

GALLAGHER ARTHUR J & CO
Form DEF 14A
April 02, 2003

NOTICE & 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 Section 240.14a-11(c) or Section 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)

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No fee required

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(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):

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(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, 2003

Dear Stockholder:

Our Annual Meeting will be held on Wednesday, May 21, 2003, at 10:00 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 J. Patrick Gallagher, Jr., President and Chief Executive Officer of the Company, and me will provide information on the business and progress of your Company during 2002 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,

ROBERT E. GALLAGHER

Chairman of the Board

ARTHUR J. GALLAGHER & CO.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 21, 2003

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 Wednesday, May 21, 2003, at 10:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Second Floor, Itasca, Illinois for the following purposes:

1. To elect four Class I directors and to ratify the appointment of one Class III director;
2. To approve the Company's Employee Stock Purchase Plan;
3. To ratify the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2003; and
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 24, 2003 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.

Date: April 7, 2003

By Order of the Board of Directors

JOHN C. ROSENGREN

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.

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 Wednesday, May 21, 2003, in accordance with the foregoing notice. This Proxy Statement and accompanying proxy are being mailed to stockholders on or about April 7, 2003.

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 directors named as the nominees in this Proxy Statement and the ratification of the appointment of one Class III director; **FOR** the approval of the Employee Stock Purchase Plan; and **FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2003. 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 24, 2003 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 89,460,917 shares of 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.

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The presence, in person or by proxy, of a majority of the outstanding shares of the Common Stock of the Company is necessary to constitute a quorum at the Annual Meeting. An automated system administered by the Company's transfer agent tabulates the votes. Abstentions and broker non-votes are included in the number of shares present and voting for the purpose of determining if a quorum is present. Abstentions are also included in the tabulation of votes cast on proposals presented to the stockholders but broker non-votes are not.

Expenses of Solicitation

All expenses of the solicitation of proxies will be paid by the Company. Officers, directors and employees of the Company may also solicit proxies by telephone, facsimile or in person.

PRINCIPAL HOLDERS OF SECURITIES

The following table shows with respect to any person who is known to be the beneficial owner as of December 31, 2002 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 Research and Management Company 333 South Hope Street Los Angeles, CA 90071	6,043,000(1)	6.82%

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, fourteen in number, (i) the total number of shares of Common Stock beneficially owned as of March 1, 2003 and (ii) the percent of Common Stock so owned as of the same date.

Name of Beneficial Owner	Amount & Nature of Beneficial Ownership(2)	Percent of Common Stock
Robert E. Gallagher	2,595,582(3)	2.92%
James J. Braniff III	426,004	*
T. Kimball Brooker	180,580	*
Michael J. Cloherty	229,408	*
Gary P. Coughlan	13,250	*
James W. Durkin, Jr.	386,535	*
J. Patrick Gallagher, Jr.	605,723(4)	*
James S. Gault	117,125(5)	*
Ilene S. Gordon	40,250	*
Elbert O. Hand	0	*
David E. McGurn, Jr.	313,742	*
Richard J. McKenna	167,443	*
James R. Wimmer	84,330	*
All directors and executive officers as a group (14 persons)	5,171,972	5.75%

* Less than 1%

- (1) Information obtained from a Schedule 13G dated February 13, 2003 filed with the Securities and Exchange Commission by Capital Research and Management Company. The Company has been informed that Capital Research and Management Company is deemed to be the beneficial owner in the aggregate of 6,043,000 shares of the Company's voting Common Stock as a result of acting as investment adviser to The American Funds Group of mutual funds. In its Schedule 13G, Capital Research and Management Company disclaimed beneficial ownership of these shares.
- (2) Calculated pursuant to Rule 13d-3(d) under the Securities Exchange Act of 1934. Unless otherwise stated in these notes, each person has sole voting and investment power with respect to all such shares. Under Rule 13d-3(d), shares not outstanding which are subject to options exercisable within sixty days are deemed outstanding for the purpose of computing the number and percentage owned by such person,

