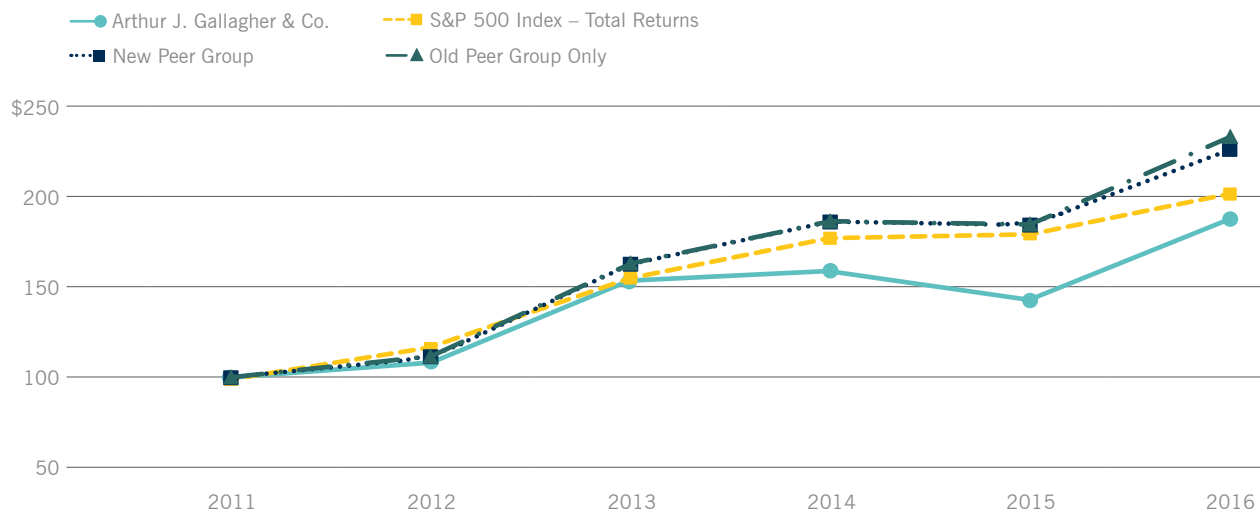
## COMPARATIVE PERFORMANCE GRAPH

The following graph demonstrates a five-year comparison of cumulative total returns for our company, the S&P 500 and a Peer Group consisting of Arthur J. Gallagher & Co.; Aon plc; Marsh & McLennan Companies, Inc.; Willis Group Holdings Ltd.; and Brown & Brown, Inc. The chart shows the performance of \$100 invested in our company, the S&P 500 and the Peer Group on December 31, 2011, and the Peer Group on December 31, 2011, with dividend reinvestment.


### Comparison of 5-Year Cumulative Total Return

Assumes Initial Investment of \$100

December 2016



# CLIENT CAPABILITIES IN THE FOLLOWING COUNTRIES



ABU DHABI  
ALBANIA  
ANGOLA  
ANGUILLA  
ANTIGUA  
ARGENTINA  
ARUBA  
AUSTRALIA  
AUSTRIA  
AZERBAIJAN  
BAHAMAS  
BAHRAIN  
BARBADOS  
BELGIUM  
BENIN  
BERMUDA  
BOLIVIA  
BONAIRE, NETHERLAND  
ANTILLES  
BOSNIA  
BRAZIL  
BRITISH VIRGIN ISLANDS  
BULGARIA  
BURKINA FASO  
CAMEROON  
CANADA  
CAYMAN ISLANDS  
CENTRAL AFRICA  
CHAD  
CHANNEL ISLANDS  
CHILE  
CHINA  
COLOMBIA  
CONGO  
CONGO, DEMOCRATIC  
REPUBLIC OF  
COSTA RICA  
CROATIA  
CURACAO, NETHERLANDS  
ANTILLES  
CZECH REPUBLIC  
DENMARK  
DOMINICA  
DOMINICAN REPUBLIC  
DUBAI  
ECUADOR  
EGYPT  
ENGLAND  
EQUATORIAL GUINEA  
ESTONIA  
ETHIOPIA  
FIJI  
FINLAND  
FRANCE  
GABON  
GEORGIA  
GERMANY  
GHANA  
GREECE  
GRENADA  
GRENADINES, THE  
GUAM  
GUATEMALA  
GUERNSEY  
GUINEE CONAKRY  
HONG KONG  
HUNGARY



ICELAND  
INDIA  
INDONESIA  
IRAQ  
IRELAND  
ISLE OF MAN  
ISRAEL  
ITALY  
IVORY COAST  
JAMAICA  
JAPAN  
JERSEY  
JORDAN  
KAZAKHSTAN  
KENYA  
KUWAIT  
LATVIA  
LEBANON  
LITHUANIA  
LUXEMBOURG  
MACAU  
MADAGASCAR  
MALAYSIA  
MALDIVES  
MALI  
MALTA  
MAURITANIA  
MAURITIUS  
MEXICO  
MONACO  
MONTENEGRO

MOROCCO  
MYANMAR (BURMA)  
NETHERLANDS  
NEVIS  
NEW ZEALAND  
NIGER  
NIGERIA  
NORTHERN IRELAND  
NORWAY  
OMAN  
PAKISTAN  
PANAMA  
PAPUA NEW GUINEA  
PARAGUAY  
PERU  
PHILIPPINES  
POLAND  
PORTUGAL  
PUERTO RICO  
QATAR  
ROMANIA  
RUSSIA  
RWANDA  
SABA, NETHERLANDS  
ANTILLES  
SAINT EUSTATIUS,  
NETHERLANDS ANTILLES  
SAINT KITTS  
SAINT LUCIA  
SAINT MAARTEN,  
NETHERLANDS ANTILLES  
SAINT VINCENT

SAUDI ARABIA  
SCOTLAND  
SENEGAL  
SERBIA  
SINGAPORE  
SLOVAKIA  
SLOVENIA  
SOUTH AFRICA  
SOUTH KOREA  
SPAIN  
SRI LANKA  
SWEDEN  
SWITZERLAND  
TAIWAN  
TANZANIA  
THAILAND  
TOGO  
TRINIDAD AND TOBAGO  
TUNISIA  
TURKEY  
TURKS AND CAICOS ISLANDS  
UGANDA  
UKRAINE  
UNITED ARAB EMIRATES  
UNITED STATES  
URUGUAY  
VENEZUELA  
VIETNAM  
VIRGIN ISLANDS (U.S.)  
WALES  
ZAMBIA



Arthur J. Gallagher & Co.

**ARTHUR J. GALLAGHER & CO.**

Global Headquarters  
2850 Golf Road  
Rolling Meadows, IL 60008-4050  
630.773.3800

[www.ajg.com](http://www.ajg.com)

