GALLAGHER ARTHUR J & CO
Form 10-Q
July 27, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

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: 1-09761

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.)**

2850 W. Golf Road, Rolling Meadows, Illinois 60008-4050
(Address of principal executive offices) (Zip code)

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of outstanding shares of the registrant s common stock, $1.00 par value, as of June 30, 2018 was approximately 182,612,000.

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Information Concerning Forward-Looking Statements

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

Potential factors that could impact results include:

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

Risks arising from our international operations, including the risks posed by political and economic uncertainty in certain countries (such as the risks posed by Brexit), risks related to maintaining regulatory and legal compliance across multiple jurisdictions (such as our inability or the inability of our subsidiaries to serve clients doing business in certain jurisdictions due to changes in sanctions, regimes, and risks relating to violations of anti-corruption, sanctions and privacy laws), and risks arising from the complexity of managing businesses across different time zones, geographies, cultures and legal regimes;

Risks particular to our risk management segment, including any slowing of the trend toward outsourcing claims administration, and of the concentration of large amounts of revenue with certain clients;

Risks arising from the new revenue recognition accounting standard, including a higher level of uncertainty with respect to our revenue estimates for installments on agency bill, direct bill, contingent revenues, revenues in our employee benefit consulting and brokerage business and performance-based fees and audits within our risk management segment, which could cause us to reverse revenues recognized in prior periods or recognize additional revenues in future periods based on information we receive after such revenue is required to be recognized, including, for example, the actual growth or profitability of business placed in prior periods, the actual number of lives insured under employee benefit insurance policies, or the actual amounts billed under direct-bill arrangements;

Sustained increases in the cost of employee benefits;

Our failure to apply technology effectively in driving value for our clients through technology-based solutions, or failure to gain internal efficiencies and effective internal controls through the application of technology and related tools;

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Our inability to recover successfully, including damage to our reputation and client relationships, should we experience a disaster, cybersecurity attack or other significant disruption to business continuity;

Damage to our reputation;

Our failure to comply with regulatory requirements, including those related to governance and control requirements in particular jurisdictions, international sanctions, or a change in regulations or enforcement policies that adversely affects our operations (for example, relating to insurance broker compensation methods or the failure of state and local governments to follow through on agreed-upon income tax credits or other tax related incentives, relating to our corporate headquarters);

Violations or alleged violations of the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act 2010 or other anti-corruption laws and Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act (which we refer to as FATCA);

The outcome of any existing or future investigation, review, regulatory action or litigation;

Our failure to adapt our services to changes resulting from the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act and any changes in such laws brought about by the current administration;

Unfavorable determinations related to contingencies and legal proceedings;

Improper disclosure of confidential, personal or proprietary data;

Significant changes in foreign exchange rates;

Changes to our financial presentation from new accounting estimates and assumptions (including as a result of the new lease and revenue recognition standards);

Risks related to our clean energy investments, including the risk of intellectual property claims, utilities switching from coal to natural gas, environmental and product liability claims, and environmental compliance costs;

Disallowance of Internal Revenue Code of 1986, as amended, (which we refer to as IRC) Section 29 or IRC Section 45 tax credits for us or our partners;

The risk that our outstanding debt adversely affects our financial flexibility and restrictions and limitations in the agreements and instruments governing our debt;

The risk we may not be able to receive dividends or other distributions from subsidiaries;

The risk of share ownership dilution when we issue common stock as consideration for acquisitions and for other reasons; and

Volatility of the price of our common stock.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including the risk factors referred to above. Our future performance and actual results may differ materially from those expressed in forward-looking statements. Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of, and are based on information available to us on, the date of the applicable document. Many of the factors that will determine these results are beyond our ability to control or predict. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Forward-looking statements speak only as of the date that they are made, and we do not undertake any obligation to update any such statements or release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect new information, future or unexpected events or otherwise, except as required by applicable law or regulation.

A detailed discussion of the factors that could cause actual results to differ materially from our published expectations is contained under the heading Risk Factors in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and any other reports we file with the SEC in the future.

Arthur J. Gallagher & Co.

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Part I - Financial Information

Item 1. Financial Statements (Unaudited)

Arthur J. Gallagher & Co.

Consolidated Statement of Earnings

(Unaudited - in millions, except per share data)

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017 As Restated*	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017 As Restated*
Commissions	$ 688.0	$ 618.2	$ 1,527.4	$ 1,378.9
Fees	422.2	386.9	870.3	791.9
Supplemental revenues	48.1	35.8	100.1	83.1
Contingent revenues	21.8	21.3	56.7	56.3
Investment income	15.8	14.4	29.2	26.7
Gains on books of business sales	6.1	1.1	9.0	2.5
Revenues from clean coal activities	422.4	376.4	834.6	728.2
Other net gains	0.6	0.2	0.6	
Revenues before reimbursements	1,625.0	1,454.3	3,427.9	3,067.6
Reimbursements	35.4	35.2	70.2	68.3
Total revenues	1,660.4	1,489.5	3,498.1	3,135.9
Compensation	724.7	666.9	1,500.5	1,378.7
Operating	222.8	204.2	438.9	403.7
Reimbursements	35.4	35.2	70.2	68.3
Cost of revenues from clean coal activities	441.8	397.1	873.0	764.0
Interest	33.9	31.6	65.2	61.5
Depreciation	30.8	30.2	61.4	59.7
Amortization	73.4	65.1	141.6	129.4
Change in estimated acquisition earnout payables	(6.0)	5.1	1.4	16.9
Total expenses	1,556.8	1,435.4	3,152.2	2,882.2
Earnings before income taxes	103.6	54.1	345.9	253.7
Benefit for income taxes	(20.1)	(24.2)	(63.8)	(66.6)
Net earnings	123.7	78.3	409.7	320.3
Net earnings attributable to noncontrolling interests	8.8	8.3	21.1	21.5
Net earnings attributable to controlling interests	$ 114.9	$ 70.0	$ 388.6	$ 298.8

Basic net earnings per share	$	0.63	$	0.39	$	2.14	$	1.67
Diluted net earnings per share		0.62		0.39		2.10		1.65
Dividends declared per common share		0.41		0.39		0.82		0.78

* See Note 3 - Revenues from Contracts with Customers for additional information about the restatements related to ASC 606.

See notes to consolidated financial statements.

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Arthur J. Gallagher & Co.

Consolidated Statement of Comprehensive Earnings

(Unaudited - in millions)

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017 As Restated*	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017 As Restated*
Net earnings	$ 123.7	$ 78.3	$ 409.7	$ 320.3
Change in pension liability, net of taxes	(5.5)	1.4	1.5	2.6
Foreign currency translation	(150.7)	33.5	(88.4)	89.4
Change in fair value of derivative investments, net of taxes	4.3	2.3	(2.5)	8.8
Comprehensive earnings (loss)	(28.2)	115.5	320.3	421.1
Comprehensive earnings attributable to noncontrolling interests	3.3	8.7	17.8	23.5
Comprehensive earnings (loss) attributable to controlling interests	$ (31.5)	$ 106.8	$ 302.5	$ 397.6

* See Note 3 - Revenue from Contracts with Customers for additional information about the restatements related to ASC 606.

See notes to consolidated financial statements.

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Arthur J. Gallagher & Co.

