GALLAGHER ARTHUR J & CO
Form 10-Q
May 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2016

or

¨ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from______ to ______

Commission File Number: 1-09761

ARTHUR J. GALLAGHER & CO.

(Exact name of registrant as specified in its charter)

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

Two Pierce Place, Itasca, Illinois 60143-3141
(Address of principal executive offices) (Zip code)

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

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

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

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

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

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

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

The number of outstanding shares of the registrant s common stock, $1.00 par value, as of March 31, 2016 was approximately 177,129,000.

Arthur J. Gallagher & Co.

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Part I - Financial Information

Item 1. Financial Statements (Unaudited)

Arthur J. Gallagher & Co.

Consolidated Statement of Earnings

(Unaudited - in millions, except per share data)

	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Commissions	$ 566.0	$ 519.7
Fees	338.2	323.2
Supplemental commissions	32.9	26.9
Contingent commissions	55.2	44.5
Investment income	10.3	13.1
Gains on books of business sales	2.2	0.9
Revenues from clean coal activities	294.8	303.9
Other net revenues (losses)	0.8	(0.9)
Total revenues	1,300.4	1,231.3
Compensation	622.1	575.2
Operating	204.5	203.5
Cost of revenues from clean coal activities	304.4	309.3
Interest	25.8	25.6
Depreciation	24.7	21.5
Amortization	59.3	54.7
Change in estimated acquisition earnout payables	3.9	10.6
Total expenses	1,244.7	1,200.4
Earnings before income taxes	55.7	30.9
Benefit for income taxes	(2.2)	(1.5)
Net earnings	57.9	32.4
Net earnings attributable to noncontrolling interests	11.4	10.5
Net earnings attributable to controlling interests	$ 46.5	$ 21.9
Basic net earnings per share	$ 0.26	$ 0.13
Diluted net earnings per share	0.26	0.13
Dividends declared per common share	0.38	0.37

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.

Consolidated Statement of Comprehensive Earnings

(Unaudited - in millions)

	Three-month period ended March 31,	
	2016	**2015**
Net earnings	$ 57.9	$ 32.4
Change in pension liability, net of taxes	0.8	0.7
Foreign currency translation	(12.7)	(134.8)
Change in fair value of derivative investments, net of taxes	(1.0)	
Comprehensive earnings (loss)	45.0	(101.7)
Comprehensive earnings (loss) attributable to noncontrolling interests	14.2	(4.0)
Comprehensive earnings (loss) attributable to controlling interests	$ 30.8	$ (97.7)

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.

Consolidated Balance Sheet

(In millions)

	March 31, 2016 (Unaudited)	December 31, 2015
Cash and cash equivalents	$ 425.4	$ 480.4
Restricted cash	1,303.5	1,412.1
Premiums and fees receivable	1,706.8	1,734.0
Other current assets	503.8	587.2
Total current assets	3,939.5	4,213.7
Fixed assets - net	218.2	202.7
Deferred income taxes	660.6	643.5
Other noncurrent assets	528.0	488.9
Goodwill - net	3,693.4	3,662.9
Amortizable intangible assets - net	1,672.9	1,698.8
Total assets	$ 10,712.6	$ 10,910.5
Premiums payable to insurance and reinsurance companies	$ 2,722.9	$ 2,877.1
Accrued compensation and other accrued liabilities	728.8	812.7
Unearned fees	70.5	61.3
Other current liabilities	49.0	54.0
Premium financing debt	96.2	137.0
Corporate related borrowings - current	355.0	245.0
Total current liabilities	4,022.4	4,187.1
Corporate related borrowings - noncurrent	2,071.8	2,071.7
Other noncurrent liabilities	966.1	963.5
Total liabilities	7,060.3	7,222.3
Stockholders equity:		
Common stock - issued and outstanding 177.1 shares in 2016 and 176.9 shares in 2015	177.1	176.9
Capital in excess of par value	3,202.0	3,209.4
Retained earnings	753.4	774.5
Accumulated other comprehensive loss	(535.4)	(522.5)
Stockholders equity attributable to controlling interests	3,597.1	3,638.3
Stockholders equity attributable to noncontrolling interests	55.2	49.9
Total stockholders equity	3,652.3	3,688.2
Total liabilities and stockholders equity	$ 10,712.6	$ 10,910.5

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.

Consolidated Statement of Cash Flows

(Unaudited - in millions)

	Three-month period ended March 31, 2016	2015
Cash flows from operating activities:		
Net earnings	$ 57.9	$ 32.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net (gain) loss on investments and other	(2.2)	0.1
Depreciation and amortization	84.0	76.2
Change in estimated acquisition earnout payables	3.9	10.6
Amortization of deferred compensation and restricted stock	5.7	4.2
Stock-based and other noncash compensation expense	3.3	2.2
Effect of changes in foreign exchange rates	0.1	0.1
Net change in restricted cash	92.8	162.5
Net change in premiums receivable	(60.8)	(79.3)
Net change in premiums payable	(114.2)	(81.4)
Net change in other current assets	85.9	96.7
Net change in accrued compensation and other accrued liabilities	(19.0)	40.1
Net change in fees receivable/unearned fees	16.6	(16.5)
Net change in income taxes payable	(3.4)	(30.4)
Net change in deferred income taxes	(16.7)	(2.1)
Net change in other noncurrent assets and liabilities	(17.3)	(34.2)
Unrealized foreign currency remeasurement loss	(7.2)	(67.9)
Net cash provided by operating activities	109.4	113.3
Cash flows from investing activities:		
Net additions to fixed assets	(61.9)	(17.8)
Cash paid for acquisitions, net of cash acquired	(61.7)	(22.0)
Net proceeds from sales of operations/books of business	1.7	0.8
Net funding of investment transactions	(6.5)	(1.3)
Net cash used by investing activities	(128.4)	(40.3)
Cash flows from financing activities:		
Proceeds from issuance of common stock	6.8	18.1
Tax impact from issuance of common stock	0.6	4.1
Repurchases of common stock	(30.4)	
Payments for noncontrolling interests	(8.9)	(10.6)
Dividends paid	(68.9)	(62.7)
Net borrowings on premium financing debt facility	(44.3)	(28.3)
Borrowings on line of credit facility	332.0	17.0
Repayments on line of credit facility	(221.0)	(42.0)
Net cash used by financing activities	(34.1)	(104.4)
Effect of changes in foreign exchange rates on cash and cash equivalents	(1.9)	(6.2)
Net decrease in cash and cash equivalents	(55.0)	(37.6)
Cash and cash equivalents at beginning of period	480.4	314.4

Cash and cash equivalents at end of period	$ 425.4	$ 276.8
Supplemental disclosures of cash flow information:		
Interest paid	$ 29.0	$ 28.8
Income taxes paid	13.8	12.9

See notes to consolidated financial statements.

Arthur J. Gallagher & Co.

Consolidated Statement of Stockholders Equity

(Unaudited - in millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Noncontrolling Interests	Total
	Shares	Amount					
Balance at December 31, 2015	176.9	$ 176.9	$ 3,209.4	$ 774.5	$ (522.5)	$ 49.9	$ 3,688.2
Net earnings				46.5		11.4	57.9
Dividends paid to noncontrolling interests						(8.9)	(8.9)
Change in pension liability, net of taxes of $0.5 million					0.8		0.8
Foreign currency translation					(12.7)	2.8	(9.9)
Change in fair value of derivative instruments, net of taxes of ($0.6) million					(1.0)		(1.0)
Compensation expense related to stock option plan grants			3.3				3.3
Tax impact from issuance of common stock			0.6				0.6
Common stock issued in:							
Two purchase transactions	0.5	0.5	20.2				20.7
Stock option plans	0.2	0.2	4.0				4.2
Employee stock purchase plan	0.1	0.1	2.5				2.6
Deferred compensation and restricted stock	0.2	0.2	(8.4)				(8.2)
Common stock repurchases	(0.8)	(0.8)	(29.6)				(30.4)
Cash dividends declared on common stock				(67.6)			(67.6)
Balance at March 31, 2016	177.1	$ 177.1	$ 3,202.0	$ 753.4	$ (535.4)	$ 55.2	$ 3,652.3

See notes to consolidated financial statements.

Notes to March 31, 2016 Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation

Arthur J. Gallagher & Co. and its subsidiaries, collectively referred to herein as we, our, us or the company, provide insurance brokerage and risk management services to a wide variety of commercial, industrial, institutional and governmental organizations through three reportable operating segments. Commission and fee revenue generated by the brokerage segment is primarily related to the negotiation and placement of insurance for our clients. Fee revenue generated by the risk management segment is primarily related to claims management, information management, risk control consulting (loss control) services and appraisals in the property/casualty market. Investment income and other revenue are generated from our premium financing operations and our investment portfolio, which includes invested cash and restricted funds, as well as clean energy and other investments. We are headquartered in Itasca, Illinois, have operations in 31 countries and offer client-service capabilities in more than 150 countries globally through a network of correspondent insurance brokers and consultants.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been omitted pursuant to such rules and regulations. The unaudited consolidated financial statements included herein are, in the opinion of management, prepared on a basis consistent with our audited consolidated financial statements for the year ended December 31, 2015, except as disclosed in Note 2, and include all normal recurring adjustments necessary for a fair presentation of the information set forth. The quarterly results of operations are not necessarily indicative of the results of operations to be reported for subsequent quarters or the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015. In the preparation of our unaudited consolidated financial statements as of March 31, 2016, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued, for potential recognition or disclosure therein.

2. Effect of New Accounting Pronouncements

Stock Compensation

In March 2016, the Financial Accounting Standards Board (which we refer to as the FASB) issued Accounting Standards Update (which we refer to as ASU) No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This new accounting guidance requires that all companies recognize the income tax effects of awards in the income statement when the awards vest or are settled, rather than maintaining an APIC pool and recognizing the tax benefits in excess of compensation costs through equity. As it relates to forfeitures, the guidance allows for companies to choose whether to continue to estimate forfeitures or account for forfeitures as they occur. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the new guidance may be applied either retrospectively or on a prospective basis. Management is currently reviewing the guidance, and the impact from its adoption on our consolidated financial statements cannot be determined at this time.

