

GALLAGHER ARTHUR J & CO
Form DEF 14A
April 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Information Required In Proxy Statement

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

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

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

.. Soliciting Material Pursuant to §240.14a-12

ARTHUR J. GALLAGHER & CO.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

ARTHUR J. GALLAGHER & CO.

The Gallagher Centre

Two Pierce Place

Itasca, Illinois 60143-3141

April 7, 2008

Dear Stockholder:

Our Annual Meeting will be held on Tuesday, May 13, 2008, at 9:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Second Floor, Itasca, Illinois.

The formal Notice of Annual Meeting of Stockholders and Proxy Statement accompanying this letter describe the business requiring action at the meeting. A presentation by me will provide information on the business and progress of your Company during 2007 and our directors and officers will be available to answer your questions.

We appreciate the interest of our stockholders in Arthur J. Gallagher & Co. and are pleased that in the past so many of you have exercised your right to vote your shares. We hope that you continue to do so.

Whether or not you plan to attend, please mark, sign, date and mail the accompanying proxy card as soon as possible. The enclosed envelope requires no postage if mailed in the United States. If you attend the meeting, you may revoke your proxy and vote personally.

Cordially,

J. PATRICK GALLAGHER, JR.
Chairman of the Board

ARTHUR J. GALLAGHER & CO.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 13, 2008

To the Stockholders of

ARTHUR J. GALLAGHER & CO.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Arthur J. Gallagher & Co. (the Company) will be held Tuesday, May 13, 2008, at 9:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Second Floor, Itasca, Illinois for the following purposes:

1. To elect three Class III directors;
2. To ratify the appointment of Ernst & Young LLP as independent registered public accounting firm for the fiscal year ending December 31, 2008;
3. To consider and approve four proposals pertaining to an Amended and Restated Certificate of Incorporation of the Company which would:
 - (i) eliminate the supermajority voting requirements;
 - (ii) phase-out the staggered board and implement annual election of directors;
 - (iii) provide that any amendments to Delaware law which further limit or eliminate director liability will automatically apply to the Company's directors; and
 - (iv) update certain provisions of the current Certificate of Incorporation.
4. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors has fixed the close of business on March 17, 2008 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting.

Whether or not you plan to attend the Annual Meeting, you are urged to mark, date and sign the enclosed proxy and return it promptly so your vote can be recorded. If you are present at the meeting, you may revoke your proxy and vote in person.

Directions to the 2008 Annual Meeting of Stockholders may be requested from Investor Relations by telephone at (630) 773-3800.

You do not need a ticket to attend the meeting. If you are a stockholder of record, you need only present a form of personal identification to be admitted to the meeting. If your shares are held beneficially in the name of a bank, broker or other holder of record, you must present proof of stock ownership, such as a bank or brokerage account statement, together with a form of personal identification to be admitted to the meeting. If your shares are held in an employee savings plan, you must present your employee identification badge.

Date: April 7, 2008

By Order of the Board of Directors

WALTER D. BAY

Secretary

YOUR VOTE IS IMPORTANT. PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on May 13, 2008. The Proxy Statement and Annual Report to stockholders are available at www.ajg.com/proxy. To access the proxy statement scroll down to 2008 proxy statement. To access the annual report scroll down to 2007 annual report.

ARTHUR J. GALLAGHER & CO.

The Gallagher Centre

Two Pierce Place

Itasca, Illinois 60143-3141

PROXY STATEMENT

GENERAL INFORMATION

Use of Proxies

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Arthur J. Gallagher & Co. (the Company) of proxies to be voted at the Annual Meeting of Stockholders to be held on Tuesday, May 13, 2008, in accordance with the foregoing notice. This Proxy Statement and accompanying proxy are first being mailed to stockholders on or about April 7, 2008.

Any proxy may be revoked by the person giving it at any time before it is voted by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date. Shares represented by a proxy, properly executed and returned to the Company and not revoked, will be voted at the Annual Meeting.

Shares will be voted in accordance with the directions of the stockholder as specified on the proxy. In the absence of directions, the proxy will be voted **FOR** the election of the Class III directors named as the nominees in this Proxy Statement, **FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008 and **FOR** approval of the four proposals relating to an amendment to the Company's Certificate of Incorporation, which, among other things, would eliminate certain supermajority voting requirements and phase out the staggered election of the Board of Directors. Any other matters that may properly come before the meeting will be acted upon by the persons named in the accompanying proxy in accordance with their discretion.

Record Date and Voting Securities

The close of business on March 17, 2008 has been fixed as the record date (the Record Date) for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. As of the Record Date, the Company had 92,440,052 shares of common stock, par value \$1.00 per share (the Company's Common Stock) outstanding and entitled to vote. Each share of Common Stock is entitled to one vote, exercisable in person or by proxy. There are no other outstanding securities of the Company entitled to vote, and there are no cumulative voting rights with respect to the election of directors.

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

The presence, in person or by proxy, of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum at the Annual Meeting. An automated system administered by the Company's transfer agent will tabulate the votes. Abstentions and broker non-votes are included in the number of shares present for the purpose of determining if a quorum is present. Abstentions on a proposal are also treated as shares present and entitled to vote, so abstaining has the same effect as a negative vote. Broker non-votes on a proposal are not counted as present and entitled to vote in determining whether stockholders have approved that proposal.

CORPORATE GOVERNANCE

Board of Directors

The Company's Board of Directors (the "Board") has the responsibility to oversee the overall operations of the Company. The members of the Board are kept informed of the Company's results of operations and proposed plans and business objectives through reports and documents provided to the Board on a regular basis by the Company's management.

Norman L. Rosenthal is currently a member of the Board as a Class III director, having been appointed on January 24, 2008. Mr. Rosenthal was initially recommended to the Nominating/Governance Committee by other members of the Board. Mr. Rosenthal was appointed to the Board because Gary P. Coughlan will be retiring from the Board as a Class III director effective at the 2008 Annual Meeting. The Company's Restated Certificate of Incorporation and by-laws provide that any director appointed to the Board shall hold office until the expiration of the term of the class of directors to which he or she was appointed. The expiration of Mr. Rosenthal's initial term will occur at the 2008 Annual Meeting.

The Board has adopted Governance Guidelines, which provide guidelines for the Company and the Board to ensure effective corporate governance. The Governance Guidelines cover topics including, but not limited to, director qualification standards, director duties and responsibilities, director compensation, director access to management and independent advisors, continuing education, succession planning and annual evaluations of the Board and its committees.

The Governance Guidelines may be found on the Investor Relations page of the Company's web site at www.ajg.com. The Company will provide a copy of the Governance Guidelines to any person upon written or verbal request. Requests should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141, or by telephone to (630) 773-3800.

The Governance Guidelines provide that the Board is to be composed of a majority of independent directors. No director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with the Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company. The Board makes determinations of independence based on the following criteria, in addition to any other relevant facts and circumstances:

A director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship.

A director who receives, or whose immediate family member receives, more than \$100,000 during any twelve-month period in direct compensation from the Company, other than director compensation (including option and restricted stock grants) and committee fees, gains from the exercise of options and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$100,000 during a twelve-month period.

A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed by, the Company's internal or external auditor is not independent until three years after the end of the affiliation, employment or the auditing relationship.

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

A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serves or served on that

company's compensation committee is not independent until three years after the end of such service or the employment relationship.

A director who is a partner, member, managing director, or an executive officer, or who occupies a similar position, at a firm that provides accounting, consulting, legal, investment banking or financial advisory services to the Company in an amount that, in any single fiscal year, exceeds \$50,000, is not independent until three years after the firm ceases to receive more than \$50,000 during a fiscal year. This guideline is prospective and is effective January 24, 2008.

A director who is an employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues is not independent until three years after falling below such threshold.

With respect to Kay W. McCurdy, the Board also considered that she is a partner of Locke Lord Bissell & Liddell LLP, a law firm from which the Company received services in the ordinary course of business in 2007. To ensure Ms. McCurdy's independence, the Board decided that effective January 1, 2008, the Company would no longer receive services from Locke Lord Bissell & Liddell LLP. There were no other transactions, relationships or arrangements pertaining to any non-employee director considered by the Board in determining the independence of the Company's non-employee directors.

The Board has reviewed the independence of non-employee directors and nominees and found that each of them, William L. Bax, T. Kimball Brooker, Gary P. Coughlan, Ilene S. Gordon, Elbert O. Hand, David S. Johnson, Kay W. McCurdy, Norman L. Rosenthal and James R. Wimmer are independent in accordance with the rules of the New York Stock Exchange (NYSE) and the Company's independence guidelines. The Board determined that its director and Chairman, J. Patrick Gallagher, Jr., an employee of the Company, is not independent within the meaning of the rules of the NYSE and the Company's independence requirements.

The Company's policy is to encourage Board members to attend the Company's Annual Meeting. Seven of the nine Board members then in office attended the Company's Annual Meeting held on May 15, 2007.

During 2007, the Board met seven times. All of the directors attended 75% or more of the aggregate meetings of the Board and the committees on which they served. The Board of Directors has the following committees with the following members:

Audit	Compensation	Nominating/ Governance	Compliance	Executive
Gary P. Coughlan(1)	T. Kimball Brooker(1)	Ilene S. Gordon(1)	James R. Wimmer(1)	J. Patrick Gallagher, Jr.
William L.Bax	Ilene S. Gordon	Elbert O. Hand	J. Patrick Gallagher, Jr.	James R. Wimmer
T. Kimball Brooker	Elbert O. Hand	David S. Johnson	Ilene S. Gordon	
Norman L. Rosenthal(2)	David S. Johnson	Kay W. McCurdy	Elbert O. Hand	
James R. Wimmer	Kay W. McCurdy	James R. Wimmer		

(1) Chair

(2) Appointed to the Audit Committee on January 24, 2008.