Consolidated Balance Sheet

(Unaudited - in millions)

	June 30, 2018	December 31, 2017 As Restated*
Cash and cash equivalents	$ 652.2	$ 681.2
Restricted cash	1,692.5	1,623.8
Premiums and fees receivable	5,142.2	4,082.8
Other current assets	878.1	881.6
Total current assets	8,365.0	7,269.4
Fixed assets - net	427.6	412.2
Deferred income taxes	716.3	851.6
Other noncurrent assets	586.7	567.1
Goodwill	4,403.9	4,164.8
Amortizable intangible assets - net	1,731.0	1,644.6
Total assets	$ 16,230.5	$ 14,909.7
Premiums payable to underwriting enterprises	$ 5,982.7	$ 4,986.0
Accrued compensation and other current liabilities	844.6	947.8
Deferred revenue - current	395.2	355.3
Premium financing debt	111.1	151.1
Corporate related borrowings - current	235.0	290.0
Total current liabilities	7,568.6	6,730.2
Corporate related borrowings - noncurrent	3,141.0	2,691.9
Deferred revenue - noncurrent	76.6	75.3
Other noncurrent liabilities	931.2	1,112.6
Total liabilities	11,717.4	10,610.0
Stockholders equity:		
Common stock - issued and outstanding 182.6 shares in 2018 and 181.0 shares in 2017	182.6	181.0
Capital in excess of par value	3,446.4	3,388.2
Retained earnings	1,466.0	1,221.8
Accumulated other comprehensive loss	(651.4)	(555.4)
Stockholders equity attributable to controlling interests	4,443.6	4,235.6
Stockholders equity attributable to noncontrolling interests	69.5	64.1
Total stockholders equity	4,513.1	4,299.7

Total liabilities and stockholders equity	$	16,230.5	$	14,909.7

* See Note 3 - Revenue from Contracts with Customers for additional information about the restatements related to ASC 606.

See notes to consolidated financial statements.

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Arthur J. Gallagher & Co.

Consolidated Statement of Cash Flows

(Unaudited - in millions)

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017 As Restated*
Cash flows from operating activities:		
Net earnings	$ 409.7	$ 320.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net gain on investments and other	(7.6)	(2.7)
Depreciation and amortization	203.0	189.1
Change in estimated acquisition earnout payables	1.4	16.9
Amortization of deferred compensation and restricted stock	21.9	16.9
Stock-based and other noncash compensation expense	6.4	8.5
Payments on acquisition earnouts in excess of original estimates	(20.0)	(16.9)
Effect of changes in foreign exchange rates	(1.4)	0.9
Net change in premiums and fees receivable	(1,097.3)	(1,534.4)
Net change in deferred revenue	32.4	29.7
Net change in premiums payable to underwriting enterprises	1,106.9	1,379.4
Net change in other current assets	1.0	33.3
Net change in accrued compensation and other current liabilities	(135.7)	(57.8)
Net change in income taxes payable	4.7	(11.6)
Net change in deferred income taxes	(146.4)	(90.5)
Net change in other noncurrent assets and liabilities	(65.7)	(20.2)
Net cash provided by operating activities	313.3	260.9
Cash flows from investing activities:		
Capital expenditures	(62.7)	(65.6)
Cash paid for acquisitions, net of cash and restricted cash acquired	(395.4)	(214.1)
Net proceeds from sales of operations/books of business	12.1	2.6
Net funding of investment transactions	0.3	(6.3)
Net cash used by investing activities	(445.7)	(283.4)
Cash flows from financing activities:		
Payments on acquisition earnouts	(25.1)	(25.8)
Proceeds from issuance of common stock	47.7	34.9
Repurchases of common stock	(11.3)	
Payments to noncontrolling interests	(22.2)	(15.5)
Dividends paid	(150.9)	(141.6)
Net borrowings on premium financing debt facility	(34.5)	(31.3)

Borrowings on line of credit facility	1,805.0	2,110.0
Repayments on line of credit facility	(1,860.0)	(2,070.0)
Net borrowings of corporate related long-term debt	450.0	250.0
Settlements on terminated interest rate swaps	2.9	8.3
Net cash provided by financing activities	201.6	119.0
Effect of changes in foreign exchange rates on cash and cash equivalents and restricted cash	(29.5)	34.8
Net increase in cash, cash equivalents and restricted cash	39.7	131.3
Cash, cash equivalents and restricted cash at beginning of period	2,305.0	1,937.6
Cash, cash equivalents and restricted cash at end of period	$ 2,344.7	$ 2,068.9
Supplemental disclosures of cash flow information:		
Interest paid	$ 65.9	$ 61.9
Income taxes paid	40.5	38.8

* See Note 3 - Revenue from Contracts with Customers with Customers for additional information about the restatements related to ASC 606.

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See notes to consolidated financial statements.

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Arthur J. Gallagher & Co.

Consolidated Statement of Stockholders Equity

(Unaudited - in millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Noncontrolling Interests	Total
	Shares	Amount					
Balance at December 31, 2017, as previously reported	181.0	$ 181.0	$ 3,388.2	$ 1,095.9	$ (559.9)	$ 59.7	$ 4,164.9
Adoption of ASC Topic 606				125.9	4.5	4.4	134.8
Balance at December 31, 2017, as restated	181.0	181.0	3,388.2	1,221.8	(555.4)	64.1	4,299.7
Reclassification of the income tax effects within accumulated other comprehensive loss related to the Tax Act				6.6	(6.6)		
Net earnings				388.6		21.1	409.7
Net purchase of subsidiary shares from noncontrolling interests			(1.6)			4.5	2.9
Dividends paid to noncontrolling interests						(16.9)	(16.9)
Net change in pension asset/liability, net of taxes of $0.9 million					1.5		1.5
Foreign currency translation					(88.4)	(3.3)	(91.7)
Change in fair value of derivative instruments, net of taxes of ($0.7) million					(2.5)		(2.5)
Compensation expense related to stock option plan grants			6.4				6.4
Common stock issued in:							
Six purchase transactions	0.3	0.3	20.4				20.7
Stock option plans	1.0	1.0	33.6				34.6
Employee stock purchase plan	0.2	0.2	12.9				13.1
Deferred compensation and restricted stock	0.2	0.2	(2.3)				(2.1)
Common stock repurchases	(0.1)	(0.1)	(11.2)				(11.3)
				(151.0)			(151.0)

Cash dividends declared on common stock							
Balance at June 30, 2018	182.6	$ 182.6	$ 3,446.4	$ 1,466.0	$ (651.4)	$ 69.5	$ 4,513.1

See notes to consolidated financial statements.

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Notes to June 30, 2018 Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Terms Used in Notes to Consolidated Financial Statements

ASC - Accounting Standards Codification.

ASC Topic 606 - ASU No. 2014-09, Revenue from Contracts with Customers.

ASU - Accounting Standards Update.

FASB - The Financial Accounting Standards Board.

GAAP - U.S. generally accepted accounting principles.

IRC - Internal Revenue Code.

IRS - Internal Revenue Service.

Underwriting enterprises - Insurance companies, reinsurance companies and various other forms of risk-taking entities, including intermediaries of underwriting enterprises.

VIE - Variable interest entity.

Nature of Operations and Basis of Presentation

Arthur J. Gallagher & Co. and its subsidiaries, collectively referred to herein as we, our, us or the company, provide insurance brokerage, consulting and third party claims settlement and administration services to both domestic and international entities through three reportable operating segments. Our brokers, agents and administrators act as intermediaries between underwriting enterprises and our clients.

Our brokerage segment operations provide brokerage and consulting services to companies and entities of all types, including commercial, not-for-profit, and public entities, and, to a lesser extent, individuals, in the areas of insurance placement, risk of loss management, and management of employer sponsored benefit programs. Our risk management segment operations provide contract claim settlement, claim administration, loss control services and risk management consulting for commercial, not-for-profit, captive and public entities, and various other organizations that choose to self-insure property/casualty coverages or choose to use a third-party claims management organization rather than the claim services provided by underwriting enterprises. The corporate segment reports the financial information related to our debt, clean energy investments, external acquisition-related expenses and other corporate costs. Clean energy investments consist of our investments in limited liability companies that own 34 commercial clean coal production facilities producing refined coal using Chem-Mod LLC s proprietary technologies. We believe these operations produce refined coal that qualifies for tax credits under IRC Section 45.

