SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
SEC Accession No. 0000950131-95-001214

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FILER

GALLAGHER ARTHUR J & CO
CIK:**354190**| IRS No.: **362151613** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-09761** | Film No.: **95536112**
SIC: **6411** INSURANCE AGENTS, BROKERS & SERVICE

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1995 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM_________________________ TO___________________________

Commission File Number 1-9761

ARTHUR J. GALLAGHER & CO.

(Exact name of registrant as specified in its charter)

DELAWARE	36-2151613
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

TWO PIERCE PLACE, ITASCA, ILLINOIS 60143-3141

(Address of principal executive offices)
(Zip Code)

(708) 773-3800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

The number of outstanding shares of the registrant's Common Stock, $1.00 par value, as of March 31, 1995 was 15,016,858.

ARTHUR J. GALLAGHER & CO.

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ARTHUR J. GALLAGHER & CO.

CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)

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	THREE-MONTH PERIOD ENDED MARCH 31,	
	1995	1994

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	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues:		
Commissions	$51,762	$47,979
Fees	36,100	32,314
Investment income and other	2,661	2,656
Total revenues	90,523	82,949
Expenses:		
Salaries and employee benefits	50,523	46,191
Other operating expenses	30,339	28,500
Total expenses	80,862	74,691
Earnings before income taxes	9,661	8,258
Provision for income taxes	3,381	3,024
Net earnings	$ 6,280	$ 5,234
Net earnings per common and common equivalent share	$ .40	$ .32
Dividends declared per common share	$ .25	$ .22
Weighted average number of common and common equivalent shares outstanding	15,767	16,175

</TABLE>

See accompanying notes.

ARTHUR J. GALLAGHER & CO.

CONSOLIDATED BALANCE SHEET
(UNAUDITED)

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	MARCH 31, 1995	DECEMBER 31, 1994
	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,516	$ 39,689
Restricted cash	67,179	69,135
Premiums and fees receivable	161,672	179,823
Investment strategies - trading	44,318	42,637

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Other	18,252	19,788
Total current assets	336,937	351,072
Marketable securities - available for sale	40,482	37,836
Other noncurrent assets	32,606	34,294
Fixed assets	62,366	58,930
Accumulated depreciation and amortization	(41,273)	(38,918)
Net fixed assets	21,093	20,012
Intangible assets - net	7,750	7,896
	$438,868	$451,110

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Premiums payable to insurance companies	$240,158	$251,508
Accrued salaries and bonuses	6,288	12,060
Accounts payable and other accrued liabilities	47,770	44,862
Unearned fees	14,970	13,859
Income taxes payable	8,044	11,590
Other	7,163	7,847
Total current liabilities	324,393	341,726
Deferred income taxes and other noncurrent accounts	12,233	12,653
Stockholders' equity:		
Common stock - issued 15,017 shares at March 31, 1995 and 14,784 shares at December 31, 1994	15,017	14,784
Capital in excess of par value	1,577	-
Retained earnings	87,517	84,840
Unrealized holding loss on available for sale securities - net of income taxes	(1,869)	(2,893)
Total stockholders' equity	102,242	96,731
	$438,868	$451,110

</TABLE>

See accompanying notes.

ARTHUR J. GALLAGHER & CO.

CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

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	THREE-MONTH PERIOD ENDED MARCH 31,	
	1995	1994

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	(IN THOUSANDS)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	$ 6,280	$ 5,234
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net loss (gain) on investments	286	(1,151)
Depreciation and amortization	1,963	1,854
Increase in restricted cash	1,956	15,385
Decrease in premiums receivable	15,451	21,334
Decrease in premiums payable	(11,350)	(26,975)
Increase in trading investments - net	(2,022)	(991)
Decrease in other current assets	1,536	2,716
Decrease in accrued salaries and bonuses	(5,772)	(3,593)
Increase in accounts payable and other accrued liabilities	2,406	6,978
(Decrease) increase in income taxes payable	(3,546)	871
Decrease in deferred income taxes	(279)	(245)
Other	4,866	(3,307)
Net cash provided by operating activities	11,775	18,110
Cash flows from investing activities:		
Purchases of marketable securities	(4,215)	(10,828)
Proceeds from the sale of marketable securities	2,633	13,399
Proceeds from maturities of marketable securities	453	265
Additions to fixed assets	(2,898)	(521)
Other	140	-
Net cash (used) provided by investing activities	(3,887)	2,315
Cash flows from financing activities:		
Proceeds from issuance of common stock	3,157	451
Tax benefit from issuance of common stock	678	112
Repurchase of common stock	(2,165)	(18,527)
Dividends paid	(3,252)	(2,733)
Retirement of long-term debt	(630)	(4,276)
Equity transactions of pooled companies prior to dates of acquisition	151	(1,059)
Net cash used by financing activities	(2,061)	(26,032)
Net increase (decrease) in cash and cash equivalents	5,827	(5,607)
Cash and cash equivalents at beginning of period	39,689	43,525
Cash and cash equivalents at end of period	$ 45,516	$ 37,918
Supplemental disclosures of cash flow information:		
Interest paid	$ 137	$ 522
Income taxes paid	$ 5,586	$ 1,974

</TABLE>

See accompanying notes.