Nominating/Governance Committee

The Board has established a Nominating/Governance Committee, which has the responsibility to (i) identify and recommend to the Board individuals qualified to be directors of the Company to stand for election at the Company's annual meeting of stockholders, (ii) identify individuals to fill vacancies on the Board, (iii) identify Board members to serve on committees of the Board and recommend such nominees to the Board, (iv) make recommendations to the Board regarding changes to the size and composition of the Board, (v) develop and recommend to the Board director independence standards, (vi) develop and recommend to the Board governance guidelines, (vii) review the governance guidelines at least once a year, (viii) review annually its charter, (ix) conduct an annual performance review, (x) report to the Board on the activities of the Nominating/Governance Committee, (xi) provide oversight on the evaluation of management, (xii) develop an annual self-evaluation process for the Board and its committees, (xiii) select, retain, terminate and approve the fees and other retention terms of special counsel or consultants to the Committee, and (xiv) retain and terminate consultants and search firms to help identify director candidates.

The Nominating/Governance Committee of the Board is governed by a charter approved by the Board, which is available on the Company's website at www.ajg.com. The Company will provide a copy of the Nominating/Governance Charter to any person upon written or verbal request. Requests should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141, or by telephone to (630) 773-3800.

Each of the members of the Nominating/Governance Committee meets the independence requirements of the NYSE for nominating committee members. The Nominating/Governance Committee met four times in 2007.

Nomination of Directors

It is the policy of the Nominating/Governance Committee to consider candidates for director recommended by stockholders. In order to recommend a candidate, stockholders must submit the individual's name and qualifications in writing to the Nominating/Governance Committee (in care of the Chair at the Company's principal office). The Board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility, be leaders in the organizations with which they are affiliated, be selected based on contributions they can make to the Board and management and be free from relationships or conflicts of interest that could interfere with the director's duties to the Company and its stockholders.

In identifying and evaluating nominees for director, the Nominating/Governance Committee takes into account the applicable requirements for directors under the Securities Exchange Act of 1934, as amended (the Exchange Act) and the listing standards of the NYSE. In addition, the Nominating/Governance Committee may take into consideration such other factors and criteria as it deems appropriate, including the nominee's judgment, skill, integrity, diversity, and business or other experience. The Nominating/Governance Committee may (but is not required to) consider candidates suggested by management or other members of the Board. The Nominating/Governance Committee evaluates candidates recommended by stockholders in the same manner it evaluates any other nominee. The Nominating/Governance Committee may from time to time (but is not required to) hire consultants or search firms to help the Nominating/Governance Committee identify and/or evaluate potential nominees for director.

The Company's by-laws establish advance notice procedures with regard to the nomination by a stockholder of a candidate for election as a director. In general, the Company must receive notice not earlier than the 100th calendar day nor later than the close of business on the 60th calendar day prior to the annual meeting of stockholders of the Company. Such notice must comply with the information requirements set forth in the by-laws relating to stockholder nominations, including providing the consent of any nominee to serve as a director, if elected.

Audit Committee

The Board has established an Audit Committee which has the responsibility to (i) review and discuss the annual and quarterly financial statements with management and the independent auditor, (ii) review with the independent auditor any audit problems or difficulties, (iii) appoint, retain, terminate, compensate and oversee the independent auditor, (iv) obtain and review, at least annually, a report from the independent auditor, (v) meet periodically with each of the independent auditor, management and chief internal auditor, (vi) consider the independent auditor's judgments about the Company's accounting principles and review major changes to the Company's auditing and accounting principles and practices suggested by the independent auditor or management, (vii) review the Company's financial reporting processes and internal controls based on consultation with the independent auditor and the internal audit department, (viii) review with the independent auditor and management the implementation of changes or improvements in financial or accounting practices, (ix) review legal, disclosure or other matters having a material impact on the Company's financial statements, (x) prepare an audit committee report to be included in the annual proxy statement, (xi) obtain assurance from the independent auditor that the audit was conducted in a manner consistent with Section 10A of the Exchange Act, (xii) discuss with the independent auditor all matters required to be communicated to the Audit Committee, (xiii) annually review and evaluate the qualification of the lead partner of the independent auditor, (xiv) discuss earnings press releases of the Company, (xv) review and discuss with the independent auditor and management any reports of the internal auditor, (xvi) discuss the adequacy of the Company's internal controls with the internal and independent auditors, (xvii) establish procedures for and review the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, (xviii) review annually the effect of regulatory and accounting initiatives on the Company's financial statements, (xix) discuss policies with respect to risk assessment and risk management, (xx) set clear hiring policies with respect to employees or former employees of the independent auditor, (xxi) review annually the Audit Committee Charter, (xxii) conduct an annual review of the Audit Committee's performance and (xxiii) report regularly to the Board.

The Audit Committee of the Board is governed by a charter approved by the Board, which is available on the Company's website at www.ajg.com. The Company will provide a copy of the Audit Committee Charter to any person upon written or verbal request. Requests should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141, or by telephone to (630) 773-3800.

Each of the members of the Audit Committee meets the independence requirements of the NYSE. The Board has determined that Gary P. Coughlan and William L. Bax qualify as audit committee financial experts, as that term is defined in the Exchange Act. The Audit Committee met seven times in 2007.

Compensation Committee

The Board has established a Compensation Committee, which has the responsibility to (i) annually review and approve the goals and objectives relevant to CEO compensation, evaluate the CEO's performance and establish the elements of the CEO's compensation, (ii) review and make recommendations to the Board

regarding the Company's compensation and benefit plans, (iii) review and approve the compensation and benefits of the Company's executive officers, (iv) consult on the setting of compensation for executive officers and such other officers as the Compensation Committee deems appropriate, (v) engage compensation consultants as the Compensation Committee deems appropriate, (vi) approve grants and awards under the Company's equity based plans and the Company's Performance Unit Plan, (vii) review and make recommendations to the Board with respect to outside director compensation, (viii) review and approve employment agreements, severance agreements and change in control agreements for the CEO and other executive officers, (ix) provide a Compensation Committee report for inclusion in the annual proxy and review the Company's compensation discussion and analysis, (x) review and assess the adequacy of the Compensation Committee's charter annually and recommend changes to the Board if necessary, (xi) conduct an annual performance review of the Compensation Committee, and (xii) report to the Board on a regular basis and review issues with the Board as deemed appropriate. The compensation of executive officers of the Company is generally recommended by the CEO and then reviewed and, if deemed appropriate, approved by the Compensation Committee. The compensation of the CEO is set by the Compensation Committee. In reviewing and setting such compensation, the Compensation Committee generally consults with its compensation consultant but retains final authority to determine the levels of compensation. The Compensation Committee has delegated to the CEO the authority between meetings of the Compensation Committee to make equity grants, subject to certain limitations, in connection with new hires and acquisitions. The CEO may not make any grants, however, to executive officers.

The Compensation Committee is governed by a charter approved by the Board, which is available on the Company's website at www.ajg.com. The Company will provide a copy of the Compensation Committee charter to any person upon written or verbal request. Requests should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141, or by telephone to (630) 773-3800.

In 2007, the Compensation Committee retained Sibson Consulting (Sibson) as compensation consultant. Please see the *Compensation Discussion and Analysis* on Pg. 17 for a discussion of Sibson's role in assisting the Compensation Committee.

Each of the members of the Compensation Committee meets the independence requirements of the NYSE. The Compensation Committee met nine times in 2007.

Compliance Committee

The Board has established a Compliance Committee, which is responsible for monitoring the Company's compliance with the standards of conduct regarding compensation from insurance carriers pursuant to the Assurance of Voluntary Compliance dated as of May 18, 2005 with the Attorney General of the State of Illinois and the Director of Insurance of the State of Illinois. The Compliance Committee met three times in 2007.

Executive Committee

The Executive Committee of the Board is empowered to act on behalf of the Board between Board meetings. Actions taken by the Executive Committee are reviewed, approved and ratified by the Board at the next meeting of the Board following the taking of such actions. The Executive Committee acted by unanimous written consent once in 2007 and met six times in 2007.

Executive Sessions

Non-management directors (all directors who are not employees of the Company) meet regularly in executive sessions without management. Each executive session is led by a Lead Director chosen by the independent directors at the prior regularly scheduled Board meeting. An executive session is held in conjunction with each regularly scheduled Board meeting and other sessions may be called by the Lead Director at his or her discretion or at the request of the Board. The duties of the Lead Director are set forth in the Company's Governance Guidelines. The committees of the Board also meet regularly in executive sessions without management.

Code of Business Conduct and Ethics

The Company has a Code of Business Conduct and Ethics that applies to the Board as well as the Company's employees and officers, including the Company's principal executive officer, principal financial officer and principal accounting officer. The Company's Code of Business Conduct and Ethics covers professional conduct, including conflicts of interest, disclosure obligations, insider trading and confidential information, as well as compliance with laws, rules and regulations applicable to the Company's business. The Company encourages all employees, officers and directors to promptly report any violations of the Code of Business Conduct and Ethics to the appropriate persons identified in such Code.

The Company's Code of Business Conduct and Ethics is available on the Investor Relations page of the Company's website at www.ajg.com. The Company will provide a copy of the Code of Business Conduct and Ethics to any person upon written or verbal request. Requests should be directed in writing to Investor Relations, Arthur J. Gallagher & Co., Two Pierce Place, Itasca, Illinois 60143-3141, or by telephone to (630) 773-3800.