- but are not deemed outstanding for the purpose of computing the percentage owned by each other person listed. Includes shares which the listed beneficial owner has a right to acquire within sixty days as follows: James J. Braniff III, 230,000 shares; T. Kimball Brooker, 92,580 shares; Michael J. Cloherty, 126,000 shares; Gary P. Coughlan, 9,250 shares; James W. Durkin, Jr., 269,000 shares; J. Patrick Gallagher, Jr., 45,500 shares; James S. Gault, 34,500 shares; Ilene S. Gordon, 36,250 shares; David E. McGurn, Jr., 154,000 shares; Richard J. McKenna, 86,400 shares; and James R. Wimmer, 81,330 shares; all directors and executive officers as a group (14 persons), 1,171,810 shares.
- (3) Includes 300,000 shares held in trust for the benefit of Robert E. Gallagher's grandchildren under which Robert E. Gallagher is the trustee, 400,000 shares held in trust for the benefit of Isabel Gallagher under which Robert E. Gallagher is a trustee, 400,000 shares held by a charitable trust under which Robert E. Gallagher is the trustee, 500,000 shares held by a limited partnership of which Robert E. Gallagher is the general partner, and 276,048 shares held in the Lauren E. Gallagher Trust under which Robert E. Gallagher is a trustee.
 - (4) Includes 161,880 shares held in trust for the benefit of his minor children by his wife, Anne M. Gallagher, and another, as trustees, 100,212 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 of which J. Patrick Gallagher, Jr. is the trustee.
 - (5) Includes 28,000 shares held by his wife.

ELECTION OF DIRECTORS

The Board of Directors of the Company is divided into three classes. The regular terms of office for the Class I, Class II and Class III directors expire at the 2003, 2004 and 2005 Annual Meetings of Stockholders, respectively. Four persons are to be elected at the meeting to hold office as Class I directors for a term of three years and until their respective successors are elected and qualified.

Elbert O. Hand is currently a member of the Board of Directors as a Class III director, having been appointed to fill a vacancy in such Class on November 21, 2002. The Company's Restated Certificate of Incorporation and By-laws provide that any director appointed to fill a vacancy shall hold office until the expiration of the term of the class of directors to which he was appointed, which in this case occurs at the 2005 Annual Meeting. The Board of Directors has determined, however, that it would be desirable to obtain ratification of the appointment of Mr. Hand. If the ratification of the appointment should fail to be approved by the holders of a majority of the voting stock represented at the Annual Meeting or any adjournment thereof, such appointment shall nevertheless remain in effect until the 2005 Annual Meeting (or the earlier death, resignation or removal of such appointee), but an adverse vote will be considered as a direction to the Board to select another nominee for election to a Class III directorship at the 2005 Annual Meeting.

Set forth below is information concerning the nominees for election as Class I directors as well as information concerning the current directors in each class continuing in office after the Annual Meeting of Stockholders. The Board of Directors recommends a vote **FOR** the election of such nominees and the ratification of the appointment of one Class III director. The persons named on the enclosed proxy card intend to vote the proxies solicited hereby **FOR** all the nominees named below and the ratification of one Class III director unless such authority is withheld. The affirmative vote of the holders of a plurality 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 four nominees. Should any nominee be unavailable to serve or for good cause refuse to serve, an event which the Board of Directors does not anticipate, the persons named in the enclosed proxy 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 I Directors with Terms Expiring in 2006

<u>Name</u>	<u>Age</u>	<u>Year First Elected Director, Business Experience and Other Directorships</u>
James W. Durkin, Jr.	53	Director since 2001; Vice President since 1985; President of Gallagher Benefit Services, Inc. since 1985.
J. Patrick Gallagher, Jr.(1)	51	Director since 1986; 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	49	Director since 1999; President of Pechiney Plastic Packaging, Inc., a flexible packaging manufacturing and marketing business, and Senior Vice President of Pechiney Group since June 1999; Vice President and General Manager of Tenneco Packaging Folding Carton Business from 1997 to 1999; Vice President Operations of Tenneco, Inc. from 1994 to 1997. Director of United Stationers, Inc.
James R. Wimmer	74	Director since 1985; Partner, Lord, Bissell & Brook, attorneys, from 1959 to 1992 and Of Counsel from 1992 to 1999; Vice-Chairman and General Counsel of Commonwealth Industries Corporation from 1991 to 1993.