We do not assume underwriting risk on a net basis, other than with respect to de minimis amounts necessary to provide minimum or regulatory capital to organize captives, pools, specialized underwriters or risk-retention groups. Rather, capital necessary for events of loss coverages is provided by underwriting enterprises.

Investment income and other revenues are generated from our premium financing operations and our investment portfolio, which includes our invested cash and restricted cash we hold on behalf of our clients, as well as clean energy investments.

We are headquartered in Rolling Meadows, Illinois, have operations in 34 countries and offer client-service capabilities in more than 150 countries globally through a network of correspondent insurance brokers and consultants.

We have prepared the accompanying unaudited consolidated financial statements 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 unaudited consolidated financial statements included herein are, in the opinion of management, prepared on a basis consistent with our audited consolidated financial statements for the year ended December 31, 2017, except as disclosed in Note 2, and include all normal recurring adjustments necessary for a fair presentation of the information set forth. The quarterly results of operations are not necessarily indicative of the results of operations to be reported 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 our Annual Report on Form 10-K for the year ended December 31, 2017. In the preparation of our unaudited consolidated financial statements as of June 30, 2018, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued, for potential recognition or disclosure therein.

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Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses, and the disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We are also required to make certain judgments and estimates that affect the disclosed and recorded amounts of revenues and expenses related to the impact of the adoption of and accounting under ASC Topic 606. We periodically evaluate our estimates and assumptions, including those relating to the valuation of goodwill and other intangible assets, investments (including our IRC Section 45 investments), income taxes, revenue recognition, deferred costs, stock-based compensation, claims handling obligations, retirement plans, litigation and contingencies. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Revenue Recognition

Our revenues are derived from commissions and fees as primarily specified in a written contract, or unwritten business understanding, with our clients or underwriting enterprises. We also recognize investment income over time from our invested assets and invested assets we hold on behalf of our clients or underwriting enterprises.

BROKERAGE SEGMENT

Our brokerage segment generates revenues by:

(i) Identifying, negotiating and placing all forms of insurance or reinsurance coverage, as well as providing risk-shifting, risk-sharing and risk-mitigation consulting services, principally related to property/casualty, life, health, welfare and disability insurance. We also provide these services through, or in conjunction with, other unrelated agents and brokers, consultants and management advisors.

(ii) Acting as an agent or broker for multiple underwriting enterprises by providing services such as sales, marketing, selecting, negotiating, underwriting, servicing and placing insurance coverage on their behalf.

(iii) Providing consulting services related to health and welfare benefits, voluntary benefits, executive benefits, compensation, retirement planning, institutional investment and fiduciary, actuarial, compliance, private insurance exchange, human resource technology, communications and benefits administration.

(iv) Providing management and administrative services to captives, pools, risk-retention groups, healthcare exchanges, small underwriting enterprises, such as accounting, claims and loss processing assistance, feasibility studies, actuarial studies, data analytics and other administrative services.

The majority of our brokerage contracts and service understandings are for a period of one year or less.

Commissions and fees

The primary source of revenues for our brokerage services are commissions from underwriting enterprises, based on a percentage of premiums paid by our clients, or fees received from clients based on an agreed level of service usually in lieu of commissions.

Commissions are fixed at the contract effective date and generally are based on a percentage of premiums for insurance coverage or employee head count for employer sponsored benefit plans. Commissions depend upon a large number of factors, including the type of risk being placed, the particular underwriting enterprise s demand, the expected loss experience of the particular risk of coverage, and historical benchmarks surrounding the level of effort necessary for us to place and service the insurance contract. Rather than being tied to the amount of premiums, fees are most often based on an expected level of effort to provide our services.

Whether we are paid a commission or a fee, the vast majority of our services are associated with the placement of an insurance (or insurance-like) contract. Accordingly, we recognize approximately 70% of our commission and fee revenues on the effective date of the underlying insurance contract. The amount of revenue we recognize is based on our costs to provide our services up and through that effective date, including an appropriate estimate of our profit margin on a portfolio basis (a practical expedient as defined in ASC Topic 606). Based on the proportion of additional services we provide in each period after the effective date of the insurance contract, including an appropriate estimate of our profit margin, we recognize approximately 20% of our commission and fee revenues in the first three months, and the remaining 10% thereafter. These periods may be different than the underlying premium payment patterns of the insurance contracts, but the vast majority of our services are fully provided within one year of the insurance contract effective date.

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For consulting and advisory services, we recognize our revenue in the period in which we provide the service or advice. For management and administrative services, our revenue is recognized ratably over the contract period consistent with the performance of our obligations, mostly over an annual term.

Supplemental revenues

Certain underwriting enterprises may pay us additional revenues for the volume of premium placed with them and for insights into our sales pipeline, our sales capabilities or our risk selection knowledge. These amounts are in excess of the commission and fee revenues discussed above, and not all business we place with underwriting enterprises is eligible for supplemental revenues. Unlike contingent revenues, discussed below, these revenues are a fixed amount or fixed percentage of premium of the underlying eligible insurance contracts. For supplemental revenue contracts based on a fixed percentage of premium, our obligation to the underwriting enterprise is substantially completed upon the effective date of the underlying insurance contract and revenue is fully earned at that time. For supplemental revenue contracts based on a fixed amount, revenue is recognized ratably over the contract period consistent with the performance of our obligations, almost always over an annual term. We receive these revenues on a quarterly or annual basis.

Contingent revenues

Certain underwriting enterprises may pay us additional revenues for our sales capabilities, our risk selection knowledge, or our administrative efficiencies. These amounts are in excess of the commission or fee revenues discussed above, and not all business we place with participating underwriting enterprises is eligible for contingent revenues. Unlike supplemental revenues, also discussed above, these revenues are variable, generally based on growth, the loss experience of the underlying insurance contracts, and/or our efficiency in processing the business. We generally operate under calendar year contracts, but we do not receive these revenues from the underwriting enterprises until the following calendar year, generally in the first and second quarters, after verification of the performance indicators outlined in the contracts. Accordingly, during each reporting period, we must make our best estimate of amounts we have earned using historical averages and other factors to project such revenues. We base our estimates each period on a contract-by-contract basis where available. In certain cases, it is impractical to assess a very large number of smaller contingent revenue contracts, so we use a historical portfolio estimate in aggregate (a practical expedient as defined in ASC Topic 606). Because our expectation of the ultimate contingent revenue amounts to be earned can vary from period to period, especially in contracts sensitive to loss ratios, our estimates might change significantly from quarter to quarter. For example, in circumstances where our revenues are dependent on a full calendar year loss ratio, adverse loss experience in the fourth quarter could not only negate revenue earnings in the fourth quarter, but also trigger the need to reverse revenues previously recognized during the prior quarters. Variable consideration is recognized when we conclude, based on all the facts and information available at the reporting date, that is it probable that a significant revenue reversal will not occur in future periods.

Sub-brokerage costs

Sub-brokerage costs are excluded from our gross revenues in our determination of total revenues. Sub-brokerage cost represents commissions paid to sub-brokers related to the placement of certain business by our brokerage segment operations. We recognize this contra revenue in the same manner as the commission revenue it relates to.

RISK MANAGEMENT SEGMENT

Revenues for our risk management segment are comprised of fees generally negotiated (i) on a per-claim basis, (ii) on a cost-plus basis, or (iii) as performance-based fees. We also provide risk management consulting services that are recognized as the services are delivered.