Stock Ownership Guidelines

The Company encourages stock ownership by its directors, officers and employees to align their interests with the interests of its stockholders. In 2004, the Nominating/Governance Committee adopted guidelines providing that directors should own stock in the Company having a value not less than three times the annual director retainer paid to non-employee directors (currently \$30,000). This ownership guideline is being phased in over a five year period, so that directors have five years from January 2004, or the date they joined the Board, whichever is later, to meet the guideline. In January 2007, the Nominating/Governance Committee adopted executive stock ownership guidelines providing that (i) the CEO should own equity of the Company having a value not less than five times his base salary, (ii) Senior Executive Officers (the Named Executive Officers) should own equity having a value not less than three times their base salary and (iii) the other executive officers should own equity having a value not less than two times their base salary. Under these guidelines, the officers must own the required number of shares within five years of the later of the date of hire, the date the officer was promoted to the applicable position or the date of adoption of the guidelines. All shares owned directly or indirectly by officers and directors and all shares in an officer's deferred equity participation plan account are included in determining the number of shares owned for the purposes of meeting these share ownership guidelines.

Communications with the Board

The Board has established a process for stockholders and other interested parties to communicate with the Board, the non-management directors as a group or any individual director. A stockholder or other

interested party may contact the Board, the non-management directors as a group or any individual director by writing to their attention at the Company's principal executive offices at Arthur J. Gallagher & Co., c/o General Counsel, Two Pierce Place, Itasca, Illinois 60143-3141. Communications received in writing are distributed to the Board, to non-management directors as a group or to an individual director, as applicable, in accordance with the instructions provided in such communications.

PROPOSAL 1 ELECTION OF DIRECTORS

The Board is divided into three classes. The regular terms of office for the Class III, Class I and Class II directors will expire at the 2008, 2009 and 2010 Annual Meetings of Stockholders, respectively. Three persons are to be elected at the 2008 Annual Meeting to hold office as Class III directors for a term of three years and until their respective successors are elected and qualified.

If the Amended and Restated Certificate of Incorporation is approved by stockholders, the staggered election of the terms of directors serving on the Board will be phased out over the next three years. If the Amended and Restated Certificate of Incorporation is approved, the terms of the directors elected to the Board at the 2009 and 2010 Annual Meetings of Stockholders will expire at the 2010 and 2011 Annual Meetings of Stockholders, respectively. Commencing in 2011, all directors will be elected to one-year terms. For more information about the Amended and Restated Certificate of Incorporation see pages 46-49.

Set forth below is information concerning the nominees for election as Class III directors as well as information concerning the current directors in each class continuing in office after the 2008 Annual Meeting. The Board recommends a vote **FOR** the election of the Class III director nominees. The persons named on the enclosed proxy card intend to vote the proxies solicited hereby **FOR** all of the Class III director nominees named below unless such authority is withheld. The affirmative vote of the holders of a majority of the shares of Common Stock represented in person or by proxy is required to elect directors. The enclosed proxy cannot be voted for more than three nominees. Should any nominee be unavailable to serve or refuse to serve, an event which the Board does not anticipate, the people named in the enclosed proxy card intend to vote the proxies solicited hereby for the election of such other nominee, if any, as they may select.

Nominees for Election to the Board of Directors as

Class III Directors with Terms Expiring in 2011

Name	Age	Year First Elected Director, Business Experience and Other Directorships
Elbert O. Hand	68	Director since 2002; Chairman of the Board of Hartmarx Corporation, a consumer apparel products business, from 1992 to 2004, Chief Executive Officer of Hartmarx Corporation from 1992 to 2002, and President and Chief Operating Officer of Hartmarx Corporation from 1985 to 1992. Director of Hartmarx Corporation.
Kay W. McCurdy	57	Director since 2005; Partner, Locke, Lord, Bissell and Liddell LLP, attorneys, from 1983 to present.
Norman L. Rosenthal	56	Director since January 24, 2008; President of Norman L. Rosenthal & Associates, Inc., a management consulting firm that specializes in the property-casualty insurance industry, from 1996 to present. Director of Aspen Insurance Holdings, Ltd.

Members of the Board of Directors Continuing in Office

As Class I Directors with Terms Expiring in 2009

Name	Age	Year First Elected Director, Business Experience and Other Directorships
J. Patrick Gallagher, Jr.	56	Director since 1986; Chairman since October, 2006; Chief Executive Officer since 1995; President since 1990; Chief Operating Officer from 1990 to 1994; Vice President Operations from 1985 to 1990.
Ilene S. Gordon	54	Director since 1999; President & CEO of Alcan Packaging, a business unit of Rio Tinto Alcan since October, 2007; Senior Vice President, Alcan, Inc. and President and CEO of Alcan Packaging, a packaging company, November 2006 to October 2007; President Alcan Food Packaging Americas 2003 to 2006 (successor of Pechiney Plastic Packaging, Inc.); President of Pechiney Plastic Packaging, Inc., a flexible packaging manufacturing and marketing business, and Senior Vice President of Pechiney Group from 1999 to 2003. Director of United Stationers, Inc.
James R. Wimmer	79	Director since 1985; Partner, Lord, Bissell & Brook, attorneys, from 1959 to 1992 and Of Counsel from 1992 to 1999.

Members of the Board of Directors Continuing in Office

As Class II Directors with Terms Expiring in 2010

William L. Bax	64	Director since 2006; Managing Partner of Chicago office of PriceWaterhouseCoopers, a public accounting firm, from 1997 to 2003. Director of Northern Funds/Northern Institutional Funds.
T. Kimball Brooker	68	Director since 1994; President, Barbara Oil Company, an investment business, since 1989; Managing Director, Morgan Stanley & Co., Inc. from 1975 to 1988.
David S. Johnson	51	Director since 2003; President and Chief Executive Officer of Michael Foods, Inc., since 2008; President and Chief Operating Officer, Michael Foods, Inc., 2007; President of North American Commercial for Kraft Foods, Inc., a food company, 2003 to 2006.

**OWNERSHIP OF ARTHUR J. GALLAGHER & CO. STOCK BY
DIRECTORS, OFFICERS AND CERTAIN BENEFICIAL OWNERS**

The following table shows, with respect to any person who is known to be the beneficial owner as of March 1, 2008 of more than 5% of the Company's Common Stock, par value \$1.00 per share, which is its only class of issued and outstanding capital stock, (i) the total number of shares of Common Stock beneficially owned as of such date; and (ii) the percent of Common Stock so owned as of the same date.

Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Common Stock
Capital World Investors and The Income Fund of America, Inc. 333 South Hope Street Los Angeles, CA 90071	5,403,700(1)	5.8%
Barclays Global Investors, N.A. 45 Fremont Street San Francisco, CA 94105	5,537,318(2)	5.90%

- (1) Information obtained from a Schedule 13G filed with the Securities and Exchange Commission (SEC) on February 11, 2008 by Capital World Investors and The Income Fund of America, Inc. The Company has been informed that Capital World Investors is deemed to be the beneficial owner in the aggregate of 5,403,700 shares of the Company's Common Stock as a result of acting as investment adviser to various investment companies. In the Schedule 13G, The Income Fund of America, Inc., which is advised by Capital Research and Management Company, discloses beneficial ownership of 5,403,700 shares, or 5.8%, of the Common Stock of the Company.
- (2) Information obtained from Schedule 13G filed with the SEC on February 5, 2008 by Barclays Global Investors. In the Schedule 13G, Barclays Global Investors, N.A. disclosed beneficial ownership of 2,064,919 shares or 2.2% of the Common Stock of the Company, Barclays Global Fund Advisors, an investment advisor, disclosed ownership of 3,346,481 shares or 3.56% of the Common Stock of the Company and Barclays Global Investors, Ltd., disclosed beneficial ownership of 125,918 shares or 0.13% of the Common Stock of the Company.

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

The following table shows, with respect to each of the directors and nominees for director of the Company, the executive officers named in the Summary Compensation Table, and all directors and executive officers as a group, (i) the total number of shares of Common Stock beneficially owned as of March 1, 2008 and (ii) the percent of Common Stock so owned as of the same date.

Name of Beneficial Owner	Amount & Nature of Beneficial Ownership(1)	Percent of Common Stock
William L. Bax	3,500	*
T. Kimball Brooker	313,110(2)	*
Gary P. Coughlan	126,110	*
James W. Durkin, Jr.	426,213	*
J. Patrick Gallagher, Jr.	813,212(3)	*
James S. Gault	213,904(4)	*
Ilene S. Gordon	161,220	*
Elbert O. Hand	73,110	*
Douglas K. Howell	122,789	*
David S. Johnson	44,410	*
Kay W. McCurdy	15,195	*
Richard J. McKenna	192,130	*
Norman L. Rosenthal	4,500	*
James R. Wimmer	169,414(5)	*
All directors and executive officers as a group (18 persons)	3,092,043	3.30%

* Less than 1%

- (1) Calculated pursuant to Rule 13d-3(d) under the Exchange Act. Unless otherwise stated in these notes, each person has sole voting and investment power with respect to all such shares. Includes shares which the listed beneficial owner has a right to acquire within sixty days as follows: T. Kimball Brooker, 140,750 shares; Gary P. Coughlan, 118,250 shares; James W. Durkin, Jr., 125,596 shares; J. Patrick Gallagher, Jr., 147,397 shares; James S. Gault, 91,000 shares; Ilene S. Gordon, 155,860 shares; Elbert O. Hand, 68,250 shares; Douglas K. Howell, 73,905 shares; David S. Johnson, 41,750 shares; Kay W. McCurdy, 10,835 shares; Richard J. McKenna, 87,504 shares; and James R. Wimmer, 158,054 shares; all directors and executive officers as a group (18 persons), 1,392,253 shares.
- (2) Includes 15,000 shares owned by Barbara Oil Company, which are voted by Mr. Brooker.
- (3) Includes 174,050 shares held in trust for the benefit of his children by his wife, Anne M. Gallagher, and another, as trustees, 100,089 shares held by his wife, and 150,000 shares held by Elm Court LLC, a limited liability company of which the voting LLC membership interests are owned by J. Patrick Gallagher, Jr. and the non-voting LLC membership interests are owned by a grantor retained annuity trust under which J. Patrick Gallagher, Jr. is the trustee.
- (4) Includes 56,000 shares held by his wife.
- (5) Includes 8,000 shares held by his wife.

