

GALLAGHER ARTHUR J & CO

Form DEF 14A

March 25, 2013

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**Information Required In Proxy Statement**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_ )**

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

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

☒ Definitive Proxy Statement

Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

- .. Definitive Additional Materials
- .. Soliciting Material Pursuant to §240.14a-12

**ARTHUR J. GALLAGHER & CO.**

---

(Name of Registrant as Specified In Its Charter)

---

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

Payment of Filing Fee (Check the appropriate box):

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:



**Table of Contents**

**ARTHUR J. GALLAGHER & CO.**

**The Gallagher Centre**

**Two Pierce Place**

**Itasca, Illinois 60143-3141**

**March 25, 2013**

Dear Stockholder:

Our Annual Meeting will be held on Wednesday, May 15, 2013, at 9:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Itasca, Illinois.

The Notice of Annual Meeting and Proxy Statement accompanying this letter describe the business requiring stockholder action at the meeting. Following the meeting, I will present information on our business and our directors and officers will be available to answer your questions.

Whether or not you plan to attend, please vote your shares by completing a proxy card or by using the toll-free telephone number or Internet voting options described on the proxy card. I also encourage beneficial owners to follow the instructions provided by your broker regarding how to vote. Record holders, and beneficial owners holding a legal proxy from their broker, may revoke previously submitted proxies and vote in person at the meeting.

Cordially,

J. PATRICK GALLAGHER, JR.  
Chairman of the Board

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Notice of Annual Meeting of Stockholders</u>	1
<u>Proxy Statement</u>	2
<u>Questions and Answers about the Proxy Materials and Annual Meeting</u>	2
<u>Compensation Committee Report</u>	5
<u>Compensation Discussion and Analysis</u>	5
<u>Executive Compensation Tables</u>	17
<u>Potential Payments Upon Termination or Change in Control</u>	22
<u>Board of Directors</u>	25
<u>Corporate Governance</u>	27
<u>Director Compensation</u>	29
<u>Certain Relationships and Related Party Transactions</u>	30
<u>Security Ownership by Certain Beneficial Owners and Management</u>	31
<u>Equity Compensation Plan Information</u>	32
<u>Audit Committee Report</u>	33
<u>Proposals Requiring a Stockholder Vote</u>	34
¡ <u>Election of Directors</u>	34
¡ <u>Ratification of Appointment of Independent Auditor</u>	34
¡ <u>Advisory Vote on the Compensation of our Named Executive Officers</u>	35

Table of Contents

**ARTHUR J. GALLAGHER & CO.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 15, 2013**

*To the Stockholders of*

ARTHUR J. GALLAGHER & CO.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Arthur J. Gallagher & Co. will be held on Wednesday, May 15, 2013, at 9:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141 for the following purposes:

1. To elect each of the eight nominees named in the accompanying Proxy Statement as directors to hold office until our 2014 Annual Meeting.
2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013.
3. To conduct an advisory vote on the compensation of our named executive officers.
4. To transact such other business that properly comes before the meeting.

We are making this notice of annual meeting and proxy statement available on the Internet and mailing copies of these materials to certain stockholders on or about March 25, 2013. Stockholders of record at the close of business on March 18, 2013 are entitled to notice of and to vote at the Annual Meeting.

Date: March 25, 2013

By Order of the Board of Directors

WALTER D. BAY  
Secretary

**Table of Contents**

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

**The Gallagher Centre**

**Two Pierce Place**

**Itasca, Illinois 60143-3141**

## **PROXY STATEMENT**

### **QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND ANNUAL MEETING**

***Why are these proxy materials being provided to stockholders?***

We are soliciting proxies to be voted at our 2013 Annual Meeting of Stockholders, and at any adjournment or postponement of the Annual Meeting. In connection with this solicitation of proxies, we have made these proxy materials available to you on the Internet or, upon your request, delivered printed versions of these materials to you by mail. Basic information regarding the Annual Meeting is set forth below:

**Purpose:** Annual Meeting of Stockholders  
**Date and Time:** May 15, 2013, 9:00 a.m., Central Time  
**Place:** The Gallagher Centre, Two Pierce Place, Itasca, Illinois, 60143-3141  
**Record Date:** March 18, 2013  
**Mailing Date:** The Notice of Internet Availability of Proxy Materials (Internet Availability Notice) was first mailed to stockholders of record as of the record date, and these proxy materials were first made available to stockholders on the Internet, on or about March 25, 2013.

***What is the purpose of the Annual Meeting?***

At the Annual Meeting, stockholders will act upon the proposals outlined in this proxy statement, including the election of directors, ratification of our independent registered public accounting firm and an advisory say-on-pay vote. In addition, there will be a presentation by our Chairman and CEO and an opportunity for you to ask questions of the Board of Directors and our senior management team.

***What are the Board's voting recommendations?***

The Board recommends that you vote your shares:

**FOR** each of the director nominees (Item 1 on the proxy card);

**FOR** ratification of the appointment of Ernst & Young LLP as our independent auditor for 2013 (Item 2 on the proxy card); and

**FOR** the say-on-pay advisory vote (Item 3 on the proxy card).

***How many votes are needed to approve the matters presented at the Annual Meeting?***

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

*Directors.* To be elected, director nominees must receive the affirmative vote of a majority of the votes cast at the meeting for the election of directors (meaning the number of shares voted for a director nominee must exceed the number of votes cast against that nominee). Broker non-votes and abstentions have no effect on the election of directors. Broker non-votes generally occur when shares held by a broker for a beneficial owner are not voted with respect to non-discretionary items because the broker has not received voting instructions from the beneficial owner and lacks discretionary authority to vote the shares.

*Ratification of Auditors.* Ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of the majority of the shares of common stock having voting power represented in person or by proxy. For this proposal, abstentions are treated as having voting power, and therefore have the same effect as a negative vote. Brokers who do not receive voting instructions from beneficial owners may vote in favor of ratification of our auditors on a discretionary basis.

*Advisory Vote.* The advisory say-on-pay vote will be approved if the votes cast in favor exceed the votes cast against the proposal.

Abstentions have the same effect as votes cast against the proposal. Broker non-votes have no effect.

***Will any matters other than those identified in this proxy statement be decided at the Annual Meeting?***

As of the date of this proxy statement, we are not aware of any matters to be raised at the Annual Meeting other than those described in this proxy statement. If any other matters are properly presented at the Annual Meeting for consideration, the people named as

---

## **Table of Contents**

proxy holders on the proxy card will vote your proxy on those matters in their discretion. If, for any unforeseen reason, any of our nominees are not available as a candidate for director, the proxy holders will vote your proxy for any other candidate the Board may nominate.

### ***Who can vote, and how do I vote?***

Only holders of our common stock at the close of business on the record date of March 18, 2013 are entitled to notice of and to vote at the Annual Meeting. We have no other outstanding securities entitled to vote, and there are no cumulative voting rights for the election of directors. At the close of business on the record date, we had 126,606,874 shares of common stock outstanding and entitled to vote. Each holder of our common stock on that date will be entitled to one vote for each share held on all matters to be voted upon at the Annual Meeting. Record holders may vote (1) by completing and returning a proxy card, (2) on the Internet, (3) using a toll-free telephone number, or (4) in person at the meeting. Please see the proxy card for specific instructions on how to vote using one of these methods. The telephone and Internet voting facilities for record holders will close at 11:59 p.m. Eastern Standard Time on May 14, 2013. Beneficial owners will receive instructions from their broker or other intermediary describing the procedures and options for voting. Please see the next question and its corresponding answer if you are unsure whether you are a record holder or beneficial owner.

### ***What is the difference between a record holder and a beneficial owner ?***

If your shares are registered directly in your name, you are considered the record holder of those shares. If, on the other hand, your shares are held in a brokerage account or by a bank or other intermediary, you are considered the beneficial owner of shares held in street name, and an Internet Availability Notice was forwarded to you automatically from your broker or other intermediary. As a beneficial owner, you have the right to instruct your broker or other intermediary to vote your shares in accordance with your wishes. You are also invited to attend the Annual Meeting. Because a beneficial owner is not the record holder, you may not vote your shares in person at the meeting unless you obtain a legal proxy from your broker or other intermediary. Your broker or other intermediary has provided you with an explanation of how to instruct it regarding the voting of your shares. If you do not provide your broker with voting instructions, your broker will not be allowed to vote your shares at the Annual Meeting for any matter other than ratification of the appointment of our independent auditor.

### ***What should I do if I receive more than one Internet Availability Notice or proxy card?***

If you own some shares of common stock directly as a record holder and other shares indirectly as a beneficial owner, or if you own shares of common stock through more than one broker or other intermediary, you may receive multiple Internet Availability Notices or, if you request proxy materials to be delivered to you by mail, you may receive multiple proxy cards. It is necessary for you to vote, sign and return all of the proxy cards or follow the instructions for any alternative voting procedure on each of the Internet Availability Notices you receive in order to vote all of the shares you own. If you request proxy materials to be delivered to you by mail, each proxy card you receive will come with its own prepaid return envelope. If you vote by mail, please make sure you return each proxy card in the return envelope that accompanied the proxy card.

### ***May I change my vote after I return my proxy?***

Yes. Even after you have submitted your proxy, you may revoke or change your vote at any time before the proxy is exercised by delivering to our Secretary, at The Gallagher Centre, Two Pierce Place, Itasca, Illinois, 60143-3141, a written notice of revocation or a duly executed proxy bearing a later date, or by voting in person at the meeting. Beneficial owners must have a legal proxy from their broker to vote in person at the meeting. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

### ***What constitutes a quorum at the Annual Meeting?***

The presence, in person or by proxy, of a majority of the shares of our common stock issued and outstanding and entitled to vote on the record date is necessary to constitute a quorum at the Annual Meeting. Any shares represented by proxies that are marked to abstain from voting on a proposal, or by any broker who does not receive voting instructions from the beneficial owner but submits a proxy nonetheless, will be counted as present for the purpose of determining if a quorum is present. If by the date of the Annual Meeting we have not received proxies representing sufficient shares for a quorum or to approve one or more of the proposals, the Chairman, or the people named as proxy holders on the proxy card, may propose one or more adjournments of the Annual Meeting to permit further solicitation of proxies. The people named as proxy holders would typically exercise their authority to vote in favor of adjournment.

### ***Who will pay the costs of soliciting these proxies?***

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

We will pay the costs of soliciting proxies to be voted at the Annual Meeting. After the Internet Availability Notices are initially distributed, we and our agents may also solicit proxies by mail, electronic mail, telephone or in person. We will also reimburse brokers and other intermediaries for their expenses in sending Internet Availability Notices to beneficial owners.

## **Table of Contents**

### ***What is householding ?***

We have adopted a procedure approved by the Securities and Exchange Commission (SEC) called householding. Under this procedure, multiple stockholders who share the same last name and address will receive only one Internet Availability Notice, or one set of proxy materials if they elect to receive hard copies, unless contrary instructions are received from one or more of the stockholders. Each stockholder will continue to receive a separate proxy card. We have undertaken householding to reduce printing costs and postage fees. Householding does not in any way affect dividend check mailings. Record holders who wish to begin or discontinue householding may contact Broadridge by calling 1-800-542-1061, or by writing to Broadridge, Household Department, 512 Mercedes Way, Edgewood, NY 11717. Broadridge Investor Communication Solutions, Inc. (Broadridge) will undertake the necessary steps to continue or discontinue householding upon such request of a record holder. Beneficial owners who wish to begin or discontinue householding should contact their broker or other intermediary.

### ***What is the deadline for submitting a proposal to be included in the 2014 proxy statement?***

The deadline for submitting a proposal to be included in our proxy statement and proxy card for the 2014 Annual Meeting is November 25, 2013. Such proposals must comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act), regarding stockholder proposals to be included in company-sponsored proxy materials.

### ***How do I submit a proposal regarding a director nomination or other item of business to be presented directly at the 2014 Annual Meeting?***

Under our bylaws, notice of any matter that is not submitted to be included in our proxy statement and proxy card for the 2014 Annual Meeting, but that a stockholder instead wishes to present directly at the Annual Meeting, including director nominations and other items of business, must be delivered to our Secretary, at Arthur J. Gallagher & Co., The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141, not later than the close of business on February 14, 2014 and not earlier than the close of business on January 15, 2014. We will not entertain any nominations or other items of business at the Annual Meeting that do not meet the requirements in our bylaws. If we do not receive notice of a matter by February 14, 2014, SEC rules permit the people named as proxy holders on the proxy card to vote proxies in their discretion when and if the matter is raised at the Annual Meeting. Any stockholder proposal relating to a director nomination should set forth all information relating to such person required to be disclosed in solicitations of proxies for contested director elections under Regulation 14A of the Exchange Act, including, among other things, the particular experience, qualifications, attributes or skills of the nominee that, in light of our business and structure, led to the stockholder's conclusion that the nominee should serve on the Board. The proposal should also include the director nominee's written consent to be named in our proxy statement as a nominee and to serve as a director if elected. Stockholders are also advised to review our bylaws, which contain additional requirements regarding the information to be included in, and advance notice of, stockholder proposals and director nominations.

### ***How do I submit a proposed director nominee to the Board for consideration?***

Any stockholder who wishes to propose director nominees for consideration by the Board's Nominating/Governance Committee, but does not wish to present such proposal at an annual meeting, may do so at any time by directing a description of each nominee's name and qualifications for Board membership to the Chair of the Nominating/Governance Committee, c/o our Secretary at Arthur J. Gallagher & Co., The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141. The recommendation should contain all of the information regarding the nominee described in the question and answer above and in our bylaws relating to director nominations brought before the Annual Meeting. The Nominating/Governance Committee evaluates nominee proposals submitted by stockholders in the same manner in which it evaluates other nominees.

### ***Where can I find the voting results of the Annual Meeting?***

An automated system administered by Broadridge will tabulate the votes. Voting results will be reported in a Current Report on Form 8-K that we will file with the SEC within four business days following the Annual Meeting.

**Table of Contents**

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee oversees our compensation program for named executive officers on behalf of the Board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth below.

In reliance on the review and discussion referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K and 2013 proxy statement, which will be filed with the SEC.

**COMPENSATION COMMITTEE**

Elbert O. Hand (*Chair*)  
Ilene S. Gordon

David S. Johnson  
Kay W. McCurdy

**COMPENSATION DISCUSSION AND ANALYSIS**

This Compensation Discussion and Analysis discusses compensation awarded to, earned by, or paid to the following named executive officers (whom we sometimes refer to as NEOs):

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

Douglas K. Howell Chief Financial Officer

James W. Durkin, Jr. President, Employee Benefit Consulting and Brokerage

James S. Gault President, Retail Property/Casualty and International Brokerage

David E. McGurn, Jr. President, U.S. Wholesale Brokerage

*This discussion and analysis contains statements regarding our performance measures, targets, goals and thresholds. These measures, targets, goals and thresholds are disclosed in the limited context of our named executive officer compensation program and should not be interpreted to be statements of management's expectations or estimates of results or other guidance.*

**Executive Summary**

We believe that our compensation program for named executive officers is balanced and reasonable and helps us retain and motivate highly talented business leaders through a range of economic cycles. We reward sustained performance by emphasizing a balance of short and long-term compensation vehicles. More than two-thirds of the value of named executive officers' total direct compensation opportunity is delivered through variable, at-risk compensation. We tie annual cash incentives to company and/or business unit financial performance metrics, as well as achievement of individual performance goals. We align the financial interests of our named executive officers and our stockholders through stock options, restricted stock awards and performance units with long vesting periods, significant stock ownership requirements, and through our Age 62 Plan, which we believe encourages retention by requiring named executive officers to remain employed with us to age 62 to vest in their awards under the plan.

***2012 Performance Review***

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

The economic environment continued to provide us with challenges in 2012. Despite the official end of the recession, exposure units (a key measure of insurance market activity) remained flat. Insurance premium rates improved but remained low by historical measures. Despite these challenges, we maintained our focus on growing our core businesses, executing our acquisition strategy, improving quality and efficiency and controlling expenses. As a result, we achieved year-over-year revenue<sup>1</sup> growth of 13.7% and EBITAC<sup>2</sup> growth of 21.3%, based on revenue of \$2.40 billion and EBITAC of \$429.6 million for 2012. Over the past three years, we increased both revenue and EBITAC by a compound annual growth rate of 11.5%. Our performance during this period was reflected in our total shareholder return (including dividends), which grew at an effective annualized rate of 20.2%,

<sup>1</sup> Revenue is GAAP revenue for our combined brokerage and risk management segments (excludes revenue for our corporate segment). The Compensation Committee uses this measure in the context of determining incentive compensation awards because it provides a meaningful representation of our core operating performance.

<sup>2</sup> EBITAC is defined as earnings from continuing operations for our brokerage and risk management segments before interest, taxes, amortization and change in estimated acquisition earnout payables. EBITAC is a non-GAAP measure of earnings used by the Compensation Committee solely in the context of determining incentive compensation awards. The Compensation Committee believes this measure provides a meaningful representation of our operating performance and improves the comparability of Gallagher's results between periods by eliminating the impact of certain items that have a high degree of variability. The most directly comparable GAAP measure is earnings from continuing operations, which was \$163.3 million, \$144.1 million and \$195.0 million in 2010, 2011 and 2012, respectively. For a description of the purposes of this non-GAAP measure and reconciliations to the most directly comparable GAAP measure, see Reconciliation of Non-GAAP Measures on Gallagher's website at [www.ajg.com](http://www.ajg.com) under Investor Relations.