Per-claim fees

Where we operate under a contract with our fee established on a per claim basis, our obligation is to process claims for a term specified within the contract. Because it is impractical to recognize our revenues on an individual claim by claim basis, we recognize revenue plus an appropriate estimate of our profit margin on a portfolio basis by grouping claims with similar characteristics (a practical expedient as defined in ASC Topic 606). We apply actuarially-determined, historical-based patterns to determine our future service obligations, without applying a present value discount.

Cost-plus fees

Where we provide services and generate revenues on a cost-plus basis, we recognize revenue over the contract period consistent with the performance of our obligations.

Performance-based fees

Certain clients pay us additional fee revenues for our efficiency in managing claims or on the basis of claim outcome effectiveness. These amounts are in excess of the fee revenues discussed above. These revenues are variable, generally based on performance metrics set forth in the underlying contracts. We generally operate under multi-year contracts with fiscal year measurement periods. We do not receive these fees, if earned, until the following year after verification of the performance metrics outlined in the contracts. Each period we base our estimates on a contract-by-contract basis. We must make our best estimate of amounts we have earned using historical averages and other factors to project such revenues. Variable consideration is recognized when we conclude that is it probable that a significant revenue reversal will not occur in future periods.

Reimbursements

Reimbursements represent amounts received from clients reimbursing us for certain third-party costs associated with providing our claims management services. In certain service partner relationships, we are considered a principal because we direct the third party, control the specified service and combine the services provided into an integrated solution. Given this principal relationship, we are required to recognize revenue gross and service partner vendor fees in the operating expense in our consolidated statement of earnings.

Deferred Costs

We incur costs to provide brokerage and risk management services. Those costs are either (i) costs to obtain a contract or (ii) costs to fulfill such contract, or (iii) all other costs.

(i) Costs to obtain - we incur costs to obtain a contract with a client. Those costs would not have been incurred if the contract had not been obtained. Almost all of our costs to obtain are incurred prior to, or on, the effective date of the contract and consist primarily of incentive compensation we pay to our production employees. Our costs to obtain are expensed as incurred as described in Note 3 to these unaudited consolidated financial statements.

(ii) Costs to fulfill - we incur costs to fulfill a contract (or anticipated contract) with a client. Those costs are incurred prior to the effective date of the contract and relate to fulfilling our primary placement obligations to our clients. Our costs to fulfil prior to the effective date are capitalized and amortized on the effective date. These fulfilment activities include collecting underwriting information from our client, assessing their insurance needs and negotiating their placement with one or more underwriting enterprises. The majority of costs that we incur relate to compensation and benefits of our client service employees. Costs incurred during preplacement activities are expected to be recovered in the future. If the capitalized costs are no longer deemed to be recoverable, then they would be expensed.

(iii) Other costs that are not costs to obtain or fulfill are expensed as incurred. Examples include other operating costs such as rent, utilities, management costs, overhead costs, legal and other professional fees, technology costs, insurance related costs, communication and advertising, and travel and entertainment. Depreciation, amortization and change in estimated acquisition earnout payable are expensed as incurred.

2. Effect of New Accounting Pronouncements
Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, ASC Topic 606, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. We adopted ASC Topic 606 as of January 1, 2018, using the full retrospective method to restate each prior reporting period presented. The cumulative effect of the adoption was recognized as an increase to retained earnings of $125.3 million on January 1, 2016. The impact of the adoption of the new guidance resulted in changes to our accounting policies for revenue recognition, trade and other receivables, and deferred revenues as detailed in Note 3 to these unaudited consolidated financial statements. In implementing the full retrospective method of adoption, we applied the practical expedient, as defined in ASC Topic 606, of using the benefit of hindsight to recognize contingent revenues (i.e., variable consideration) in 2017 and 2016.

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Hedge Accounting

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (ASC Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new guidance amends the hedge accounting model in the current guidance to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The new guidance requires revised tabular disclosures that focus on the effect of hedge accounting by income statement line and the disclosure of the cumulative basis adjustments to the hedged assets and liabilities in fair value hedges. Certain additional disclosures are also required for hedge relationships designated under the last-of-layer method. The current guidance that requires entities to disclose hedge ineffectiveness has been eliminated because this amount will no longer be separately measured. Under the new guidance, entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date). The new guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges (including fair value hedges) where the hedge documentation needs to be modified. The presentation and disclosure requirements will be applied prospectively. The new guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted in any interim period or annual year before the effective date. If the guidance is early adopted in an interim period, any adjustments would be reflected as of the beginning of the fiscal year that includes that interim period. We are currently assessing the impact that adopting this new guidance will have on our consolidated financial statements.

Presentation of Net Periodic Pension and Postretirement Benefit Cost

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (ASC Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The new guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. An entity will apply the new guidance retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the consolidated statement of earnings. The new guidance allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The new guidance was effective in the first quarter of 2018, which we adopted effective January 1, 2018. The adoption of this guidance had no impact on our consolidated net earnings. Due to the adoption of this new guidance, the presentation in our consolidated statement of earnings was changed in 2018 such that the other components of net periodic pension costs related to our defined benefit plan were recorded in operating expense instead of compensation expense as was done in prior years. Prior years were not restated for this change as the impact of this change was not material to our consolidated statement of earnings. See Note 12 to our most recent Annual Report on Form 10-K as of December 31, 2017 for additional discussion of these costs.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (ASC Topic 805): Clarifying the Definition of a Business. The new guidance clarifies the definition of a business with the objective of adding information to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The new guidance was effective for annual periods beginning after December 15, 2017, including interim periods within those periods, which we adopted effective January 1, 2018. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Intangibles - Goodwill and Other

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (ASC Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates Step 2 of the goodwill impairment test. Instead, the updated guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit to its carrying value, and recognizing a non-cash impairment charge for the amount by which the carrying value exceeds the reporting unit s fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. The new guidance is effective beginning January 1, 2020, with early adoption permitted, and will be applied on a prospective basis. The new guidance currently has no impact on our consolidated financial statements; however, we will evaluate the impact of this updated guidance on future annual or interim goodwill impairment tests performed.

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Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC Topic 842). Under this new accounting guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This new guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This new guidance is effective for first quarter 2019, and requires a modified retrospective adoption, with early adoption permitted. Under the modified retrospective approach, lessees are required to recognize and measure leases at the beginning of the earliest period presented. In addition, the modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. In March 2018, the FASB issued and approved an exposure draft to amend ASC Topic 842 to provide entities with an additional transition method with which to adopt the new guidance. The approved transition method would enable entities to apply the transition requirements in ASC Topic 842 at the effective date of the new guidance (rather than at the beginning of the earliest comparative period presented as currently required) with the effects of initially applying the new guidance recognized as a cumulative-effect adjustment to retained earnings in the period of adoption. Consequently, an entity s reporting for the comparative periods presented in the year of adoption would continue to be in accordance with the current guidance, including the current disclosure requirements.

While we are continuing to assess all potential impacts of the new guidance, we anticipate this guidance will have an impact on our consolidated financial statements. We currently believe the most significant impact relates to our real estate operating leases and the related recognition of right-of-use assets and lease liabilities in both noncurrent assets and noncurrent liabilities in our consolidated balance sheet. We currently believe the adoption of this new guidance will not have a material impact on our consolidated statement of earnings. We plan to adopt this new guidance on January 1, 2019 using the new proposed transition method, if approved, and will utilize several of the optional practical expedients that are allowed under the new guidance. See Note 14 to these unaudited consolidated financial statements for details on our current lease arrangements.