COMPENSATION OF EXECUTIVE OFFICERS

COMPENSATION DISCUSSION AND ANALYSIS

This section explains the Company's executive compensation program as it relates to the following named executive officers:

J. Patrick Gallagher, Jr.	Chairman, President & Chief Executive Officer
Douglas K. Howell	Corporate Vice President and Chief Financial Officer
James W. Durkin, Jr.	Corporate Vice President
	President, Employee Benefit Consulting and Brokerage
James S. Gault	Corporate Vice President
	President, Property/Casualty Brokerage
Richard J. McKenna	Corporate Vice President
	President, Risk Management Services

This section describes the overall objectives of the Company's compensation program, the individual elements of the Company's compensation program and the performance measures used to make compensation decisions. It also describes the Compensation Committee's decisions and decision-making process.

Compensation Committee

The Compensation Committee determines the type and amount of compensation for the Company's named executive officers. The Compensation Committee acts pursuant to a charter that has been approved by the Board. The Compensation Committee's responsibilities are summarized on pages 5-6 of this Proxy Statement.

The Compensation Committee is composed entirely of non-employee directors, each of whom is independent under the Company's Governance Guidelines and NYSE listing standards. The members of the Compensation Committee are T. Kimball Brooker, Ilene S. Gordon, Elbert O. Hand, David S. Johnson and Kay W. McCurdy.

Key Compensation Issues

In 2007, the Compensation Committee addressed the following key compensation issues:

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

Officer Compensation Benchmarking. Compensation of the Company's executive officers was compared to companies in a core peer group, a secondary peer group of similarly sized companies in the financial services sector and a selected list of competitors taken from published surveys. Data indicated that, while competitive with respect to base pay and bonus compensation, the Company lagged competitors with respect to incentive pay opportunities. 2007 compensation decisions with respect to the Company's named executive officers reflected these benchmarking findings. Please see [Benchmarking Executive Compensation](#) for further information regarding the Compensation Committee's use of these peer groups.

Equity Authorization Strategy. Although the current shareholder approved stock option plans expire in May, 2008, the Compensation Committee determined that the Company would not seek shareholder approval in 2007 for a new equity authorization. Instead, the Compensation Committee continued a disciplined approach with respect to equity grants in order to achieve, by the end of 2008, a three-year burn-rate within Institutional Shareholder Services (ISS) guidelines. Please see *ISS Burn Rate Test* on page 17 for further discussion on meeting these guidelines.

Long-Term Incentive Strategy. Given limitations on available equity and the lagging competitive positioning compared to the Company's peer groups of long-term incentive opportunities at the Company, a portfolio approach to long-term incentives was developed and approved. Under this portfolio approach, the Company delivers long-term incentive opportunities to named executive officers and other key executives through four vehicles: (i) options, (ii) time-vested full-value restricted stock, (iii) long-term performance-based cash units that mirror equity, and (iv) deferred equity and cash awards that vest upon the recipient reaching age sixty-two. The design is intended to provide competitive long-term reward opportunities and to manage expenses through an annually approved total value transfer budget for the program.

Objectives and Guiding Principles of the Compensation Program

The following guiding principles provide direction in the Compensation Committee's decision-making process:

Business Alignment

The compensation program is designed to attract, motivate, engage and retain the management talent required to lead and profitably grow the Company.

The incentive compensation arrangements, in particular, are intended to create an ownership mindset and drive executive actions and behaviors that improve profitability and maximize the value realized by the Company's stockholders. Individual ownership in the Company's success is a deeply imbedded component of the Company's culture.

Performance Focus

Compensation opportunities for the Company's executives are intended to clearly link Company and individual performance.

Three performance measurement perspectives are reflected in plan design:

Shareholder value creation

Achievement of Company (and, where applicable, the specific business unit) strategic, financial and operational goals

Individual contribution to the strategic growth and short and long-term success of the Company

Long-Term Mindset

The Company's compensation program is designed to encourage employees to contribute to, and participate in, the Company's success over a full career of service. Thus, long vesting schedules and overlapping payout schedules are a program design characteristic.

Comparators

The Company's executive compensation pay level, pay mix, and delivery vehicles are influenced by pay opportunities provided to similarly situated executives at the Company's publicly traded competitors for business and talent. There is no perfect match or single data point that conclusively establishes what or how to pay the Company's named executive officers. Compensation decision-making balances both external market data and internal considerations such as the strategic value of a given role.

Total Compensation Perspective

The intent is to position named executive officer Total Direct Compensation opportunity (base + annual incentives + long-term incentives) (the Total Direct Compensation Opportunity) such that at target performance, market competitive compensation is earned. (Both short-and long-term incentives may reward above market compensation for superior Company performance.) Within this holistic perspective, in a given year for a given individual, more or less weight may be placed on a specific element of the Total Direct Compensation Opportunity.

Pay at Risk

The Company's Total Direct Compensation Opportunity emphasizes at-risk incentive pay. More than two-thirds of each named executive officer's annual Total Direct Compensation Opportunity typically is delivered through at-risk incentives. Additionally, the Compensation Committee does not routinely increase named executive officer base pay on an annual basis.

Award Payments

Executive compensation packages should include performance based awards that are delivered in cash and in equity.

Compensation Decision Making Process

Overview

The Company provides compensation to its named executive officers and other executives through various plans. These plans include:

Senior Management Incentive Plan (SMIP). A stockholder approved plan under which performance based cash incentives are awarded. The Company's annual incentive awards and long-term cash performance unit awards are awarded under the SMIP.

Incentive Stock Option Plan (ISO Plan). A stockholder approved incentive stock options plan. Incentive stock options are generally granted to employees at the start of their employment with the Company.

Nonqualified Stock Option Plan (NSO Plan). A stockholder approved plan under which annual option grants are made. Grants are made with an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the date of grant. There is no prohibition in the NSO Plan on pricing options below the market price. The Compensation Committee does not reprice options, although there is no prohibition on repricing in the ISO Plan or the NSO Plan.

Restricted Stock Plan. A plan established to deliver restricted stock grants and restricted stock unit grants.

Deferred Equity Participation Plan (DEPP). A plan established to deliver deferred equity and cash to participants upon reaching age 62.

In its decision-making process, the Compensation Committee considers many factors in establishing the compensation opportunity to be delivered to named executive officers through these plans. Among the factors the Compensation Committee considers are competitive practices in the Company's talent market, financial service and insurance brokerage industry trends, best practices, and alignment with shareholder interests. Equally important to the Compensation Committee are regulatory compliance, affordability, deductibility, accounting considerations, and consistency with the compensation guiding principles.

Benchmarking Executive Compensation

To ensure that total compensation for named executive officers and other senior executives is competitive, the Compensation Committee reviews published survey data and the proxy data for publicly traded competitors for business and executive talent. The Compensation Committee's review examines the Total Direct Compensation Opportunity as a whole as well as each of its components.

In 2007, publicly traded competitors for business and executive talent were grouped into to three comparator groups:

Core Comparators: Included in this group were Aon Corporation, Brown & Brown, Inc, Hilb, Rogal and Hobbs Co., Marsh & McLennan Companies, Inc., and Willis Group Holdings Ltd. These companies are considered key competitors for the Company's business and leadership talent.

Extended Comparators: Included in this group were the insurance and financial services companies listed below. Similar to the Core Comparators these organizations are potentially competitors for business and leadership talent.

American Financial Group, Inc.	Protective Life Corp
Erie Indemnity Co.	Raymond James Financial Corp
First Merit Corp	Stancorp Financial Group, Inc.
Hanover Insurance Group, Inc.	TCF Financial Corp.
HCC Insurance Holdings	Unitrin Inc.
Old Republic International Corp	

Carrier Comparators: Data from this comparator group are not considered as a primary source for compensation decisions due to differing industry and business models. However, the compensation practices of members of this group are of particular interest to the Compensation Committee and the Company because of increased competition from these insurance carriers in the talent market. Additionally data from these comparators provides information with respect to broader market compensation design trends. Included in the Carrier Comparators are:

Ace Ltd	Cigna Group
Arch Capital Group Ltd	CNA Financial Corp
Aetna Inc	Hartford Financial Services
Axis Capital Holdings Ltd	Prudential Financial Inc.
Berkley (W R) Corp	Unum Group
Chubb Corp	XL Capital Ltd

In arriving at its compensation decisions, the Compensation Committee recognizes that there is no perfect match or single data point that conclusively establishes what/how to pay the Company's named executive officers. Thus, the Compensation Committee's compensation decision-making balances both the external benchmark data and internal considerations such as the strategic value of a given role. External benchmarking data is used as a reference but the Compensation Committee does not target total compensation to a specific level compared to the peer group.