## **Table of Contents**

versus 14.8% for other publicly traded insurance brokers.<sup>1</sup> Our cumulative total shareholder return over this period was 75.5%. We view this as excellent performance in a challenging environment.

In light of these results, we believe our CEO's compensation demonstrates strong pay-for-performance alignment. Based on 2012 company and individual performance, in the first quarter of 2013, the Compensation Committee awarded Mr. Gallagher an annual cash incentive payment of \$1,250,000 (100% of his target award opportunity). Mr. Gallagher's total compensation of \$4.5 million for 2012, as disclosed in the Summary Compensation Table, represents an increase of 13.0% over his 2011 compensation. During the period 2010 - 2012, Mr. Gallagher's compensation grew by a compound annual growth rate of 6.8%.

### ***Compensation Philosophy***

The following provides an overview of our compensation philosophy and programs for named executive officers:

We believe in pay-for-performance. Our program emphasizes variable incentive award opportunities, which are payable only if specified financial, operational and individual goals are achieved.

Our program is designed to attract, motivate, reward and retain the most talented individuals who can drive business performance.

We emphasize share ownership. We deliver restricted stock units and stock options with long-term (three to five-year) vesting periods to our named executive officers, who are expected to maintain minimum equity ownership levels ranging from three times to five times their annual base salary.

When setting the elements of our program, we consider the median range of similarly situated executives from various market reference sources.

The Compensation Committee exercises discretion in determining compensation actions when necessary due to extraordinary changes in the economy, unusual events or overall company performance.

The total direct compensation awarded to our named executive officers includes: base salary, performance-based annual cash incentive awards, and long term incentive awards consisting of performance units, stock options and restricted stock units. We structure our compensation program for named executive officers to ensure that a significant portion of the compensation paid is linked to the performance of our business. We provide the variable elements of our program (annual cash incentive compensation and long-term incentive compensation) primarily to encourage and reward performance that leads to strong financial results and creation of long-term stockholder value. In addition, we structure our program to ensure that it is not overly weighted toward annual cash incentive compensation and does not otherwise have the potential to threaten long-term stockholder value by promoting unnecessary or excessive risk-taking by our named executive officers.

### ***2012 Say on Pay Vote***

In 2012, we held our annual say on pay vote, which resulted in 90% of votes cast approving our compensation program for named executive officers. The Compensation Committee evaluated the results of this vote as part of its overall assessment of our compensation program for named executive officers. Noting the strong support expressed by our stockholders, and having determined that our program satisfies its compensation objectives and remains consistent with the compensation philosophy outlined above, the Compensation Committee did not make any material changes to our compensation program for named executive officers in 2012.

### ***Pay and Governance Practices***

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

The Compensation Committee continually evaluates best practices in executive compensation and governance and considers modifications to our program that support our business strategies, provide an appropriate balance of risk and reward for our named executive officers, and align their compensation with long-term stockholder interests. Key pay and governance practices include the following:

### Annual cash incentives

*Target.* Our annual cash incentive program targets awards at 125% of base salary for our CEO and 100% of base salary for the other named executive officers. See pages 11-12 for a discussion of performance measures and hurdle rates.

*Cap.* Even for extraordinary performance, we cap the annual cash incentive opportunity at 150% of target awards.

<sup>1</sup> Marsh & McLennan Companies, Inc., Aon plc, Willis Group Holdings, Ltd. and Brown & Brown, Inc.

## **Table of Contents**

*No payout without minimum level of performance.* Our annual cash incentive plan does not provide guaranteed bonuses and pays out only if we meet minimum performance thresholds.

### **Restricted Stock Units and Stock Options**

*Minimum vesting periods.* Our 2011 Long-Term Incentive Plan mandates a minimum vesting period of three years for all awards.

*No share recycling.* Our equity plans prohibit share recycling.

*Re-pricing and cash buyouts prohibited.* Our equity plans prohibit re-pricing of stock options and SARs, and we have never re-priced stock options or exchanged them for shares. Additionally, we have never engaged in cash buyouts of stock options or SARs, and our 2011 Long-Term Incentive Plan prohibits the practice.

### **Performance Unit Program (PUP)**

*PUP awards aligned with stockholder interests.* Performance Unit Program (PUP) awards are earned based on our financial performance during the year of grant, and final payouts are based on our stock price after the third year (subject to a 50% - 150% collar, as described on pages 14-15).

*No payout without minimum level of performance.* No portion of a PUP award is earned if the company fails to meet a minimum performance threshold, and individuals must remain employed with us to receive payouts in connection with earned awards. See pages 14-15.

### **Executive pay and governance best practices**

*Prohibition on hedging.* We adopted a policy prohibiting executive officers and directors from engaging in any hedging transaction involving our common stock.

*Restrictions on pledging.* We adopted a policy requiring executive officers and directors to obtain approval prior to pledging Gallagher stock. In addition, we amended our stock ownership guidelines for executive officers and directors to provide that Gallagher stock pledged as collateral for a loan will not be considered in determining whether they have met the guidelines. As of March 18, 2013, the record date, none of our executive officers or directors had outstanding pledges of Gallagher stock.

*Clawback policy.* We have an incentive compensation recovery policy under which our named executive officers can be required to pay back incentive awards erroneously awarded on the basis of restated financial statements, if they participated in fraud or misconduct leading to the restatement. See our Governance Guidelines, found at [www.ajg.com/ir](http://www.ajg.com/ir), under the heading Corporate Governance.

*NEO stock ownership guidelines.* Named executive officers are expected to own an amount of our common stock with a value equal to a multiple of base salary (five times for our CEO and three times for the other named executive officers). Pledged shares are not considered when determining compliance with the guidelines.

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

*Change-in-control agreements.* Our change-in-control agreements contain a double trigger. See pages 22-23. In addition, we have a policy that we will not enter into new change-in-control agreements containing excise tax gross-ups, or amend existing change-in-control agreements without removing such provisions.

*Modest perquisites.* Our named executive officers receive only modest perquisites and do not receive any related tax gross-ups. See page 15.

*No employment agreements with NEOs.* We do not have an employment agreement with Mr. Gallagher or any of our other named executive officers.

**Table of Contents*****Compensation Elements***

Compensation Element	Objective	Key Features
<b>Base Salary</b>	Compensate named executive officers for fulfilling the regular duties and responsibilities of their positions	Base salary may be increased from time to time based on job performance, promotion into a new role, expansion of duties, or market conditions
<b>Annual Cash Incentives</b>	Align the financial interests of named executive officers with those of stockholders	Annual cash incentives are considered at-risk. Reward amounts (including target and maximum payouts) are determined based on the achievement of revenue and EBITAC growth, as well as other key annual financial and operational goals that drive stockholder value creation
<b>Long-Term Incentives</b> <b>(restricted stock units, stock options and PUP awards)</b>	Promote retention of named executive officers and align the financial interests of named executive officers with those of stockholders	Long-term incentive opportunities are considered at-risk. They are greater for named executive officers with a greater direct impact on long-term company performance  Restricted stock units, stock options and PUP awards each tie named executive officers' long-term wealth creation to the performance of our stock and provide multi-year vesting and overlapping maturity
<b>Deferred Equity Participation Plan</b> <b>(Age 62 Plan)</b>	Promote retention of named executive officers and align the financial interests of named executive officers with those of stockholders	Vesting of awards is delayed until named executive officers reach age 62  Common stock awards previously made under the plan and cash awards invested in our common stock align the financial interests of named executive officers with those of stockholders

**Compensation Decision-Making Process**

*Overview.* The Compensation Committee is responsible for determining compensation opportunities for our named executive officers, establishing the annual total value to be transferred through our long-term incentive plans, and setting thresholds, targets and maximum awards for incentive compensation. To determine compensation opportunities for our named executive officers, the Compensation Committee takes into account its compensation objectives, individual and company performance, compensation data for our comparison groups, trends in the financial service and insurance brokerage sectors, best practices, and internal considerations such as the strategic value of a given role, impact on our financial results, tax deductibility and accounting considerations.

*Tally Sheets.* The Compensation Committee also carefully considers the data compiled in a tally sheet prepared by management for each named executive officer. Tally sheets are used to provide a comprehensive view of our compensation payout exposure under various termination scenarios (for example, voluntary or involuntary termination, retirement, and change in control). The tally sheets also provide details regarding all compensation, benefits and perquisites delivered to our named executive officers during the most recent three-year period and a projection for

the coming year.

The tally sheets include a three-year analysis of equity and deferred compensation, and provide insight into total wealth accumulation for each officer, as well as the sensitivity of these figures to changes in our stock price. This information provides a comprehensive context in which the Compensation Committee can determine the appropriate type and amount of compensation for each named executive officer.

*Role of the CEO.* At the beginning of each year, Mr. Gallagher proposes performance objectives for the company and for himself. The Compensation Committee and the Board review these objectives with Mr. Gallagher and make modifications as necessary. Following this review and discussion, the objectives for Mr. Gallagher and the company are finalized and approved by the Compensation Committee and the Board. The objectives include both quantitative financial measurements and qualitative strategic and operational considerations that focus on factors Mr. Gallagher and the Board believe create long-term stockholder value. Mr. Gallagher reviews and discusses preliminary considerations regarding his own compensation with the Compensation Committee but does not participate in the Compensation Committee's final determination of his compensation. Mr. Gallagher also reviews the

## **Table of Contents**

performance of each other named executive officer and presents a summary of these performance reviews to the Compensation Committee, along with preliminary recommendations regarding salary adjustments, if any, and annual award amounts.

*Role of the Compensation Consultant.* For 2012, the Compensation Committee retained Sibson Consulting (Sibson) as its compensation consultant. In connection with this engagement, the Compensation Committee requested that Sibson:

- Review the appropriateness of our proxy comparison group based on an assessment of our size and operations, as well as relevant changes to group members' businesses;
- Review historical share utilization;
- Provide updates on regulatory and legislative developments relating to executive compensation issues;
- Review our executive officer compensation, including pay levels and the mix among base salary, annual and long-term incentives, compared to that of our comparison groups;
- Review practices of our comparison groups with respect to incentive vehicles and award vesting;
- Assess dilution and burn rate relative to comparison groups and ISS guidelines;
- Assess the extent to which our executive compensation is aligned with performance compared to our comparison groups;
- Compare performance metrics used in our incentive plans with those used by our comparison groups; and
- Identify existing pay practices that may be red flags for institutional investors.

Sibson provides compensation consulting services to the Compensation Committee and works with our management team only on matters for which the Compensation Committee is responsible. Sibson does not provide us with any additional services. While the Compensation Committee periodically seeks input from Sibson on the matters described above, the Compensation Committee is solely responsible for determining the final amount and form of compensation and the level of performance targets.

*Compensation Consultant Independence.* In connection with its engagement of Sibson, the Compensation Committee considered various factors bearing upon Sibson's independence including, but not limited to, the amount of fees received by Sibson from Gallagher as a percentage of Sibson's total revenue, Sibson's policies and procedures designed to prevent conflicts of interest, and the existence of any business or personal relationship that could impact Sibson's independence. After reviewing these and other factors, the Compensation Committee determined that Sibson was independent and that its engagement did not present any conflicts of interest.

## **Comparative Market Assessment**

The Compensation Committee does not target its compensation decisions to any specific percentiles or other absolute measures relating to comparison group data. However, as a market reference for its named executive officer compensation decisions, the Compensation Committee reviews compensation data from two different comparison groups, as described below.

*Survey Comparison Group.* This group consists of insurance and general industry companies similar to our company in terms of total assets, revenues or number of employees, which the Compensation Committee uses as a reference point for individual pay levels. In 2012, the Compensation Committee reviewed pay data from two published surveys: (i) the *Executive Compensation Survey* conducted by Mercer, and (ii) the *Top Management Industry Compensation Survey* conducted by Towers Watson. Sibson updated this data based on findings from its own annual private study. The Compensation Committee reviewed this data for companies comparable to us in asset size, revenue size, or total number of employees. When available, information for individual positions was drawn from the Insurance Non Healthcare category; otherwise, general industry data was used. The Compensation Committee also reviewed general industry long-term incentive payout data from both surveys.

*Proxy Comparison Group.* This group consists of our direct competitors for executive talent, which the Compensation Committee uses primarily as a reference point for compensation plan structure, pay mix, general equity granting practices, and, to a lesser extent, individual pay levels. The members of this group are selected from the insurance industry ( Broker or Carrier below), and from professional and financial services industries that may be competitors with respect to specific lines of business or executive talent ( Other Relevant Comparator below). For the 2012 study, the companies in this group consisted of:

American Financial Group Inc.  
Aon plc  
Arch Capital Group Ltd

Carrier  
Broker  
Carrier

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

Axis Capital Holdings Ltd	<i>Carrier</i>
Berkley (W R) Corp	<i>Carrier</i>
Brown & Brown, Inc.	<i>Broker</i>
CNA Financial Corp	<i>Carrier</i>
Fidelity National Financial, Inc.	<i>Other Relevant Comparator</i>
Marsh & McLennan Companies, Inc.	<i>Broker</i>
National Financial Partners Corp	<i>Other Relevant Comparator</i>

**Table of Contents**

Old Republic International Corp	<i>Carrier</i>
Raymond James Financial, Inc.	<i>Other Relevant Comparator</i>
Towers Watson & Co.	<i>Other Relevant Comparator</i>
Unum Group	<i>Carrier</i>
Willis Group Holdings Ltd	<i>Broker</i>
XL Capital Plc	<i>Carrier</i>

This is the same group of companies used for our 2011 study, except that we removed Ace Ltd, Chubb and Cigna Group, and added Towers Watson & Co. and Fidelity National Financial, Inc. These changes were made in order to better align this group with our size, business mix and talent market.

*Selection of the Proxy Comparison Group.* The proxy comparison group is selected from insurance brokers, insurance carriers and other professional and financial services firms based on a number of metrics including revenue, number of employees, insurance premiums written, value of claims paid, assets and market capitalization. Our revenue, assets and market capitalization are below the median of the insurance carriers in this group. However, our number of employees, insurance premiums written and value of claims paid (metrics the Compensation Committee believes are important as a reflection of the complexity and degree of difficulty in managing our business) are all above the median compared to the same group. The Compensation Committee places less weight on this group as a reference point for individual pay level decisions because of the differences in revenue and market capitalization. However, the Compensation Committee considers this group a strong reference point for matters such as plan structure, pay mix and equity granting practices.

*Results of the Comparative Market Assessment.* In 2012, the Compensation Committee examined the total direct compensation opportunity for each named executive officer as a whole (base salary, annual cash incentives and long-term incentives) as well as each of its components. External compensation data for our survey and proxy comparison groups was used only as a market reference for compensation decisions and the Compensation Committee did not target total compensation to a specific percentile of the data for these groups. The review of survey and proxy comparison group data showed that, while aggregate base salaries and annual cash incentives for our named executive officer group were close to the median for similarly situated named executive officer groups, our named executive officer group's aggregate long-term incentive compensation, and therefore total direct compensation, was below the median. Mr. Gallagher's long-term incentive compensation was significantly below the median for similarly situated CEOs in both comparison groups. Based on this market check, the Compensation Committee concluded that, other than with respect to Mr. Gallagher and Mr. Howell as discussed further below, our named executive officers' overall compensation opportunity was appropriate given current economic conditions and our size relative to our comparison groups and direct competitors for talent.

**2012 Decisions By Compensation Element****Base Salary**

We provide named executive officers with base salary to compensate them for fulfilling their regular duties and responsibilities. Base salary may be increased from time to time based on job performance, promotion to a new role, significant expansion of duties or market conditions. In the first quarter of 2012, the Compensation Committee increased Mr. Howell's base salary from \$600,000 to \$700,000. The Compensation Committee approved this increase because of Mr. Howell's success implementing expense controls throughout the difficult economic environment of the past several years, his role in our company's strong financial performance coming out of the recession, and his successful oversight of our tax-advantaged investment development. The Compensation Committee did not adjust the base salary of any of the other named executive officers. Base salaries for our named executive officers can be found in the Summary Compensation Table.

**Annual Cash Incentive Compensation**

Our annual cash incentive plan, administered under our stockholder-approved Senior Management Incentive Plan (SMIP), rewards our named executive officers for achieving key annual financial, operational, risk management and strategic goals that drive stockholder value. During the first quarter of each year, the Compensation Committee establishes a minimum level of company financial performance required to fund the plan. If we attain this minimum company financial performance, the Compensation Committee awards cash incentive compensation to the named executive officers based upon a combination of company and/or business unit financial performance goals and individual performance goals.

In 2012, the Compensation Committee increased Mr. Gallagher's target award opportunity under our annual cash incentive plan from 100% of base salary to 125% of base salary. The Compensation Committee approved this increase because of the company's strong financial performance over the past three years, as well as Mr. Gallagher's consistent achievement of individual performance goals during the same period. In approving this increase, the Compensation Committee noted that Mr. Gallagher's total direct compensation (consisting of base salary, annual cash incentive compensation and long-term incentive compensation) was below that of similarly situated CEOs in our comparison groups. The Compensation

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

Committee favored increasing his performance-based compensation opportunity, rather than base salary, for better alignment with stockholder interests.