Income Taxes

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

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (ASC Topic 220): Reclassification of tax effects stranded in Accumulated Other Comprehensive Income (AOCI). This new guidance gives entities the option to reclassify to retained earnings stranded tax effects related to the change in federal tax rate for all items accounted for in other comprehensive earnings (OCI). These entities can also elect to reclassify other stranded tax effects that relate to the Tax Cuts and Jobs Act (which we refer to as the Tax Act) but do not directly relate to the change in the Federal rate (e.g., state taxes, changing from a worldwide tax system to a territorial system). Tax effects that are stranded in OCI for other reasons (e.g., prior changes in tax law, a change in valuation allowance) cannot be reclassified. All entities are required to make new disclosures, regardless of whether they elect to reclassify stranded amounts. Entities are required to disclose whether or not they elected to reclassify the tax effects related to the Tax Act as well as their policy for releasing income tax effects from accumulated OCI. Under ASC 740-10-45-15, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of tax expense related to continuing operations for the period in which the law was enacted, even if the assets and liabilities related to items of accumulated OCI. The enactment of the Tax Act on December 22, 2017 resulted in stakeholder concerns about this accounting treatment. The new guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted for reporting periods, including interim periods, for which financial statements have not yet been issued or made available for issuance. An entity will be able to choose whether to apply the guidance retrospectively to each period in which the effect of the Tax Act is recognized or to apply the guidance in the period of adoption. We adopted this new guidance effective January 1, 2018, which resulted in a $6.6 million increase in retained earnings and a corresponding decrease in accumulated other comprehensive earnings (loss). This reclassification relates to the income tax effects of lowering the corporate income tax rate from 35.0% to 21.0% on deferred income taxes established on pension plan liabilities and the fair value of derivative instruments.

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In March 2018, the FASB issued ASU No. 2018-05 Income Taxes (ASC Topic 740): Amendment to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This new accounting guidance codifies guidance pursuant to SEC Staff Accounting Bulletin No. 118 (which we refer to as SAB 118), which was issued in connection with the Tax Act. The guidance allows companies to use provisional estimates to record the effects of the Tax Act and also provides a measurement period (not to exceed one year from the date of enactment) to complete the accounting for the impacts of the Tax Act. We adopted this guidance when it was initially issued as SAB 118. We are still completing our accounting for the tax effects of the Tax Act because all the necessary information is not currently available, prepared or analyzed. As such, we have made reasonable estimates of the effects of the Tax Act on our financial results. We did not record any adjustments to our provisional amounts during the quarter ended June 30, 2018. As we complete our analysis of the accounting for the tax effects of enactment of the Tax Act, we may record additional provisional amounts or adjustments to provisional amounts as discrete items in future periods.

Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (ASC Topic 230): Restricted Cash. This new accounting guidance addresses the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for all entities. The adoption of this new guidance changed the presentation in our consolidated statement of cash flows as we now show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. Previously, the net change in restricted cash was reported as an operating activity and cash paid for acquisitions, net of cash was not presented net of restricted cash. In our 2017 consolidated statement of cash flows, the adoption of ASU 2016-18 resulted in an increase to net cash provided by operating activities of $55.5 million and a decrease to cash paid for acquisitions, net of cash and restricted cash of $11.1 million. These changes resulted in a change of $22.4 million to the effect of changes in foreign exchange rates on cash, cash equivalents and restricted cash.

The following is a reconciliation of our June 30 cash, cash equivalents and restricted cash balances as presented in the consolidated statement of cash flows for the six-month periods ended June 30, 2018 and 2017 (in millions):

	June 30,	
	2018	**2017**
Cash and cash equivalents	$ 652.2	$ 587.8
Restricted cash	1,692.5	1,481.1
Total cash, cash equivalents and restricted cash	$ 2,344.7	$ 2,068.9

3. Revenue from Contracts with Customers

New Accounting Statement Impact on Consolidated Financial Statements

As a result of adopting a new revenue recognition accounting statement, we restated our consolidated financial statements from amounts previously reported. The primary impacts of the adoption of the new revenue recognition guidance to our segments are detailed as follows.

Brokerage segment

Revenue - We previously recognized revenue for certain of our brokerage activities, such as installments on agency bill, direct bill and contingent revenue, over a period of time either due to the transfer of value to our clients or as the remuneration became determinable. Under the new guidance, these revenues are now substantially recognized at a point in time on the effective date of the associated policies when control of the policy transfers to the client. On the other hand, under the new guidance we are now required to defer certain revenues to reflect delivery of services over the contract period. As a result, revenue from certain arrangements are now recognized in earlier periods under the new guidance in comparison to our previous accounting policies, and other revenues are recognized in later periods. The net effect of all of these changes on the timing and amount of revenue recognized is a net increase in revenue recognized for our annual reporting periods with a shift in the timing of revenue recognized in the interim periods to the first quarter from the other three quarters.

The primary reason for the increase in the amount of revenue recognized relates to our employee benefit brokerage business. Historically we recognized this revenue throughout the contract period as underlying client exposure units became certain. Under the new guidance, the full year revenue under each of these contracts is now estimated at the

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effective date of the underlying policies resulting in acceleration of revenue recognized, with a reassessment at each reporting date. This also causes a shift in the timing of revenue recognized in the interim periods as a majority of these annual contracts incept in the first quarter. Partially offsetting this interim impact is the recognition of contingent revenues related to our brokerage business as these revenues are now estimated and accrued throughout the year as the underlying business is placed with the underwriting enterprises rather than our historical practice of recognizing the majority of these revenues in the first quarter, because this is typically when we receive cash or the related policy detail or other carrier specific information from the underwriting enterprise.

Expense - The assets recognized for the costs to obtain and/or fulfill a contract are amortized on a systematic basis that is consistent with the transfer of the services to which the asset relates. For the majority of our contracts, the renewal period is one year or less and renewal costs are commensurate with the initial contract. As a result, we have applied a practical expedient and recognize the costs of obtaining a contract as an expense when incurred. The net impact of deferring and amortizing the costs to fulfill a contract are not material on an annual basis, but have an impact on the timing of expenses recognized in the interim periods. Previously those costs were expensed as incurred.

Risk management segment

Revenue - Under the new guidance, when we have the obligation to adjust claims until closure and are compensated on a per claim basis, we record the full amount of the claim revenue upon notification of the claim and defer certain revenues to reflect delivery of services over the claim handling period. When our obligation is to provide claims services throughout a contract period, we recognize revenue ratably across that contract period. As such, the net impact of the new guidance requires greater initial revenue deferral and recognition over a longer period of time than under our previous accounting policies.

Expense - The assets recognized for the costs to obtain and/or to fulfill a contract are amortized on a systematic basis that is consistent with the transfer of the services to which the asset relates. We do not have material costs to obtain or fulfill. The net impact of deferring and amortizing these costs to obtain or to fulfill are not material on our annual or interim reporting periods.

Corporate segment

The timing related to recognition of revenue in our corporate segment remains substantially unchanged. While there is no material impact on our annual after tax earnings, there is a material change to our after tax earnings in the interim quarterly periods, as income tax credits are recognized based on our quarterly consolidated pretax earnings patterns.