Role of Executive Officers in Compensation Decisions

The Compensation Committee makes all compensation decisions for the named executive officers and approves recommendations regarding equity awards to all elected officers of the Company. The CEO annually reviews the performance of each named executive officer (other than the CEO, whose performance is reviewed by the Compensation Committee). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Compensation Committee. The Compensation Committee can exercise its discretion in modifying any recommended adjustments or awards to executives.

Role of the Compensation Consultant in Decision Making

The Compensation Committee retains Sibson Consulting (Sibson) as its compensation consultant. No member of the Compensation Committee or any named executive officer has any affiliation with Sibson. In connection with this engagement, the Compensation Committee requested that Sibson:

Review the compensation paid to the Company's CEO and other executive officers in relation to the compensation paid by the Company's peers and make recommendations on appropriate compensation levels;

Advise the Compensation Committee and make recommendations regarding executive stock ownership guidelines;

Advise the Compensation Committee about the Company's equity compensation for executives and employees;

Aid the Compensation Committee and management in developing and structuring the long-term compensation elements;

Assist the Compensation Committee and management in the communication of long-term compensation elements;

Advise the Compensation Committee with respect to the establishment of SMIP performance goals for 2007; and

Review director compensation and provide the Compensation Committee with an assessment of competitive market compensation for outside directors.

In making compensation decisions, the Compensation Committee considered Sibson's advice and recommendations. However, the Compensation Committee was responsible for determining the final amount and form of compensation and the level of performance targets.

Other Considerations Which Impact Compensation Committee Decision Making

Tally Sheets. The Compensation Committee has incorporated into its decision-making process the data compiled in each named executive officer's Tally Sheet prepared by management. The Tally Sheets provide a comprehensive view of the Company's compensation payout exposure under various termination scenarios (e.g. voluntary /involuntary termination, retirement, change in control, etc). The Tally Sheets also provide details of all compensation, benefits, and perquisites delivered to the named executive officer during the most recent three-year period. Additionally, the Tally Sheets include a three-year analysis of equity and deferred compensation gains. This information provides a comprehensive context in which the Compensation Committee can determine the appropriate type and amount of compensation for each named executive officer.

ISS Burn-Rate Test. In 2009, the Company intends to seek a new authorization of shares for grants of options and restricted stock to its employees. Institutional Shareholder Services (ISS) has adopted various tests, which influence its recommendation to investors about such authorizations. Burn-Rate refers to the amount of the Company's outstanding equity that is distributed in the form of equity awards and is calculated using the sum of the number of options and ISS adjusted restricted stock granted in a year divided by total shares outstanding. The Burn-Rate Test is calculated over a three year period. Each year the Compensation Committee monitors its option and restricted stock awards to

achieve the ISS recommended three-year Burn-

Rate. The Company is limited in the amount of equity awards it can provide within the allowable Burn-Rate. Accordingly, in 2007 and 2008 named executive officer long-term incentive awards denominated in equity are and will be below competitive practice.

Company Performance Indicators. The Compensation Committee sets revenue, pre-tax income and EBITA objectives, based upon the Company's internal business plan. These three metrics are seen as well-balanced measures of the Company's financial success.

Elements of Executive Officer Compensation

The compensation paid to the named executive officers is delivered through the following:

Base Salary

Overview. The Company provides named executive officers with base salary to compensate them for the fulfillment of their regular duties and responsibilities associated with their job roles within the Company. Consistent with the guiding principle to emphasize pay at risk, the Compensation Committee generally prefers to achieve a competitive Total Direct Compensation Opportunity for named executive officers through an increase in incentive plan opportunities rather than an increase in base salary. Thus, the Compensation Committee typically does not increase base salary on an annual basis.

2007 Base Salary Decisions. In its determination of 2007 base salary actions, the Compensation Committee considered that in 2006 named executive officers did not receive a salary increase. Additionally, because of Burn-Rate considerations, in 2006 named executive officers were not granted stock options. The impact of the 2006 decisions resulted in a 2006 Total Direct Compensation Opportunity below comparator standards. To improve the competitive alignment of the 2007 Total Direct Compensation Opportunity the Compensation Committee, among other actions, increased the 2007 base salary of each named executive officer other than Mr. McKenna. The salary information for the named executive officers is set forth on page 25 in the Summary Compensation Table.

Annual Incentive Compensation

Overview. The Company's annual incentive plan is designed to reward the named executive officers for the achievement of important annual operational, financial, and strategic goals. Payouts from this plan are at risk and contribute to the Company's desired Total Direct Compensation Opportunity which places more weight on at risk pay. Under the annual incentive plan, each year the Compensation Committee sets a funding gate. No award is payable from the plan unless the funding gate is achieved. Additionally, the maximum award under the plan (150% of base salary) is only available if pre-established corporate financial growth targets are achieved. (Base salary is defined as the annualized salary rate in effect on the first day of the performance cycle). Named executive officers who lead business units have additional constraints on the maximum award opportunity that they may earn (as described below).

At the completion of the fiscal year, the CEO recommends an award for each named executive officer (other than himself) based on the level of achievement towards financial targets and the performance goals. The Compensation Committee reviews the recommendation of the CEO and establishes the awards for the named executive officer (other than the CEO). The Compensation Committee also establishes an award for

the CEO based on the level of achievement towards financial targets and the CEO's performance goals. The performance goals and accomplishments of the named executive officers that are used in determining the annual incentive compensation award amounts cover non-public strategic initiatives within the Company and thus are confidential.

2007 Annual Incentive Decisions. In the first quarter of 2007, the Compensation Committee defined three groups of performance measures:

Funding Gate. The Compensation Committee decided that no award would be payable under the plan unless the Company's revenue exceeded \$1.5 billion and it achieved positive pre-tax income. The pre-tax income funding gate was considered appropriate because of very difficult business conditions in the insurance brokerage business, including rapidly declining insurance premium rates. For 2007, these threshold amounts were achieved because Company revenue was \$1.609 billion and pre-tax income was positive.

Company Performance Goals. The Compensation Committee decided that a maximum award of 150% of base salary could be paid if the Company had revenue growth and pre tax income growth of at least 10% (excluding the performance of the Company's financial services unit). The Company did not achieve this goal as shown in the following table and thus the named executive officers were not eligible for maximum awards:

Performance Goal	2007 Goal	2007 Actual
Revenues	\$ 1.619 billion	\$ 1.609 billion
Pre-Tax Income	\$ 250 million	\$ 229 million

Business Unit Performance Goals. The Compensation Committee established the following award ranges for named executive officers that head a business unit, based on the level of achievement of budgeted revenue and pre-tax income:

Maximum Award	Performance Required to Qualify for Award
50% Base Salary	Achieve less than 75% budgeted Business Unit revenue and pre-tax income levels
100% Base Salary	Achieve 75% to 100% budgeted Business Unit revenue and pre-tax income
150% Base Salary	Achieve more than 100% of budgeted revenue and pre-tax income AND Company Achieves Maximum Compensable Goal

Actual achievement:

Business Unit (and Named Executive Officer Responsible)	PERCENTAGE OF TARGET ACHIEVED	
	Revenue	Pre-Tax Income
Employee Benefit Consulting and Brokerage (James W. Durkin, Jr.)	108%	102%
Property/Casualty Brokerage (James S. Gault)	103%	95%
Risk Management Services (Richard J. McKenna)	100%	96%

Based on the 2007 business unit performance the maximum annual incentive awards to each of the above named executive officers cannot exceed 100% of base salary. J. Patrick Gallagher, Jr. and Douglas K. Howell are not subject to the business unit thresholds described above because they have responsibility for the entire Company and not any individual business unit.

The Compensation Committee reviewed Mr. Gallagher's and Mr. Howell's performance in the light of the maximum award available from the plan. The Compensation Committee determined that pre-tax income growth, revenue growth and EBITA growth were below budgeted levels and that Mr. Gallagher and Mr. Howell had achieved most but not all of their individual goals. As a result, the Compensation Committee awarded an annual incentive award of \$750,000 to Mr. Gallagher (75% of base salary) and \$425,000 to Mr. Howell (81% of base salary).

For 2007, the performance of the other named executive officers was assessed and documented by the CEO and award amounts were recommended in light of the maximum award for which the named executive officer was eligible and the named executive officer's achievement of pre-established operational, financial and strategic goals. The Compensation Committee reviewed the recommendations and agreed with the performance evaluations. Mr. Durkin received an award of \$550,000 (100% of base salary), Mr. Gault an award of \$500,000 (71% of base salary) and Mr. McKenna an award of \$200,000 (50% of base salary). Mr. Gault's and Mr. McKenna's awards were reduced below the 100% amount for which they were eligible because the business unit for which each was responsible failed to achieve its pre-tax income goal.

Long Term Incentive Compensation

Overview. Long-term incentives are designed to tie a significant part of the compensation of the named executive officers to Company performance, create a meaningful alignment of the financial interests of the named executive officers with those of shareholders, reinforce an ownership mindset, and encourage the long-term retention of these executives. In 2006, the Compensation Committee determined that ISS burn-rate considerations limited the long-term incentive opportunity that could be provided through option and restricted share grants. Such limitations, over time, would significantly impact the competitiveness of the Company's Total Direct Compensation Opportunities. A portfolio of long-term incentive delivery vehicles was adopted for 2007. The portfolio brings together existing delivery vehicles (i.e. options, restricted shares, awards under the DEPP) and a new long-term, performance-based, cash incentive arrangement (the Performance Plan). Each year the Compensation Committee establishes a budget which defines the maximum dollar value transfer which can be delivered through these four vehicles to all Company employees. The budget also defines the number of options and restricted shares that can be granted to all Company employees in order to conform to the ISS burn-rate. The Compensation Committee also establishes the maximum value of grants to be delivered to each named executive officer through options, restricted shares, the Performance Plan and the DEPP.