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ARTHUR J. GALLAGHER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been omitted pursuant to such rules and regulations. The Company believes the disclosures are adequate to make the information presented not misleading. The unaudited consolidated financial statements included herein are, in the opinion of management, prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 1994 and include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information set forth.

The quarterly results of operations are not necessarily indicative of results of operations for subsequent quarters or the full year.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's 1994 Annual Report to Stockholders.

2. ACQUISITIONS - POOLINGS OF INTERESTS

On January 1, 1995, a wholly-owned subsidiary of the Company acquired substantially all the net assets of RMI Insurance Services, Inc., a California corporation engaged in the insurance brokerage business. On February 28, 1995, a wholly-owned subsidiary of the Company acquired substantially all the net assets of Walter Bryce Insurance Agency, Inc., an Oklahoma corporation engaged in the insurance brokerage business. Neither acquisition individually nor in the aggregate was material to the Company.

ARTHUR J. GALLAGHER & CO.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

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FINANCIAL CONDITION AND LIQUIDITY

Reference is made to the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 1994 Form 10-K Annual Report for a description of the Company's need for and ability to generate capital, which description is hereby incorporated by reference. See Exhibit 13.0.

RESULTS OF OPERATIONS

During the first quarter of 1995, an excess of risk-taking capital continued to put pressure on insurance premium rates and there has been no significant change in the insurance pricing environment. The overall effect these factors will have on Company revenues in 1995 remains uncertain.

Commission revenues increased by 8% to $51.8 million in the first quarter of 1995 over the same period in 1994. This increase is the result of new business production partially offset by lost business and an increase in contingent commissions.

Fee revenues increased by $3.8 million or 12% to $36.1 million in the first quarter of 1995 over the same period in 1994. This increase reflects new business production of approximately $6.2 million and, to a lesser extent, renewal increases of self-insurance products generated primarily by Gallagher Bassett Services, Inc. (a Company subsidiary), partially offset by lost business.

Investment income for the first quarter of 1995 was essentially unchanged from the same period in 1994. The Company recognized higher investment income due primarily to higher interest rates and improved performance in funds managed by outside fund managers. These increases were offset by lower income due primarily to fewer funds available for investment because of common stock repurchases of $43.8 million throughout 1994, the retirement of a $20.0 million debt in the fourth quarter of 1994 and unrealized gains on trading securities in the first quarter of 1994.

The increase in total revenues was partially offset by an 8% or $6.2 million increase in 1995 first quarter expenses over the same period in 1994.

Salaries and employee benefits increased by 9% to $50.5 million in the first quarter of 1995 over the same period in 1994. This increase is due to growth in employee head count of 8% combined with salary increases and higher fringe benefit costs.

Other operating expenses increased by 6% to $30.3 million in the first quarter of 1995 over the same period in 1994. New and expanded offices and the costs associated with more rentable space resulted in increased rent and general

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office expenses. Travel and other direct employee expenses were up due to the growth in sales volume and employee head count.

The effective income tax rate of 35% for the first quarter of 1995 approximates the statutory federal rate of 35% and is less than the Company's effective tax rate of 37% for the first quarter of 1994 due primarily to the net effect of state and foreign taxes which are substantially offset by the tax benefits of certain investments.

Earnings per share for the first quarter of 1995 were $.40 compared to $.32 for the same period in 1994, a 25% increase. This increase reflects the growth in revenues and a smaller growth in expenses noted above.

ARTHUR J. GALLAGHER & CO.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibit 11.0 - Computation of Net Earnings Per Common and Common Equivalent Share.

   Exhibit 13.0 - Liquidity and Capital Resources (from "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" from Form 10-K for fiscal year ended December 31, 1994).

   Exhibit 27.0 - Financial Data Schedule.

b. Reports on Form 8-K. No Reports on Form 8-K were filed during the three-month period ended March 31, 1995.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARTHUR J. GALLAGHER & CO.

Date: May 9, 1995

/s/Michael J. Cloherty

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Michael J. Cloherty
Vice President - Finance
Chief Financial Officer

/s/David B. Hoch

David B. Hoch
Controller
Chief Accounting Officer

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Exhibit 11.0

ARTHUR J. GALLAGHER & CO.