Target award opportunities for the other named executive officers are 100% of base salary. The maximum amount that can be awarded under the plan is 150% of the target award. For named executive officers to qualify for the maximum award, company performance goals must be reached and named executive officers who lead business units must achieve performance budgets for their

**Table of Contents**

respective business units. Final award determinations are made in light of each named executive officer's target award opportunity, the maximum award for which he qualifies given company and business unit performance, and his achievement of individual performance goals. Historically, the Compensation Committee has established business unit performance budgets and individual performance goals that are aggressive and ensure that maximum awards are difficult to achieve. In the past three years, none of our named executive officers has received an annual cash incentive payout above the target award opportunity.

*Company Performance Measures*

In the first quarter of 2012, the Compensation Committee established company revenue and EBITAC thresholds for funding the plan and for maximum awards under the plan. The thresholds for maximum awards required at least 5% growth in revenue and 10% growth in EBITAC over 2011 levels. These thresholds, and actual company performance, are set forth below.

Measure	Performance Required		Actual 2012 Performance
	Minimum Financial Performance for Funding	for Maximum Awards	
Revenue	\$1.80 billion	\$2.21 billion	\$2.40 billion
EBITAC	\$100.0 million	\$389.7 million	\$429.6 million

Based on company performance, the maximum available award for each named executive officer was 150% of his target award opportunity. Actual award amounts were determined by the Compensation Committee based on these results, achievement of the business unit performance measures described below (for Mr. Durkin, Mr. Gault and Mr. McGurn) and achievement of individual performance goals.

*Business Unit Performance Measures*

In the first quarter of 2012, the Compensation Committee established revenue and EBITAC budgets for each of the business units led by Mr. Durkin, Mr. Gault and Mr. McGurn. Each business unit's performance in relation to these budgets determined a possible range of awards for that business unit's leader.

100% - 150% of Target Award Opportunity for an award above 100% of the target award opportunity, (i) the company performance goals (described above) must be met, and (ii) the business unit must achieve more than 100% of budgeted revenue and budgeted EBITAC.

50% - 100% of Target Award Opportunity an award could be no greater than 100% of the target award opportunity if the business unit achieved less than 100% of budgeted revenue or budgeted EBITAC.

0% - 50% of Target Award Opportunity an award could be no greater than 50% of the target award opportunity if the business unit achieved less than 75% of budgeted revenue or budgeted EBITAC.

The business unit budgets for 2012, and actual 2012 business unit performance, are set forth below.

Employee Benefit Consulting and Brokerage (James Durkin)			
	Budget	Actual	Percent Achieved
Revenue	\$417.1 million	\$470.7 million	112.9%
EBITAC	\$112.4 million	\$117.1 million	104.2%

**Retail Property/Casualty and International Brokerage (James Gault)**

	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Percent Achieved</u></b>
<b>Revenue</b>	\$1,128.7 million	\$1,183.1 million	104.8%
<b>EBITAC</b>	\$211.6 million	\$212.0 million	100.2%

**Table of Contents****U.S. Wholesale Brokerage (David McGurn)**

	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Percent Achieved</u></b>
<b>Revenue</b>	\$160.1 million	\$173.8 million	108.6%
<b>EBITAC</b>	\$27.4 million	\$29.5 million	107.7%

Based on 2012 company and business unit performance, the maximum award for which Mr. Durkin, Mr. Gault and Mr. McGurn qualified was 150% of their target award opportunity. Actual awards were determined by the Compensation Committee after consideration of each named executive officer's achievement of individual performance goals (as described in detail below).

**Mr. Gallagher's Annual Cash Incentive Compensation**

The Compensation Committee reviewed Mr. Gallagher's performance in light of our overall financial performance. In 2012, we achieved year-over-year revenue growth of 13.7% and EBITAC growth of 21.3%. Over a three-year period, 2010 through 2012, we increased both revenue and EBITAC by a compound annual growth rate of 11.5%. The Compensation Committee also took into consideration the following operating and financial achievements in 2012:

*Organic growth.* We achieved organic growth<sup>4</sup> in both core businesses (4.4% in our brokerage segment and 5.7% in our risk management segment).

*Acquisition program.* We had a record acquisition year, completing 60 acquisitions for a total of approximately \$232 million in annualized revenues.

*Global expansion.* We continued our global expansion, completing acquisitions in the United Kingdom, Australia, Canada, Jamaica and Mexico.

*Margins.* We expanded our adjusted EBITDAC margin<sup>4</sup> year over year, from 20.3% to 21.2%.

*Workforce and expense discipline.* We improved our adjusted compensation and operating expense ratios<sup>4</sup> year over year, from 61% and 19%, respectively, to 60% and 18%.

*Clean energy investments.* During 2012, our clean energy investments produced approximately \$33 million in net earnings impact for the company.

*Continued financial stability.* We again maintained significant liquidity and remained well within our debt covenants.

In addition to the above achievements, the Compensation Committee noted that Mr. Gallagher achieved substantially all of his individual performance goals, as follows:

Achieve at least 10% revenue and EBITAC growth (*the company achieved revenue growth of 13.7% and EBITAC growth of 21.3%*)

Set strategy around capital planning

Maintain sales culture; drive more thorough implementation of sales management tools

Continue to aggressively target expense control and maintain margins

Continue to recruit top talent and build organizational talent

Maintain our unique Gallagher culture

Continue our successful M&A strategy; successfully integrate Heath Lambert

Promote the company to stakeholders

Continue efforts to promote diversity throughout the organization.

Based on the company's operating and financial results and Mr. Gallagher's individual performance, the Compensation Committee awarded Mr. Gallagher an annual cash incentive payment of \$1,250,000 (100% of his target award opportunity).

<sup>4</sup> **Organic growth**, which we also refer to as organic change in base commission and fee revenues, is a non-GAAP measure that excludes the first twelve months of net commission and fee revenues generated from acquisitions accounted for as purchases and the net commission and fee revenues related to operations disposed of in each year presented. In addition, organic growth excludes the impact of supplemental commission and contingent commission revenues, and the period-over-period impact of foreign currency translation. The amounts excluded with respect to foreign currency translation are calculated by applying 2012 foreign exchange rates to the same periods in 2011. For the risk management segment, organic growth, or organic change in base domestic and international fee revenues, excludes international performance bonus fees and New Zealand earthquake claims administration to improve the comparability of

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

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. Adjusted EBITDAC margin, adjusted compensation expense ratio and adjusted operating expense ratio are non-GAAP measures defined as EBITDAC (net earnings before interest, income taxes, depreciation, amortization and the change in estimated acquisition earnout payables), compensation expense and operating expense, in each case for our combined brokerage and risk management segments adjusted to exclude gains realized from sales of books of business, supplemental commission timing amounts, New Zealand earthquake claims administration, earnout related compensation charges, workforce related charges, lease termination related charges, acquisition related integration costs, South Australia ramp up costs, the impact of foreign currency translation, litigation settlements, adjustments to the change in estimated acquisition earnout payables and effective income tax rate impact, as applicable each divided by revenue for our combined brokerage and risk management segments, adjusted to exclude the same items noted above, as applicable. For a description of the purposes of these non-GAAP measures and reconciliations to the most directly comparable GAAP measures, see Reconciliation of Non-GAAP Measures on Gallagher's website at [www.ajg.com](http://www.ajg.com) under Investor Relations.

## **Table of Contents**

### **Annual Cash Incentive Compensation of the Other Named Executive Officers**

Mr. Gallagher assessed and documented the performance of the other named executive officers and recommended award amounts in light of the maximum award for which each named executive officer was eligible, our revenue and EBITAC performance, achievement by each named executive officer (other than Mr. Howell) of his business unit performance measures, and each officer's individual performance goals. The Compensation Committee then reviewed and discussed the performance of each named executive officer and approved awards as described in more detail below.

**Douglas Howell.** Mr. Howell has been our chief financial officer since 2003. As the leader of our finance organization, Mr. Howell's financial objectives focused on our overall performance and were the same as Mr. Gallagher's. Mr. Howell continued to implement and maintain expense savings initiatives critical to expanding our adjusted EBITAC margin and successfully managed our tax-advantaged investments. In addition, Mr. Howell achieved substantially all of his individual performance goals, as follows:

- Complete a \$50 million private placement of senior debt (*completed a \$50 million private placement of senior debt*)
- Explore alternatives for refinancing other senior debt and replacing our line of credit
- Educate investment community regarding our clean energy investments, which are designed to benefit stockholders by producing incremental cash flows for the company
- Conduct strategic alternatives process for investment in Chem-Mod LLC
- Find long-term locations for eight Section 45 plants, and move two plants to higher-yielding locations (*found long-term locations for all Section 45 plants, and currently in negotiations to move several plants to higher-yielding locations*)
- Provide oversight for additional back-office expense reduction initiatives
- Complete executive staffing changes within the finance and information technology organizations
- Achieve \$7 million of annual real estate expense savings (*achieved \$7 million of annual real estate savings*)
- Study long-term options for our headquarters building
- Explore cost-recapture alternatives related to certain services provided to carriers and clients
- Explore strategic alternatives related to our India operations; develop an internal audit staffing component in India
- Develop consistent performance reporting capabilities throughout the organization
- Develop ideas to improve cash management.

Based on this performance, Mr. Howell received an award of \$700,000 (100% of his target award opportunity).

**James Durkin.** Mr. Durkin is the leader of our employee benefits brokerage unit and has held this position since 1985. In 2012, his unit exceeded its budget for both revenue and EBITAC, achieving year-over-year EBITAC growth of 13.9% on revenue growth of 20.4%. In addition, Mr. Durkin achieved substantially all of his individual performance goals, as follows:

- Continue to extend capabilities and geographic reach of unit through acquisitions
- Create and deploy a formalized sales development program to promote consistent future organic revenue growth across the unit and promote cross selling with other units
- Continue to leverage Healthcare Reform to differentiate Gallagher Benefit Services from its competitors
- Ensure alignment of the current mission and value proposition of the unit with the new business environment and future customer needs
- Better meet the needs of North American based companies by extending the reach of our services to include international human resources, benefits and retirement consulting services.

Based on this performance, Mr. Durkin received an award of \$625,000 (100% of his target award opportunity).

**James Gault.** Mr. Gault is the leader of our retail property/casualty brokerage unit and has held this position since 2002. In 2011, Mr. Gault also assumed responsibility for our international brokerage unit. In 2012, his unit exceeded its budget for both revenue and EBITAC, achieving year-over-year EBITAC growth of 21.3% on revenue growth of 15.3%. In addition, Mr. Gault achieved substantially all of his individual performance goals, as follows:

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

Complete acquisitions totaling \$50 million in annualized revenues (*his unit completed acquisitions representing incremental annualized revenue of approximately \$74 million*)

Continue to focus on professional standards in branch offices

Continue to focus on cross selling with other units; contribute \$5 million in new business to the employee benefits brokerage business and \$2.5 million to the domestic wholesale brokerage business (*his unit contributed \$5.9 million in new revenue to the employee benefits brokerage business and \$5.8 million to the domestic wholesale brokerage business*)

Continue to expand and improve the adoption of our service center in India

Increase unit s net number of producers by 50 (*his unit increased its net number of producers by 10*).

Based on this performance, Mr. Gault received an award of \$700,000 (100% of his target award opportunity).

**Table of Contents**

**David McGurn.** Mr. McGurn is the leader of our domestic wholesale brokerage unit and has held this position since 2001. In 2012, his unit exceeded its budget for both revenue and EBITAC, resulting in year-over-year EBITAC growth of 34.1% on revenue growth of 24.2%. In addition, Mr. McGurn achieved substantially all of his individual performance goals, other than his acquisitions goal, as follows:

Complete acquisitions with total annualized revenues of \$15 to \$20 million (*his unit completed acquisitions representing incremental annualized revenue of approximately \$12 million*)

Make better use of our service center in India

Continue to focus on cross selling with other units

Implement sales development training within the unit

Continue to formalize and implement a long-term strategic plan for the unit.

Based on this performance, Mr. McGurn received an award of \$450,000 (82% of his target award opportunity).

**Long-Term Incentive Compensation**

**Overview.** Long-term incentives are designed to tie a significant portion of our named executive officers' compensation to our performance, create a meaningful alignment of our named executive officers' financial interests with those of stockholders, and encourage long-term retention. Long-term incentive opportunities are greater for those named executive officers who have greater direct impact on our financial results.

**2012 Long-Term Incentive Compensation Decisions.** In 2012, each named executive officer was eligible to receive a long-term incentive award value based on a percentage of base salary. The Compensation Committee determined this percentage using its discretion based upon a number of factors, including retention considerations, internal pay equity considerations, external market data (including long-term incentive opportunities provided to similarly situated executives in the survey and proxy comparison groups see Comparative Market Assessment above) and our historical practices. The Compensation Committee increased Mr. Gallagher's long-term incentive award from 100% to 125% of base salary. The Compensation Committee approved this increase because of the company's strong financial performance over the past three years, as well as Mr. Gallagher's consistent achievement of individual performance goals during the same period. In approving this increase, the Compensation Committee noted that Mr. Gallagher's total direct compensation (consisting of base salary, annual cash incentive compensation and long-term incentive compensation) was below that of similarly situated CEOs in our comparison groups. The Compensation Committee favored increasing his performance-based compensation opportunity, rather than base salary, for better alignment with stockholder interests. The Compensation Committee also increased Mr. Howell's long-term incentive award from 70% to 100% of base salary. The Compensation Committee approved this increase because of Mr. Howell's success implementing expense controls throughout the difficult economic environment of the past several years, his role in our company's strong financial performance coming out of the recession, and his successful oversight of our tax-advantaged investment development.

The award value for each named executive officer was converted into stock options, restricted stock units and awards under our Performance Unit Program (PUP). The Compensation Committee aligns the mix of long-term incentive awards with company performance. As such, PUP awards make up between 51% and 64% of the value of the long-term incentive awards because such awards are performance-based, with the number of performance units earned under a PUP award determined based on EBITAC performance. Except for the award to Mr. Howell, full-value shares of restricted stock, each of which is subject to a four-year cliff vesting period, make up only approximately 23% of the value of the long-term incentive awards. The award to Mr. Howell was more heavily weighted toward restricted stock units because the Compensation Committee wished to give him the opportunity to bring his stock ownership level closer in line with that of the other named executive officers, who have had longer tenures with our company. The award amounts, and the allocation percentages among options, restricted stock units and PUP awards, are summarized below:

NAMED EXECUTIVE OFFICER	TARGET PERCENT OF SALARY	TARGET GRANT AMOUNT	OPTIONS	RESTRICTED STOCK UNITS	PUP AWARDS
J. Patrick Gallagher, Jr.	125%	\$ 1,250,000	14%	22%	64%
Douglas K. Howell	100%	\$ 700,000	10%	39%	51%
James W. Durkin, Jr.	70%	\$ 438,000	17%	23%	60%
James S. Gault	70%	\$ 490,000	17%	23%	60%
David E. McGurn, Jr.	70%	\$ 385,000	17%	23%	60%

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

*Performance Unit Program (PUP).* Under our PUP, which we administer under our stockholder-approved SMIP, the Compensation Committee awards a number of performance units each year to the named executive officers. These awards are reported in the "Stock Awards" column of the Summary Compensation Table, but are paid in cash. To encourage a focus on growing our core earnings, the number of these units actually earned is based on EBITAC growth thresholds set annually by the Compensation Committee. On March 16, 2012, the Compensation Committee granted each named executive officer a provisional number of performance units. For 2012, the number of units earned by the named executive officers was based on the EBITAC growth thresholds set forth below:

**Table of Contents**

<b>EBITAC GROWTH</b>	<b>PERCENTAGE OF TARGET AWARD EARNED</b>
13% or greater	100% of target award
10% to 13%	Amount interpolated between 100% and 90% of target award on a straight-line basis
10.0%	90% of target award
5.0% to 10%	Amount interpolated between 90% and 50% of target award on a straight-line basis
5.0%	50% of target award
Less than 5.0%	0%

We had 2012 EBITAC growth of 21.3%. Accordingly, each named executive officer earned 100% of his provisionally granted performance units. Earned performance units cliff vest on the third anniversary of the first day of the year in which the award was granted (January 1, 2015 for the 2012 awards). On the vesting date, the amount of the payout will be determined by multiplying the number of earned performance units by the trailing twelve month average price of our common stock for the calendar year prior to the vesting date (the TTM Price). The TTM Price is subject to an upper limit of 150% and a lower limit of 50% of our stock price on the date of grant. Payouts will be made in cash as soon as practicable after the vesting date.