Equity Awards. Equity and awards linked to stock price performance provide an incentive for the named executive officer to manage the Company for earnings growth and stockholder total return. Deferred realization encourages the executives to stay with the Company.

Equity awards may be made pursuant to the ISO Plan, the NSO Plan, the Restricted Stock Plan and the DEPP. The mix among these forms of awards changes from year to year and is determined by the CEO (for awards other than to himself) and the Compensation Committee. Availability of shares under the respective plan, annual and cumulative dilution to the Company's stockholders, Company performance and individual performance are factors considered in determining which type of award to use.

Equity awards are subject to time-based vesting schedules. With respect to restricted stock awards, a recipient cannot vote or transfer the shares granted until the time the shares vest and the shares subject to the award are issued to the recipient. An amount equal to the dividend paid on common stock is credited to an account for a holder of restricted stock units but the holder does not have the right to receive the shares of stock or the dividend equivalent amount until the time that the restricted stock unit vests. Certain equity compensation awards are forfeited by an employee and/or recaptured by the Company if an employee terminates his or her employment and violates certain restrictive covenants that protect the Company within a specified period of time after such termination.

Awards under the DEPP are meant to encourage long-term retention of executives and senior officers of the Company, including the named executive officers until their normal retirement age. Employees may not make withdrawals from the DEPP until they reach age 62 and the amounts in the DEPP are subject to forfeiture in the event of a voluntary termination of employment prior to age 62. Because of ISS Burn-Rate considerations, the DEPP was amended in 2007 to also permit cash awards which, like the restricted stock awards under the plan, do not vest until attainment of age 62. For a description of the mechanics of the DEPP see page 28 under the Narrative to Summary Compensation Table and Plan-Based Award Table .

Long-term Performance-Based Cash Awards. In 2007, the Compensation Committee established, under the provisions of the SMIP, the Performance Plan. Under the Performance Plan, performance units (with an initial value tied to stock price at the time of award) are earned based on achievement by the Company of a financial performance goal during a one year performance period. In 2007, the performance goal was growth in the Company's combined Brokerage and Risk Management segments' adjusted earnings before interest, taxes and amortization (Adjusted EBITA Growth) and the performance period was calendar 2007. The Compensation Committee chose this metric to encourage a focus on growing the core earnings of the Company, thus aligning the interests of the named executive officers with those of the stockholders. Earned units cliff vest and are paid in cash based on the twelve month trailing Company stock price at the end of the subsequent two-year vesting period. The maximum value of a performance unit cannot exceed 150% of the value at the time of award. The minimum value of a performance unit is set at 50% of the value at the time of award. For a more detailed discussion of the mechanics of the Performance Plan see pages 28-29 of this Proxy Statement.

2007 Long-Term Incentive Decisions. In 2007, each named executive officer was eligible to receive an award based on a percentage of salary. The Compensation Committee determines this percentage based on long-term incentive opportunities provided to similarly situated executives at comparator organizations. This award was converted into options, restricted stock units, and Performance Plan units. In 2007, for named executive officers that have met their minimum ownership requirements, award eligibility was more heavily weighted toward the Performance Plan because under the burn-rate limitations, delivery of significant equity awards to the named executive officers would limit the availability of equity for grants to other employees. The eligible award amounts and the allocation percentages among options, restricted stock units and performance units are summarized below:

EXECUTIVE	TARGET % OF SALARY	ELIGIBLE AMOUNT	OPTION AMOUNT	RSU AMOUNT	PERFORMANCE PLAN AMOUNT
J. Patrick Gallagher, Jr.	100%	\$ 1,000,000	10%	10%	80%
Douglas K. Howell	65%	\$ 341,250	20%	30%	50%
James W. Durkin, Jr.	65%	\$ 357,500	10%	10%	80%
James S. Gault	65%	\$ 455,000	10%	10%	80%
Richard J. McKenna	75%	\$ 300,000	10%	10%	80%

The number of options and restricted stock units awarded to our named executive officers in 2007 are included in the Grants of Plan Based Awards Table on page 27 of this Proxy.

Based on the above percentages each of the named executive officers was eligible to qualify for the following Performance Plan units granted as of May 15, 2007 with a designated value of \$28.65 per share:

EXECUTIVE	ELIGIBLE PERFORMANCE PLAN UNITS
J. Patrick Gallagher, Jr.	27,923
Douglas K. Howell	5,955
James W. Durkin, Jr.	9,983
James S. Gault	12,705
Richard J. McKenna	8,377

On March 4, 2008, after evaluating the 2007 performance period which ended on December 31, 2007, the Performance Plan units earned based on 2007 achievement of EBITA target (achievement 51%) are as follows (units vest on January 1, 2010):

EXECUTIVE	Actual Performance Plan Units	Target Payout on 1/1/2010	Maximum Payout on 1/1/2010	Minimum payout on 1/1/2010
J. Patrick Gallagher, Jr.	14,241	\$ 408,000	\$ 612,000	\$ 204,000
Douglas K. Howell	3,037	\$ 87,019	\$ 130,529	\$ 43,510
James W. Durkin, Jr.	5,091	\$ 145,860	\$ 218,790	\$ 72,930
James S. Gault	6,480	\$ 185,640	\$ 278,460	\$ 92,820
Richard J. McKenna	4,272	\$ 122,400	\$ 183,600	\$ 61,200

2007 DEPP decisions. On February 23, 2007, the Compensation Committee awarded the following amounts under the DEPP to the following named executive officers: Mr. Gallagher-\$400,000; Mr. Howell-\$300,000; Mr. Durkin-\$300,000; Mr. Gault-\$300,000; and Mr. McKenna-\$150,000. These amounts vest when the named executive officer reaches age 62.

Perquisites

The Company's named executive officers receive certain taxable perquisites provided by or paid by the Company. These perquisites may include reimbursement of dues for country clubs and other social and professional clubs, payments under the Company's automobile lease program and payments of the premiums for term life insurance. The Company provides these perquisites because (i) many of these perquisites make the executives more efficient and effective, (ii) certain perquisites aid the Company with business development and (iii) they are provided by many companies in the Company's peer groups and in the insurance brokerage industry and the Company therefore believes them to be necessary for the Company to remain competitive in its retention and recruitment of employees and executive officers.

The Compensation Committee reviews the perquisites provided to the named executive officers on a regular basis in an attempt to ensure that they continue to be appropriate in light of the total compensation package.

Post-Termination Compensation

Severance Agreements and Change in Control Agreements. The Company has a Severance Pay Plan under which severance pay may be provided to employees, including the named executive officers, in the event of a hostile takeover of the Company. Additionally, the Company has entered into a Change in Control Agreement with each of the named executive officers. Additional information regarding the Severance Pay Plan and the Change in Control Agreement, including definitions of key terms and quantification of benefits that would have been received by the Company's named executive officers had termination occurred on December 31, 2007 is found under the heading *Potential Payments upon Termination or Change in Control* on pages 34 to 40 of this Proxy Statement.

The Compensation Committee believes that the Severance Pay Plan and the Change in Control Agreements are an important part of the overall compensation of the named executive officers. The Compensation Committee believes that this plan and these agreements will help secure the continued employment and dedication of the named executive officers to serving the interests of stockholders, notwithstanding any concern that they might have at such time regarding their own continued employment, prior to or following a change in control. The Compensation Committee also believes that these components of the Company's compensation plan are important as a recruitment and retention device, as all or nearly all of the companies with which the Company competes for executive talent have similar agreements in place for their senior employees.

Pension Plan. The Company maintains a non-contributory defined benefit pension plan which is qualified under the Internal Revenue Code and which historically covered substantially all domestic employees, including the named executive officers. The Compensation Committee believes that a pension plan is no longer a useful tool in recruiting or in encouraging long-term retention of employees. As a result, in 2005 the Company froze the accumulation of all future benefits under the pension plan. The Compensation Committee believes that the savings plans discussed below are a better way to encourage long-term retention.

401(k) Savings and Thrift Plan and Supplemental Savings and Thrift Plan. Under the 401(k) Savings and Thrift Plan (the 401(k) Plan), a tax qualified retirement savings plan, participating employees, including the named executive officers, may contribute up to 75% of their regular earnings on a before-tax basis into their 401(k) Plan accounts, subject to limitations imposed by the IRS. Under the 401(k) Plan, the Company matches an amount equal to one dollar for every dollar an employee contributes on the first five percent of his or her regular earnings. Amounts held in the 401(k) Plan accounts may not be withdrawn prior to the employee's termination of employment, or such earlier time as the employee reaches the age of 59^{1/2}, subject to certain exceptions set forth in the IRS regulations.

The Company also has a Supplemental Savings and Thrift Plan (the Supplemental Plan), which allows certain highly compensated employees, including the named executive officers, to defer additional amounts on a before-tax basis. For a description of the Supplemental Plan see page 33 under the heading *Nonqualified Deferred Compensation*.

The Company maintains the 401(k) Plan and the Supplemental Plan for employees, including the named executive officers, because the Company wishes to encourage employees to save for retirement, and these plans offer a tax-efficient means of doing so. As described above, the Company prefers these plans over pension plans as a way to provide for employee retirement. The level at which the Company matches employee contributions is designed to aid employees in planning for retirement and to encourage employee

participation in the plans. The Company also provides the Supplemental Plan because it believes that highly compensated employees should be able to save more than the limits set by the IRS.