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Impact on 2017 Consolidated Financial Statements

The consolidated statement of earnings line items, which reflect the adoption of the new revenue recognition guidance, are as follows (in millions, except per share data):

	Three-month period ended June 30, 2017		
	As Previously Reported	Impact of Adoption of ASC 606	As Restated for Adoption of ASC 606
Commissions	$ 690.2	$ (72.0)	$ 618.2
Fees	410.9	(24.0)	386.9
Supplemental revenues	41.5	(5.7)	35.8
Contingent revenues	29.5	(8.2)	21.3
Investment income	13.6	0.8	14.4
Gains on books of business sales	1.1		1.1
Revenues from clean coal activities	376.4		376.4
Other net revenues	0.2		0.2
Revenues before reimbursements	1,563.4	(109.1)	1,454.3
Reimbursements		35.2	35.2
Total revenues	1,563.4	(73.9)	1,489.5
Compensation	675.7	(8.8)	666.9
Operating	211.6	(7.4)	204.2
Reimbursements		35.2	35.2
Cost of revenues from clean coal activities	397.1		397.1
Interest	31.6		31.6
Depreciation	30.2		30.2
Amortization	65.1		65.1
Change in estimated acquisition earnout payables	5.1		5.1
Total expenses	1,416.4	19.0	1,435.4
Earnings before income taxes	147.0	(92.9)	54.1
Benefit for income taxes	(33.4)	9.2	(24.2)
Net earnings	180.4	(102.1)	78.3
Net earnings attributable to noncontrolling interests	8.5	(0.2)	8.3
Net earnings attributable to controlling interests	$ 171.9	$ (101.9)	$ 70.0
Basic net earnings per share	$ 0.96	$ (0.57)	$ 0.39
Diluted net earnings per share	0.95	(0.56)	0.39
Dividends declared per common share	0.39		0.39

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	Six-month period ended June 30, 2017		
	As Previously Reported	Impact of Adoption of ASC 606	As Restated for Adoption of ASC 606
Commissions	$ 1,280.7	$ 98.2	$ 1,378.9
Fees	781.4	10.5	791.9
Supplemental revenues	76.0	7.1	83.1
Contingent revenues	82.9	(26.6)	56.3
Investment income	24.4	2.3	26.7
Gains on books of business sales	2.5		2.5
Revenues from clean coal activities	728.2		728.2
Revenues before reimbursements	2,976.1	91.5	3,067.6
Reimbursements		68.3	68.3
Total revenues	2,976.1	159.8	3,135.9
Compensation	1,333.3	45.4	1,378.7
Operating	412.0	(8.3)	403.7
Reimbursements		68.3	68.3
Cost of revenues from clean coal activities	764.0		764.0
Interest	61.5		61.5
Depreciation	59.7		59.7
Amortization	129.4		129.4
Change in estimated acquisition earnout payables	16.9		16.9
Total expenses	2,776.8	105.4	2,882.2
Earnings before income taxes	199.3	54.4	253.7
Benefit for income taxes	(48.9)	(17.7)	(66.6)
Net earnings	248.2	72.1	320.3
Net earnings attributable to noncontrolling interests	20.6	0.9	21.5
Net earnings attributable to controlling interests	$ 227.6	$ 71.2	$ 298.8
Basic net earnings per share	$ 1.27	$ 0.40	$ 1.67
Diluted net earnings per share	1.26	0.39	1.65
Dividends declared per common share	0.78		0.78

Select consolidated statement of comprehensive earnings line items, which reflect the adoption of the new revenue recognition guidance, are as follows (in millions):

	Three-month period ended June 30, 2017		
	As Previously Reported	Impact of Adoption of ASC 606	As Restated for Adoption of ASC 606

Net earnings	$ 180.4	$ (102.1)	$ 78.3
Change in pension liability, net of taxes	1.4		1.4
Foreign currency translation	33.9	(0.4)	33.5
Change in fair value of derivative instruments, net of taxes	2.3		2.3
Comprehensive earnings	218.0	(102.5)	115.5
Comprehensive earnings attributable to noncontrolling interests	8.9	(0.2)	8.7
Comprehensive earnings attributable to controlling interests	$ 209.1	$ (102.3)	$ 106.8

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	Six-month period ended June 30, 2017		
	As Previously Reported	Impact of Adoption of ASC 606	As Restated for Adoption of ASC 606
Net earnings	$ 248.2	$ 72.1	$ 320.3
Change in pension liability, net of taxes	2.6		2.6
Foreign currency translation	92.3	(2.9)	89.4
Change in fair value of derivative instruments, net of taxes	8.8		8.8
Comprehensive earnings	351.9	69.2	421.1
Comprehensive earnings attributable to noncontrolling interests	22.6	0.9	23.5
Comprehensive earnings attributable to controlling interests	$ 329.3	$ 68.3	$ 397.6

Select balance sheet line items, which reflect the adoption of the new revenue recognition guidance are as follows (in millions):

	December 31, 2017		
	As Previously Reported	Impact of Adoption of ASC 606	As Restated for Adoption of ASC 606
Assets			
Premium and fees receivables	$ 2,157.2	$ 1,925.6	$ 4,082.8
Other current assets	708.4	173.2	881.6
Deferred income taxes	905.1	(53.5)	851.6
Other noncurrent assets	567.0	0.1	567.1
Goodwill	4,197.9	(33.1)	4,164.8
Liabilities			
Premiums payable to underwriting enterprises	3,475.9	1,510.1	4,986.0
Accrued compensation and other current liabilities	864.1	83.7	947.8
Deferred revenue - current/unearned fees	74.8	280.5	355.3
Other current liabilities	56.4	(56.4)	
Deferred revenue - noncurrent		75.3	75.3
Other noncurrent liabilities	1,128.3	(15.7)	1,112.6
Stockholders equity			
Retained earnings	1,095.9	125.9	1,221.8
Accumulated other comprehensive loss	(559.9)	4.5	(555.4)
Stockholders equity attributable to controlling interests	4,105.2	130.4	4,235.6
Stockholders equity attributable to noncontrolling interests	59.7	4.4	64.1

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Select consolidated statement of cash flows line items, which reflect the adoption of the new revenue recognition guidance are as follows (in millions):

	Six-month period ended June 30, 2017		
	As Previously Reported	Impact of Adoption of ASC 606	As Restated for Adoption of ASC 606
Cash flows from operating activities			
Net earnings	$ 248.2	$ 72.1	$ 320.3
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net change in premiums and fees receivable	(478.7)	(1,055.7)	(1,534.4)
Net change in deferred revenue		29.7	29.7
Net change in premiums payable to underwriting enterprises	445.1	934.3	1,379.4
Net change in other current assets	(17.4)	50.7	33.3
Net change in accrued compensation and other current liabilities	(77.0)	19.2	(57.8)
Net change in deferred income taxes	(72.9)	(17.6)	(90.5)
Net change in other noncurrent assets and liabilities	(18.4)	(1.8)	(20.2)

Select statement of stockholders equity items, which reflect the adoption of the new revenue recognition guidance are as follows (in millions):

	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Stockholders Equity Attributable to Noncontrolling Interests	Total Stockholders Equity
Balance at December 31, 2017, as reported	$ 1,095.9	$ (559.9)	$ 59.7	$ 4,164.9
Cumulative-effect adjustment due to ASC Topic 606 as of December 31, 2017	125.9	4.5	4.4	134.8
Balance at December 31, 2017, as restated	$ 1,221.8	$ (555.4)	$ 64.1	$ 4,299.7

Contract Assets and Liabilities/Contract Balances

Information about unbilled receivables, contract assets and contract liabilities from contracts with customers is as follows (in millions):

	June 30, 2018	December 31, 2017, As Restated
Unbilled receivables	$ 608.7	$ 415.2

Deferred contract costs	55.0	83.3
Deferred revenue	471.8	430.6

The unbilled receivables primarily relate to our rights to consideration for work completed but not billed at the reporting date. These are transferred to the receivables when the client is billed. The deferred contract costs represent the costs we incur to fulfill a new or renewal contract with our clients prior to the effective date of the contract. These costs are expensed on the contract effective date. The deferred revenue represents the remaining performance obligations under our contracts.