**Deferred Equity Participation Plan (Age 62 Plan)**

*Overview.* Awards under the Age 62 Plan are nonqualified deferred compensation awards under Section 409A of the Internal Revenue Code. Deferred cash awards may be invested in our common stock, at the company's discretion. Awards under the Age 62 Plan do not vest until participants reach age 62 (or the one-year anniversary of the date of grant for participants over the age of 61). Accordingly, the amounts in the plan are subject to forfeiture in the event of a voluntary termination of employment prior to age 62 (or the minimum one-year vesting period). Before 2007, we awarded restricted stock under the plan, but because of burn-rate considerations, in 2007, we began making only cash awards. Restricted stock previously awarded under the plan and cash awards invested in our common stock provide an incentive for our named executive officers to manage our company for earnings growth and total shareholder return. The deferred realization of Age 62 Plan awards encourages retention of our named executive officers until their normal retirement age. Distributions are made in the form of our common stock to the extent restricted stock was awarded or cash awards were invested in our common stock. All other distributions are in cash.

*2012 Age 62 Plan decisions.* During the first quarter of 2012, the Compensation Committee made deferred cash awards under the Age 62 Plan to our named executive officers as follows: Mr. Gallagher \$750,000; Mr. Howell \$400,000; Mr. Durkin \$350,000; Mr. Gault \$400,000; and Mr. McGurn \$200,000. These amounts are invested, at the company's direction, in mutual funds or in our common stock, and ultimate payouts related to the awards are tied to the performance of these investments. In determining these discretionary long-term incentive and retention awards, the Compensation Committee took into account an overall assessment of each individual, including consideration of individual and company performance in 2011 (as described in our 2012 proxy statement). As a result of these assessments, the Compensation Committee increased Mr. Gallagher's award from \$700,000 in 2011 to \$750,000 in 2012, Mr. Howell's award from \$300,000 to \$400,000, Mr. Durkin's award from \$300,000 to \$350,000, and Mr. Gault's award from \$300,000 to \$400,000. Mr. McGurn's award remained the same, at \$200,000.

**Benefits and Perquisites**

Under our 401(k) Savings and Thrift Plan (401(k) Plan), a tax qualified retirement savings plan, participating employees, including our named executive officers, may contribute up to 75% of their earnings on a before-tax basis into their 401(k) Plan accounts, subject to limitations imposed by the Internal Revenue Service (IRS). Under the 401(k) Plan, we match an amount equal to one dollar for every dollar an employee contributes on the first 5% of his or her regular earnings. The 401(k) Plan has other standard terms and conditions. We also have a Supplemental Savings and Thrift Plan (Supplemental Plan), which allows certain highly compensated employees, including our named executive officers, to defer additional amounts on a before-tax basis. For a description of the Supplemental Plan, see page 22 under Nonqualified Deferred Compensation. We also provide limited perquisites, including reimbursement of certain expenses for named executive officers related to automobile use and certain club memberships, which total no more than 1.0% of total compensation for each named executive officer. The value of the benefits and perquisites received by our named executive officers can be found in the Summary Compensation Table.

**Change-in-Control Payments**

The change-in-control agreements we have in place with each of our named executive officers provide for severance payments if the executive is terminated within 24 months following a change in control, a so-called "double trigger" (see Change-in-Control Agreements beginning on page 22 for more information). We believe it is appropriate to provide a double trigger for such payments because it aligns the interests of our named executive officers with stockholder interests without providing an undue benefit to executives who continue to be employed following a change-in-control transaction.



## **Table of Contents**

Our equity plans contain a so-called "single trigger" for accelerated vesting of awards upon a change in control. We believe a single trigger is appropriate because it gives executives the same right as other stockholders to sell their equity in the company at the time of a change in control. Moreover, it may not be possible to replace executives' existing equity awards with comparable awards of the acquiring company's stock. Finally, company performance may be negatively affected by integration activities, and individual executives' ability to affect the performance of the company (and the value of their awards) may be significantly different following a change in control. Our nonqualified plans (the Age 62 Plan and the Supplemental Plan) also contain a single trigger for vesting and payment upon a change in control. Because the benefits under these plans are subject to the claims of our creditors, accelerated vesting and payment provide certainty with respect to benefits that represent a primary source of retirement income and ensures that executives receive the deferred compensation to which they are entitled. Our equity and nonqualified plans do not contain "liberal" change in control definitions (i.e., they do not provide for buyout thresholds lower than 50%, and a change in control is deemed to occur upon completion, rather than stockholder approval, of a transaction). Please see page 22 for a change-in-control definition typical of our plans.

## **Tax Considerations**

Section 162(m) of the Internal Revenue Code limits the deductibility for Federal income tax purposes of certain compensation payable in a taxable year to certain of our named executive officers to the extent that such compensation exceeds \$1 million. However, certain types of compensation are not subject to that limitation, including compensation that meets the requirements under Section 162(m) for "qualified performance-based compensation." We generally attempt to preserve the Federal income tax deductibility of compensation paid, including structuring both our SMIP and our 2011 Long-Term Incentive Plan to permit, but not require, the Compensation Committee to award compensation that meets the requirements for "qualified performance-based compensation." However, the Compensation Committee reserves the right to authorize the payment of nondeductible compensation when appropriate. We make no representation that that the compensation of our named executive officers will be fully deductible for Federal income tax purposes.

## **Stock Ownership Guidelines**

We encourage stock ownership by our executive officers to align their financial interests with those of our stockholders. These guidelines provide that our CEO should own equity having a value not less than five times his base salary, and our other named executive officers should own equity having a value not less than three times their base salaries. Under these guidelines, named executive officers should own the required number of shares within five years of the later of their date of hire or the date they were promoted to the applicable role. Any shares pledged as collateral for a loan are not considered when determining whether named executive officers have met their stock ownership guidelines. All of our named executive officers are currently in compliance with these guidelines.

**Table of Contents****EXECUTIVE COMPENSATION TABLES****Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Stock Awards \$(1)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation \$(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(4)	All Other Compensation \$(5)	Total (\$)
J. Patrick Gallagher, Jr.						61,071		
Chief Executive Officer	2012	1,000,000	1,110,581	188,224	1,250,000		889,812	4,499,688
	2011	1,000,000	882,385	134,400	1,000,000	102,903	862,976	3,982,664
	2010	1,000,000	817,163	196,403	1,000,000	36,544	758,000	3,808,110
Douglas K. Howell	2012	700,000	653,493	73,984	700,000	2,718	551,632	2,681,827
Chief Financial Officer	2011	600,000	353,140	53,550	600,000	4,373	433,010	2,044,073
	2010	600,000	367,934	34,830	600,000	1,242	423,023	2,027,029
James W. Durkin, Jr.	2012	625,000	378,526	77,248	625,000	57,372	447,124	2,210,270
President, Employee Benefit Consulting and Brokerage	2011	625,000	362,270	54,600	625,000	96,722	395,772	2,159,364
	2010	625,000	373,556	44,505	625,000	38,217	438,711	2,144,989
James S. Gault	2012	700,000	423,164	86,496	700,000	57,556	482,684	2,449,900
President, Retail Property/Casualty and International Brokerage	2011	700,000	401,731	60,900	700,000	96,981	364,043	2,323,655
	2010	700,000	418,994	49,343	600,000	34,440	453,674	2,256,451
David E. McGurn, Jr.	2012	550,008	332,103	68,000	450,000	57,214	262,469	1,719,794
President, U.S. Wholesale Brokerage	2011	550,008	317,702	48,300	425,000	95,877	257,809	1,694,696
	2010	550,008	329,278	38,700	550,000	32,185	256,188	1,756,359

- (1) This column includes the full grant date fair value of PUP awards and restricted stock units granted during each fiscal year. The amounts reported in this column have been calculated in accordance with FASB ASC Topic 718, *Compensation Stock Compensation*. The amounts reported in this column for PUP awards granted during each fiscal year represent the value of each award at the grant date based upon the probable outcome of the performance conditions under the program, determined in accordance with FASB ASC Topic 718. In accordance with SEC rules, any estimate for forfeitures is excluded from, and does not reduce, such amounts. Without taking into account the percentage of 2012 PUP awards earned based on actual 2012 performance, maximum values for the 2012 PUP awards were as follows: Mr. Gallagher \$1,240,030; Mr. Howell \$554,398; Mr. Durkin \$401,738; Mr. Gault \$447,268; and Mr. McGurn \$350,851. For a discussion of the PUP, see pages 14-15. For additional information on the valuation assumptions with respect to stock grants, refer to Note 10 to our consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012.
- (2) This column represents the full grant date fair value of stock option awards granted during each fiscal year. The amounts reported in this column have been calculated in accordance with FASB ASC Topic 718. In accordance with SEC rules, any estimate for forfeiture is excluded from, and does not reduce, such amounts. For additional information on the valuation assumptions with respect to option grants, refer to Note 8 to our consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012.
- (3) This column represents annual cash incentives awarded under the SMIP related to services rendered in 2010, 2011 and 2012. Awards are reported for the year in which they are earned, regardless of the year in which they are paid. The 2010 and 2011 annual cash incentive awards were paid fully in cash in March of 2011 and 2012, respectively, and the 2012 awards are expected to be paid fully in cash in April of 2013.
- (4)

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

The amounts shown in this column represent the aggregate change in actuarial present value of each named executive officer's benefits under our pension plan.

(5) Includes the following for 2012:

Named Executive Officer	Age 62 Plan Awards	Supplemental Plan Match	Dividend Equivalents on Unvested RSUs	401(k) Match	Corporate Auto	Club Memberships Not Exclusively For Business Use and Cell Phone Allowance
J. Patrick Gallagher, Jr.	\$750,000	\$50,000	\$47,752	\$12,500	\$7,920	\$21,640
Douglas K. Howell	400,000	52,500	78,712	12,500	7,920	
James W. Durkin, Jr.	350,000	50,000	15,929	12,500	7,920	10,775
James S. Gault	400,000	35,000	18,358	12,500	5,520	11,306
Dave E. McGurn, Jr.	200,000	27,500	14,549	12,500	7,920	

**Table of Contents****Grants of Plan-Based Awards**

Name	Plan	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
J. Patrick Gallagher, Jr.	LTIP <sup>(1)</sup>	3/16/12	--	--	--	--	--	--	--	34,600	35.71	188,224
	LTIP <sup>(2)</sup>	3/16/12	--	--	--	--	--	--	7,950	--	--	283,895
	SMIP <sup>(3)</sup>	3/16/12	--	--	--	413,343	826,687	1,240,030	--	--	--	826,687
	SMIP <sup>(4)</sup>	N/A	N/A	1,250,000	1,875,000	--	--	--	--	--	--	N/A
Douglas K. Howell	LTIP <sup>(1)</sup>	3/16/12	--	--	--	--	--	--	--	13,600	35.71	73,984
	LTIP <sup>(2)</sup>	3/16/12	--	--	--	--	--	--	7,950	--	--	283,895
	SMIP <sup>(3)</sup>	3/16/12	--	--	--	184,799	369,599	554,398	--	--	--	369,599
	SMIP <sup>(4)</sup>	N/A	N/A	700,000	1,050,000	--	--	--	--	--	--	N/A
James W. Durkin, Jr.	LTIP <sup>(1)</sup>	3/16/12	--	--	--	--	--	--	--	14,200	35.71	77,248
	LTIP <sup>(2)</sup>	3/16/12	--	--	--	--	--	--	3,100	--	--	110,701
	SMIP <sup>(3)</sup>	3/16/12	--	--	--	133,913	267,825	401,738	--	--	--	267,825
	SMIP <sup>(4)</sup>	N/A	N/A	625,000	937,500	--	--	--	--	--	--	N/A
James S. Gault	LTIP <sup>(1)</sup>	3/16/12	--	--	--	--	--	--	--	15,900	35.71	86,496
	LTIP <sup>(2)</sup>	3/16/12	--	--	--	--	--	--	3,500	--	--	124,985
	SMIP <sup>(3)</sup>	3/16/12	--	--	--	149,089	298,179	447,268	--	--	--	298,179
	SMIP <sup>(4)</sup>	N/A	N/A	700,000	1,050,000	--	--	--	--	--	--	N/A
David E. McGurn, Jr.	LTIP <sup>(1)</sup>	3/16/12	--	--	--	--	--	--	--	12,500	35.71	68,000
	LTIP <sup>(2)</sup>	3/16/12	--	--	--	--	--	--	2,750	--	--	98,203
	SMIP <sup>(3)</sup>	3/16/12	--	--	--	116,950	233,901	350,851	--	--	--	233,901
	SMIP <sup>(4)</sup>	N/A	N/A	550,000	825,000	--	--	--	--	--	--	N/A

- (1) This line includes stock options granted to our named executive officers on March 16, 2012 under our 2011 Long-Term Incentive Plan. The stock options vest one-third on the third, fourth and fifth anniversaries of the grant date.
- (2) This line includes restricted stock units granted to our named executive officers on March 16, 2012 under our 2011 Long-Term Incentive Plan. The restricted stock units vest on March 16, 2016.
- (3) The amounts in this line represent the range of possible awards the named executive officer would have been eligible to receive on January 1, 2015 related to performance under the PUP (administered under the SMIP), as of the grant date (March 16, 2012). Please see pages 14-15 for more information regarding the PUP.
- (4) The amounts in this line represent the range of possible annual cash incentive award the named executive officer was eligible to receive in April 2013, related to 2012 performance under the SMIP. The amounts were subject to performance criteria and subject to the Compensation Committee's downward discretion. There is no threshold payout level for these awards. The amounts actually awarded to each named executive officer are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table and are more fully discussed in footnote (3) thereto.



**Table of Contents****Narrative to Summary Compensation Table and Grants of Plan-Based Awards Table**

For information regarding our annual cash incentive compensation program, long-term incentive compensation program consisting of restricted stock units, stock options and PUP awards, and our Age 62 Plan, please see pages 10-15.

**Outstanding Equity Awards at Fiscal Year-End**

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards(1) Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (#)	Option Expiration Date	Stock Awards	
						Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
J. Patrick Gallagher, Jr.	7/17/03	0	5,000	24.90	7/16/13		
	4/1/04	12,020	3,004	33.28	3/31/14		
	7/22/04	40,000	10,000	29.42	7/21/14		
	5/17/05	12,915	5,535	27.10	5/16/15		
	7/21/05	35,000	15,000	27.25	7/20/15		
	5/16/06	15,540	10,357	27.03	5/15/16		
	5/15/07	16,667	0	28.65	5/14/17		
	3/5/08	14,210	3,552	23.76	3/4/18		
	3/2/10	20,300	30,450	24.13	3/1/17		
	3/8/11	5,120	20,480	30.95	3/7/18		
	3/16/12	0	34,600	35.71	3/15/19		
						73,197	2,536,276
Douglas K. Howell	3/3/03	67,500	7,500	24.58	3/2/13		
	4/1/04	3,006	750	33.28	3/31/14		
	7/22/04	28,000	7,000	29.42	7/21/14		
	7/21/05	24,500	10,500	27.25	7/20/15		
	5/16/06	1,554	1,036	27.03	5/15/16		
	5/15/07	11,375	0	28.65	5/14/17		
	10/18/07	25,000	25,000	27.94	10/17/17		
	3/5/08	4,849	1,212	23.76	3/4/18		
	3/2/10	3,600	5,400	24.13	3/1/17		
	3/8/11	2,040	8,160	30.95	3/7/18		
	3/16/12	0	13,600	35.71	3/15/19		
						59,831	2,073,144
James W. Durkin, Jr.	7/17/03	0	2,000	24.90	7/16/13		
	7/22/04	0	6,000	29.42	7/21/14		
	7/21/05	0	9,000	27.25	7/20/15		
	3/5/08	0	1,270	23.76	3/4/18		
	3/2/10	0	6,900	24.13	3/1/17		
	3/8/11	2,080	8,320	30.95	3/7/18		
	3/16/12	0	14,200	35.71	3/15/19		
						25,927	898,371
James S. Gault	7/17/03	31,500	3,500	24.90	7/16/13		
	7/22/04	28,000	7,000	29.42	7/21/14		
	7/21/05	24,500	10,500	27.25	7/20/15		
	5/15/07	7,583	0	28.65	5/14/17		
	3/5/08	6,466	1,616	23.76	3/4/18		
	3/2/10	5,100	7,650	24.13	3/1/17		
	3/8/11	2,320	9,280	30.95	3/7/18		
	3/16/12	0	15,900	35.71	3/15/19		
						29,226	1,012,681
David E. McGurn, Jr.	7/17/03	31,500	3,500	24.90	7/16/13		
	7/22/04	28,000	7,000	29.42	7/21/14		
	7/21/05	21,000	9,000	27.25	7/20/15		
	5/15/07	5,958	0	28.65	5/14/17		
	3/5/08	5,080	1,270	23.76	3/4/18		
	3/2/10	4,000	6,000	24.13	3/1/17		

Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

3/8/11	1,840	7,360	30.95	3/7/18		
3/16/12	0	12,500	35.71	3/15/19		
					23,015	797,470

## Table of Contents

- (1) Stock options vest in accordance with the following vesting schedules:

Grant Dates	One-tenth vest each:
3/3/03	January 1 <sup>st</sup> of each year starting January 1, 2004 with the last vesting date on January 1, 2013
7/17/03	January 1 <sup>st</sup> of each year starting January 1, 2004 with the last vesting date on January 1, 2013
4/1/04	January 1 <sup>st</sup> of each year starting January 1, 2005 with the last vesting date on January 1, 2014
7/22/04	January 1 <sup>st</sup> of each year starting January 1, 2005 with the last vesting date on January 1, 2014
5/17/05	January 1 <sup>st</sup> of each year starting January 1, 2006 with the last vesting date on January 1, 2015
7/21/05	January 1 <sup>st</sup> of each year starting January 1, 2006 with the last vesting date on January 1, 2015
5/16/06	January 1 <sup>st</sup> of each year starting January 1, 2007 with the last vesting date on January 1, 2016
10/18/07	January 1 <sup>st</sup> of each year starting January 1, 2008 with the last vesting date on January 1, 2017
Grant Dates	One-fifth vest on each of:
3/5/08	March 5, 2009, March 5, 2010, March 5, 2011, March 5, 2012 and March 5, 2013
3/4/09	March 4, 2010, March 4, 2011, March 4, 2012, March 4, 2013 and March 4, 2014
3/2/10	March 2, 2011, March 2, 2012, March 2, 2013, March 2, 2014 and March 2, 2015
3/8/11	March 8, 2012, March 8, 2013, March 8, 2014, March 8, 2015 and March 8, 2016
Grant Dates	One-third vest on each of:
3/16/12	March 16, 2015, March 16, 2016 and March 16, 2017

- (2) The following table provides information with respect to the vesting of each named executive officer's unvested restricted stock units and unvested PUP awards as of December 31, 2012:

Vesting Dates	Type of award	Mr. Gallagher	Mr. Howell	Mr. Durkin	Mr. Gault	Mr. McGurn
1/1/14	PUP Award*	21,061	3,597	8,690	9,704	7,613
1/1/15	PUP Award*	23,150	10,350	7,500	8,350	6,550
3/4/13	Restricted Stock Units**	6,146	16,779	2,197	2,797	2,197
3/2/14	Restricted Stock Units**	8,690	13,555	1,940	2,175	1,705
3/8/15	Restricted Stock Units**	6,200	7,600	2,500	2,700	2,200
3/16/16	Restricted Stock Units**	7,950	7,950	3,100	3,500	2,750
Total		73,197	59,831	25,927	29,226	23,015

\* Number of performance units held by the named executive officer from the 2011 and 2012 awards. Based on 2010 performance, no portion of the 2010 awards (which would have vested on January 1, 2013) was earned. The performance units from the 2012 awards had not been earned as of December 31, 2012. See pages 14-15 for information regarding the PUP.