Consolidations

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. This new accounting guidance on consolidations, eliminates the deferral granted to investment companies from applying the variable interest entities guidance and makes targeted amendments to the current consolidation guidance. The new guidance applies to all entities involved with limited partnerships or similar entities and required re-evaluation of these entities under the revised guidance, which could have changed previous consolidation conclusions. The new guidance was effective in first quarter of 2016 and has been applied by us. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The new accounting guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new guidance was effective in first quarter 2016 and has been applied by us on a retrospective basis. Accordingly, we have reclassified debt issuance costs of $3.3 million previously included in Other non-current assets to Corporate related borrowings   noncurrent in our consolidated balance sheet as of December 31, 2015.

Intangibles   Goodwill and Other

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement. This new guidance provides additional information to help entities determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. The new guidance was effective in first quarter 2016 and has been applied by us. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Business Combinations

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The new accounting guidance requires that measurement period adjustments be recognized in the reporting period in which the adjustment amount is determined rather than retrospectively applying the change to the acquisition date. The new guidance was effective in first quarter 2016 and was applied by us. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Income Taxes

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The new accounting guidance requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent components. ASU 2015-17 is effective in first quarter 2017. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. We early adopted ASU 2015-17 during first quarter 2016 on a retrospective basis. Accordingly, we reclassified the current deferred taxes to noncurrent in our December 31, 2015 consolidated balance sheet, which increased Noncurrent deferred tax assets by $122.1 million and increased Other noncurrent liabilities by $4.6 million.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as a new Topic, ASC 606, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. Reporting entities may choose to adopt the standard as of the original effective date. The FASB decided, based on its outreach to various stakeholders and the forthcoming amendments to the new revenue standard, that a deferral was necessary to provide adequate time to effectively implement the new revenue standard. This new guidance was originally effective for the first quarter 2017 and early adoption was not permitted. With the one year deferral date, this new guidance is now effective for the first quarter 2018, but it can be adopted earlier in first quarter of 2017. The guidance permits two methods of transition upon adoption; full retrospective and modified retrospective. Under the full retrospective method, prior periods would be restated under the new revenue standard, providing a comparable view across all periods presented. Under the modified retrospective method, prior periods would not be restated. Rather, revenues and other disclosures for pre-2017 periods would be provided in the notes to the financial statements as previously reported under the current revenue standard. We are currently reviewing the guidance, and the impact from its adoption on our consolidated financial statements cannot be determined at this time.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under this new accounting guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This new guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This new guidance is effective for first quarter 2019, and requires a modified retrospective adoption, with early adoption permitted. We are currently reviewing the new guidance, and the impact from its adoption on our consolidated financial statements cannot be determined at this time.

3. Business Combinations

During the three-month period ended March 31, 2016, we acquired substantially all of the net assets of the following firms in exchange for our common stock and/or cash. These acquisitions have been accounted for using the acquisition method for recording business combinations (in millions except share data):

Name and Effective Date of Acquisition	Common Shares Issued (000s)	Common Share Value	Cash Paid	Accrued Liability	Escrow Deposited	Recorded Earnout Payable	Total Recorded Purchase Price	Maximum Potential Earnout Payable
Bomford, Couch & Wilson, Inc. (BCW) February 1, 2016		$	$ 0.9	$	$	$ 1.4	$ 2.3	$ 2.1
White & Company Insurance, Inc. (WCI) February 1, 2016	494	17.4			1.9		19.3	
Joseph Distel & Company, Inc. (JDC) March 1, 2016			1.3		0.2		1.5	
Vincent L. Braband Insurance, Inc. (VBI) March 1, 2016			3.0		0.3	0.4	3.7	1.1
Kane s Insurance Management Operations (KIM) March 31, 2016			30.8				30.8	
Three other acquisitions completed in 2016			5.7	0.1	0.6	1.3	7.7	1.8
	494	$ 17.4	$ 41.7	$ 0.1	$ 3.0	$ 3.1	$ 65.3	$ 5.0

Common shares issued in connection with acquisitions are valued at closing market prices as of the effective date of the applicable acquisition. We record escrow deposits that are returned to us as a result of adjustments to net assets acquired as reductions of goodwill when the escrows are settled. The maximum potential earnout payables disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid pursuant to the terms of the purchase agreement for the applicable acquisition. The amounts recorded as earnout payables, which are primarily based upon the estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date, are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration in the foregoing table. We will record subsequent changes in these estimated earnout obligations, including the accretion of discount, in our consolidated statement of earnings when incurred. The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements, which is a Level 3 fair value measurement. In determining fair value, we estimated the acquired entity s future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. Revenue growth rates generally ranged from 3.5% to 4.0% for our 2016 acquisitions. We estimated future payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. We then discounted these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that reflect the ability of the acquired entity to achieve the targets. These discount rates generally ranged from 8.5% to 9.0% for all of our 2016 acquisitions. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations.

During the three-month periods ended March 31, 2016 and 2015, we recognized $4.2 million and $4.2 million, respectively, of expense in our consolidated statement of earnings related to the accretion of the discount recorded for earnout obligations in connection with our acquisitions. In addition, during the three-month periods ended March 31, 2016 and 2015, we recognized $0.3 million of income and $6.4 million of expense, respectively, related to net adjustments in the estimated fair value of earnout obligations in connection with revised projections of future performance for 32 and 24 acquisitions, respectively. The aggregate amount of maximum earnout obligations related to acquisitions was $530.2 million as of March 31, 2016, of which $213.4 million was recorded in our consolidated balance sheet as of March 31, 2016, based on the estimated fair value of the expected future payments to be made.

The following is a summary of the estimated fair values of the net assets acquired at the date of each acquisition made in the three-month period ended March 31, 2016 (in millions):

	BCW	WCI	JDC	VBI	KIM	Three Other Acquisitions	Total
Cash	$	$	$ 0.1	$ 0.1	$ 2.0	$ 0.9	$ 3.1
Other current assets	0.2	2.8	1.2	0.1	2.2	0.5	7.0
Fixed assets		0.1	0.1		0.4		0.6
Noncurrent assets							
Goodwill	1.4	13.1	0.8	1.8	13.1	3.3	33.5
Expiration lists	0.9	8.9	0.7	1.8	18.0	3.9	34.2
Non-compete agreements		0.1			1.3	0.2	1.6
Total assets acquired	2.5	25.0	2.9	3.8	37.0	8.8	80.0
Current liabilities	0.2	2.2	1.4	0.1	5.9	1.1	10.9
Noncurrent liabilities		3.5			0.3		3.8
Total liabilities assumed	0.2	5.7	1.4	0.1	6.2	1.1	14.7
Total net assets acquired	$ 2.3	$ 19.3	$ 1.5	$ 3.7	$ 30.8	$ 7.7	$ 65.3

Among other things, these acquisitions allow us to expand into desirable geographic locations, further extend our presence in the retail and wholesale insurance brokerage services and risk management industries and increase the volume of general services currently provided. The excess of the purchase price over the estimated fair value of the tangible net assets acquired at the acquisition date was allocated to goodwill, expiration lists and non-compete agreements in the amounts of $33.5 million, $34.2 million and $1.6 million, respectively, within the brokerage segment.

Provisional estimates of fair value are established at the time of each acquisition and are subsequently reviewed within the first year of operations subsequent to the acquisition date to determine the necessity for adjustments. The fair value of the tangible assets and liabilities for each applicable acquisition at the acquisition date approximated their carrying values. The fair value of expiration lists was established using the excess earnings method, which is an income approach based on estimated financial projections developed by management for each acquired entity using market participant assumptions. Revenue growth and attrition rates generally ranged from 2.0% to 3.0% and 2.5% to 10.0%, respectively, for our 2015 acquisitions for which valuations were performed in 2016. We estimate the fair value as the present value of the benefits anticipated from ownership of the subject customer list in excess of returns required on the investment in contributory assets necessary to realize those benefits. The rate used to discount the net benefits was based on a risk-adjusted rate that takes into consideration market-based rates of return and reflects the risk of the asset relative to the acquired business. These discount rates generally ranged from 12.0% to 14.5% for our 2015 acquisitions for which valuations were performed in 2016. The fair value of non-compete agreements was established using the profit differential method, which is an income approach based on estimated financial projections developed by management for the acquired company using market participant assumptions and various non-compete scenarios.

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

Of the $34.2 million of expiration lists and $1.6 million of non-compete agreements related to our acquisitions made during the three-month period ended March 31, 2016, $9.8 million and $0.1 million, respectively, is not expected to be deductible for income tax purposes. Accordingly, we recorded a deferred tax liability of $3.8 million, and a corresponding amount of goodwill, in the three-month period ended March 31, 2016 related to nondeductible amortizable intangible assets.

Our consolidated financial statements for the three-month period ended March 31, 2016 include the operations of the acquired entities from their respective acquisition dates. The following is a summary of the unaudited pro forma historical results, as if these entities had been acquired at January 1, 2015 (in millions, except per share data):

	Three-month period ended March 31,	
	2016	**2015**
Total revenues	$ 1,304.7	$ 1,238.9
Net earnings attributable to controlling interests	46.1	22.1
Basic net earnings per share	0.26	0.13
Diluted net earnings per share	0.26	0.13

The unaudited pro forma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had these acquisitions occurred at January 1, 2015, nor are they necessarily indicative of future operating results. Annualized revenues of entities acquired during the three-month period ended March 31, 2016 totaled approximately $30.0 million. For the three-month period ended March 31, 2016, total revenues and net earnings recorded in our unaudited consolidated statement of earnings related to our acquisitions made during the three-month period ended March 31, 2016 in the aggregate, were $2.2 million and $0.2 million, respectively.