Tax Considerations

The Internal Revenue Code limits the deductibility for federal income tax purposes of certain compensation payable to certain highly-compensated employees of publicly held corporations. Some types of compensation are excluded from the limitations. The Company generally attempts to preserve the federal income tax deductibility of compensation paid when doing so would be appropriate and in the best interests of the Company and its stockholders. However, the Company reserves the right to authorize the payment of nondeductible compensation when it deems appropriate. The SMIP provides for performance-based compensation that is intended to be fully tax deductible.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors of Arthur J. Gallagher & Co. oversees the Company's compensation program on behalf of the Board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

In reliance on the review and discussion referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Proxy Statement to be filed in connection with the Company's 2008 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

T. Kimball Brooker (Chair)

Ilene S. Gordon

Elbert O. Hand

David S. Johnson

Kay W. McCurdy

2007 SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)(3)	Change in	All Other Compensation (\$)(5)(6)(7)	Total (\$)
						Pension Value and Nonqualified Deferred Compensation Earnings (\$)(4)		
J. Patrick Gallagher, Jr. Chairman, President and Chief	2007	1,000,000	357,519	309,343	750,000		545,690	2,962,552
	2006	925,000	856,849	337,349	1,000,000	63,700	127,200	3,310,098
Executive Officer								
Douglas K. Howell Corporate Vice President and Chief	2007	525,000	228,595	118,768	425,000	3,300	361,678	1,662,341
	2006	425,000	306,401	103,694	425,000	800	51,800	1,312,695
Financial Officer								
James W. Durkin, Jr. Corporate Vice President	2007	550,000	225,102	110,003	550,000	3,170	379,635	1,817,910
President, Employee Benefit Consulting and Brokerage	2006	450,000	599,079	105,963	450,000	64,500	65,800	1,735,342
James S. Gault Corporate Vice President	2007	700,000	180,589	126,871	500,000	3,560	364,481	1,875,501
President, Property/Casualty Brokerage	2006	550,000	267,168	121,716	500,000	55,500	61,300	1,555,684
Richard J. McKenna Corporate Vice President	2007	400,000	343,996	119,219	200,000	10,750	180,402	1,254,367
President, Risk Management Services	2006	400,000	312,839	115,820		63,500	39,100	931,259

- (1) This column represents the dollar amount recognized for financial statement reporting purposes for stock awards granted in and prior to 2007. The amounts reported in this column have been calculated in accordance with SFAS 123R, except that, in accordance with rules of the SEC, any estimate for forfeitures is excluded from, and does not reduce, such amounts. For additional information on the valuation assumptions with respect to stock grants, refer to Notes 12 and 13 to the Company's consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC. These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officer.
- (2) This column represents the dollar amount recognized for financial statement reporting purposes for stock option awards granted in and prior to 2007. The amounts reported in this column have been calculated in accordance with SFAS 123R, except that, in accordance with rules of the SEC, any estimate for forfeiture is excluded from, and does not reduce, such amounts. For additional information on the valuation assumptions with respect to option grants, refer to Note 11 to the Company's consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC. For each of 2006 and 2007, the amounts reflect options granted in such year as well as in prior years. These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officer.
- (3) This column represents annual incentive compensation awarded under the SMIP related to services rendered in 2006 and 2007. Fifty percent of the 2006 incentive awards were paid in cash in March 2007. The balances of the 2006 annual incentive awards are payable one-half in April of 2008 and one-half in April of 2009 provided the named executive officer is still employed at the Company. Sixty-Seven percent of the 2007 incentive awards were paid in cash in March 2008 for all of the named executive officers.

except Mr. McKenna. The balances of the 2007 annual incentive awards are payable in April of 2009 provided the named executive officer is still employed at the Company. Mr. McKenna's 2007 annual incentive award was paid fully in cash in March of 2008.

- (4) The amounts shown in this column represent the aggregate change in actuarial present value of each named executive officer's benefits under the Company's Pension Plan. Mr. Gallagher's present value of the benefits under the Pension Plan decreased by \$1,050 in 2007.
- (5) Amounts in this column for 2007 include the value of perquisites paid to named executive officers as follows:

Named Executive Officer	Corporate Automobile Usage	Club Memberships Not Exclusively For Business Use
J. Patrick Gallagher, Jr	\$ 7,523	\$ 31,053
Douglas K. Howell	8,827	300
James W. Durkin, Jr.	10,509	14,639
James S. Gault	8,454	16,609
Richard J. McKenna	6,797	

The amounts in this table reflect the amounts paid to the named executive officer in reimbursement (i) under the Company's automobile lease program and (ii) for club dues paid by the named executive officer.

- (6) For the 2007 amounts, includes amounts contributed by the Company under the 401(k) match feature of the Company's Savings and Thrift Plan of \$11,250, amounts contributed by the Company under the match feature of the Company's Supplemental Savings and Thrift Plan (Mr. Gallagher \$86,000, Mr. Howell \$39,737, Mr. Durkin \$40,781, Mr. Gault \$25,000, and Mr. McKenna \$8,750) and the equivalent annual value of insurance premiums paid by the Company for group term life insurance for the benefit of the named executive officer (Mr. Gallagher \$4,698, Mr. Howell \$1,564, Mr. Durkin \$2,456, Mr. Gault \$3,168, and Mr. McKenna \$3,605).
- (7) Includes amounts contributed in cash to the Deferred Equity Participation Plan. On February 23, 2007 the following amounts were awarded under Deferred Equity Participation Plan: Mr. Gallagher \$400,000; Mr. Howell \$300,000; Mr. Durkin \$300,000; Mr. Gault \$300,000 and Mr. McKenna \$150,000. Such amounts do not reflect the dollar amount recognized as expense for financial reporting purposes in 2007 and do not correspond to the actual value that will be recognized by the named executive officer. The grants are recognized as expenses ratably over the vesting period of the participants. In 2007, the amount recognized as expense for each of the participants is as follows: Mr. Gallagher \$43,373; Mr. Howell \$13,706; Mr. Durkin \$54,000; Mr. Gault \$32,530 and Mr. McKenna \$61,364.

2007 GRANTS OF PLAN BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payout Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	All Other Options Awards: Number of Securities Underlying Options (#)(4)	Exercise or Base Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
J. Patrick Gallagher, Jr.	5/15/07							3,490			99,989
	5/15/07								16,667	28.65	90,347
	5/15/07				400,000	800,000	1,200,000				N/A
	N/A		1,000,000	1,500,000							N/A
Douglas K. Howell	5/15/07							3,573			102,366
	5/15/07								11,375	28.65	61,660
	10/18/07								50,000	27.94	288,085
	5/15/07				85,300	170,600	255,900				N/A
	N/A		525,000	787,500							N/A
James W. Durkin, Jr.	5/15/07							1,248			35,755
	5/15/07								5,958	28.65	32,297
	5/15/07				143,000	286,000	429,000				N/A
	N/A		550,000	825,000							N/A
James S. Gault	5/15/07							1,588			45,496
	5/15/07								7,583	28.65	41,105
	5/15/07				182,000	364,000	546,000				N/A
	N/A		700,000	1,050,000							N/A
Richard J. McKenna	5/15/07							1,047			29,997
	5/15/07								5,000	28.65	27,104
	5/15/07				120,000	240,000	360,000				N/A
	N/A		400,000	600,000							N/A

- (1) The amounts represent the range of possible annual cash incentive award the named executive officer was eligible to receive in March 2008, or later, related to 2007 performance under the SMIP. The amounts were subject to performance criteria and are subject to the Compensation Committee's downward discretion. The amounts actually awarded to each named executive officer are reported as Non-Equity Incentive Plan Compensation in the Summary Compensation Table and are more fully discussed in footnote (3) thereto.
- (2) The amounts represent the range of possible award the named executive officer would be eligible to receive on January 1, 2010 related to performance under the Performance Plan. The number of units actually awarded under the Performance Plan for 2007 and the range of possible payment amounts on January 1, 2010 are shown on page 22 of this Proxy Statement.
- (3) This column includes restricted stock units granted to the named executive officers on May 15, 2007 at a price of \$28.65 per share, vesting on May 15, 2011.
- (4) This column includes options granted to the named executive officers (i) on May 15, 2007 with an exercise price of price of \$28.65 per share and vesting 20% each year on May 15th and (ii) with respect to Mr. Howell on October 18, 2007 with an exercise price of \$27.94 per share and vesting 10% each year on January 1st.

Narrative to Summary Compensation Table and Plan-Based Award Table
Employment Agreements

None of the named executive officers has an employment agreement.

Each of the named executive officers has entered into a Change in Control Agreement. Please see *Potential Payments upon Termination or Change in Control* beginning on page 34 of this Proxy Statement for a description of these agreements.

Deferred Equity Participation Plan

On February 23, 2007, the Compensation Committee awarded amounts to each named executive officer under the Deferred Equity Participation Plan. The Deferred Equity Participation Plan is maintained as part of the Restricted Stock Plan and is intended to encourage executive officers and key employees to remain with the Company until their normal retirement. Under the Deferred Equity Participation Plan, the Company contributes either shares of Common Stock or cash to a rabbi trust in an amount approved by the Compensation Committee in the name of the plan participant, but subject to the claims of the Company's creditors. Factors used to make the award determinations include business unit performance, business unit earnings growth, individual performance, and retention needs. Dividends earned on the shares in the rabbi trust are used to acquire additional shares of Common Stock. Distributions under the plan normally may not be made until the participant reaches age 62 and are subject to forfeiture in the event of a voluntary termination of employment prior to age 62. Distributions are made in the form of Common Stock, to the extent shares were contributed to the trust or in cash, to the extent cash was contributed. In 2007 the cash contributed to the rabbi trust was invested in an Alliance Bernstein Fund.