Members of the Board of Directors Continuing in Office

as Class II Directors with Terms Expiring in 2004

T. Kimball Brooker	63	Director since 1994; President, Barbara Oil Company, an oil and gas exploration and investment business, since 1989; Managing Director, Morgan Stanley & Co., Inc. from 1978 to 1988.
Robert E. Gallagher(1)	80	Director since 1950; Chairman since 1990; Chief Executive Officer from 1963 to 1994.
David E. McGurn, Jr.	49	Director since 2001; Vice President since 1993; President-Specialty Marketing & International since 2001.
Richard J. McKenna	56	Director since 2001; Vice President since 1994; President of Gallagher Bassett Services, Inc. since April 2000.

Members of the Board of Directors Continuing in Office

as Class III Directors with Terms Expiring in 2005

<u>Name</u>	<u>Age</u>	<u>Year First Elected Director Business Experience and Other Directorships</u>
James J. Braniff III	63	Director since 2001; Vice President since 1995; President and Chief Operating Officer of Brokerage Services Division from 1999 to June 2002.
Gary P. Coughlan	59	Director since 2000; Senior Vice President and Chief Financial Officer of Abbott Laboratories from 1990 to March 2001; Senior Vice President of Kraft General Foods from 1989 to 1990; prior thereto Senior Vice President and Chief Financial Officer of Kraft, Inc. which he joined in 1972. Director of Hershey Foods Corporation and General Binding Corporation.
Elbert O. Hand	63	Director since November, 2002; Chairman of the Board of Hartmarx Corporation, a consumer apparel products business, since 1992, Chief Executive Officer from 1992 to April 2002, and President and Chief Operating Officer from 1985 to 1992. Director of Hartmarx Corporation.

(1) Robert E. Gallagher is an uncle of J. Patrick Gallagher, Jr.

Board of Directors

The Company's Board of Directors has the responsibility to review the overall operations of the Company. The Board members are kept informed of the Company's results of operations and proposed plans and business objectives by the Company's management. During 2002, the Board of Directors met six times. All of the directors attended 75% or more of the aggregate meetings of the Board and Board committees on which they served. Included among the committees of the Board are standing Nominating/Governance, Audit and Compensation Committees.

Nominating/Governance Committee

The Nominating/Governance Committee considers new nominees proposed for the Board of Directors and will consider individuals whose names and qualifications are furnished in writing to the Committee (in care of the Chairman at the Company's principal office) by stockholders. The Committee will also be responsible for the development and review of the Company's governance principles. Current members of the Committee are Ilene S. Gordon (Chairman), Gary P. Coughlan, Elbert O. Hand and James R. Wimmer, none of whom is an employee of the Company. The Committee met three times in 2002. 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, notice must be received by the Company not less than 45 days prior to an annual meeting of stockholders of the Company. Such notice must set forth all information with respect to each such nominee as required by the federal proxy rules. Such notice must be accompanied by a consent of such nominee to serve as a director, if elected.

Audit Committee

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The Audit Committee of the Board of Directors is composed of 3 directors, none of whom is an employee of the Company. The Committee is governed by a charter approved by the Board of Directors on May 16, 2000. In accordance with its Charter, the Committee assists the Board in carrying out its responsibilities for monitoring management's accounting for the Company's financial results and for the timeliness and adequacy

of the reporting of those results; discusses and makes inquiry into the audits of the Company's books made internally and by outside independent auditors, the Company's financial and accounting policies, its internal controls and its financial reporting; and investigates and makes a recommendation to the Board each year with respect to the appointment of independent auditors for the following year. Current members of the Committee are Gary P. Coughlan (Chairman), T. Kimball Brooker and James R. Wimmer, each of whom meets the independence and experience requirements of the New York Stock Exchange. The Audit Committee met nine times in 2002.