4. Other Current Assets

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

	March 31, 2016	**December 31, 2015**
Premium finance advances and loans	$ 197.2	$ 220.2
Accrued supplemental, direct bill and other receivables	145.6	181.1
Refined coal production related receivables	80.2	108.1
Prepaid expenses	80.8	77.8
Total other current assets	$ 503.8	$ 587.2

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

5. Intangible Assets

The carrying amount of goodwill at March 31, 2016 and December 31, 2015 allocated by domestic and foreign operations is as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
At March 31, 2016				
United States	$ 1,976.0	$ 23.5	$	$ 1,999.5
United Kingdom	744.6	5.0		749.6
Canada	297.3			297.3
Australia	397.6			397.6
New Zealand	199.7	0.3		200.0
Other foreign	49.4			49.4
Total goodwill - net	$ 3,664.6	$ 28.8	$	$ 3,693.4
At December 31, 2015				
United States	$ 1,946.9	$ 23.5	$	$ 1,970.4
United Kingdom	779.3	3.5		782.8
Canada	282.6			282.6
Australia	380.1			380.1
New Zealand	204.2	0.3		204.5
Other foreign	42.5			42.5
Total goodwill - net	$ 3,635.6	$ 27.3	$	$ 3,662.9

The changes in the carrying amount of goodwill for the three-month period ended March 31, 2016 are as follows (in millions):

	Brokerage	Risk Management	Corporate	Total
Balance as of December 31, 2015	$ 3,635.6	$ 27.3	$	$ 3,662.9
Goodwill acquired during the period	33.5			33.5
Goodwill adjustments due to appraisals and other acquisition adjustments	(1.3)	1.6		0.3
Foreign currency translation adjustments during the period	(3.2)	(0.1)		(3.3)
Balance as of March 31, 2016	$ 3,664.6	$ 28.8	$	$ 3,693.4

Major classes of amortizable intangible assets at March 31, 2016 and December 31, 2015 consist of the following (in millions):

	March 31, 2016	December 31, 2015
Expiration lists	$ 2,639.2	$ 2,613.3
Accumulated amortization - expiration lists	(987.7)	(934.7)
	1,651.5	1,678.6
Non-compete agreements	48.3	43.7
Accumulated amortization - non-compete agreements	(36.9)	(34.8)
	11.4	8.9
Trade names	25.5	25.7
Accumulated amortization - trade names	(15.5)	(14.4)
	10.0	11.3
Net amortizable assets	$ 1,672.9	$ 1,698.8

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

2016 (remaining nine months)	$ 180.7
2017	222.5
2018	210.4
2019	196.9
2020	180.7
Total	$ 991.2

6. Credit and Other Debt Agreements

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

	March 31, 2016	December 31, 2015
Note Purchase Agreements:		
Semi-annual payments of interest, fixed rate of 6.44%, balloon due 2017	$ 300.0	$ 300.0
Semi-annual payments of interest, fixed rate of 5.85%, $50 million due in 2016, 2018 and 2019	150.0	150.0
Semi-annual payments of interest, fixed rate of 2.80%, balloon due 2018	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.20%, balloon due 2019	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.99%, balloon due 2020	50.0	50.0
Semi-annual payments of interest, fixed rate of 3.48%, balloon due 2020	50.0	50.0
Semi-annual payments of interest, fixed rate of 5.18%, balloon due 2021	75.0	75.0
Semi-annual payments of interest, fixed rate of 3.69%, balloon due 2022	200.0	200.0
Semi-annual payments of interest, fixed rate of 5.49%, balloon due 2023	50.0	50.0
Semi-annual payments of interest, fixed rate of 4.13%, balloon due 2023	200.0	200.0
Semi-annual payments of interest, fixed rate of 4.58%, balloon due 2024	325.0	325.0
Semi-annual payments of interest, fixed rate of 4.31%, balloon due 2025	200.0	200.0
Semi-annual payments of interest, fixed rate of 4.73%, balloon due 2026	175.0	175.0
Semi-annual payments of interest, fixed rate of 4.36%, balloon due 2026	150.0	150.0
Semi-annual payments of interest, fixed rate of 4.98%, balloon due 2029	100.0	100.0
Total Note Purchase Agreements	2,125.0	2,125.0
Credit Agreement:		
Periodic payments of interest and principal, prime or LIBOR plus up to 1.45%, was to expire September 19, 2018, replaced with amended and restated facility on April 8, 2016 (see below)	305.0	195.0
Premium Financing Debt Facility - expires May 18, 2017:		
Periodic payments of interest and principal, Interbank rates plus 1. 05% for Facility B; plus 0.55% for Facilities C and D		
Facility B		
AUD denominated tranche	68.1	101.2
NZD denominated tranche	6.7	8.5
Facility C and D		
AUD denominated tranche	11.3	17.2
NZD denominated tranche	10.1	10.1
Total Premium Financing Debt Facility	96.2	137.0
Total corporate and other debt	$ 2,526.2	$ 2,457.0

Note Purchase Agreements - We are a party to an amended and restated note purchase agreement dated December 19, 2007, with certain accredited institutional investors, pursuant to which we issued and sold $300.0 million in aggregate principal amount of our 6.44% Senior Notes, Series B, due August 3, 2017, in a private placement. These notes require semi-annual payments of interest that are due in February and August of each year.

We are a party to a note purchase agreement dated November 30, 2009, with certain accredited institutional investors, pursuant to which we issued and sold $150.0 million in aggregate principal amount of our 5.85% Senior Notes, Series C, due in three equal installments on November 30, 2016, November 30, 2018 and November 30, 2019, in a private placement. These notes require semi-annual payments of interest that are due in May and November of each year.

We are a party to a note purchase agreement dated February 10, 2011, with certain accredited institutional investors, pursuant to which we issued and sold $75.0 million in aggregate principal amount of our 5.18% Senior Notes, Series D, due February 10, 2021 and $50.0 million in aggregate principal amount of our 5.49% Senior Notes, Series E, due February 10, 2023, in a private placement. These notes require semi-annual payments of interest that are due in February and August of each year.

We are a party to a note purchase agreement dated July 10, 2012, with certain accredited institutional investors, pursuant to which we issued and sold $50.0 million in aggregate principal amount of our 3.99% Senior Notes, Series F, due July 10, 2020, in a private placement. These notes require semi-annual payments of interest that are due in January and July of each year.

We are a party to a note purchase agreement dated June 14, 2013, with certain accredited institutional investors, pursuant to which we issued and sold $200.0 million in aggregate principal amount of our 3.69% Senior Notes, Series G, due June 14, 2022, in a private placement. These notes require semi-annual payments of interest that are due in June and December of each year.

We are a party to a note purchase agreement dated December 20, 2013, with certain accredited institutional investors, pursuant to which we issued and sold $325.0 million in aggregate principal amount of our 4.58% Senior Notes, Series H, due February 27, 2024, $175.0 million in aggregate principal amount of our 4.73% Senior Notes, Series I, due February 27, 2026 and $100.0 million in aggregate principal amount of our 4.98% Senior Notes, Series J, due February 27, 2029. These notes require semi-annual payments of interest that are due in February and August of each year. The funding of this note purchase agreement occurred on February 27, 2014. We incurred approximately $1.4 million of debt acquisition costs that was capitalized and will be amortized on a pro rata basis over the life of the debt.

We are a party to a note purchase agreement dated June 24, 2014, with certain accredited institutional investors, pursuant to which we issued and sold $50.0 million in aggregate principal amount of our 2.80% Senior Notes, Series K, due June 24, 2018, $50.0 million in aggregate principal amount of our 3.20% Senior Notes, Series L, due June 24, 2019, $50.0 million in aggregate principal amount of our 3.48% Senior Notes, Series M, due June 24, 2020, $200.0 million in aggregate principal amount of our 4.13% Senior Notes, Series N, due June 24, 2023, $200.0 million in aggregate principal amount of our 4.31% Senior Notes, Series O, due June 24, 2025 and $150.0 million in aggregate principal amount of our 4.36% Senior Notes, Series P, due June 24, 2026. These notes require semi-annual payments of interest that are due in June and December of each year. We incurred approximately $2.6 million of debt acquisition costs that was capitalized and will be amortized on a pro rata basis over the life of the debt.

Under the terms of the note purchase agreements described above, we may redeem the notes at any time, in whole or in part, at 100% of the principal amount of such notes being redeemed, together with accrued and unpaid interest and a make-whole amount. The make-whole amount is derived from a net present value computation of the remaining scheduled payments of principal and interest using a discount rate based on U.S. Treasury yields plus 0.5% and is designed to compensate the purchasers of the notes for their investment risk in the event prevailing interest rates at the time of prepayment are less favorable than the interest rates under the notes. We do not currently intend to prepay any of the notes.

The note purchase agreements described above contain customary provisions for transactions of this type, including representations and warranties regarding us and our subsidiaries and various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of March 31, 2016. The note purchase agreements also provide customary events of default, generally with corresponding grace periods, including, without limitation, payment defaults with respect to the notes, covenant defaults, cross-defaults to other agreements evidencing our or our subsidiaries indebtedness, certain judgments against us or our subsidiaries and events of bankruptcy involving us or our material subsidiaries.

The notes issued under the note purchase agreements are senior unsecured obligations of ours and rank equal in right of payment with our Credit Agreement discussed below.

Credit Agreement - On April 8, 2016, we entered into an amendment and restatement to our multicurrency credit agreement dated September 19, 2013 (which we refer to as the Credit Agreement) with a group of fifteen financial institutions. The amendment and restatement, among other things, extended the expiration date of the Credit Agreement from September 19, 2018 to April 8, 2021 and increased the revolving credit commitment from $600.0 million to $800.0 million, of which $75.0 million may be used for issuances of standby or commercial letters of credit and up to $75.0 million may be used for the making of swing loans (as defined in the Credit Agreement). We may from time to time request, subject to certain conditions, an increase in the revolving credit commitment under the Credit Agreement up to a maximum aggregate revolving credit commitment of $1,100.0 million.

The Credit Agreement provides that we may elect that each borrowing in U.S. dollars be either base rate loans or eurocurrency loans, each as defined in the Credit Agreement. However, the Credit Agreement provides that all loans denominated in currencies other than U.S. dollars will be eurocurrency loans. Interest rates on base rate loans and outstanding drawings on letters of credit in U.S. dollars under the Credit Agreement will be based on the base rate, as defined in the Credit Agreement, plus a margin of 0.00% to 0.45%, depending on the financial leverage ratio we maintain. Interest rates on eurocurrency loans or outstanding drawings on letters of credit in currencies other than U.S. dollars under the Credit Agreement will be based on adjusted LIBOR, as defined in the Credit Agreement, plus a margin of 0.85% to 1.45%, depending on the financial leverage ratio we maintain. Interest rates on swing loans will be based, at our election, on either the base rate or an alternate rate that may be quoted by the lead lender. The annual facility fee related to the Credit Agreement will be between 0.15% and 0.30% of the revolving credit commitment, depending on the financial leverage ratio we maintain. In connection with entering into the Credit Agreement, we incurred approximately $2.0 million of debt acquisition costs that were capitalized and will be amortized on a pro rata basis over the term of the Credit Agreement.