\*\* Restricted stock units granted in 2009, 2010, 2011 and 2012. Each grant has a vesting date four years from the date of grant.

- (3) Amounts in these columns are based on a closing stock price of \$34.65 for our common stock on December 31, 2012.

### 2012 Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting	Value Realized on Vesting (\$)(1)(2)

# Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

	(#)		(#)(1)(2)	
J. Patrick Gallagher, Jr.	70,000	822,992	62,747	1,502,580
Douglas K. Howell				
James W. Durkin, Jr.	98,638	1,002,800	22,433	537,197
James S. Gault	25,000	291,306	28,549	683,652
David E. McGurn, Jr.	20,000	236,144	22,433	537,197

- (1) These columns reflect the vesting of PUP awards and restricted stock units. In 2012, we made payments in connection with the vesting of earned performance units under our 2009 PUP awards. Based on our 2009 EBITAC performance, 100% of the 2009 PUP award opportunity was earned. The vesting date for the 2009 awards was January 1, 2012. Our stock price on the date of grant was \$15.46, and on January 1, 2012 the maximum price per share for the 2009 awards was \$23.19 under the terms of the PUP. Please see the description of the PUP provided on pages 14-15 for additional information. In addition, restricted stock units awarded on March 5, 2008 vested on March 5, 2012, with value realized of \$34.47 per share.
- (2) Pursuant to the terms of the Supplemental Plan (see page 22), Mr. Howell deferred receipt of 11,490 shares related to the March 5, 2012 vesting of restricted stock units he was awarded on March 5, 2008. He elected a lump-sum distribution following separation from service.

**Table of Contents****Pension Benefits**

Name	Plan Name		Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (\$)
J. Patrick Gallagher, Jr.	Arthur J. Gallagher & Co. Employees Pension Plan		25	579,247
Douglas K. Howell	Arthur J. Gallagher & Co. Employees Pension Plan		1	18,467
James W. Durkin, Jr.	Arthur J. Gallagher & Co. Employees Pension Plan		25	617,962
James S. Gault	Arthur J. Gallagher & Co. Employees Pension Plan		25	545,913
David E. McGurn, Jr.	Arthur J. Gallagher & Co. Employees Pension Plan		25	502,989

We maintain the Arthur J. Gallagher & Co. Employees Pension Plan (the Pension Plan) which is qualified under the Internal Revenue Code and which historically covered substantially all domestic employees. In 2005, we amended the Pension Plan to freeze the accrual of future benefits for all domestic employees effective July 1, 2005. Benefits under the Pension Plan are based upon the employee's highest average annual earnings for a five calendar-year period with us and are payable after retirement in the form of an annuity or a lump sum. The maximum amount of annual earnings that may be considered in calculating benefits under the Pension Plan is \$210,000 (the maximum amount of annual earnings allowable by law in 2005, the last year that benefits accrued under the Pension Plan).

Benefits under the Pension Plan are calculated as an annuity equal to 1% of the participant's highest annual average earnings multiplied by years of service, and commencing upon the participant's retirement on or after age 65. The maximum benefit under the pension plan upon retirement would be \$53,318 per year, payable at age 65 in accordance with IRS regulations. Participants also may elect to commence their pensions anytime on or after attaining age 55 if they retire prior to age 65, with an actuarial reduction to reflect the earlier commencement date. Except for Mr. Howell, all of our named executive officers are eligible to take this early retirement option. For additional information on the valuation assumptions with respect to pensions, refer to Note 11 to our consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012.

**Nonqualified Deferred Compensation**

Name	Plan Name	Executive Contributions in Last Fiscal Year (\$)(1)	Registrant Contributions in Last Fiscal Year (\$)(2)	Aggregate Earnings in Last Fiscal Year (\$)(3)	Aggregate Withdrawals/ Distributions in Last Fiscal Year (\$)	Aggregate Balance at Last Fiscal Year End (\$)(4)
J. Patrick Gallagher, Jr.	Age 62 Plan		750,000	759,887		8,063,407
	Supplemental Plan	50,000	50,000	625,047		6,145,478
Douglas K. Howell	Age 62 Plan		400,000	347,446		3,214,036
	Supplemental Plan	624,349	52,500	123,445		2,729,104
James W. Durkin, Jr.	Age 62 Plan		350,000	441,675		4,587,368
	Supplemental Plan	125,000	50,000	184,853		1,738,487
James S. Gault	Age 62 Plan		400,000	486,049		5,081,761
	Supplemental Plan	35,000	35,000	241,053		2,132,666
David E. McGurn, Jr.	Age 62 Plan		200,000	367,082		3,824,429
	Supplemental Plan	27,500	27,500	186,743		1,779,043

- (1) Amounts in this column include amounts reported in the Salary and/or Non-Equity Incentive Plan Compensation columns in the Summary Compensation Table for 2012. For Mr. Howell, the amount in this column also includes the value of restricted stock units vested in 2012, which he deferred until separation from service. For more information, see also footnote (2) to the 2012 Option Exercises and Stock Vested table.

(2) These amounts are included in the All Other Compensation column of the Summary Compensation Table.

## **Table of Contents**

- (3) Amounts in this column are not included in the Summary Compensation Table. These amounts represent the change in market value on amounts previously deferred under the Supplemental Plan and on our contributions to the Age 62 Plan, based on the market-rate returns and dividend equivalents credited to participant accounts for the period January through December 2012. Participants are able to direct that their Supplemental Plan account balances be deemed invested in a number of investment options that include various mutual funds, an annuity product and a fund representing our common stock, and may change such elections on any regular business day. Awards under the Age 62 Plan are credited with the market-rate returns of deemed investments chosen by the company (which may include our common stock), or dividend equivalents on our common stock.
- (4) The Age 62 Plan amounts include amounts also reported as compensation in this and prior years' Summary Compensation Tables, as follows: Mr. Gallagher \$5,700,000; Mr. Howell \$2,450,000; Mr. Durkin \$2,700,000; Mr. Gault \$3,500,000; and Mr. McGurn \$2,050,000. All amounts in this table pertain to the Supplemental Plan or the Age 62 Plan. The material terms of the Age 62 Plan are provided above on page 15. Under the Supplemental Plan, which allows certain highly compensated employees to defer amounts on a before-tax basis, employees who have compensation greater than an amount set annually by the IRS may elect to defer up to 90% of their salary and up to 100% of their annual cash incentive payment. We match any deferrals of salary and annual cash incentive payments on a dollar-for-dollar basis up to the lesser of (i) the amount deferred or (ii) 5% of the employee's regular earnings minus the maximum contribution that we could have matched under the 401(k) Plan. All such 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. Such employees may also defer restricted stock unit and PUP awards, but these deferrals are not subject to company matching. Amounts held in the Supplemental Plan accounts are payable as of the employee's termination of employment, or such other time as the employee elects in advance of the deferral, subject to certain exceptions set forth in IRS regulations.

## **POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

### **Change-in-Control Agreements**

We provide our named executive officers with change-in-control agreements, which we believe are an important part of their overall compensation. In addition to helping secure their continued dedication to stockholder interests prior to or following a change in control, the Compensation Committee also believes these agreements are important for recruitment and retention, as all or nearly all of our competitors have similar agreements in place for their senior employees. In general, compensation levels under these agreements are separate and unrelated to named executive officers' overall compensation decisions for a given year.

*Double trigger.* Each named executive officer's change-in-control agreement provides for payments if there is a Termination of the individual within 24 months after a Change in Control (commonly referred to in combination as a double trigger).

A Change in Control occurs (i) if a person or group is or becomes the beneficial owner, directly or indirectly, of our securities representing 50% or more of the voting power to elect directors, (ii) if there is a change in the composition of the Board such that within a period of two consecutive years, individuals who at the beginning of such two-year period constitute the Board and any new directors elected or nominated by at least two-thirds of the directors who were either directors at the beginning of the two-year period or were so elected or nominated, cease for any reason to constitute at least a majority of the Board, or (iii) our stockholders approve the sale of all or substantially all of our assets or any merger, consolidation, issuance of securities or purchase of assets, the result of which would be the occurrence of any event described in (i) or (ii) above. A substantially similar change-in-control definition is used under the 2011 Long-Term Incentive Plan, the Supplemental Plan, the Performance Unit Program and the Age 62 Plan.

A Termination means either (i) a termination of employment by us for any reason other than death, physical or mental incapacity or cause (defined as gross misconduct or willful and material breach of the change-in-control agreement) or (ii) resignation upon the occurrence of (1) a material change in the nature or scope of the individual's authorities, powers, functions or duties, (2) a reduction in total compensation, (3) any relocation of the individual's principal place of employment more than 35 miles from his or her location prior to the Change in Control, (4) a breach of the change-in-control agreement by us or (5) a good faith determination by the individual that as a result of the Change in Control, his or her position is materially affected.

*Payments upon double trigger.* Under the change-in-control agreements, each named executive officer subject to Termination within 24 months after a Change in Control is entitled to receive:

Severance two-times salary and annual cash incentive. A lump sum severance payment equal to salary and annual cash incentive compensation payments for a 24-month period on the basis of a salary rate not less than his annual salary prior to the termination, or if greater, the salary at the time of the Change in Control and the annual cash incentive payment prior to termination or, if greater, the annual cash incentive payment prior to the Change in Control. The severance payment would be made in a lump sum not more than seven days after the date of termination.

## **Table of Contents**

No new excise tax gross-up payments. Our change-in-control agreements entered into prior to 2008 provide that the named executive officer would be eligible to receive an excise tax gross-up payment as defined in Sections 280G and 4999 of the Internal Revenue Code, relating to so-called excess parachute payments. However, our change-in-control agreements entered into after 2008 do not contain excise tax gross-ups, and it is our policy not to enter into new change-in-control agreements that contain excise tax gross-ups, or amend existing change-in-control agreements without removing these provisions.

Participation in benefit plans. The change-in-control agreements also provide for continued participation in welfare benefit plans, including medical, dental, life and disability insurance, on the same basis and at the same cost as prior to the Termination, for the shorter of a two-year period or until the individual becomes covered by a different plan with coverage or benefits equal to or greater than the plan provided by us. The agreements also provide for the payment of any unpaid salary and a lump sum cash payment for accumulated but unused vacation.

### **Other Termination and Change-in-Control Payments**

The table below shows potential incremental payments, benefits and equity award accelerations upon termination of our named executive officers. The amounts are determined under existing agreements and plans for various termination scenarios. The amounts assume that the trigger events for all such payments occurred on December 31, 2012 and use the closing price of our common stock on that date of \$34.65. The amounts in the table below (other than for the Supplemental Plan) do not include the amount of pension or deferred compensation our named executive officers would receive under each termination scenario because these amounts are reflected in the Pension Benefits and Nonqualified Deferred Compensation tables presented above.

*Stock options.* Our named executive officers are eligible to exercise their stock options upon termination of employment. If they are terminated for cause they are eligible to exercise all options that are vested at the time of termination. If they voluntarily resign or are terminated without cause and such named executive officer is under the age of 55, the named executive officer may exercise all options that have vested at the time of termination. If a named executive officer is 55 years of age or older, upon a voluntary resignation or termination without cause, (1) such officer immediately vests in all outstanding nonqualified stock options that were granted in 2006 or earlier and may exercise or retain such options through their original expiration date and (2) such officer may exercise or retain through their original expiration date all nonqualified stock options granted after 2007 that have vested as of the date of termination. If a named executive officer is terminated due to death or disability all options vest and they remain outstanding through their original expiration date. In the event of a change in control as defined in the relevant equity plan, all options vest immediately and may be exercised through their original expiration date.

*Restricted stock awards.* All of our named executive officers currently have outstanding restricted stock unit awards. To vest in these awards the named executive officer must either be employed by us when the units vest or be terminated for a reason other than cause. Accordingly, if a named executive officer resigns or is terminated for cause, he forfeits the restricted stock units. If the officer is terminated without cause he would retain the right to receive shares. If there is a change in control as defined in the relevant equity plan the awards immediately vest. If the named executive officer is terminated because of death or disability the awards immediately vest.

*PUP awards.* All of our named executive officers have outstanding performance units under our Performance Unit Program. To receive payment under the program, the named executive officer must be employed by us at the time the units vest, except that the units vest and become immediately payable upon a change in control as defined in the plan.

*Age 62 Plan.* All of our named executive officers participate in the Age 62 Plan. Amounts in this plan vest on the earliest to occur of (1) the date the participant turns 62 (or the one-year anniversary of the date of grant for participants over 61), (2) death, (3) termination of employment because of disability, (4) termination in a manner that grants the person severance pay under our Severance Plan (filed as an exhibit to our Exchange Act filings) and (5) a change in control as defined in the plan. Accordingly, vesting would accelerate under all of the termination scenarios other than a voluntary resignation or a termination for cause.

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

*Supplemental Plan.* All of our named executive officers participate in the Supplemental Plan. Elective deferrals by participants and company match amounts are fully vested under the plan. Amounts contributed by the company as performance deferrals vest in accordance with the terms of any such award. Any unvested portion of a participant's account becomes fully vested upon death, termination of employment because of disability, voluntary retirement on or after the age of 65, and a change of control as defined in the plan.

*Termination for Cause.* Where applicable, termination for cause under our plans generally means a termination of employment based upon the good faith determination of the company that one or more of the following events has occurred: (i) the participant has committed a dishonest or fraudulent act to the material detriment of the company; (ii) the participant has been convicted (or pleaded guilty or *nolo contendere*) for a crime involving moral turpitude or for any felony; (iii) material and persistent insubordination on the part of the participant; (iv) the loss by the participant, for any reason, of any license or professional registration without the company's written consent; (v) the diversion by the participant of any business or business opportunity of the company for the benefit of any party other than the company; (vi) material violation of the company's Global Standards of Business Conduct by the participant; or (vii) the participant has engaged in illegal conduct, embezzlement or fraud with respect to the assets, business or affairs of the company.

**Table of Contents**

*No Liberal Change-in-Control Definitions.* None of our plans has a liberal change-in-control definition (i.e., they do not provide for buyout thresholds lower than 50%, and a change in control is deemed to occur upon completion, rather than stockholder approval, of a transaction).