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Significant changes in the deferred revenue balances during the period are as follows (in millions):

	Brokerage	Risk Management	Total
Deferred revenue at December 31, 2017	$ 258.7	$ 171.9	$ 430.6
Incremental deferred revenue	204.1	73.4	277.5
Revenue recognized during the six-month period ended June 30, 2018 included in deferred revenue at December 31, 2017	(181.0)	(68.2)	(249.2)
Deferred revenue recognized from business acquisitions	12.9		12.9
Deferred revenue at June 30, 2018	$ 294.7	$ 177.1	$ 471.8

Remaining Performance Obligations

Remaining performance obligations represent the portion of the contract price for which work has not been performed. As of June 30, 2018, the aggregate amount of the contract price allocated to remaining performance obligations was $471.8 million. The estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period is as follows (in millions):

	Brokerage	Risk Management	Total
2018 (remaining six months)	$ 224.3	$ 69.9	$ 294.2
2019	59.6	47.5	107.1
2020	8.2	19.9	28.1
2021	1.7	11.0	12.7
2022	0.4	6.8	7.2
Thereafter	0.5	22.0	22.5
Total	$ 294.7	$ 177.1	$ 471.8

Deferred Contract Costs

We capitalize costs incurred to fulfill contracts as deferred contract costs which are included in other current assets in our consolidated balance sheet. Deferred contract costs were $55.0 million and $83.3 million as of June 30, 2018 and December 31, 2017, respectively. Capitalized fulfillment costs are amortized on the contract effective date. The amount of amortization of the deferred contract costs was $168.5 million and $153.4 million for the six-month periods ended June 30, 2018, and 2017, respectively.

As part of our adoption of the new revenue recognition guidance, we have elected to apply the practical expedient to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less for our brokerage segment. These costs are included in compensation and operating expenses in our consolidated statement of earnings.

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4. Business Combinations

During the six-month period ended June 30, 2018, we acquired substantially all of the net assets of the following firms in exchange for our common stock and/or cash. These acquisitions have been accounted for using the acquisition method for recording business combinations (in millions, except share data):

Name and Effective Date of Acquisition	Common Shares Issued (000s)	Common Share Value	Cash Paid	Accrued Liability	Escrow Deposited	Recorded Earnout Payable	Total Recorded Purchase Price	Maximum Potential Earnout Payable
Market Financial Group, Ltd and Austin Consulting Group Inc. (MFG) January 1, 2018	53	$ 3.7	$ 33.9	$	$ 4.2	$ 4.0	$ 45.8	$ 7.0
McGregor & Associates (M&A) March 1, 2018			13.5		2.5	5.1	21.1	12.0
Pronto Insurance (PI) June 5, 2018			294.8		18.7		313.5	
Sixteen other acquisitions completed in 2018	220	12.2	82.0	0.4	9.9	21.9	126.4	52.1
	273	$ 15.9	$ 424.2	$ 0.4	$ 35.3	$ 31.0	$ 506.8	$ 71.1

On June 26, 2018, we signed a definitive agreement to acquire 100% of the equity interest of Chicago, Illinois-based Reassurance Holdings, Inc., including its wholly-owned subsidiaries Coverdell & Co., Inc. and Carefree Marketing, Inc. for approximately $97.7 million of cash consideration and $24.4 million of common stock consideration, plus a maximum potential earnout of approximately $21.5 million. The transaction was subject to customary closing conditions and closed on July 6, 2018.

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

The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements, which is a Level 3 fair value measurement. In determining fair value, we estimated the acquired entity s future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. Revenue growth rates generally ranged from 3.0% to 15.0% for our 2018 acquisitions. We estimated future payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. We then discounted these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that reflect the ability of the acquired entity to achieve the targets. These discount rates generally ranged from 8.0% to 9.5% for all of our 2018 acquisitions. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations.

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During the three-month periods ended June 30, 2018 and 2017, we recognized $4.9 million and $5.2 million, respectively, of expense in our consolidated statement of earnings related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. During the six-month periods ended June 30, 2018 and 2017, we recognized $10.0 million and $10.3 million, respectively, of expense in our consolidated statement of earnings related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. In addition, during the three-month periods ended June 30, 2018 and 2017, we recognized $10.9 million and $0.1 million of income, respectively, related to net adjustments in the estimated fair value of earnout obligations in connection with revised projections of future performance for 49 and 46 acquisitions, respectively. In addition, during the six-month periods ended June 30, 2018 and 2017, we recognized $8.6 million of income and $6.6 million of expense, respectively, related to net adjustments in the estimated fair value of earnout obligations in connection with revised projections of future performance for 76 and 65 acquisitions, respectively. The aggregate amount of maximum earnout obligations related to acquisitions was $552.3 million as of June 30, 2018, of which $266.9 million was recorded in our consolidated balance sheet as of June 30, 2018, based on the estimated fair value of the expected future payments to be made.

The following is a summary of the estimated fair values of the net assets acquired at the date of each acquisition made in the six-month period ended June 30, 2018 (in millions):

	MFG	M&A	PI	Sixteen Other Acquisitions	Total
Cash	$ 0.1	$	$ 7.2	$ 5.0	$ 12.3
Other current assets	3.0	0.5	35.3	20.6	59.4
Fixed assets	0.4	1.4	2.6	0.4	4.8
Noncurrent assets			8.3		8.3
Goodwill	24.7	5.2	194.1	70.5	294.5
Expiration lists	20.2	15.1	105.7	63.0	204.0
Non-compete agreements	0.1	0.1	0.3	1.2	1.7
Trade names			35.4		35.4
Total assets acquired	48.5	22.3	388.9	160.7	620.4
Current liabilities	2.3	0.4	31.5	19.3	53.5
Noncurrent liabilities	0.4	0.8	43.9	15.0	60.1
Total liabilities assumed	2.7	1.2	75.4	34.3	113.6
Total net assets acquired	$ 45.8	$ 21.1	$ 313.5	$ 126.4	$ 506.8

Among other things, these acquisitions allow us to expand into desirable geographic locations, further extend our presence in the retail and wholesale insurance brokerage services and risk management industries and increase the volume of general services currently provided. The excess of the purchase price over the estimated fair value of the tangible net assets acquired at the acquisition date was allocated to goodwill, expiration lists, non-compete agreements and trade names in the amounts of $294.5 million, $204.0 million, $1.7 million and $35.4 million, respectively, within the brokerage and risk management segments.

Provisional estimates of fair value are established at the time of each acquisition and are subsequently reviewed within the first year of operations subsequent to the acquisition date to determine the necessity for adjustments. The fair value of the tangible assets and liabilities for each applicable acquisition at the acquisition date approximated their carrying values. The fair value of expiration lists was established using the excess earnings method, which is an income approach based on estimated financial projections developed by management for each acquired entity using market participant assumptions. Revenue growth and attrition rates generally ranged from 3.0% to 3.5% and 5.0% to 10.0%, respectively, for our 2017 and 2018 acquisitions for which valuations were performed in 2018. We estimate the fair value as the present value of the benefits anticipated from ownership of the subject customer list in excess of returns required on the investment in contributory assets necessary to realize those benefits. The rate used to discount the net benefits was based on a risk-adjusted rate that takes into consideration market-based rates of return and reflects the risk of the asset relative to the acquired business. These discount rates generally ranged from 12.0% to 14.0% for our 2017 and 2018 acquisitions for which valuations were performed in 2018. The fair value of non-compete agreements was established using the profit differential method, which is an income approach based on estimated financial projections developed by management for the acquired company using market participant assumptions and various non-compete scenarios.