The terms of the Credit Agreement include various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of March 31, 2016. The Credit Agreement also includes customary provisions for transactions of this type, including events of default, with corresponding grace periods and cross-defaults to other agreements evidencing our indebtedness.

At March 31, 2016, $21.5 million of letters of credit (for which we had $11.6 million of liabilities recorded at March 31, 2016) were outstanding under the Credit Agreement. There were $305.0 million of borrowings outstanding under the Credit Agreement at March 31, 2016. Accordingly, as of March 31, 2016, $273.5 million remained available for potential borrowings under the Credit Agreement, of which $53.5 million was available for additional letters of credit.

Premium Financing Debt Facility - On May 18, 2015 we entered into a Syndicated Facility Agreement, revolving loan facility, which we refer to as the Premium Financing Debt Facility, that provides funding for three Australian (AU) and New Zealand (NZ) premium finance subsidiaries. The Premium Financing Debt Facility is comprised of: (i) Facility B, which is separated into AU$150.0 million and NZ$35.0 million tranches, (ii) Facility C, an AU$25.0 million equivalent multi-currency overdraft tranche and (iii) Facility D, a NZ$15.0 million equivalent multi-currency overdraft tranche. The Premium Financing Debt Facility expires May 18, 2017. This facility replaced a previous facility which was originally entered into on June 16, 2014.

The interest rates on Facility B are Interbank rates, which vary by tranche, duration and currency, plus a margin of 1.05%. The interest rates on Facilities C and D are 30 day Interbank rates, plus a margin of 0.55%. The annual fee for Facility B is 0.4725% of the undrawn commitments for the two tranches of the facility. The annual fee for Facilities C and D is 0.50% of the total commitments of the facilities.

The terms of our Premium Financing Debt Facility include various financial covenants, including covenants that require us to maintain specified financial ratios. We were in compliance with these covenants as of March 31, 2016. The Premium Financing Debt Facility also includes customary provisions for transactions of this type, including events of default, with corresponding grace periods and cross-defaults to other agreements evidencing our indebtedness. Facilities B, C and D are secured by the premium finance receivables of the Australian and New Zealand premium finance subsidiaries.

At March 31, 2016, AU$90.0 million and NZ$10.0 million of borrowings were outstanding under Facility B, AU$15.0 million of borrowings were outstanding under Facility C and NZ$14.9 million of borrowings were outstanding under Facility D. Accordingly, as of March 31, 2016, AU$60.0 million and NZ$25.0 million remained available for potential borrowing under Facility B, and AU$10.0 million and NZ$0.1 million under Facilities C and D, respectively.

See Note 13 to these unaudited consolidated financial statements for additional discussion on our contractual obligations and commitments as of March 31, 2016.

The aggregate estimated fair value of the $2,125.0 million in debt under the note purchase agreements at March 31, 2016 was $2,240.6 million due to the long-term duration and fixed interest rates associated with these debt obligations. No active or observable market exists for our private placement long-term debt. Therefore, the estimated fair value of this debt is based on discounted future cash flows, which is a Level 3 fair value measurement, using current interest rates available for debt with similar terms and remaining maturities. See Note 1, Fair Value of Financial Instruments, to our consolidated financial statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015. The estimated fair value of this debt is based on the income valuation approach, which is a valuation technique that converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. Because our debt issuances generate a measurable income stream for each lender, the income approach was deemed to be an appropriate methodology for valuing the private placement long-term debt. The methodology used calculated the original deal spread at the time of each debt issuance, which was equal to the difference between the yield of each issuance (the coupon rate) and the equivalent benchmark treasury yield at that time. The market spread as of the valuation date was calculated, which is equal to the difference between an index for investment grade insurers and the equivalent benchmark treasury yield today. An implied premium or discount to the par value of each debt issuance based on the difference between the origination deal spread and market as of the valuation date was then calculated. The index we relied on to represent investment graded insurers was the Bloomberg Valuation Services (BVAL) U.S. Insurers BBB index. This index is comprised primarily of insurance brokerage firms and was representative of the industry in which we operate. For the purposes of our analysis, the average BBB rate was assumed to be the appropriate borrowing rate for us based on our current estimated credit rating. The estimated fair value of the $305.0 million of borrowings outstanding under our Credit Agreement approximates their carrying value due to their short-term duration and variable interest rates. The estimated fair value of the $96.2 million of borrowings outstanding under our Premium Financing Debt Facility approximates their carrying value due to their short-term duration and variable interest rates.

7. Earnings Per Share

The following table sets forth the computation of basic and diluted net earnings per share (in millions, except per share data):

	Three-month period ended March 31, 2016	2015
Net earnings attributable to controlling interests	$ 46.5	$ 21.9
Weighted average number of common shares outstanding	177.0	165.6
Dilutive effect of stock options using the treasury stock method	0.6	1.2
Weighted average number of common and common equivalent shares outstanding	177.6	166.8
Basic net earnings per share	$ 0.26	$ 0.13
Diluted net earnings per share	$ 0.26	$ 0.13

Options to purchase 4.3 million and 2.4 million shares of common stock were outstanding at March 31, 2016 and 2015, respectively, but were not included in the computation of the dilutive effect of stock options for the three-month periods then ended. These stock options were excluded from the computation because the options exercise prices were greater than the average market price of our common shares during the respective period, and therefore, would be anti-dilutive to earnings per share under the treasury stock method.

8. Stock Option Plans

On May 13, 2014, our stockholders approved the Arthur J. Gallagher 2014 Long-Term Incentive Plan (which we refer to as the LTIP), which replaced our previous stockholder-approved Arthur J. Gallagher & Co. 2011 Long-Term Incentive Plan (which we refer to as the 2011 LTIP). The LTIP term began May 13, 2014 and terminates on the date of the annual meeting of stockholders in 2021, unless terminated earlier by our board of directors. All of our officers, employees and non-employee directors are eligible to receive awards under the LTIP. The compensation committee of our board of directors determines the participants under the LTIP. The LTIP provides for non-qualified and incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance units, any or all of which may be made contingent upon the achievement of performance criteria. A stock appreciation right entitles the holder to receive, upon exercise and subject to withholding taxes, cash or shares of our common stock (which may be restricted stock) with a value equal to the difference between the fair market value of our common stock on the exercise date and the base price of the stock appreciation right. Subject to the LTIP limits, the compensation committee has the discretionary authority to determine the size of an award.

Shares of our common stock available for issuance under the LTIP include authorized and unissued shares of common stock or authorized and issued shares of common stock reacquired and held as treasury shares or otherwise, or a combination thereof. The number of available shares will be reduced by the aggregate number of shares that become subject to outstanding awards granted under the LTIP. To the extent that shares subject to an outstanding award granted under either the LTIP or the 2011 LTIP are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or by reason of the settlement of such award in cash, then such shares will again be available for grant under the LTIP. Shares withheld to satisfy tax withholding requirements upon the vesting of awards other than stock options and stock appreciation rights will also be available for grant under the LTIP. Shares that are subject to a stock appreciation right and were not issued upon the net settlement or net exercise of such stock appreciation right, shares that are used to pay the exercise price of an option, delivered to or withheld by us to pay withholding taxes related to stock options or stock appreciation rights, and shares that are purchased on the open market with the proceeds of an option exercise, may not again be made available for issuance.

The maximum number of shares available under the LTIP for restricted stock, restricted stock unit awards and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 1.0 million at March 31, 2016. To the extent necessary to be qualified performance-based compensation under Section 162(m) of the Internal Revenue Code (which we refer to as the IRC): (i) the maximum number of shares with respect to which options or stock appreciation rights or a combination thereof that may be granted during any fiscal year to any person is 200,000; (ii) the maximum number of shares with respect to which performance-based restricted stock or restricted stock units that may be granted during any fiscal year to any person is 100,000; (iii) the maximum amount that may be payable with respect to cash-settled performance units granted during any fiscal year to any person is $5.0 million; and (iv) the maximum number of shares with respect to which stock-settled performance units may be granted during any fiscal year to any person is 100,000.

The LTIP provides for the grant of stock options, which may be either tax-qualified incentive stock options or non-qualified options and stock appreciation rights. The compensation committee determines the period for the exercise of a non-qualified stock option, tax-qualified incentive stock option or stock appreciation right, provided that no option can be exercised later than seven years after its date of grant. The exercise price of a non-qualified stock option or tax-qualified incentive stock option and the base price of a stock appreciation right cannot be less than 100% of the fair market value of a share of our common stock on the date of grant, provided that the base price of a stock appreciation right granted in tandem with an option will be the exercise price of the related option.

Upon exercise, the option exercise price may be paid in cash, by the delivery of previously owned shares of our common stock, through a net-exercise arrangement, or through a broker-assisted cashless exercise arrangement. The compensation committee determines all of the terms relating to the exercise, cancellation or other disposition of an option or stock appreciation right upon a termination of employment, whether by reason of disability, retirement, death or any other reason. Stock option and stock appreciation right awards under the LTIP are non-transferable.

On March 17, 2016, the compensation committee granted 2,576,700 options under the 2014 LTIP to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2019, 2020 and 2021, respectively. On March 11, 2015, the compensation committee granted 1,941,000 options under the 2014 LTIP to our officers and key employees that become exercisable at the rate of 34%, 33% and 33% on the anniversary date of the grant in 2018, 2019 and 2020, respectively. The 2016 and 2015 options expire seven years from the date of grant, or earlier in the event of certain terminations of employment. For certain of our executive officers age 55 or older, stock options awarded in 2016 and 2015 are no longer subject to forfeiture upon such officers departure from the company after two years from the date of grant.

Our stock option plans provide for the immediate vesting of all outstanding stock option grants in the event of a change in control of our company, as defined in the applicable plan documents.

During the three-month periods ended March 31, 2016 and 2015, we recognized $3.3 million and $2.2 million, respectively, of compensation expense related to our stock option grants.