COMPUTATION OF NET EARNINGS PER COMMON
AND COMMON EQUIVALENT SHARE (UNAUDITED)

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<S>	THREE-MONTH PERIOD ENDED MARCH 31, 1995 <C>	1994 <C>
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net earnings applicable to computation	$ 6,280	$ 5,234
Average common shares outstanding	14,903	15,392
Dilutive effect of stock options	864	783
Weighted average number of common and common equivalent shares outstanding	15,767	16,175
Net earnings per common and common equivalent share	$ .40	$ .32

</TABLE>

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Exhibit 13.0

LIQUIDITY AND CAPITAL RESOURCES

The insurance brokerage industry is not capital intensive. The Company has historically been profitable with a positive cash flow from operations and has consequently been able to finance its operations and capital expenditures from internally generated funds. Funds restricted as to the Company's use (primarily premiums held as fiduciary funds) have not been included in determining the Company's liquidity.

In February, 1993, the Company entered into a $20 million unsecured revolving credit agreement (the "Credit Agreement") with two banks. Loans under the Credit Agreement are repayable no later than February, 1998, and bear floating interest rates over the term of the loan. In February, 1993, a loan was funded for $20 million. The Company simultaneously entered into interest rate exchange agreements which fixed the rate of interest payable on the loan. The Company retired the $20 million loan in the fourth quarter of 1994 and has fully satisfied all obligations associated with the loan. The Company also recognized a gain of $656,000 in closing out the interest rate exchange agreements. The Credit Agreement remains in effect and as of December 31, 1994, there are no borrowings currently existing under this agreement.

The Company also entered into two term loan agreements (the "Term Loan Agreements") with a bank for $3.2 million and $2.5 million in 1993. Loans under the Term Loan Agreements are repayable in equal annual installments no later than January 11, 1998, and June 15, 1998, respectively, and bear interest rates over the terms of the loans of 6.64% and 6.30%, respectively.

The Credit Agreement and Term Loan Agreements require the maintenance of certain financial requirements. The Company is currently in compliance with these requirements.

The Company has line of credit facilities of $17.5 million and $10.0 million which expire on April 30, 1995 and February 28, 1996, respectively. No borrowings currently exist under these facilities.

The Company paid $12.7 million in cash dividends on its common stock in 1994. The Company's dividend policy is determined by the Board of Directors and payments are fixed after considering the Company's available cash from earnings and its known or anticipated cash needs. In each quarter of 1994, the Company's Board of Directors declared a dividend of $.22 per share which is $.04 or 22% greater than each quarterly dividend in 1993. In January, 1995, the Company announced a first quarter dividend of $.25 per share, a 14% increase over the quarterly dividend in 1994.

Net capital expenditures for fixed assets amounted to $7.4 million, $7.6 million and $6.2 million in 1994, 1993 and 1992, respectively. In 1995, the Company

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intends to make additional capital improvements of approximately $7.5 million to upgrade and modernize existing space, furniture and equipment.

In 1988, the Company adopted a plan, which has been extended through June 30, 1995, to repurchase its common stock. Under the plan, the Company repurchased 1.4 million shares at a cost of $43.8 million, 225,000 shares at a cost of $7.0 million, and 610,000 shares at a cost of $15.9 million in 1994, 1993 and 1992, respectively. The 1994 common stock repurchases, in part, caused the weighted average shares outstanding to decrease by 590,000 shares from 1993 to 1994. The repurchases were funded entirely by internally generated funds and are held for reissuance in connection with exercises of options under its stock option plans. Under the provisions of the plan, the Company is authorized to repurchase approximately 340,000 additional shares through June 30, 1995. The Company is under no commitment or obligation to repurchase any particular amount of common stock and at its discretion may suspend the repurchase plan at any time.

The Company believes that internally generated funds will continue to be sufficient to meet the Company's foreseeable cash needs, including non-operating cash disbursements such as anticipated dividends, capital expenditures and repayment of borrowings under its loan agreements if the Company so determines.

Due to changes in the United States federal income tax laws, effective in 1994, the Company began providing for U.S. income taxes on the undistributed earnings of its foreign subsidiaries. Prior to 1994, the Company did not provide for U.S. income taxes on the undistributed earnings of certain foreign subsidiaries ($19.2 million) which are considered permanently invested outside the United States. See Note 13 of the Notes to Consolidated Financial Statements. Although not available for domestic needs, the undistributed earnings generated by the foreign subsidiaries referred to above may be used to finance foreign operations and acquisitions.

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         THE ARTHUR J. GALLAGHER & CO. CONSOLIDATED FINANCIAL STATEMENTS
         INCLUDED IN THE 1995 FIRST QUARTER FORM 10-Q AND IS QUALIFIED IN ITS
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