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Expiration lists, non-compete agreements and trade names related to our acquisitions are amortized using the straight-line method over their estimated useful lives (two to fifteen years for expiration lists, three to five years for non-compete agreements and two to fifteen years for trade names), while goodwill is not subject to amortization. We use the straight-line method to amortize these intangible assets because the pattern of their economic benefits cannot be reasonably determined with any certainty. We review all of our intangible assets for impairment periodically (at least annually) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. In reviewing intangible assets, if the fair value were less than the carrying amount of the respective (or underlying) asset, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings as a component of amortization expense. Based on the results of impairment reviews during the three-month and six-month periods ended June 30, 2018, we wrote off $5.6 million of amortizable intangible assets related to the brokerage segment. Based on the results of impairment reviews during the three-month and six-month periods ended June 30, 2017, we wrote off $1.7 million of amortizable intangible assets related to the brokerage segment.

Of the $204.0 million of expiration lists, $1.7 million of non-compete agreements and $35.4 million of trade names related to our acquisitions made during the six-month period ended June 30, 2018, $132.7 million, $1.1 million and $35.4 million, respectively, is not expected to be deductible for income tax purposes. Accordingly, we recorded a deferred tax liability of $35.8 million, and a corresponding amount of goodwill, in the six-month period ended June 30, 2018, related to nondeductible amortizable intangible assets.

Our consolidated financial statements for the six-month period ended June 30, 2018 include the operations of the acquired entities from their respective acquisition dates. The following is a summary of the unaudited pro forma historical results, as if these entities had been acquired at January 1, 2017 (in millions, except per share data):

	Three-month period ended June 30,		Six-month period ended June 30,	
	2018	2017	2018	2017
Total revenues	$ 1,683.4	$ 1,525.8	$ 3,560.7	$ 3,211.6
Net earnings attributable to controlling interests	116.8	71.9	395.8	306.0
Basic net earnings per share	0.64	0.40	2.17	1.70
Diluted net earnings per share	0.63	0.40	2.13	1.69

The unaudited pro forma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had these acquisitions occurred at January 1, 2017, nor are they necessarily indicative of future operating results. Annualized revenues of entities acquired during the six-month period ended June 30, 2018 totaled approximately $175.1 million. For the six-month period ended June 30, 2018, total revenues and net earnings recorded in our unaudited consolidated statement of earnings related to our acquisitions made during the six-month period ended June 30, 2018 in the aggregate, were $26.7 million and $3.2 million, respectively.

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5. Other Current Assets

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

	June 30, 2018	December 31, 2017
Premium finance advances and loans	$ 302.8	$ 305.5
Accrued supplemental, direct bill and other receivables	251.9	244.5
Refined coal production related receivables	173.0	156.8
Deferred contract costs	55.0	83.3
Prepaid expenses	95.4	91.5
Total other current assets	$ 878.1	$ 881.6

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

6. Intangible Assets

The carrying amount of goodwill at June 30, 2018 and December 31, 2017 allocated by domestic and foreign operations is as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
At June 30, 2018				
United States	$ 2,545.3	$ 25.1	$	$ 2,570.4
United Kingdom	732.1	7.1		739.2
Canada	360.0			360.0
Australia	400.7			400.7
New Zealand	204.5	10.4		214.9
Other foreign	115.9		2.8	118.7
Total goodwill - net	$ 4,358.5	$ 42.6	$ 2.8	$ 4,403.9

	Brokerage	Risk Management	Corporate	Total

At December 31, 2017				
United States	$ 2,280.9	$ 25.8	$	$ 2,306.7
United Kingdom	738.5	7.2		745.7
Canada	374.0			374.0
Australia	416.6			416.6
New Zealand	209.3	9.6		218.9
Other foreign	99.9		3.0	102.9
Total goodwill - net	$ 4,119.2	$ 42.6	$ 3.0	$ 4,164.8

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The changes in the carrying amount of goodwill for the six-month period ended June 30, 2018 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Balance as of December 31, 2017, as previously reported	$ 4,152.3	$ 42.6	$ 3.0	$ 4,197.9
Adoption of ASC Topic 606	(33.1)			(33.1)
Balance at December 31, 2017, as restated	4,119.2	42.6	3.0	4,164.8
Goodwill acquired during the period	291.8	2.7		294.5
Goodwill adjustments due to appraisals and other acquisition adjustments	2.5	(2.3)		0.2
Foreign currency translation adjustments during the period	(55.0)	(0.4)	(0.2)	(55.6)
Balance as of June 30, 2018	$ 4,358.5	$ 42.6	$ 2.8	$ 4,403.9

Major classes of amortizable intangible assets at June 30, 2018 and December 31, 2017 consist of the following (in millions):

	June 30, 2018	December 31, 2017
Expiration lists	$ 3,233.4	$ 3,055.9
Accumulated amortization - expiration lists	(1,547.5)	(1,422.1)
	1,685.9	1,633.8
Non-compete agreements	54.9	53.5
Accumulated amortization - non-compete agreements	(47.4)	(46.1)
	7.5	7.4
Trade names	60.6	25.9
Accumulated amortization - trade names	(23.0)	(22.5)
	37.6	3.4
Net amortizable assets	$ 1,731.0	$ 1,644.6

Estimated aggregate amortization expense for each of the next five years and thereafter is as follows:

2018 (remaining six months)	$ 137.7

2019	263.9
2020	247.3
2021	224.0
2022	200.7
Thereafter	657.4
Total	$ 1,731.0

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7. Credit and Other Debt Agreements

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

	June 30, 2018	December 31, 2017
Note Purchase Agreements:		
Semi-annual payments of interest, fixed rate of 2.80%, balloon due June 24, 2018	$	$ 50.0
Semi-annual payments of interest, fixed rate of 5.85%, $50 million due November 30, 2018 and November 30, 2019	100.0	100.0
Semi-annual payments of interest, fixed rate of 3.20%, balloon due June 24, 2019	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.48%, balloon due June 24, 2020	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.99%, balloon due July 10, 2020	50.0	50.0
Semi-annual payments of interest, fixed rate of 5.18%, balloon due February 10, 2021	75.0	75.0
Semi-annual payments of interest, fixed rate of 3.69%, balloon due June 14, 2022	200.0	200.0
Semi-annual payments of interest, fixed rate of 5.49%, balloon due February 10, 2023	50.0	50.0
Semi-annual payments of interest, fixed rate of 4.13%, balloon due June 24, 2023	200.0	200.0
Quarterly payments of interest, floating rate of 90 day LIBOR plus 1.65%, balloon due August 2, 2023	50.0	50.0
Semi-annual payments of interest, fixed rate of 4.58%, balloon due February 27, 2024	325.0	325.0
Quarterly payments of interest, floating rate of 90 day LIBOR plus 1.40%, balloon due June 13, 2024	50.0	
Semi-annual payments of interest, fixed rate of 4.31%, balloon due June 24, 2025	200.0	200.0
Semi-annual payments of interest, fixed rate of 4.73%, balloon due February 27, 2026	175.0	175.0
Semi-annual payments of interest, fixed rate of 4.40%, balloon due June 2, 2026	175.0	175.0
Semi-annual payments of interest, fixed rate of 4.36%, balloon due June 24, 2026	150.0	150.0
Semi-annual payments of interest, fixed rate of 4.09%, balloon due June 27, 2027	125.0	125.0
Semi-annual payments of interest, fixed rate of 4.09%, balloon due August 2, 2027	125.0	125.0
Semi-annual payments of interest, fixed rate of 4.14%, balloon due August 4, 2027	98.0	98.0
Semi-annual payments of interest, fixed rate of 3.46%, balloon due December 1, 2027	100.0	100.0
Semi-annual payments of interest, fixed rate of 4.55%, balloon due June 2, 2028	75.0	75.0
Semi-annual payments of interest, fixed rate of 4.34%, balloon due June 13, 2028	125.0	
Semi-annual payments of interest, fixed rate of 4.98%, balloon due February 27, 2029		