For purposes of expense recognition, the estimated fair values of the stock option grants are amortized to expense over the options vesting period. We estimated the fair value of stock options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2016	2015
Expected dividend yield	3.0%	3.0%
Expected risk-free interest rate	1.6%	1.8%
Volatility	27.7%	28.2%
Expected life (in years)	5.5	5.5

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Because our employee and director stock options have characteristics significantly different from those of traded options, and because changes in the selective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee and non-employee director stock options. The weighted average fair value per option for all options granted during the three-month periods ended March 31, 2016 and 2015, as determined on the grant date using the Black-Scholes option pricing model, was $8.45 and $9.25, respectively.

The following is a summary of our stock option activity and related information for 2016 (in millions, except exercise price and year data):

	Three-month period ended March 31, 2016			
	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Beginning balance	8.8	$ 39.25		
Granted	2.6	43.71		
Exercised	(0.2)	28.75		
Forfeited or canceled				
Ending balance	11.2	$ 40.42	4.64	$ 53.7
Exercisable at end of period	3.2	$ 31.55	2.29	$ 40.9
Ending vested and expected to vest	11.0	$ 40.32	4.61	$ 53.5

Options with respect to 4.2 million shares (less any shares of restricted stock issued under the LTIP - see Note 10 to these unaudited consolidated financial statements) were available for grant under the LTIP at March 31, 2016.

The total intrinsic value of options exercised during the three-month periods ended March 31, 2016 and 2015 was $1.7 million and $10.3 million, respectively. As of March 31, 2016, we had approximately $53.4 million of total unrecognized compensation expense related to nonvested options. We expect to recognize that cost over a weighted average period of approximately four years.

Other information regarding stock options outstanding and exercisable at March 31, 2016 is summarized as follows (in millions, except exercise price and year data):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 23.76 - $ 35.71	3.1	2.09	$ 30.71	2.6	$ 29.94
35.95 - 39.17	1.6	3.95	39.15	0.6	39.15
43.71 - 43.71	2.6	6.96	43.71		
46.16 - 47.92	3.9	5.46	46.53		
$ 23.76 - $ 47.92	11.2	4.64	$ 40.42	3.2	$ 31.55

9. Deferred Compensation

We have a Deferred Equity Participation Plan (which we refer to as the Age 62 Plan), which is a non-qualified plan that generally provides for distributions to certain of our key executives when they reach age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) or upon or after their actual retirement. Under the provisions of the Age 62 Plan, we typically contribute cash in an amount approved by the compensation committee to a rabbi trust on behalf of the executives participating in the Age 62 Plan, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. Distributions under the Age 62 Plan may not normally be made until the participant reaches age 62 (or the one-year anniversary of the date of the grant for participants over the age of 61 as of the grant date) and are subject to forfeiture in the event of voluntary termination of employment prior to then. All contributions to the plan deemed to be invested in shares of our common stock are distributed in the form of our common stock and all other distributions are paid in cash.

Our common stock that is issued to or purchased by the rabbi trust as a contribution under the Age 62 Plan is valued at historical cost, which equals its fair market value at the date of grant or date of purchase. When common stock is issued, we record an unearned deferred compensation obligation as a reduction of capital in excess of par value in the accompanying consolidated balance sheet, which is amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair market value of our common stock owed to the participants do not have any impact on the amounts recorded in our consolidated financial statements.

In the first quarter of each of 2016 and 2015, the compensation committee approved $10.1 million and $8.9 million, respectively, of awards in the aggregate to certain key executives under the Age 62 Plan that were contributed to the rabbi trust in first quarter 2016 and 2015, respectively. We contributed cash to the rabbi trust and instructed the trustee to acquire a specified number of shares of our common stock on the open market to fund these 2016 and 2015 awards. During the three-month periods ended March 31, 2016 and 2015, we charged $1.4 million and $1.0 million, respectively, to compensation expense related to these awards.

At March 31, 2016 and December 31, 2015, we recorded $41.7 million (related to 2.1 million shares) and $33.5 million (related to 2.1 million shares), respectively, of unearned deferred compensation as a reduction of capital in excess of par value in the accompanying consolidated balance sheet. The total intrinsic value of our unvested equity based awards under the plan at March 31, 2016 and December 31, 2015 was $94.6 million and $85.2 million, respectively. During the three-month period ended March 31, 2016, cash and equity awards with an aggregate fair value of $4.9 million were vested and distributed to executives under the Age 62 Plan.

We have a Deferred Cash Participation Plan (which we refer to as the DCPP), which is a non-qualified deferred compensation plan for certain key employees, other than executive officers, that generally provides for vesting and/or distributions no sooner than five years from the date of awards. Under the provisions of the DCPP, we typically contribute cash in an amount approved by compensation committee to the rabbi trust on behalf of the executives participating in the DCPP, and instruct the trustee to acquire a specified number of shares of our common stock on the open market or in privately negotiated transactions based on participant elections. In the first quarter of each of 2016 and 2015, the compensation committee approved $3.1 million and $2.7 million, respectively, of awards in the aggregate to certain key executives under the DCPP that were contributed to the rabbi trust in first quarter 2016 and 2015, respectively. During the three-month periods ended March 31, 2016 and 2015, we charged $0.3 million and $0.4 million, respectively, to compensation expense related to these awards. There were no distributions from the DCPP during the three-month periods ended March 31, 2016 and 2015, respectively.

10. Restricted Stock, Performance Share and Cash Awards

Restricted Stock Awards

As discussed in Note 8 to these unaudited consolidated financial statements, on May 13, 2014, our stockholders approved the LTIP, which replaced our previous stockholder-approved 2011 LTIP. The LTIP provides for the grant of a stock award either as restricted stock or as restricted stock units. In either case, the compensation committee may determine that the award will be subject to the attainment of performance measures over an established performance period. Stock awards and the related dividend equivalents are non-transferable and subject to forfeiture if the holder does not remain continuously employed with us during the applicable restriction period or, in the case of a performance-based award, if applicable performance measures are not attained. The compensation committee will determine all of the terms relating to the satisfaction of performance measures and the termination of a restriction period, or the forfeiture and cancellation of a restricted stock award upon a termination of employment, whether by reason of disability, retirement, death or any other reason. The compensation committee may grant unrestricted shares of common stock or units representing the right to receive shares of common stock to employees who have attained age 62.

The agreements awarding restricted stock units under the LTIP will specify whether such awards may be settled in shares of our common stock, cash or a combination of shares and cash and whether the holder will be entitled to receive dividend equivalents, on a current or deferred basis, with respect to such award. Prior to the settlement of a restricted stock unit, the holder of a restricted stock unit will have no rights as a stockholder of the company. The maximum number of shares available under the LTIP for restricted stock, restricted stock units and performance unit awards settled with stock (i.e., all awards other than stock options and stock appreciation rights) is 2.0 million. At March 31, 2016, 1.0 million shares were available for grant under the LTIP for such awards.

In the first quarter of each of 2016 and 2015, we granted 466,600 and 362,600 restricted stock units, respectively, to employees under the LTIP, with an aggregate fair value of $20.4 million and $16.7 million, respectively, at the date of grant. These 2016 and 2015 awards of restricted stock units vest as follows: 466,600 units granted in first quarter 2016 and 362,600 units granted in first quarter 2015, vest in full based on continued employment through March 11, 2020 and March 11, 2019, respectively. For certain of our executive officers age 55 or older, restricted stock units awarded in 2016 and 2015 are no longer subject to forfeiture upon such officers departure from the company after two years from the date of grant.

We account for restricted stock awards at historical cost, which equals its fair market value at the date of grant, which is amortized to compensation expense ratably over the vesting period of the participants. Future changes in the fair value of our common stock that is owed to the participants do not have any impact on the amounts recorded in our consolidated financial statements. During the three-month periods ended March 31, 2016 and 2015, we recognized $4.0 million and $2.8 million, respectively, to compensation expense related to restricted stock unit awards granted in 2007 through 2016. The total intrinsic value of unvested restricted stock units at March 31, 2016 and 2015 was $62.9 million and $67.2 million, respectively. During the three-month periods ended March 31, 2016 and 2015, equity awards (including accrued dividends) with an aggregate fair value of $14.2 million and $9.3 million were vested and distributed to employees under this plan.

Performance Share Awards

On March 11, 2016 and March 11, 2015, pursuant to the LTIP, the compensation committee approved 72,900 and 53,900, respectively of provisional performance unit awards, with an aggregate fair value of $3.2 million and $2.5 million, respectively, for future grants to our officers. Each performance unit award was equivalent to the value of one share of our common stock on the date such provisional award was approved. These awards are subject to a one-year performance period based on our financial performance and a two-year vesting period. At the discretion of the compensation committee and determined based on our performance, the eligible officer will be granted a percentage of the provisional performance unit award that equates to the EBITAC growth achieved (as specified in the applicable grant agreement). At the end of the performance period, eligible participants will be granted a number of units based on achievement of the performance goal and subject to approval by the compensation committee. Granted units for the 2016 and 2015 provisional awards will fully vest based on continuous employment through January 1, 2019 and January 1, 2018, respectively, and will be settled in shares of our common stock on a one-for-one basis as soon as practicable in 2019 and 2018, respectively. For certain of our executive officers age 55 or older, awards granted in 2016 and 2015 are no longer subject to forfeiture upon such officers departure from the company after two years from the date of grant. If an eligible employee leaves us prior to the vesting date, the entire award will be forfeited.

Cash Awards

On March 11, 2016, pursuant to our Performance Unit Program (which we refer to as the Program), the compensation committee approved provisional cash awards of $17.4 million in the aggregate for future grants to our officers and key employees that are denominated in units (397,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional award was approved. The Program consists of a one-year performance period based on our financial performance and a two-year vesting period. At the discretion of the compensation committee and determined based on our performance, the eligible officer or key employee will be granted a percentage of the provisional cash award units that equates to the EBITAC growth achieved (as defined in the Program). At the end of the performance period, eligible participants will be granted a number of units based on achievement of the performance goal and subject to approval by the compensation committee. Granted units for the 2016 provisional award will fully vest based on continuous employment through January 1, 2019. For certain of our executive officers age 55 or older, awards granted under the Program in 2016 are no longer subject to forfeiture upon such officers departure from the company after two years from the date of the provisional award. The ultimate award value will be equal to the trailing twelve-month price of our common stock on December 31, 2018, multiplied by the number of units subject to the award, but limited to between 0.5 and 1.5 times the original value of the units determined as of the grant date. The fair value of the awarded units will be paid out in cash as soon as practicable in 2019. If an eligible employee leaves us prior to the vesting date, the entire award will be forfeited. We did not recognize any compensation expense during the three-month period ended March 31, 2016 related to the 2016 provisional award under the Program.