Executive Benefits and Payments Upon Separation	Voluntary Termination	Termination for Cause	Termination without Cause	Death or Disability	Change in Control	Termination without Cause or Resignation for Good Reason Following Change in Control
<b><u>J. Patrick Gallagher, Jr.</u></b>						
Severance Pay	\$	\$	\$ 1,000,000	\$	\$	\$ 4,500,000
Stock Options <sup>(1)</sup>	1,524,714	1,187,839	1,524,714	1,959,505	1,959,505	1,959,505
Restricted Stock Units				1,004,365	1,004,365	1,004,365
PUP Awards					1,531,899	1,531,899
Age 62 Plan			8,063,407	8,063,407	8,063,407	8,063,407
Supplemental Plan <sup>(1)(2)</sup>	6,145,478			6,145,478	6,145,478	6,145,478
Benefit Plan Participation <sup>(3)</sup>						170,018
Excise Tax Gross-Up						2,727,957
Total	\$ 7,670,192	\$ 1,187,839	\$ 10,588,121	\$ 17,172,755	\$ 18,704,654	\$ 26,102,629

**Douglas K. Howell**

Severance Pay	\$	\$	\$ 181,731	\$	\$	\$ 2,800,000
Stock Options	1,357,651	1,357,651	1,357,651	1,824,357	1,824,357	1,824,357
Restricted Stock Units				1,589,881	1,589,881	1,589,881
PUP Awards					483,251	483,251
Age 62 Plan			3,214,036	3,214,036	3,214,036	3,214,036
Supplemental Plan <sup>(1)(2)</sup>	2,729,104			2,729,104	2,729,104	2,729,104
Benefit Plan Participation <sup>(3)</sup>						88,224
Excise Tax Gross-Up					1,683,446	3,266,557
Total	\$ 4,086,755	\$ 1,357,651	\$ 4,753,418	\$ 9,357,378	\$ 11,524,075	\$ 15,995,410

**James W. Durkin, Jr.**

Severance Pay	\$	\$	\$ 625,000	\$	\$	\$ 2,500,000
Stock Options <sup>(1)</sup>	125,176	7,696	125,176	242,378	242,378	242,378
Restricted Stock Units				337,387	337,387	337,387
PUP Awards					560,967	560,967
Age 62 Plan <sup>(4)</sup>	4,222,736	4,222,736	4,587,368	4,587,368	4,587,368	4,587,368
Supplemental Plan <sup>(1)(2)</sup>	1,738,487			1,738,487	1,738,487	1,738,487
Benefit Plan Participation <sup>(3)</sup>						132,955
Excise Tax Gross-Up						
Total	\$ 6,086,399	\$ 4,230,432	\$ 5,337,544	\$ 6,905,620	\$ 7,466,587	\$ 10,099,542

**James S. Gault**

Severance Pay	\$	\$	\$ 700,000	\$	\$	\$ 2,800,000
Stock Options <sup>(1)</sup>	961,449	813,014	961,449	1,093,861	1,093,861	1,093,861
Restricted Stock Units				387,110	387,110	387,110
PUP Awards					625,582	625,582
Age 62 Plan			5,081,761	5,081,761	5,081,761	5,081,761
Supplemental Plan <sup>(1)(2)</sup>	2,132,666			2,132,666	2,132,666	2,132,666
Benefit Plan Participation <sup>(3)</sup>						122,456

Excise Tax Gross-Up									1,501,755			
Total	\$	3,094,115	\$	813,041	\$	6,743,210	\$	8,695,398	\$	9,320,980	\$	13,745,191

**Table of Contents**

<b>Executive Benefits and Payments Upon Separation</b>	<b>Voluntary Termination</b>	<b>Termination for Cause</b>	<b>Termination without Cause</b>	<b>Death or Disability</b>	<b>Change in Control</b>	<b>Termination without Cause or Resignation for Good Reason Following Change in Control</b>
<b>David E. McGurn</b>						
Severance Pay	\$	\$	\$ 550,008	\$	\$	\$ 2,000,016
Stock Options <sup>(1)</sup>	886,257	748,922	886,257	990,439	990,439	990,439
Restricted Stock Units				306,722	306,722	306,722
PUP Awards					490,760	490,760
Age 62 Plan			3,824,429	3,824,429	3,824,429	3,824,429
Supplemental Plan <sup>(1)(2)</sup>	1,779,043			1,779,043	1,779,043	1,779,043
Benefit Plan Participation <sup>(3)</sup>						98,953
Excise Tax Gross-Up						1,630,565
<b>Total</b>	<b>\$ 2,665,300</b>	<b>\$ 748,922</b>	<b>\$ 5,260,694</b>	<b>\$ 6,900,633</b>	<b>\$ 7,391,393</b>	<b>\$ 11,120,927</b>

(1) A substantial portion of the values shown represent fully vested amounts.

(2) Under the Supplemental Plan, in the event of a Termination for Cause or Termination without Cause, participants would receive all vested amounts, which represent a substantial portion of the named executive officers' plan balances.

(3) Represents the lump sum present value of two years of benefits as described above under Participation in benefit plans.

(4) Mr. Durkin is fully vested in these awards.

**BOARD OF DIRECTORS**

Set forth below is a description of the background of each member of our Board of Directors, including public and investment company directorships each member held during the past five years and the experience, qualifications, attributes or skills that led the Board to conclude that each such individual should be elected to serve as one of our directors at the Annual Meeting.

**WILLIAM L. BAX**, 69, has been a member of the Board since 2006 and currently serves as Chair of the Audit Committee. Mr. Bax was Managing Partner of the Chicago office of PricewaterhouseCoopers (PwC), an international accounting, auditing and consulting firm, from 1997 to 2003, and a partner in the firm for 26 years. He currently serves as a director and audit committee chair of several affiliated mutual fund companies (Northern Funds and Northern Institutional Funds since 2005, and Northern Multi-Manager Funds since 2006). Mr. Bax previously served as a director of Sears Roebuck & Co., a publicly traded retail company, from 2003 to 2005, and Andrew Corporation, a publicly traded communications products company, from 2006 to 2007. During his 26 years as a partner and 6 years as head of PwC's Chicago office, Mr. Bax gained extensive experience advising public companies regarding accounting and strategic issues. This experience, along with his tenure on the boards of public companies such as Sears and Andrew, strengthen the Board's decision making. Mr. Bax's long history advising public companies on accounting and disclosure issues enhances the Board's ability to oversee our assessment and management of material risks. Additionally, Mr. Bax's experience as a director of various mutual funds provides us with valuable insight into the perspectives and concerns of our institutional stockholders.

**FRANK E. ENGLISH, JR.**, 67, has been a member of the Board since 2009 and currently serves on the Audit Committee. Mr. English also serves on the board of directors and audit committee of Tower International, Inc., a publicly traded global automotive components manufacturer, of which he has been a board member or board advisor since August 2010. Since June 2012, Mr. English has also served on the board of directors and the finance and strategy committee of CBOE Holdings, Inc., a publicly traded holding company for various securities exchanges, including the largest U.S. options exchange. Since April 2011, Mr. English has been a Senior Advisor to W.W. Grainger, a publicly traded broad-based distributor of industrial maintenance, repair and operations supplies. From 1976 to 2009, Mr. English served in various senior roles at Morgan Stanley, most recently as Managing Director and Vice Chairman of Investment Banking. Following his retirement in 2009, Mr. English served as a Senior Advisor at Morgan Stanley & Co. until April 2011. The Board greatly benefits from Mr. English's 33 years of investment banking expertise, particularly in the areas of capital planning, strategy development, financing and liquidity management.

**J. PATRICK GALLAGHER, JR.**, 61, has been a member of the Board since 1986 and has served as Chairman of the Board since 2006. Mr. Gallagher has spent his entire career with Arthur J. Gallagher & Co. in a variety of management positions, starting as a Production Account Executive in

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

1974, then serving as Vice President Operations from 1985 to 1990, as President and Chief Operating Officer from 1990 to 1995, and as President and CEO since 1995. In August 2011, Mr. Gallagher joined the board of directors of InnerWorkings, Inc., a publicly traded global provider of managed print, packaging and promotional solutions, and was appointed to its compensation and nominating/governance committees. He also serves on the Board of Trustees of the American Institute for Chartered Property Casualty Underwriters and on the Board of Founding Directors of the International Insurance Foundation. Mr. Gallagher's 40 years of experience with our company and 28 years of service on the Board provide him with a deep knowledge of our company and the insurance and insurance brokerage industries, as well as a depth of leadership experience. This depth of knowledge and experience greatly enhances the Board's decision making and enables Mr. Gallagher to serve as a highly effective Chairman of the Board.

## **Table of Contents**

**ELBERT O. HAND**, 73, has been a member of the Board since 2002 and currently serves as Chair of the Compensation Committee and as a member of the Nominating/Governance Committee. Mr. Hand was Chairman of the Board of Hartmarx Corporation, an apparel marketing and manufacturing company, from 1992 to 2004, and served as a member of Hartmarx's board from 1984 to 2010. He served as Chief Executive Officer of Hartmarx from 1992 to 2002 and as President and Chief Operating Officer from 1987 to 1992. From 1982 to 1989, Mr. Hand also served as President and Chief Executive Officer of Hartmarx's Men's Apparel Group. Mr. Hand was a director of Austin Reed Group PLC, a U.K.-based apparel company, from 1995 to 2002, and served as an advisor to the board for a number of years after 2002. From January 2010 to February 2011, Mr. Hand served as a member of the board and non-executive Chairman of Environmental Solutions Worldwide, Inc., a publicly traded manufacturer and marketer of environmental control technologies. He has also served as a member of Northwestern University's Kellogg Advisory Board. The Board benefits from Mr. Hand's business acumen gleaned from nearly three decades of leadership roles in the apparel marketing and manufacturing industry, including significant experience in sales and marketing. Mr. Hand's long association with U.K. apparel company Austin Reed is valuable to the Board as we continue to expand our U.K. and other international operations.

**DAVID S. JOHNSON**, 56, has been a member of the Board since 2003 and currently serves as Chair of the Nominating/Governance Committee and as a member of the Compensation Committee. In 2009, Mr. Johnson was appointed President and Chief Executive Officer of the Americas for Barry Callebaut AG, the world's largest manufacturer of cocoa and chocolate products. He is also a member of Barry Callebaut AG's global executive committee. Mr. Johnson served as President and Chief Executive Officer, and as a member of the board, of Michael Foods, Inc., a food processor and distributor, from 2008 to 2009, and as Michael Foods' President and Chief Operating Officer from 2007 to 2008. From 1986 to 2006, Mr. Johnson served in a variety of senior management roles at Kraft Foods Global, Inc., a global food and beverage company, most recently as President of Kraft Foods North America, and as a member of Kraft Foods' Management Committee. Prior to that, he held senior positions in marketing, strategy, operations, procurement and general management at Kraft Foods. The Board benefits from Mr. Johnson's business acumen gleaned from nearly three decades of leadership roles in the food and beverage industry. In particular, Mr. Johnson's experience as an executive at global, multi-national businesses such as Barry Callebaut and Kraft is valuable to the Board as we continue to expand our international operations. Mr. Johnson's association with corporate governance and executive compensation best practices as a member of Kraft's Management Committee, as a board member of Michael Foods and as a member of Barry Callebaut AG's global executive committee, also enables him to make valuable contributions to the Board.

**KAY W. MCCURDY**, 62, has been a member of the Board since 2005 and currently serves on the Compensation and Nominating/Governance Committees. Ms. McCurdy is Of Counsel at the law firm of Locke Lord LLP, where she was a Partner from 1983 to 2012, and practiced corporate and finance law since 1975. She served on the firm's Executive Committee from 2004 to 2006. During her nearly four decades as a corporate and finance attorney, Ms. McCurdy represented numerous companies on a wide range of matters including financing transactions, mergers and acquisitions, securities offerings, executive compensation and corporate governance. Ms. McCurdy served as a director of Trek Bicycle Corporation, a leading bicycle manufacturer, from 1998 to 2007. In recognition of her ongoing commitment to director education and boardroom excellence, the National Association of Corporate Directors (NACD) named Ms. McCurdy a 2012 NACD Governance Fellow. Ms. McCurdy's experience advising companies regarding legal, public disclosure, corporate governance, mergers and acquisitions and executive compensation issues provide her with a depth and breadth of expertise that enhances our ability to navigate legal and strategic issues. Ms. McCurdy's experience with corporate governance and executive compensation best practices as an expert advising a wide variety of companies across different industries enables her to make valuable contributions to the Board with respect to these and related matters.

**NORMAN L. ROSENTHAL, Ph.D.**, 61, has been a member of the Board since 2008 and currently serves on the Audit Committee. Since 1996, he has been President of Norman L. Rosenthal & Associates, Inc., a management consulting firm that specializes in the property and casualty insurance industry. Prior to 1996, Dr. Rosenthal spent 15 years practicing in the property and casualty insurance industry at Morgan Stanley & Co., a global financial services firm, most recently as Managing Director. Dr. Rosenthal served on the boards of Aspen Insurance Holdings, Ltd., a publicly traded global property and casualty insurance and reinsurance company, from 2002 to 2009, Mutual Risk Management Ltd., a publicly traded off-shore provider of alternative commercial insurance and financial services, from 1997 to 2002, Vesta Insurance Group, Inc., a publicly traded group of insurance companies, from 1996 to 1999, and Alliant Insurance Group Inc., a private insurance brokerage and financial services company, from 2005 to 2007. He currently serves on the private company board of The Plymouth Rock Company, a group of auto and homeowners' insurance companies. Dr. Rosenthal holds a Ph.D. in Business and Applied Economics, with an insurance focus, from the Wharton School of the University of Pennsylvania. Dr. Rosenthal's vast experience in the insurance and finance industries is a valuable resource to us and greatly enriches the Board's decision making. In addition, Dr. Rosenthal's academic expertise in applied economics, combined with his decades of experience as a management consultant and director in the insurance sector, greatly enhances the Board's ability to oversee our assessment and management of material risks.

**JAMES R. WIMMER**, 84, has been a member of the Board since 1985 and currently serves on the Audit and Nominating/Governance Committees. Mr. Wimmer is a retired attorney from the law firm of Lord, Bissell & Brook, where he was Partner from 1959 to 1992 and Of Counsel from 1992 to 1999. Mr. Wimmer represented public and private companies, including Arthur J. Gallagher & Co., on a wide range of corporate, securities and insurance-related matters. He served as Chairman of Lord, Bissell & Brook for one year and as a member of its executive committee for 12 years. Mr. Wimmer joined the Board the year after our initial public offering and over the years has been a key advisor on many complex legal and strategic issues. His 28 years of service on the Board and even longer association as our former attorney give

Mr. Wimmer a deep understanding of our business, which greatly enriches the Board's decision making.

**Table of Contents****Legal Proceedings Involving Directors and Executive Officers**

As of the date of this proxy statement, there is no material proceeding to which any of our directors or executive officers, or any associate of any such director or executive officer, is a party or has a material interest adverse to us or any of our subsidiaries. To our knowledge, none of our directors or executive officers have been subject to any of the events described in Item 401(f) of Regulation S-K, as promulgated by the SEC, during the past ten years.

**CORPORATE GOVERNANCE**

We are committed to sound and effective corporate governance. To that end, the Board of Directors has adopted Governance Guidelines that set forth principles to assist the Board in determining director independence and other important corporate governance matters. Over the years we have taken steps to strengthen our corporate governance in various areas, including the following: all Board members other than our Chairman are independent; our directors are elected annually to a one-year term; we have majority voting for director elections; we do not have supermajority voting requirements in our certificate of incorporation; we do not have a poison pill; and we prohibit hedging and restrict pledging of company stock by directors and executive officers. The Board has also adopted Global Standards of Business Conduct (the Global Standards) that apply to all directors, executive officers and employees. The Global Standards, along with our Governance Guidelines and the charters of the Audit, Compensation and Nominating/Governance Committees, are available at [www.ajg.com/ir](http://www.ajg.com/ir), under the heading Corporate Governance. We will provide a copy of the Global Standards or Governance Guidelines without charge to any person who requests a copy by writing to our Secretary at The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141. We intend to satisfy the disclosure requirements of Item 5.05 of Form 8-K regarding any amendment to, or waiver from, the Global Standards by posting such information on our website.

**Board Committees**

The Board currently has Audit, Compensation and Nominating/Governance Committees, all of the members of which are independent. The following table sets forth the members of, and the number of meetings held by, each committee during 2012:

<b>Director</b>	<b>Audit</b>	<b>Compensation</b>	<b>Nominating/ Governance</b>
William L. Bax	Chair		
Frank E. English, Jr.	X		
J. Patrick Gallagher, Jr.			
Ilene S. Gordon		X	
Elbert O. Hand		Chair	X
David S. Johnson		X	Chair
Kay W. McCurdy		X	X
Norman L. Rosenthal	X		
James R. Wimmer	X		X
<b>Meetings Held in 2012</b>	<b>4</b>	<b>5</b>	<b>3</b>

*Audit Committee.* The Audit Committee is responsible for, among other things, general oversight of the integrity of our financial statements, risk assessment and risk management, our compliance with legal and regulatory requirements, our independent registered public accounting firm's qualifications and independence, and the performance of our internal audit function and independent registered public accounting firm. The

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

Audit Committee manages our relationship with our independent registered public accounting firm and is responsible for the appointment, retention, termination and compensation of the independent auditor. Each member of the Audit Committee meets the additional heightened independence and other requirements of the NYSE. The Board has determined that Mr. Bax qualifies as an audit committee financial expert under SEC rules.

*Compensation Committee.* The Compensation Committee is responsible for, among other things, reviewing compensation arrangements for our executive officers, including our CEO, for administering our equity compensation and other benefit plans, and for reviewing our overall compensation structure to avoid incentives that promote excessive risk-taking by executive officers and other employees. The Compensation Committee is permitted to delegate its authority under its charter to subcommittees when it deems appropriate. The Compensation Committee may, and in 2012 did, engage a compensation consultant to assist it in carrying out its duties and responsibilities, and has the sole authority to retain and terminate any compensation consultant, including sole authority to approve any consultant's fees and other retention terms. For more information regarding the roles of our CEO and compensation consultant in setting compensation, please see pages 8-9.