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate filings, including this Proxy Statement, in whole or in part, the following report shall not be incorporated by reference into any such filings.

Report of the Audit Committee

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1 - Independence Discussions with Audit Committees and discussed with the auditors any relationships that may impact their objectivity and independence. The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees. The Committee reviewed and discussed the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2002, with management and the independent auditors.

Management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, the Company's accounting and financial reporting principles, and internal controls designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States. Management has represented to the Committee that the Company's financial statements were prepared in accordance with generally accepted accounting principles. It is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the Company's audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2002, for filing with the Securities and Exchange Commission.

Audit Committee

Gary P. Coughlan (Chairman)

T. Kimball Brooker

James R. Wimmer

Compensation Committee

The Compensation Committee determines the salaries, bonuses and other compensation and terms and conditions of employment of the executive officers and certain key employees of the Company and makes recommendations to the Board of Directors with respect to the Company's compensation plans and policies. In addition, the Committee administers the Company's stock option plans and reviews the Company's employee benefit programs. Current members of the Compensation Committee are T. Kimball Brooker (Chairman), Ilene S. Gordon, Elbert O. Hand and James R. Wimmer, none of whom is an employee of the Company. The Committee met four times in 2002.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate filings, including this Proxy Statement, in whole or in part, the following report and the Comparative Performance Graph on Page 12 shall not be incorporated by reference into any such filings.

Report of the Compensation Committee

Executive Compensation

The Compensation Committee is responsible for determining the total compensation and employment conditions of the Company's executive officers. In determining the total 2002 compensation, the Compensation Committee generally evaluated the executive's contribution to the overall success of the Company in achieving the corporate goals set out below. In making such determinations, the members of the Compensation Committee consult with members of senior management and base such determinations on the information and recommendations of senior management. The following items are important elements in determining compensation.

Earnings Growth Year-over-year earnings growth is one of the most important goals of the Company. The effort of an individual executive in meeting or exceeding year-over-year growth for his or her department or division has historically been an important criterion in the evaluation. In addition, the Compensation Committee focuses on the contribution of the executive to the overall success of the Company in meeting its plan for growth. Longer term growth goals, as measured against the Company's Three Year Strategic Plan, are also considered in the evaluation. The Compensation Committee believes that the performance of management should be evaluated using operating and cash basis results as well as GAAP results. The Compensation Committee also takes into consideration the separate operating results of each of the Company's core operating divisions in evaluating the performance of the managers of those divisions.

Business Growth The Company considers its long term business growth to be a critical factor in the continued success of the Company. Executives are expected to support the Company's acquisition program, which seeks to achieve growth by successfully integrating independent businesses into the corporate structure. Similarly, establishment of operations in new geographic areas, as well as the successful development and marketing of new product lines, are considered necessary to the continued

growth of the Company and are included in the evaluation. In 2002, ten businesses were acquired. The development and marketing of new product lines continued on a basis consistent with prior years.

Human Resources As a service business, the Company believes that its employees are its greatest asset. Over 60% of the Company's expenses in 2002 were related to the compensation of its employees and related costs. The Company is committed to the successful hiring, training and retaining of people who promote the growth, financial success and management succession of the Company. An executive's ability to manage these resources, as well as the attendant expenses, is a significant criterion.

Enhancement of shareholder value is the ultimate goal of the Company. The Compensation Committee believes that its focus on specific corporate goals should result in a strong stock price, improved earnings per share and greater return on stockholders' equity.

The Company has a discretionary bonus pool for executive officers and key employees, contingent upon satisfactory corporate growth and the attainment of predetermined managerial goals. These predetermined goals are extremely varied and, in the case of the executive officers, are established by the individual officer in conjunction with senior management in consultation with the Compensation Committee. The goals are too diverse to generalize but typically include meeting or exceeding budgetary guidelines and contribution to the Company's profitability. Attainment of these goals in many cases may be determined by a subjective judgment of the individual supervisor or, in the case of the executive officers, by the Compensation Committee. The eligibility for participation in the bonus pool is determined by the Board. All of the executive officers of the Company (other than Messrs. Braniff, Gault and McGurn, who participate in the BSD Plan) are eligible to participate in this plan.