On March 11, 2015, pursuant to the Program, the compensation committee approved provisional cash awards of $14.6 million in the aggregate for future grant to our officers and key employees that are denominated in units (315,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2015 provisional awards were similar to the terms of the 2016 provisional awards. Based on our performance for 2015, we granted 294,000 units under the Program in first quarter 2016 that will fully vest on January 1, 2018. During the three-month period ended March 31, 2016, we recognized $1.6 million to compensation expense related to these awards. We did not recognize any compensation expense during 2015 related to the 2015 awards.

On March 12, 2014, pursuant to the Program, the compensation committee approved provisional cash awards of $10.8 million in the aggregate for future grant to our officers and key employees that are denominated in units (229,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2014 provisional awards were similar to the terms of the 2015 provisional awards. Based on our performance for 2014, we granted 220,000 units under the Program in first quarter 2015 that will fully vest on January 1, 2017. During the three-month periods ended March 31, 2016 and 2015, we recognized $0.9 million and $1.2 million, respectively, to compensation expense related to these awards.

On March 13, 2013, pursuant to the Program, the compensation committee approved provisional cash awards of $10.5 million in the aggregate for future grant to our officers and key employees that are denominated in units (269,000 units in the aggregate), each of which was equivalent to the value of one share of our common stock on the date the provisional awards were approved. Terms of the 2013 provisional awards were similar to the terms of the 2015 provisional awards. Based on our performance for 2013, we granted 263,000 units under the Program in first quarter 2014 that will fully vest on January 1, 2016. During the three-month period ended March 31, 2015, we recognized $1.4 million to compensation expense related to the 2013 awards.

During the three-month period ended March 31, 2016, cash awards related to the 2013 provisional award with an aggregate fair value of $11.2 million (0.2 million units in the aggregate) were vested and distributed to employees under the Program.

11. Retirement Plans

We have a noncontributory defined benefit pension plan that, prior to July 1, 2005, covered substantially all of our domestic employees who had attained a specified age and one year of employment. Benefits under the plan were based on years of service and salary history. In 2005, we amended our defined benefit pension plan to freeze the accrual of future benefits for all U.S. employees, effective on July 1, 2005. In the table below, the service cost component represents plan administration costs that are incurred directly by the plan.

The components of the net periodic pension benefit cost for the plan consists of the following (in millions):

	Three-month period ended March 31,	
	2016	**2015**
Service cost	$ 0.3	$ 0.1
Interest cost on benefit obligation	2.7	2.6
Expected return on plan assets	(3.7)	(3.9)
Amortization of net actuarial loss	1.5	1.6
Net periodic benefit cost	$ 0.8	$ 0.4

We are not required under the IRC to make any minimum contributions to the plan for the 2016 plan year nor were we required to make any minimum contributions to the plan for the 2015 plan year. This level of required funding is based on the plan being frozen and the aggregate amount of our historical funding. We did not make any discretionary contributions to the plan during the three-month periods ended March 31, 2016 and 2015.

12. Investments

The following is a summary of our investments and the related funding commitments (in millions):

	March 31, 2016		December 31, 2015
	Assets	Funding Commitments	Assets
Chem-Mod LLC	$ 4.0	$	$ 4.0
Chem-Mod International LLC	2.0		2.0
C-Quest Technologies LLC and C-Quest Technologies International LLC			
Clean-coal investments:			
Controlling interest in six limited liability companies that own fourteen 2009 Era Clean Coal Plants	13.6	7.1	13.9
Non-controlling interest in one limited liability company that owns one 2011 Era Clean Coal Plant	0.8		0.8
Controlling interest in seventeen limited liability companies that own nineteen 2011 Era Clean Coal Plants	61.0	1.2	60.3
Other investments	2.7	2.6	2.6
Total investments	$ 84.1	$ 10.9	$ 83.6

Chem-Mod LLC - At March 31, 2016, we held a 46.5% controlling interest in Chem-Mod. Chem-Mod possesses the exclusive marketing rights, in the U.S. and Canada, for technologies used to reduce emissions created during the combustion of coal. The refined coal production plants discussed below, as well as those owned by other unrelated parties, license and use Chem-Mod s proprietary technologies, The Chem-Mod Solution, in the production of refined coal. The Chem-Mod Solution uses a dual injection sorbent system to reduce mercury, sulfur dioxide and other emissions at coal-fired power plants.

We believe that the application of The Chem-Mod Solution qualifies for refined coal tax credits under IRC Section 45 when used with refined coal production plants placed in service by December 31, 2011 or 2009. Chem-Mod has been marketing its technologies principally to coal-fired power plants owned by utility companies, including those utilities that are operating with the IRC Section 45 refined coal production plants in which we hold an investment.

Chem-Mod is determined to be a variable interest entity (which we refer to as a VIE). We are the manager (decision maker) of Chem-Mod and therefore consolidate its operations into our consolidated financial statements. At March 31, 2016, total assets and total liabilities of this VIE included in our consolidated balance sheet were $10.1 million and $0.6 million, respectively. At December 31, 2015, total assets and total liabilities of this VIE were $10.3 million and $0.9 million, respectively. For the three-month period ended March 31, 2016, total revenues and expenses were $16.5 million and $0.6 million, respectively. For the three-month period ended March 31, 2015, total revenues and expenses were $17.9 million and $0.7 million, respectively. We are under no obligation to fund Chem-Mod s operations in the future.

Chem-Mod International LLC - At March 31, 2016, we held a 31.5% non-controlling ownership interest in Chem-Mod International. Chem-Mod International has the rights to market The Chem-Mod Solution in countries other than the U.S. and Canada. Such marketing activity has been limited to date.

C-Quest Technologies LLC and C-Quest Technologies International LLC (together, C-Quest) - At March 31, 2016, we held a non-controlling 12% interest in C-Quest s global entities, which is an increase of 4% resulting from the transaction described below. C-Quest possesses rights, information and technology for the reduction of carbon dioxide emissions created by burning fossil fuels. Thus far, C-Quest s operations have been limited to laboratory testing. C-Quest is determined to be a VIE, but we do not consolidate this investment into our consolidated financial statements because we are not the primary beneficiary or decision maker. Prior to August 1, 2013, we had an option to acquire an additional 19% interest in C-Quest s global entities for $9.5 million at any time on or prior to August 1, 2016. On August 1, 2013, we loaned the majority owner $2.0 million at a 2% interest rate, which was to mature on May 15, 2014. Also on August 1, 2013, the option to acquire the 19% interests was extended to August 15, 2016. The loan was to be repaid in cash or by delivery of an additional 4% ownership interest in C-Quest s global entities. On March 31, 2014, we accepted payment of the loan by delivery of the additional 4% ownership interest, therefore our remaining option was reduced to 15% and the remaining purchase price was reduced to $7.5 million.

Clean Coal Investments -

We have investments in limited liability companies that own 34 refined coal production plants which produce refined coal using propriety technologies owned by Chem-Mod. We believe the production and sale of refined coal at these plants is qualified to receive refined coal tax credits under IRC Section 45. The fourteen plants placed in service prior to December 31, 2009 (which we refer to as the 2009 Era Plants) are eligible to receive tax credits through 2019 and the twenty plants placed in service prior to December 31, 2011 (which we refer to as the 2011 Era Plants) are eligible to receive tax credits through 2021.

On March 1, 2013, we purchased an additional ownership interest in twelve of the 2009 Era Plants from a co-investor. For nine of the plants, our ownership increased from 24.5% to 49.5%. Our investment in these nine plants had been accounted for under the equity method of accounting until the March 1, 2014 transaction described below. For the other three of the plants, our ownership increased from 25.0% to 60.0%. Our investment in these plants had been accounted for under the equity method of accounting. As of March 1, 2013, we consolidated the operations of the limited liability company that owns these three plants. For the three-months ended March 31, 2016, total revenues and expenses recorded in our consolidated statement of earnings related to this acquisition were $50.9 million and $52.4 million (net of noncontrolling interests), respectively. Total revenues and expenses recorded in our unaudited consolidated statement of earnings for the three-month period ended March 31, 2015 related to this acquisition were $71.5 million and $73.2 million, respectively.

On March 1, 2014, we purchased additional ownership interests from a co-investor in four limited liability companies that own seven 2009 Era Plants and five 2011 Era Plants. We recognized a gain of $25.6 million as a component of other net revenues in the accompanying unaudited consolidated statement of earnings, which included the increase in fair value of our prior equity interests in the limited liability companies upon the acquisition of the additional equity interests, and recorded $26.3 million of fixed and other amortizable intangible assets in connection with this transaction. The carrying value of our prior non-controlling interest in the limited liability company was $15.6 million as of the acquisition date. The fair value of our prior non-controlling interest in the limited liability company was determined by allocating, on a pro rata basis, the fair value of the limited liability company as adjusted for our lack of control in our prior ownership position. We determined the fair value of the limited liability company using similar valuation techniques to those discussed in Note 3 to these consolidated financial statements. For seven of the 2009 Era plants, our ownership increased from 49.5% to 100.0%. For the 2011 Era plants, our ownership increased from 48.8% to 90.0% for one of the plants, from 49.0% to 100.0% for three of the plants and from 98.0% to 100.0% for one of the plants. Our investments in the plants where our ownership was less than 50% had been accounted for under the equity method of accounting. As of March 1, 2014 we consolidated the operations of the limited liability companies that own these plants. Total revenues and expenses recorded in our unaudited consolidated statement of earnings for the three-month period ended March 31, 2016 related to this acquisition were $78.6 million and $86.3 million, respectively. Total revenues and expenses recorded in our unaudited consolidated statement of earnings for the three-month period ended March 31, 2015 related to this acquisition were $131.5 million and $138.7 million, respectively.

As of March 31, 2016:

- Thirty of the plants have long-term production contracts.

- The remaining four plants are in various stages of seeking and negotiating long-term production contracts.