## **Table of Contents**

*Nominating/Governance Committee.* The Nominating/Governance Committee is responsible for, among other things, identifying qualified Board and Board committee candidates, recommending changes to the Board's size and composition, determining director compensation, recommending director independence standards and governance guidelines, and reviewing and approving related party transactions.

*Director Qualifications.* When identifying director candidates, in addition to applicable SEC and NYSE requirements, the Nominating/Governance Committee considers other factors as it deems appropriate, including the candidate's judgment, skill, integrity, diversity, and business or other experience. Directors should have experience in positions with a high degree of responsibility, be leaders in the organizations with which they are affiliated, be selected based on contributions they can make to the Board and management and be free from relationships or conflicts of interest that could interfere with the director's duties to us and our stockholders. The Nominating/Governance Committee may consider candidates suggested by stockholders, management or members of the Board and may hire consultants or search firms to help identify and evaluate potential nominees for director. For more information regarding how stockholders can submit director nominees for consideration by the Nominating/Governance Committee, please see page 4.

*Board Diversity.* The Nominating/Governance Committee seeks Board members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. The Nominating/Governance Committee implements this policy through discussions among committee members and assesses its effectiveness annually as part of the self-evaluation process of the Nominating/Governance Committee and the Board.

### **Board Leadership Structure**

J. Patrick Gallagher, Jr. currently serves as Chairman of the Board and CEO. With the exception of the Chairman, all Board members are independent and actively oversee the activities of the Chairman and other members of the senior management team. At the end of each regularly scheduled meeting of the Board, the independent directors select an independent Lead Director who serves until the end of the next regularly scheduled meeting of the Board. The responsibilities of the Lead Director include acting as a liaison between the Chairman and the independent directors, coordinating with the Chairman regarding information sent to the Board, coordinating with the Chairman regarding Board meeting agendas and schedules, and being available for consultation and communication with stockholders as appropriate. In addition, the Lead Director is authorized to call and preside over executive sessions of the independent directors without the Chairman or other management present. The independent directors also meet regularly in executive sessions. An executive session is held in conjunction with each regularly scheduled Board meeting, and other executive sessions may be called by the Lead Director at his or her discretion or at the request of the Board. The committees of the Board also meet regularly in executive sessions without management. We believe that our Board leadership structure provides us with important advantages. Mr. Gallagher's extensive experience and knowledge of our business enriches the Board's decision making. Mr. Gallagher's role as Chairman and CEO also enhances communication and coordination between management and the Board on critical issues.

### **Board's Role in Risk Oversight**

The Board exercises its responsibility for oversight and monitoring of management's risk assessment and risk management functions primarily through the Audit Committee. The Audit Committee fulfills its oversight role by discussing, among other things, guidelines and policies regarding risk assessment and risk management, our major financial risk exposures and steps taken by management to monitor and control such exposures. To fulfill its risk oversight and monitoring roles, the Audit Committee oversees an internal audit department, the head of which reports directly to the Audit Committee (other than with respect to the department's day-to-day operations). The internal audit department is independent from management and its responsibilities are defined by the Audit Committee. At least annually, the head of the internal audit department is required to confirm to the full Board the department's organizational independence. Among other things, the purpose of the department is to bring a systematic and disciplined approach to evaluating and improving the effectiveness of our risk management, control and governance processes. The internal audit department evaluates the effectiveness of our risk management processes, performs consulting and advisory services for us related to risk management, and reports significant risk exposures, including fraud risks, to the Audit Committee. The Audit Committee periodically reports to the full Board a summary of its activities and any key findings that arise from its risk oversight and monitoring functions.

In addition, the Compensation Committee reviews our overall compensation policies and practices to determine whether our program provides incentives for executive officers and other employees to take excessive risks. Based upon an analysis conducted by management and discussions between management and our Compensation Committee, the Compensation Committee has determined that our overall compensation policies and practices do not present risks that are likely to have a material adverse effect on us or our business. In reaching this determination, our Compensation Committee and management noted the following: (i) no single business unit bears a disproportionate share of our overall risk

profile; (ii) no single business unit is significantly more profitable than the other business units; (iii) our compensation practices are substantially consistent across all business units both in the amount and types of compensation awarded; and (iv) substantially all of our revenue-producing employees are sales professionals whose compensation is tied to the amount of revenue received by the company. In addition, our annual cash incentive program targets payouts for our CEO at 125% of base salary, and for other executive officers at 100% of base salary, and caps payouts at 150% of target. We believe that our compensation practices help ensure that no single year's results and no single corporate action has a disproportionate effect on executive officers' annual compensation, and encourage steady and consistent long-term performance by our executive officers. In addition, our equity plans permit the use of a variety of equity and equity-based compensation awards including stock options,

**Table of Contents**

restricted stock units, performance units and deferred cash and equity awards, with multi-year vesting and overlapping maturity. Together with our executive stock ownership guidelines and our conservative approach to annual cash incentives, the Compensation Committee believes this mix of incentives encourages executive officers to achieve both short-term operating and long-term strategic objectives, including the long-term performance of our stock.

**Other Board Matters**

*Independence.* The Board has conducted its annual review of the independence of each director nominee under NYSE standards and the independence standards set forth in Appendix A of our Governance Guidelines (available on our website located at [www.ajg.com/ir](http://www.ajg.com/ir), under the heading "Corporate Governance"). Based upon its review, the Board has concluded in its business judgment that, with the exception of J. Patrick Gallagher, Jr., our Chairman and CEO, all of the director nominees are independent.

*Attendance.* The Board expects each director to attend and participate in all Board and applicable committee meetings. Each director is expected to prepare for meetings in advance and to dedicate the time necessary to discharge properly his or her responsibilities at each meeting and to ensure other commitments do not materially interfere with his or her service on the Board. During 2012, the Board met six times. All of the nominees attended 75% or more of the aggregate meetings of the Board and the committees on which they served during 2012. We expect all Board members to attend our Annual Meeting. All of our Board members attended our Annual Meeting held on May 8, 2012.

*Stockholder Communications with the Board.* A stockholder or other party interested in communicating with the Board, any of its committees, the Chairman, the Lead Director, the non-management directors as a group or any director individually may do so by writing to their attention at our principal executive offices, Arthur J. Gallagher & Co., c/o Secretary, The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141. These communications are distributed to the Board, Committee Chair, Chairman, Lead Director, non-management directors as a group, or individual director, as applicable.

**DIRECTOR COMPENSATION**

The Board sets the amount and form of director compensation based upon recommendations made by the Nominating/Governance Committee. Mr. Gallagher receives no additional compensation for his service as a director. A substantial portion of each non-employee director's total annual compensation consists of equity grants, in the form of restricted stock units and/or stock options. Under our stock ownership guidelines, directors are expected to own an amount of our common stock with a value equal to three times the cash portion of the annual director retainer. In 2012, the annual cash retainer was \$90,000. Any shares pledged as collateral for a loan are not considered when determining whether directors have met their stock ownership guidelines. On May 8, 2012, each non-employee director was granted restricted stock units with respect to 2,500 shares of common stock, which vest on the first anniversary of the date of grant (or immediately upon a director's departure from the Board). Under the 2011 Long-Term Incentive Plan, each non-employee director may also elect to receive a stock option in lieu of all or part of the annual cash retainer otherwise payable to such director for Board and committee service. Committee Chairs receive additional annual fees as follows: \$15,000 for the Audit Committee, \$10,000 for the Compensation Committee and \$7,500 for the Nominating/Governance Committee. Directors are reimbursed for travel and accommodation expenses incurred in connection with attending Board and committee meetings. In addition, each director is eligible to participate in a matching charitable gift program through The Arthur J. Gallagher Foundation, which makes a matching contribution of up to \$1,000 to charitable organizations on behalf of an individual.

*Director Deferral Plan.* Directors may elect to defer all or a portion of their annual cash retainer or restricted stock units under our Deferral Plan for Nonemployee Directors (Director Deferral Plan). Deferred cash retainers and restricted stock units are converted to notional stock units, which are credited with dividend equivalents when dividends are paid on our common stock. Deferred restricted stock units are distributed in the form of common stock, and deferred cash retainers and accrued dividend equivalents are distributed in cash, at a date specified by each director or upon such director's departure from the Board.

**Non-Employee Director Compensation Table**

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (1))	Option Awards (\$ (2))	All Other Compensation (\$ (3))	Total (\$)
William L. Bax	105,000	90,550		5,225	200,775

Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

Frank E. English, Jr.	90,000	90,550	5,225	185,775
Ilene S. Gordon	92,500	90,550	5,225	188,275
Elbert O. Hand	97,500	90,550	5,225	193,275
David S. Johnson	97,500	90,550	4,225	192,275
Kay W. McCurdy	90,000	90,550	5,225	185,775
Norman L Rosenthal	90,000	90,550	5,225	185,775
James R. Wimmer	90,000	90,550	4,225	184,775
Total	752,500	724,400	39,800	1,516,700

## Table of Contents

- (1) This column represents the full grant date fair value of restricted stock awards granted in 2012 in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*, except that in accordance with SEC rules, any estimate for forfeitures is excluded from, and does not reduce, such amounts. For additional information on the valuation assumptions with respect to awards of restricted stock units, refer to Note 10 to our consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012. Each director had 2,500 unvested restricted stock units outstanding as of December 31, 2012.
- (2) The directors did not receive stock option awards in 2012. The number of unexercised option awards (vested or unvested) outstanding as of December 31, 2012 for each director listed above was as follows: Mr. Bax 0; Mr. English 9,375; Ms. Gordon 70,250; Mr. Hand 0; Mr. Johnson 68,750; Ms. McCurdy 33,249; Dr. Rosenthal 18,750 and Mr. Wimmer 83,285. Some of these options were previously issued under our 1989 Non-Employee Directors' Stock Option Plan, which was replaced by the 2011 Long-Term Incentive Plan.
- (3) Includes dividend equivalents paid on unvested restricted stock units during 2012 for each director, and matching contributions made to charitable organizations on behalf of the director by The Arthur J. Gallagher Foundation.

### **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

#### Related party transactions approval policy

We have adopted written policies and procedures for the review and approval or ratification of any related party transaction, defined as any transaction, arrangement or relationship in which we are a participant, the amount involved exceeds \$120,000 and one of our executive officers, directors, director nominees, 5% stockholders (or their immediate family members) or any entity with which any of the foregoing persons is an employee, general partner, principal or 5% stockholder, each of whom is referred to as a related person, has a direct or indirect interest as set forth in Item 404 of Regulation S-K, as promulgated by the SEC. The policy provides that management must present to the Nominating/Governance Committee each related party transaction for the Committee's review and approval (other than related party transactions involving director and executive officer compensation matters, certain ordinary course transactions, transactions involving competitive bids or rates fixed by law, and transactions involving services as a bank depository, transfer agent or similar services). The Committee must review the relevant facts and circumstances of the transaction, including if the transaction is on terms comparable to those that could be obtained in arms-length dealings with an unrelated third party and the extent of the related party's interest in the transaction, take into account the conflicts of interest and corporate opportunity provisions of our Global Standards of Business Conduct, and either approve or disapprove the related party transaction. If advance approval of a related party transaction requiring the Committee's approval is not feasible, the transaction may be preliminarily entered into by management upon prior approval of the transaction by the chair of the Committee, subject to ratification by the Committee at its next regularly scheduled meeting. No director may participate in approval of a related party transaction for which he or she is a related party.

#### Related party transactions

Since the beginning of fiscal 2012, we have engaged in the following related party transactions with immediate family members of some of our executive officers, in each case on terms commensurate with that of other employees with equivalent qualifications and responsibilities and holding similar positions:

A sister of Mr. Gallagher is the head of a specialty sales unit within our brokerage segment, and received total compensation of \$778,279 in 2012.

A brother of Mr. Gallagher is the head of our international brokerage operation and one of five regional managers within our brokerage segment, and received total compensation of \$1,870,991 in 2012.

A brother-in-law of Mr. Gallagher is a vice president of administration and development within our brokerage segment, and received total compensation of \$1,038,885 in 2012.

A son of Mr. Gallagher is a managing producer within our UK brokerage operation, and received salary, benefits and performance-based compensation of \$611,449 in 2012 (plus cost-of-living adjustments, tax gross-ups and other expenses related to working overseas totaling \$652,570).

Another son of Mr. Gallagher is a producer within our brokerage segment, and received total compensation of \$143,015 in 2012.

Another son of Mr. Gallagher is a producer within our brokerage segment, and received total compensation of \$131,617 in 2012.

A brother of Mr. Durkin is the manager of a local sales office within our brokerage segment, and received total compensation of \$845,603 in 2012. In addition, in 2008, he received two loans from the company totaling \$325,000 and bearing annual interest at 3.2%, and in 2010, he received another loan from the company for \$65,000 and bearing annual interest at 3.0%. These loans were made as part of our company relocation program. No principal or interest was paid on these loans during 2012, and a portion of principal and interest was forgiven by the company (such amount is included in his compensation figure above). As of December 31, 2012, \$97,190 was outstanding under these three loans.

**Table of Contents****SECURITY OWNERSHIP BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The table below presents information concerning beneficial ownership of our common stock as of March 18, 2013 by: (i) each person we know to be the beneficial owner of more than 5% of our outstanding shares of common stock; (ii) each of our named executive officers, directors and director nominees; and (iii) all of our executive officers and directors as a group.

The percentage calculations in this table are based on a total of 126,606,874 shares of our common stock outstanding as of the close of business on March 18, 2013. Unless otherwise indicated below, to our knowledge, the individuals and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned by them, subject to community property laws where applicable. In addition, unless otherwise indicated, the address for all persons named below is c/o Arthur J Gallagher & Co., The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143.

Name	Common Stock Issuable Within 60 Days				Percent of Common Stock Outstanding
	Shares of Common Stock <sup>(1)</sup>	Stock Options <sup>(2)</sup>	Restricted Stock Units and Deferred Shares <sup>(3)</sup>	Total Beneficial Ownership	
<b><u>5% Stockholders</u></b>					
BlackRock, Inc. <sup>(4)</sup>					
40 East 52 <sup>nd</sup> Street					
New York, NY 10022	9,619,070	N/A	N/A	9,619,070	7.6%
Capital Research Global Investors <sup>(5)</sup>					
333 South Hope Street					
Los Angeles, CA 90071	9,460,866	N/A	N/A	9,460,866	7.5%
<b><u>NEOs, directors and nominees</u></b>					
J. Patrick Gallagher, Jr.	659,895 <sup>(6)</sup>	239,490	--	899,385	*
James W. Durkin, Jr.	295,372 <sup>(7)</sup>	24,730	59,482 <sup>(8)</sup>	379,584	*
James S. Gault	71,518 <sup>(9)</sup>	97,955	--	169,473	*
Douglas K. Howell	98,673 <sup>(10)</sup>	121,610	--	220,283	*
David E. McGurn, Jr.	124,415 <sup>(11)</sup>	121,988	--	246,403	*
William L. Bax	27,970	--	2,500	30,470	*
Frank E. English, Jr.	15,745	--	2,500	18,245	*
Ilene S. Gordon	21,745	70,250	2,500	94,495	*
Elbert O. Hand	30,326	--	2,500	32,826	*
David S. Johnson	19,045	68,750	2,500	90,295	*
Kay W. McCurdy	20,745	33,249	2,500	56,494	*
Norman L. Rosenthal	14,325 <sup>(12)</sup>	18,750	2,500	35,575	*
James R. Wimmer	32,985 <sup>(13)</sup>	75,785	2,500	111,270	*
<b>All directors and executive officers</b>					
as a group (17 people)	1,490,273	937,776	79,482	2,507,531	2.0%

\* Less than 1%

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

- (1) Includes notional stock units held under our Supplemental Plan (see page 22). Under this plan, some of our executive officers have deferred restricted stock units upon vesting or elected to invest other deferred amounts into a Gallagher common stock fund. These deferred notional stock units are included because the plan permits participants to elect to move in and out of the Gallagher common stock fund and, as a result, participants have investment power with respect to the underlying shares.
- (2) All non-employee director stock options are immediately exercisable upon a director's departure from the Board under most circumstances, and are included because a director could depart the Board at his or her discretion and acquire rights to the underlying stock within 60 days. Stock options granted to executive officers prior to 2007 are immediately exercisable upon the departure of an executive officer that has reached the age of 55, and therefore, for these officers (Messrs. Gallagher, Durkin, Gault and McGurn), such options are included because they could depart the company at their discretion and acquire rights to the underlying stock within 60 days. Stock options granted to executive officers beginning in 2007 are forfeited upon an officer's departure, and are included only to the extent exercisable within 60 days pursuant to their vesting schedules.
- (3) All non-employee director unvested restricted stock units vest immediately upon a director's departure from the Board, and are included because a director could depart the Board at his or her discretion and acquire rights to the underlying stock within 60 days.
- (4) Share total obtained from a Schedule 13G filed on February 8, 2013 by BlackRock, Inc.
- (5) Share total obtained from a Schedule 13G filed on February 12, 2013 by Capital Research Global Investors. Capital Research Global Investors is a division of Capital Research and Management Company (CRMC), which manages equity assets for various investment companies through this and other divisions. Capital Research Global Investors is deemed to be the beneficial owner of the number of shares

## **Table of Contents**

included in the table because CRMC acts as an investment adviser to various investment companies registered with the SEC under the Investment Company Act of 1940.