The Company has a bonus plan for its Brokerage Services Division to provide incentives to the management personnel of the Division. The bonuses under this Plan are determined by a formula applied to the pretax profitability of the Brokerage Services Division. Under the Plan, at the discretion of the Company, participants may receive their award in cash or in Common Stock of the Company. Any award under the Plan vests in the participant's account in three installments at the rate of 33 1/3% per year beginning on March 31st after the end of the year in which the bonus is earned, with vesting acceleration in the event of death, disability, retirement or change in control. Messrs. Braniff, Gault and McGurn are eligible to participate in this Plan.

The Company has a Deferred Equity Participation Plan to encourage key executive officers to remain with the Company until their normal retirement. Under the Plan, the Company contributes shares of Common Stock to a rabbi trust in an amount approved by the Compensation Committee in the name of the plan participant. The Chief Executive Officer of the Company, in conjunction with the Compensation Committee, determines the key executives who will receive an award under the Plan and the amount of such award. Distributions under the Plan 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. All distributions are made in the form of Common Stock of the Company. All of the executive officers are eligible to participate in this plan.

Option grants to executive officers under the Company's Stock Option Plans are determined by the Compensation Committee of the Board of Directors and are generally based upon more subjective factors. The Compensation Committee considers the recommendations of the executive officers of the Company, the responsibilities of each grantee, his or her past performance and his or her anticipated future contribution to the Company. Options directly reflect the Company's performance through its stock price.

The Internal Revenue Code limits the deductibility for federal income tax purposes of certain compensation payable to top executive officers of publicly held corporations. Certain types of compensation are excluded from the limitations. The Company generally attempts to preserve the federal income tax deductibility of compensation paid when it is appropriate and is in the best interests of the Company and its stockholders. However, the Company reserves the right to authorize the payment of nondeductible compensation which it deems appropriate.

Executive officers participate in the Savings and Thrift Plan, Supplemental Savings and Thrift Plan and Pension Plan, and receive customary employee health benefits and expense reimbursement in accordance with the Company's policy.

During 2002, the Committee compared the compensation of the five most highly compensated executive officers of the Company to the publicly held competitors of the Company included in the Comparative Performance Graph on Page 12. The Committee targets the middle of its competitors' salary range for its executive officers' compensation. The Committee believes that the 2002 compensation of the Company's five most highly compensated executive officers will be in the middle range when compared to its publicly-held competitors after making certain adjustments for the size of the Company.

Chief Executive Officer Compensation

The 2002 salary of J. Patrick Gallagher, Jr., the Company's Chief Executive Officer, was \$850,000. Mr. Gallagher also received a cash bonus of \$283,300, a restricted stock award of \$566,700 and an equity award valued at \$400,000 under the Company's Deferred Equity Participation Plan. In determining Mr. Gallagher's bonus and equity awards, the Compensation Committee considered the Company's excellent performance in 2002 with reference to the Company's substantial overall business growth as well as growth in net operating earnings.

Compensation Committee

T. Kimball Brooker (Chairman)

Ilene S. Gordon

Elbert O. Hand

James R. Wimmer

Summary Compensation Table

The following table presents information concerning compensation paid or set aside by the Company and its subsidiaries on an accrual basis to or for the benefit of the Chief Executive Officer and each of the other four most highly compensated executive officers of the Company, as well as a former executive officer, in each of the Company's last three fiscal years.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards			
		Salary (\$)	Bonus (\$)(1)	Deferred Equity Awards \$(2)	Restricted Stock Awards \$(3)	Securities Underlying Options (#)	All Other Compensation \$(4)
J. Patrick Gallagher, Jr.	2002	850,000	283,300	400,000	566,700	25,000	19,600
President and Chief Executive Officer	2001	850,000		400,000	1,059,000	25,000	28,700
	2000	650,000	500,000	400,000		30,000	21,700
James J. Braniff III	2002	600,000	167,700	300,000			