- We have a non-controlling interest in one plant, which is owned by a limited liability company (which we refer to as a LLC). We have determined that this LLC is a VIE, for which we are not the primary beneficiary. At March 31, 2016, total assets and total liabilities of this VIE were $9.4 million and $6.9 million, respectively. For the three-month period ended March 31, 2016, total revenues and expenses of this VIE were $8.0 million and $9.9 million, respectively.

We and our co-investors each fund our portion of the on-going operations of the limited liability companies in proportion to our investment ownership percentages. Other than our portion of the on-going operational funding, there are no additional amounts that we are committed to related to funding these investments.

Other Investments - At March 31, 2016, we owned a non-controlling, minority interest in four venture capital funds totaling $2.2 million, a 20% non-controlling interest in an investment management company totaling $0.5 million, twelve certified low-income housing developments with zero carrying value and two real estate entities with zero carrying value. The low-income housing developments and real estate entities have been determined to be VIEs, but are not required to be consolidated due to our lack of control over their respective operations. At March 31, 2016, total assets and total debt of these VIEs were approximately $60.0 million and $20.0 million, respectively.

13. Commitments, Contingencies and Off-Balance Sheet Arrangements

In connection with our investing and operating activities, we have entered into certain contractual obligations and commitments. See Notes 6 and 12 to these unaudited consolidated financial statements for additional discussion of these obligations and commitments. Our future minimum cash payments, including interest, associated with our contractual obligations pursuant to the note purchase agreements, Credit Agreement, Premium Financing Debt Facility, operating leases and purchase commitments at March 31, 2016 were as follows (in millions):

	Payments Due by Period						
Contractual Obligations	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Note purchase agreements	$ 50.0	$ 300.0	$ 100.0	$ 100.0	$ 100.0	$ 1,475.0	$ 2,125.0
Credit Agreement	305.0						305.0
Premium Financing Debt Facility	96.2						96.2
Interest on debt	72.6	97.5	77.5	73.2	68.6	255.3	644.7
Total debt obligations	523.8	397.5	177.5	173.2	168.6	1,730.3	3,170.9
Operating lease obligations	81.7	109.3	92.9	78.8	67.9	265.3	695.9
Less sublease arrangements	(0.8)	(0.4)	(0.1)	(0.1)	(0.1)		(1.5)
Outstanding purchase obligations	94.6	22.6	17.3	9.0	8.4		151.9
Total contractual obligations	$ 699.3	$ 529.0	$ 287.6	$ 260.9	$ 244.8	$ 1,995.6	$ 4,017.2

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of future payments may vary from the stated contractual obligation. Outstanding purchase commitments in the table above include $67.6 million related to expenditures on our new corporate headquarters.

Note Purchase Agreements, Credit Agreement and Premium Financing Debt Facility - See Note 6 to our unaudited consolidated financial statements for a discussion of the terms of the note purchase agreements, the Credit Agreement and Premium Financing Debt Facility.

Operating Lease Obligations - Our corporate segment s executive offices and certain subsidiary and branch facilities of our brokerage and risk management segments are located at Two Pierce Place, Itasca, Illinois, where we lease approximately 306,000 square feet of space, or approximately 60% of the building. The lease commitment on this property expires February 28, 2018. In August 2015, we announced that we will be relocating our headquarters to the city of Rolling Meadows, Illinois, which will have approximately 360,000 square feet of space and will accommodate approximately 2,000 employees at peak capacity. We anticipate moving to the Rolling Meadows site sometime in the first quarter of 2017. Relating to the development of our new corporate headquarters, we expect to receive property tax related credits under a tax-increment financing note from Rolling Meadows and an Illinois state Economic Development for a Growing Economy (which we refer to as Edge) tax credit. Incentives from these two programs could total between $60.0 million and $80.0 million over a fifteen-year period.

We generally operate in leased premises at our other locations. Certain of these leases have options permitting renewals for additional periods. In addition to minimum fixed rentals, a number of leases contain annual escalation clauses which are generally related to increases in an inflation index.

We have leased certain office space to several non-affiliated tenants under operating sublease arrangements. In the normal course of business, we expect that certain of these leases will not be renewed or replaced. We adjust charges for real estate taxes and common area maintenance annually based on actual expenses, and we recognize the related revenues in the year in which the expenses are incurred. These amounts are not included in the minimum future rentals to be received in the contractual obligations table above.

Outstanding Purchase Obligations - We typically do not have a material amount of outstanding purchase obligations at any point in time. The amount disclosed in the contractual obligations table above represents the aggregate amount of unrecorded purchase obligations that we had outstanding at March 31, 2016. These obligations represent agreements to purchase goods or services that were executed in the normal course of business.

Off-Balance Sheet Commitments - Our total unrecorded commitments associated with outstanding letters of credit, financial guarantees and funding commitments as of March 31, 2016 were as follows (in millions):

	Amount of Commitment Expiration by Period						Total
Off-Balance Sheet Commitments	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Amounts Committed**
Letters of credit	$	$	$	$	$	$ 21.5	$ 21.5
Financial guarantees	0.4	0.2	0.6	0.4	0.4	2.4	4.4
Funding commitments	8.3	2.9					11.2
Total commitments	$ 8.7	$ 3.1	$ 0.6	$ 0.4	$ 0.4	$ 23.9	$ 37.1

Since commitments may expire unused, the amounts presented in the table above do not necessarily reflect our actual future cash funding requirements. See Note 12 to our unaudited consolidated financial statements for a discussion of our funding commitments related to our corporate segment and the Off-Balance Sheet Debt section below for a discussion of our letters of credit. All of the letters of credit represent multiple year commitments that have annual, automatic renewing provisions and are classified by the latest commitment date. In addition, funding commitments in the table above includes $11.2 million related to expenditures on our new corporate headquarters building.

Since January 1, 2002, we have acquired 391 companies, all of which were accounted for using the acquisition method for recording business combinations. Substantially all of the purchase agreements related to these acquisitions contain provisions for potential earnout obligations. For all of our acquisitions made in the period from 2013 to 2016 that contain potential earnout obligations, such obligations are measured at fair value as of the acquisition date and are included on that basis in the recorded purchase price consideration for the respective acquisition. The amounts recorded as earnout payables are primarily based upon estimated future operating results of the acquired entities over a two- to three-year period subsequent to the acquisition date. The aggregate amount of the maximum earnout obligations related to these acquisitions was $530.2 million, of which $213.4 million was recorded in our consolidated balance sheet as of March 31, 2016 based on the estimated fair value of the expected future payments to be made.

Off-Balance Sheet Debt - Our unconsolidated investment portfolio includes investments in enterprises where our ownership interest is between 1% and 50%, in which management has determined that our level of influence and economic interest is not sufficient to require consolidation. As a result, these investments are accounted for under the equity method. None of these unconsolidated investments had any outstanding debt at March 31, 2016 or December 31, 2015 that was recourse to us.

At March 31, 2016, we had posted two letters of credit totaling $9.7 million, in the aggregate, related to our self-insurance deductibles, for which we had a recorded liability of $11.6 million. We have an equity investment in a rent-a-captive facility, which we use as a placement facility for certain of our insurance brokerage operations. At March 31, 2016, we had posted seven letters of credit totaling $6.3 million to allow certain of our captive operations to meet minimum statutory surplus requirements and for additional collateral related to premium and claim funds held in a fiduciary capacity, one letter of credit totaling $5.0 million to support our potential obligation under a client s insurance program and one letter of credit totaling $0.5 million as a security deposit for a 2015 acquisition s lease. These letters of credit have never been drawn upon.

Litigation, Regulatory and Taxation Matters - We are a defendant in various legal actions incidental to the nature of our business including but not limited to matters related to employment practices, alleged breaches of non-compete or other restrictive covenants, theft of trade secrets, breaches of fiduciary duties and related causes of action. We are also periodically the subject of inquiries, investigations and reviews by regulatory and taxing authorities into various matters related to our business. Neither the outcomes of these matters nor their effect upon our business, financial condition or results of operations can be determined at this time.

In July 2014, we were named in a lawsuit that asserts that we, our subsidiary, Gallagher Clean Energy, LLC, and Chem-Mod LLC are liable for infringement of a patent held by Nalco Company. The complaint sought a judgment of infringement, damages, costs and attorneys fees, and injunctive relief. Along with other defendants, we disputed the allegation of infringement and have defended this matter vigorously. We filed a motion to dismiss the complaint on behalf of all defendants, alleging no infringement of Nalco s intellectual property. This motion, and a similar motion attacking an amended complaint filed by Nalco, was granted. After Nalco filed another amended complaint, we again moved to dismiss and on April 21, 2016, the court dismissed Nalco s claims and disallowed leave to file any further amended complaint. Although Nalco could appeal this ruling, we believe that the probability of a material loss is remote. However, litigation is inherently uncertain and it is not possible for us to predict the ultimate disposition of this proceeding.

Our micro-captive advisory services are under investigation by the Internal Revenue Service (IRS). Additionally, the IRS has initiated audits for the 2012 tax year of over 100 of the micro-captive insurance companies organized and/or managed by us. Among other matters, the IRS is investigating whether we have been acting as a tax shelter promoter in connection with these operations. While the IRS has not made specific allegations relating to our operations, if the IRS were to successfully assert that the micro-captives organized and/or managed by us do not meet the requirements of IRC Section 831(b), we could be subject to monetary claims by the IRS and/or our micro-captive clients, and our future earnings from our micro-captive operations could be materially adversely affected, any of which events, could negatively impact the overall captive business and adversely affect our consolidated results of operations and financial condition. Due to the early stage of the investigation and the fact that the IRS has not made any allegation against us, we are not able to reasonably estimate the amount of any potential loss in connection with this investigation.

Contingent Liabilities - We purchase insurance to provide protection from errors and omissions (which we refer to as E&O) claims that may arise during the ordinary course of business. We currently retain the first $5.0 million of each and every E&O claim. Our E&O insurance provides aggregate coverage for E&O losses up to $175.0 million in excess of our retained amounts. We have historically maintained self-insurance reserves for the portion of our E&O exposure that is not insured. We periodically determine a range of possible reserve levels using actuarial techniques that rely heavily on projecting historical claim data into the future. Our E&O reserve in the March 31, 2016 unaudited consolidated balance sheet is above the lower end of the most recently determined actuarial range by $0.9 million and below the upper end of the actuarial range by $1.7 million. We can make no assurances that the historical claim data used to project the current reserve levels will be indicative of future claim activity. Thus, the E&O reserve level and corresponding actuarial range could change in the future as more information becomes known, which could materially impact the amounts reported and disclosed herein.