Performance Unit Plan

Under the Performance Plan, the Compensation Committee designates an award opportunity for each named executive officer expressed as a dollar value (the Award Opportunity). The Award Opportunity is converted into performance units using the stock price of the Company on the date of designation. In 2007, the date of designation was May 15, 2007. For example if \$50,000 is the Award Opportunity and the stock price on the date of designation is \$25, the converted Award Opportunity is 2,000 units. At the beginning of the grant year the Compensation Committee established a performance metric and performance period to be used to determine the amount of the Award Opportunity earned by each named executive officer. In 2007, the performance metric was growth in adjusted earnings before interest, taxes and amortization for the Company (Adjusted EBITA Growth) and the performance period was 2007. The amount of the Award Opportunity earned is determined at the end of the performance period based on actual Adjusted EBITA Growth for the performance period. The number of performance units earned by each named executive officer in 2007 was determined on the following table:

Adjusted EBITA Growth in 2007

15% or greater

7.5% to 15%

7.5%

Less than 7.5%

Percentage of Opportunity Granted

100% (the Target)

Amount interpolated between Target and Threshold on straight line basis

50% (the Threshold)

0%

For 2007, the Company had Adjusted EBITA Growth of 7.7%. Therefore each recipient of an Award Opportunity had a Percentage of Opportunity of 51%. In our example above, a participant with a 2,000 unit Award Opportunity, would have earned 1,020 performance units ($2,000 \times 51\%$) for the 2007 performance period. Once the portion of the award opportunity earned is determined, the units cliff vest on the first day of the third year after the performance period (the Vesting Date). Thus, for the 2007 grant, the number of earned performance units was determined as of December 31, 2007 and vest on January 1, 2010. On the Vesting Date the amount of the payout (Payout Amount) is determined by multiplying the number of performance units earned by the last calendar year trailing twelve month average stock price of the Company as reported by the New York Stock Exchange. In the above example if the Company's average stock price for 2009 was \$35, then the Payout Amount would equal \$35,700 ($1,020 \text{ units granted} \times \35). The Payout Amount is limited in that it may not exceed 150% of the Award Opportunity earned and, if a portion of the Award Opportunity is earned, may not be less than 50% of the Award Opportunity earned. In the above example, since the price on the date of grant was \$25, the Payout Amount cannot exceed \$36,750 ($1,020 \text{ units grant} \times \$25 \times 150\%$) nor be less than \$12,250 ($1,020 \text{ units grant} \times \$25 \times 50\%$). The Payout Amount is paid out in cash as soon as practical after the Vesting Date.

OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR-END

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options #(1) Unexercisable	Option Exercise Price (#)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested #(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)		
J. Patrick Gallagher, Jr.	8,000	4,000	9.25	8/31/08				
	18,000	9,000	18.50	6/21/10				
	15,000	10,000	26.50	7/20/11				
	12,500	12,500	22.70	7/22/12				
	20,000	30,000	24.90	7/17/13				
	4,509	10,515	33.28	4/1/14				
	15,000	35,000	29.42	7/22/14				
	3,690	14,760	27.10	5/17/15				
	10,000	40,000	27.25	7/21/15				
	2,590	23,307	27.03	5/16/16				
	16,667	28.65	5/15/17					
				117,032	2,831,004			
Douglas K. Howell	30,000	45,000	24.58	3/3/13				
	1,128	2,628	33.28	4/1/14				
	10,500	24,500	29.42	7/22/14				
	7,000	28,000	27.25	7/21/15				
	259	2,331	27.03	5/16/16				
		11,375	28.65	5/15/17				
	50,000	27.94	10/18/17					
				35,036	847,521			
James W. Durkin, Jr.	36,000	4,000	9.25	8/31/08				
	21,000	9,000	18.50	6/21/10				
	12,000	8,000	26.50	7/20/11				
	10,000	10,000	22.70	7/22/12				
	8,000	12,000	24.90	7/17/13				
	9,000	21,000	29.42	7/22/14				
	6,000	24,000	27.25	7/21/15				
		5,958	28.65	5/15/17				
				62,820	1,519,616			
James S. Gault		4,000	9.25	8/31/08				
	14,000	6,000	18.50	6/21/10				
	12,000	8,000	26.50	7/20/11				
	12,500	12,500	22.70	7/22/12				
	14,000	21,000	24.90	7/17/13				
	10,500	24,500	29.42	7/22/14				
	7,000	28,000	27.25	7/21/15				
		7,583	28.65	5/15/17				
							66,827	1,616,545
Richard J. McKenna	16,000	4,000	9.25	8/31/08				
	21,000	9,000	18.50	6/21/10				
	12,000	8,000	26.50	7/20/11				
	10,000	10,000	22.70	7/22/12				
	12,000	18,000	24.90	7/17/13				
	1,128	2,628	33.28	4/1/14				
	9,000	21,000	29.42	7/22/14				
	6,000	24,000	27.25	7/21/15				
		5,000	28.65	5/15/17				
							67,802	1,640,130

- (1) The following table provides information with respect to the vesting of each named executive officer's outstanding but unvested options as of December 31, 2007. All options granted in 2006 and earlier and the options granted to Mr. Howell on October 18, 2007 vest one-tenth each year on January 1 of such year. All other options granted in 2007 vest one-fifth on each anniversary of the grant date.

Vesting Dates	Mr. Gallagher	Mr. Howell	Mr. Durkin	Mr. Gault	Mr. McKenna
01/01/2008	32,938	20,135	19,000	21,000	20,376
05/15/2008	3,334	2,275	1,192	1,517	1,000
01/01/2009	28,937	20,135	15,000	17,000	16,376
05/15/2009	3,334	2,275	1,192	1,517	1,000
01/01/2010	28,937	20,135	15,000	17,000	16,376
05/15/2010	3,333	2,275	1,192	1,517	1,000
01/01/2011	25,937	20,134	12,000	15,000	13,375
05/15/2011	3,333	2,275	1,191	1,516	1,000
01/01/2012	23,437	20,134	10,000	13,000	11,375
05/15/2012	3,333	2,275	1,191	1,516	1,000
01/01/2013	20,937	20,134	8,000	10,500	9,375
01/01/2014	15,936	12,634	6,000	7,000	6,375
01/01/2015	9,434	8,759	3,000	3,500	3,000
01/01/2016	2,589	5,259			
01/01/2017		5,000			

- (2) The following table provides information with respect to the vesting of each named executive officer's unvested restricted stock units and unvested Performance Plan Units as of December 31, 2007:

Vesting Dates	Mr. Gallagher	Mr. Howell	Mr. Durkin	Mr. Gault	Mr. McKenna
03/31/2008	5,170	4,883	4,596		
01/12/2009					62,483
01/01/2010	14,241	3,037	5,091	6,480	4,272
05/05/2011			51,885		
05/15/2011	3,490	3,573	1,248	1,588	1,047
02/06/2014				58,759	
02/18/2014	94,131				
08/19/2023		23,543			

2007 OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
J. Patrick Gallagher, Jr.			15,171	444,999
Douglas K. Howell			9,606	282,249
James W. Durkin, Jr.			9,040	265,618
James S. Gault	4,000	78,182	3,333	98,457
Richard J. McKenna	20,000	346,494		

(1) Amounts received upon vesting were deferred into the Gallagher Supplemental Savings & Thrift Plan as follows:

Mr. Gallagher \$292,300;

Mr. Howell \$282,249; and

Mr. Durkin \$129,899.

2007 PENSION BENEFITS

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
J. Patrick Gallagher, Jr.	Arthur J. Gallagher & Co. Employees Pension Plan	25	305,400	
Douglas K. Howell	Arthur J. Gallagher & Co. Employees Pension Plan	1	7,300	
James W. Durkin, Jr.	Arthur J. Gallagher & Co. Employees Pension Plan	25	345,300	
James S. Gault	Arthur J. Gallagher & Co. Employees Pension Plan	25	287,900	
Richard J. McKenna	Arthur J. Gallagher & Co. Employees Pension Plan	25	390,200	

The Company maintains a non-contributory defined benefit pension plan (the "Plan") which is qualified under the Internal Revenue Code and which historically has covered substantially all domestic employees. In the second quarter of 2005, the Company amended the Plan to freeze the accrual of future benefits for all domestic employees effective July 1, 2005. Benefits under the Plan are based upon the employee's highest average annual earnings for a five calendar-year period with the Company and are payable after retirement in the form of an annuity or a lump sum. The amount of annual earnings that may be considered in calculating the benefits under the Plan is limited. By law, the maximum amount of annual earnings allowable that may be considered in 2005, the last year that benefits could be accrued, was \$210,000.

Benefits under the Plan are calculated as an annuity equal to 1% of the participant's highest annual average earnings multiplied by years of service, and commencing upon the participant's retirement on or after age 65. The maximum benefit under the pension plan upon retirement would be \$53,318 per year, payable at age 65 in accordance with IRS regulations. Participants also may elect to commence their pensions anytime on or after attaining age 55 if they retire prior to age 65, with an actuarial reduction to reflect the earlier commencement date. Except for Mr. Howell, all of the named executive officers are eligible to take the early retirement option highlighted in the previous sentence. For additional information on the valuation assumptions with respect to pensions, refer to Note 15 of the Company's consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC.

2007 NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last Fiscal
	Year (\$)(1)