- (6) Includes 52,548 notional stock units (see footnote (1) above); 105,248 shares held in trust for the benefit of his children by his wife, Anne M. Gallagher, and another, as trustees, and over which he has shared voting and shared investment power; 188,972 shares held in a revocable trust of which his wife is the sole trustee and over which he has no voting or investment power; 150,000 shares held by Elm Court LLC, a limited liability company of which the voting LLC membership interests are owned by Mr. Gallagher and the non-voting LLC membership interests are owned by a grantor retained annuity trust of which Mr. Gallagher is the trustee; and 92,000 shares held in The Arthur J. Gallagher Foundation, a private charitable foundation not affiliated with Mr. Gallagher, of which Mr. Gallagher is a trustee with shared voting and investment control over such shares.
- (7) Includes 8,889 notional stock units (see footnote (1) above).
- (8) Shares held under the Age 62 Plan that fully vested when Mr. Durkin reached age 62 during 2011, with delivery deferred until separation from service. These shares are included because Mr. Durkin could depart the company at his discretion and acquire the underlying stock within 60 days. Under the terms of the Age 62 Plan, Mr. Durkin currently has no voting or investment power over these shares.
- (9) Includes 56,000 shares held by his wife, over which he has shared voting power.
- (10) Includes 80,527 notional stock units (see footnote (1) above). Also includes 302 shares held by his wife, over which he has no voting or investment power and therefore disclaims beneficial ownership.
- (11) Includes 56,652 shares in a trust in Mr. McGurn's name, over which he has shared voting and investment control with his wife as co-trustee, and 61,575 shares held in a trust in his wife's name, over which he has shared voting and investment control with his wife as co-trustee.
- (12) Includes 2,500 shares held in a joint brokerage account with Caryl G. Rosenthal and 2,000 shares held in a joint brokerage account with Marisa F. Rosenthal. Dr. Rosenthal has shared voting and investment power with respect to these shares.
- (13) Includes 5,000 shares held by his wife.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Our executive officers, directors and 10% stockholders are required under the Exchange Act to file reports of ownership and changes in ownership with the SEC and the NYSE. Copies of these reports must also be furnished to us. Based on a review of copies of Forms 3, 4 and 5 furnished to us or filed with the SEC, or written representations that no additional reports were required, we believe that our executive officers, directors and 10% stockholders have complied with all Section 16(a) filing requirements.

## **EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information as of December 31, 2012 regarding the number of shares of our common stock that may be issued under our equity compensation plans.

**Plan Category**

**(b)**

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	9,669,277 <sup>(1)</sup>	\$28.80 <sup>(2)</sup>	5,221,345 <sup>(3)</sup>
Equity compensation plans not approved by security holders <sup>(4)</sup>	258,612 <sup>(5)</sup>	27.67 <sup>(2)</sup>	
Total	9,927,889	28.80 <sup>(2)</sup>	5,221,345

(1) This amount includes the following:

8,921,861 shares that may be issued in connection with outstanding stock options; and  
747,416 unvested restricted stock units.

(2) Indicates the weighted average exercise price of the outstanding stock options included in column (a).

(3) This amount includes the following:

4,393,325 shares available under the 2011 Long-Term Incentive Plan; and  
828,020 shares available under our Employee Stock Purchase Plan.

## **Table of Contents**

- (4) Set forth below are equity compensation plans not approved by stockholders, under which we have outstanding awards:

*The Restricted Stock Plan.* All of our directors, officers and employees were eligible to receive awards under the plan, which provided for the grant of contingent rights to receive shares of our common stock. Awards under the plan were granted at the discretion of the Compensation Committee. Each award granted under the plan represents the 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 grant date of the award. The Compensation Committee determined each recipient of an award under the plan, the number of shares of common stock subject to such an award and the period of continued employment required for the vesting of such award. The last year we made awards under this plan was 2009.

*The United Kingdom Incentive Stock Option Plan (the UK Plan).* The UK Plan, which became effective in 1986 and expired in 2008, allowed us to grant stock options eligible for beneficial tax treatment under U.K. law to officers and key employees resident in the United Kingdom. The Option Committee, and later the Compensation Committee, determined which employees received options, the number of options granted, and the terms and conditions of the options including exercise dates, limitations on exercise and price and payment terms, and any annual sale limitations with respect to shares acquired upon exercise of options.

- (5) This amount includes the following:

28,196 shares that may be issued in connection with outstanding stock options under the UK Plan; and  
230,416 unvested restricted stock units under the Restricted Stock Plan.

### **AUDIT COMMITTEE REPORT**

The Audit Committee represents and assists the Board in fulfilling its responsibilities for general oversight of the integrity of our financial statements, risk assessment and risk management, our compliance with legal and regulatory requirements, the independent registered public accounting firm's qualifications and independence, and the performance of our internal audit function and independent registered public accounting firm. The Audit Committee manages our relationship with our independent registered public accounting firm and is responsible for the appointment, retention, termination and compensation of the independent auditor.

Our management is responsible for the preparation, presentation and integrity of our consolidated financial statements, our accounting and financial reporting principles, and internal controls designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for auditing our consolidated financial statements and expressing an opinion as to their conformity with U.S. generally accepted accounting principles and for auditing the effectiveness of our internal controls over financial reporting. The Audit Committee monitors our financial reporting process and reports its findings to the Board.

The Audit Committee carried out its duties and responsibilities, including the following specific actions:

Reviewed and discussed with management and the independent registered public accounting firm our audited consolidated financial statements as of and for the fiscal year ended December 31, 2012 and our internal control over financial reporting as of December 31, 2012;

Reviewed and discussed with the independent registered public accounting firm all matters required to be discussed by the standards of the Public Company Accounting Oversight Board (PCAOB), including those described in Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended; and

Obtained the written disclosures and letter from the independent registered public accounting firm regarding its communications with the Audit Committee concerning independence as required by the applicable requirements of the PCAOB, including the requirements under PCAOB Rule 3526, and discussed with the independent registered public accounting firm any relationship that may impact their objectivity and independence.

Based on these reviews and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, for filing with the SEC.

**AUDIT COMMITTEE**

William L. Bax (*Chair*)

Frank E. English, Jr.

Norman L. Rosenthal

James R. Wimmer

**Table of Contents****PROPOSALS REQUIRING A STOCKHOLDER VOTE****ELECTION OF DIRECTORS*****(Item 1 on the Proxy Card)***

Upon the recommendation of the Nominating/Governance Committee, the Board has nominated each of the eight individuals listed under "Board of Directors" beginning on page 25. Each of the nominees currently serves on the Board and has consented to serve for a new term if elected.

THE BOARD RECOMMENDS THAT YOU VOTE **FOR** THE ELECTION OF EACH OF THE DIRECTOR NOMINEES

**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR*****(Item 2 on the Proxy Card)***

The Audit Committee has considered the qualifications of Ernst & Young LLP and has appointed Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013. The Board wishes to obtain stockholders' ratification of the Audit Committee's action in such appointment. A resolution ratifying the appointment will be offered at the Annual Meeting. If the selection of Ernst & Young is not ratified, the Audit Committee will consider the outcome of this vote in its future deliberations regarding the selection of our independent registered public accounting firm.

**Principal Accountant Fees and Services**

The following is a summary of the fees billed to us by Ernst & Young LLP for professional services rendered for the fiscal years ended December 31, 2012 and 2011:

	2012	2011
<i>Audit Fees</i>	\$ 2,831,000	\$ 2,548,000
<i>Audit-Related Fees</i>	522,000	1,466,000
<i>Tax Fees</i>	2,551,000	2,335,000
<i>All Other Fees</i>	6,000	6,000
<b><i>Totals</i></b>	<b>\$ 5,910,000</b>	<b>\$ 6,355,000</b>

Fees for audit services include fees associated with the annual audit of our company and our subsidiaries and the effectiveness of internal control over financial reporting, the review of our quarterly reports on Form 10-Q and annual report on Form 10-K, and statutory audits required internationally. These fees were higher in 2012 due in large part to statutory audits related to acquired entities. Audit-related fees principally include due diligence in connection with acquisitions, audits in connection with our employee benefit plans, issuance of service auditor reports (SAS 70) related to operations at one of our subsidiaries and advisory work related to our compliance with foreign statutory requirements. Audit-related fees were lower in 2012 due in large part to the significant amount of due diligence related to our acquisition of Heath Lambert in 2011. Tax fees include tax compliance, tax advice and tax planning related to Federal, state and international tax matters, and were higher in 2012 due in part to increased activity related to our clean energy investments, as well as a higher overall level of activity related to state regulatory matters. All other fees principally include fees for access to an online accounting and tax information database.

All audit services, audit-related services, tax services and other services for fiscal years 2012 and 2011 were pre-approved by the Audit Committee. It is the policy of the Audit Committee to pre-approve the engagement of the independent registered public accounting firm before we engage such accountant to render audit or other permitted non-audit services. The Audit Committee has adopted procedures for pre-approving all audit and permitted non-audit services provided by our independent registered public accounting firm. The Audit Committee annually pre-approves a list of specific services and categories of services, subject to a specified cost level. Part of this approval process includes making a determination as to whether permitted non-audit services are consistent with the SEC's rules on auditor independence. The Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee for the types of services that the independent registered public accounting firm has historically been retained to perform related to integrated audit and other recurring services, subject to reporting any such approvals at the next Audit Committee meeting.

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

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

THE BOARD AND AUDIT COMMITTEE RECOMMEND THAT YOU VOTE FOR RATIFICATION OF THE APPOINTMENT OF  
ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2013

## **Table of Contents**

### **ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

*(Item 3 on the Proxy Card)*

Pursuant to Section 14A of the Exchange Act, we are asking our stockholders to vote, on a non-binding, advisory basis, on the compensation of our named executive officers, as described in this proxy statement. This proposal, commonly known as a say-on-pay proposal, gives our stockholders the opportunity to express their views on the compensation of our named executive officers. Our stockholders are given the opportunity to vote, on a non-binding, advisory basis, on say-on-pay proposals annually, with the next opportunity to vote on such a proposal being the 2014 Annual Meeting of Stockholders.

#### **Compensation Program and Philosophy**

We believe that our compensation program for named executive officers is structured in the best manner possible to support our company and business objectives, as well as to support our culture and traditions developed over the past 80-plus years. We believe our program strikes the appropriate balance between using responsible, measured pay practices and effectively motivating our executives to dedicate themselves fully to value creation for our stockholders. Evidence of this balance includes the following:

We tie annual cash incentives to company and business unit performance and achievement of individual performance goals. Annual cash incentives are targeted at 125% of base salary for our CEO and 100% of base salary for our other named executive officers.

Annual cash incentive awards may not exceed 150% of a named executive officer's target award in any year.

Over half of the compensation of our named executive officers is provided through incentive plans approved by stockholders.

Performance Unit Program awards are earned based on our financial performance during the year of grant, and final payouts are based on our stock price after the third year (subject to a 50% - 150% collar).

We do not have employment agreements or guaranteed bonuses with any of our named executive officers.

Our named executive officers receive minimal perquisites and no related tax gross ups.

Our change-in-control agreements contain a double trigger. While our change-in-control agreements prior to 2008 do provide excise tax gross ups, we eliminated this practice beginning in 2008. In addition, we adopted a policy that we will not amend any existing agreements without removing the excise tax gross-up.

We prohibit hedging and strongly discourage pledging of company stock by directors and executive officers.

We closely monitor the compensation programs and pay levels of executives from companies of similar size and complexity, as a market check to ensure that our compensation program is consistent with prevailing market practices.

We have a clawback policy under which named executive officers may be required to return incentive compensation payments if our financial statements are restated.

#### **Fiscal 2012 Compensation**

The economic environment continued to provide us with challenges in 2012. Despite the official end of the recession, exposure units (a key measure of insurance market activity) remained flat. Insurance premium rates improved but remained low by historical measures. Despite these challenges, we maintained our focus on growing our core businesses, executing our acquisition strategy, improving quality and efficiency and controlling expenses. As a result, we achieved year-over-year revenue<sup>5</sup> growth of 13.7% and EBITAC<sup>5</sup> growth of 21.3%, based on revenue of \$2.40 billion and EBITAC of \$429.6 million for 2012. Over the past three years, we increased both revenue and EBITAC by a compound annual growth rate of 11.5%. Our performance during this period was reflected in our total shareholder return (including dividends), which grew at an effective annualized rate of 20.2%, versus 14.8% for other publicly traded insurance brokers. Our cumulative total shareholder return over this period was 75.5%. Based on this strong performance, as described in more detail in our Compensation Discussion and Analysis beginning on page 5, the Compensation Committee approved the following compensation actions for fiscal 2012:

*Adjustments to CEO's Annual Cash Incentive and Long-Term Incentive Award Opportunities.* The Compensation Committee increased Mr. Gallagher's target award opportunities under our annual cash incentive plan and long-term incentive plan from 100% to 125% of base salary. The Compensation Committee approved these increases because of the company's strong financial performance over the past three years, as well as Mr. Gallagher's consistent achievement of individual performance goals during the same period. In approving these increases, the Compensation Committee noted that Mr. Gallagher's total direct compensation (consisting of base salary, annual

## Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

cash incentive compensation and long-term incentive compensation) was below that of similarly situated CEOs in our comparison groups. The Compensation Committee favored increasing his performance-based compensation opportunity, rather than base salary, for better alignment with stockholder interests.

<sup>5</sup> Please see footnotes 1 and 2 for information regarding these measures.

## **Table of Contents**

Adjustments to CFO's Base Salary and Long-Term Incentive Award Opportunity. Mr. Howell received an increase in his base salary (from \$600,000 to \$700,000) and long-term incentive award opportunity (from 70% to 100% of base salary), based on his success implementing expense controls throughout the difficult economic environment of the past several years, his role in our company's strong financial performance coming out of the recession, and his successful oversight of our tax-advantaged investment development.

*Annual Cash Incentive Compensation Payments.* Performance-based cash incentive payments were made in fiscal 2012 as a result of company and business unit financial performance and achievement of individual performance goals.

*Performance Unit Program.* 100% of the performance units provisionally awarded in 2012 were earned based on 2012 results, reflecting our strong performance during the year.

In addition to the above summary, stockholders are encouraged to read our Compensation Discussion and Analysis beginning on page 5.

## **Recommendation**

The Board strongly endorses our compensation program for named executive officers and recommends that stockholders vote in favor of the following resolution:

RESOLVED, that the compensation of the named executive officers of Arthur J. Gallagher & Co., as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the executive compensation tables and the related narrative in this proxy statement, is hereby APPROVED.

THE BOARD RECOMMENDS THAT YOU VOTE **FOR** THE ADVISORY RESOLUTION APPROVING THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS SET FORTH IN THIS PROXY STATEMENT

Dated: March 25, 2013

By Order of the Board of Directors

WALTER D. BAY  
Secretary

---

**Table of Contents**

---

**Table of Contents**

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

***THE GALLAGHER CENTRE***

***TWO PIERCE PLACE***

***ITASCA, IL 60143-3141***

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Daylight Time on May 14, 2013. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Daylight Time May 14, 2013. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M56723-P34087

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**ARTHUR J. GALLAGHER & CO.**  
**The Board of Directors recommends**

**you vote FOR the following:**

# Edgar Filing: GALLAGHER ARTHUR J & CO - Form DEF 14A

1. Election of Directors				The Board of Directors recommends you vote FOR proposals 2 and 3.					
	For	Against	Abstain	For	Against	Abstain	For	Against	Abstain
1a. William L. Bax	..	..	..	2. Ratification of the Appointment of Independent Auditor	..	..	..		
1b. Frank E. English, Jr.	..	..	..		..	..	..		
1c. J. Patrick Gallagher, Jr.	..	..	..	3. Advisory vote on the Compensation of Our Named Executive Officers					
1d. Elbert O. Hand	..	..	..						
1e. David S. Johnson	..	..	..						
1f. Kay W. McCurdy	..	..	..						
1g. Norman L. Rosenthal	..	..	..						
1h. James R. Wimmer	..	..	..						
Please indicate if you plan to attend this meeting	..	..							
	<b>Yes</b>	<b>No</b>							

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

**Table of Contents**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

M56724-P34087

**ARTHUR J. GALLAGHER & CO.**

**Annual Meeting of Stockholders**

**May 15, 2013 9:00 AM**

**This proxy is solicited by the Board of Directors**

The undersigned hereby appoints J. Patrick Gallagher, Jr. and Walter D. Bay, each of whom is an officer of Arthur J. Gallagher & Co., or either of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of common stock of ARTHUR J. GALLAGHER & CO. that the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held at 9:00 AM, CDT on May 15, 2013, at The Gallagher Centre, Two Pierce Place, Itasca, IL 60143, and any adjournment or postponement thereof. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Annual Meeting of Stockholders.

**This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.**

**Continued and to be signed on reverse side**