Tax-advantaged Investments No Longer Held - Between 1996 and 2007, we developed and then sold portions of our ownership in various energy related investments, many of which qualified for tax credits under IRC Section 29. In connection with the sales to other investors, we provided various indemnifications. At March 31, 2016, the maximum potential amount of future payments that we could be required to make under these indemnifications totaled approximately $32.0 million, net of the applicable income tax benefit. In addition, we recorded tax benefits in connection with our ownership in these investments. At March 31, 2016, we had exposure on $109.0 million of previously earned tax credits. In 2004, 2007 and 2009, the IRS examined several of these investments and all examinations were closed without any changes being proposed by the IRS. However, any future adverse tax audits, administrative rulings or judicial decisions could disallow previously claimed tax credits or cause us to be subject to liability under our indemnification obligations. Because of the contingent nature of these exposures and our related assessment of their likelihood, no liabilities have been recorded in our March 31, 2016 consolidated balance sheet related to these indemnification obligations.

14. Accumulated Other Comprehensive Earnings (Loss)

The after-tax components of our accumulated other comprehensive earnings (loss) attributable to controlling interests consist of the following:

	Pension Liability	Foreign Currency Translation	Fair Value of Derivative Investments	Accumulated Comprehensive Earnings (Loss)
Balance as of December 31, 2015	$ (42.9)	$ (477.4)	$ (2.2)	$ (522.5)
Net change in period	0.8	(12.7)	(1.0)	(12.9)
Balance as of March 31, 2016	$ (42.1)	$ (490.1)	$ (3.2)	$ (535.4)

The foreign currency translation during the three-month period ended March 31, 2016 primarily relates to the net impact of changes in the value of the local currencies relative to the U.S. dollar for our operations in Australia, Canada, the Caribbean, India, New Zealand and the U.K.

During the three-month periods ended March 31, 2016 and 2015, $1.5 million and $1.6 million, respectively, of expense related to the pension liability was reclassified from accumulated other comprehensive earnings (loss) to compensation expense in the statement of earnings. During the three-month periods ended March 31, 2016 and 2015, zero and $0.1 million of income, respectively, related to the fair value of derivative investments, was reclassified from accumulated other comprehensive earnings (loss) to the statement of earnings. During the three-month periods ended March 31, 2016 and 2015, no amounts related to foreign currency translation were reclassified from accumulated other comprehensive earnings (loss) to the statement of earnings.

15. Segment Information

We have three reportable segments: brokerage, risk management and corporate.

The brokerage segment is primarily comprised of our retail and wholesale insurance brokerage operations. The brokerage segment generates revenues through commissions paid by insurance underwriters and through fees charged to our clients. Our brokers, agents and administrators act as intermediaries between insurers and their customers and we do not assume underwriting risks.

The risk management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property/casualty coverages and for insurance companies that choose to outsource some or all of their property/casualty claims departments. These operations also provide claims management, loss control consulting and insurance property appraisal services. Revenues are principally generated on a negotiated per-claim or per-service fee basis.

The corporate segment manages our clean energy and other investments. In addition, the corporate segment reports the financial information related to our debt, and certain corporate and acquisition-related activities.

Allocations of investment income and certain expenses are based on what management believes are reasonable assumptions and estimates primarily using revenue, headcount and other information. We allocate the provision for income taxes to the brokerage and risk management segments using the local country statutory rates. Reported operating results by segment would change if different methods were applied.

Financial information relating to our segments for the three-month periods ended March 31, 2016 and 2015 is as follows (in millions):

	Three-month period ended March 31, 2016	2015
Brokerage		
Total revenues	$ 825.5	$ 751.1
Earnings before income taxes	$ 100.0	$ 61.0
Identifiable assets at March 31, 2016 and 2015	$ 8,681.9	$ 8,092.2
Risk Management		
Total revenues	$ 179.3	$ 177.2
Earnings before income taxes	$ 24.0	$ 23.6
Identifiable assets at March 31, 2016 and 2015	$ 690.4	$ 571.7
Corporate		
Total revenues	$ 295.6	$ 303.0
Loss before income taxes	$ (68.3)	$ (53.7)
Identifiable assets at March 31, 2016 and 2015	$ 1,340.3	$ 1,067.0

Review by Independent Registered Public Accounting Firm

The interim consolidated financial statements at March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015 have been reviewed by Ernst & Young LLP, our independent registered public accounting firm, and their report is included herein.

Review Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Arthur J. Gallagher & Co.

We have reviewed the consolidated balance sheet of Arthur J. Gallagher & Co. as of March 31, 2016, and the related consolidated statements of earnings and comprehensive earnings for the three-month periods ended March 31, 2016 and 2015, the consolidated statement of cash flows for the three-month periods ended March 31, 2016 and 2015, and the consolidated statement of stockholders equity for the three-month period ended March 31, 2016. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Arthur J. Gallagher & Co. as of December 31, 2015, and the related consolidated statements of earnings, comprehensive earnings, stockholders equity, and cash flows for the year then ended, not presented herein, and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 10, 2016. In our opinion, the accompanying consolidated balance sheet of Arthur J. Gallagher & Co. as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
Ernst & Young LLP

Chicago, Illinois

May 2, 2016

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis that follows relates to our financial condition and results of operations for the three-month period ended March 31, 2016. Readers should review this information in conjunction with the unaudited consolidated financial statements and notes included in Item 1 of Part I of this quarterly report on Form 10-Q and the audited consolidated financial statements and notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations, contained in our annual report on Form 10-K for the year ending December 31, 2015.

Information Concerning Forward-Looking Statements

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

Potential factors that could impact results include:

- Failure to successfully and cost-effectively integrate recently acquired businesses and their operations or fully realize synergies from such acquisitions in the expected time frame;

- Volatility or declines in premiums or other adverse trends in the insurance industry;

- An economic downturn;

- Competitive pressures in each of our businesses;

- Risks that could negatively affect the success of our acquisition strategy, including continuing consolidation in our industry and growing interest in acquiring insurance brokers on the part of private equity firms, which could make it more difficult to identify targets and could make them more expensive, the risk that we may not receive timely regulatory approval of desired transactions, execution risks, integration risks, the risk of post-acquisition deterioration leading to intangible asset impairment charges, and the risk we could incur or assume unanticipated regulatory liabilities such as those relating to violations of anti-corruption and sanctions laws;

- Our failure to attract and retain experienced and qualified personnel;

- Risks arising from our growing international operations, including the risks posed by political and economic uncertainty in certain countries, (including the risks posed by protectionist local governments and underdeveloped or evolving legal systems), risks related to maintaining regulatory and legal compliance across multiple jurisdictions (such as those relating to violations of anti-corruption, sanctions and privacy laws), and risks arising from the complexity of managing businesses across different time zones, geographies, cultures and legal regimes;

Risks particular to our risk management segment;

The lower level of predictability inherent in contingent and supplemental commissions versus standard commissions;

Sustained increases in the cost of employee benefits;

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

Our inability to recover successfully should we experience a disaster, cybersecurity attack or other significant disruption to business continuity;

Damage to our reputation;

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

Violations or alleged violations of the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act 2010 or other anti-corruption laws and FATCA;

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

Our failure to adapt our services to changes resulting from the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act;

Unfavorable determinations related to contingencies and legal proceedings;

Clients that are not satisfied with our services;

Improper disclosure of confidential, personal or proprietary data;

Significant changes in foreign exchange rates;

Changes in our accounting estimates and assumptions;

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

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

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

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

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

Volatility of the price of our common stock.

Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of, and are based on information available to us on, the date of the applicable document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to update any such statements or release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including the risk factors referred to above. Our future performance and actual results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Forward-looking statements speak only as of the date that they are made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

A detailed discussion of the factors that could cause actual results to differ materially from our published expectations is contained under the heading Risk Factors in our filings with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and any other reports we file with the SEC in the future.

Information Regarding Non-GAAP Measures and Other

In the discussion and analysis of our results of operations that follows, in addition to reporting financial results in accordance with GAAP, we provide information regarding EBITDAC, EBITDAC margin, adjusted EBITDAC, adjusted EBITDAC margin, diluted net earnings per share (as adjusted) for the brokerage and risk management segments, adjusted revenues, adjusted compensation and operating expenses, adjusted compensation expense ratio, adjusted operating expense ratio and organic revenue measures for each operating segment. These measures are not in accordance with, or an alternative to, the GAAP information provided in this quarterly report on Form 10-Q. We believe that these presentations provide useful information to management, analysts and investors regarding financial and business trends relating to our results of operations and financial condition. Our industry peers may provide similar supplemental non-GAAP information related to organic revenues and EBITDAC, although they may not use the same or comparable terminology and may not make identical adjustments. The non-GAAP information we provide should be used in addition to, but not as a substitute for, the GAAP information provided. Certain reclassifications have been made to the prior-year amounts reported in this quarterly report on Form 10-Q in order to conform them to the current-year presentation.

Adjusted presentation - We believe that the adjusted presentations of the current and prior year information presented on the following pages provides stockholders and other interested persons with useful information regarding certain financial metrics that may assist such persons in analyzing our operating results as they develop a future earnings outlook for us. The after-tax amounts related to the adjustments were computed using the normalized effective tax rate for each respective period.

Adjusted revenues and expenses - We define these measures as revenues, compensation expense and operating expense, respectively, each adjusted to exclude gains realized from sales of books of business, acquisition integration costs, client run-off/bankruptcy impact, claim portfolio transfer ramp up fees/costs, workforce related charges, lease termination related charges, acquisition related adjustments and the impact of foreign currency translation, as applicable. Acquisition related adjustments include impairment charges, change in estimated acquisition earnout payables adjustments, impacts of acquisition valuation true-ups and acquisition related compensation charges. Integration costs include costs related to transactions not expected to occur on an ongoing basis in the future once we fully assimilate the applicable acquisition. These costs are typically associated with redundant workforce, extra lease space, duplicate services and external costs incurred to assimilate the acquisition with our IT related systems.