

Lockton Companies



ANNUAL REPORT

2002

Introduction

ON THE MARK

Our industry can trace its roots to 1666 in England with the Great Fire of London, which raged for five days and destroyed 13,000 houses and many public buildings, including nearly 80 churches.

Very few streets, much less buildings, were named or numbered. Signs and emblems were used by traders and inn-keepers to denote their business and services, but private houses were very difficult to identify for anyone not familiar with the area.



As the concept of fire insurance became more prominent, each insurance company began to mark the properties in their care with a distinctive emblem, or "Fire Mark." The purpose of the Fire Mark was to aid the fire brigades in identifying which insurance company covered a particular property.

Taking root

A similar system in colonial America was modeled on the English system, with Fire Marks dating from 1752. In New England, volunteer firefighters received contributions to help with expenses, and those contributors received the assistance in the case of fires. The fire departments that evolved from this were originally for-profit concerns,

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warning against certain hazards, such as smoking meats indoors or having shade trees that attracted lightning. In many cases, they would refuse to insure buildings where hazardous conditions existed—the beginnings of risk management!

History and aesthetics

Fire Marks are now widely sought by collectors, and prices can range from a hundred dollars into the thousands for the rarer ones. In 1986, Lockton obtained an initial collection of Fire Marks which we have continued to build on through the years. They provide our offices with a unique decor, and instill a sense of history. We have chosen a few of them to share with you in this report. Just as the Fire Mark represented "who to call" in early America, we think of Lockton as the right company to call for a wide variety of insurance and risk management needs.

How To Get There

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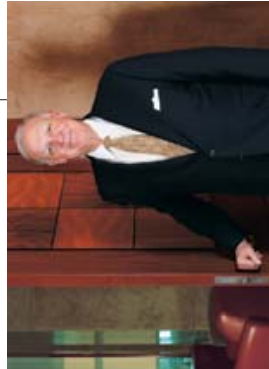
Our mission is to be the worldwide value and service leader in insurance brokerage and risk management services.

WE LIVE SERVICE

FOUNDER'S REMARKS

HISTORY & GUIDING PRINCIPLES

The Lockton Companies have grown beyond my initial expectations. While the roots of our beginning can be traced to a modest insurance agency situated in a Kansas City suburb, the business model and the values we created then have been critical to advancing our growth to one of the nation's largest insurance brokers. What I do know now, that I did not realize then, was how powerful a few simple ideas could be.



Jack Lockton,
Founder

“Client

was charged with two goals: be the best place to buy insurance and the best place to work. Through the early 80s, that philosophy was reflected as we grow by attracting quality associates to help broaden the products and services we offered, making sure our established client's needs were being met—“keeping business happy while seeking new business.” Not surprisingly, client satisfaction, as a measure of retained Lockton business, consistently exceeded the benchmarks of our public competitors. Equally important, our associates tenure with Lockton continued to grow as career opportunities developed.

Core Value No. 1—Place our client's interest first

Our growth began from one fundamental objective: to service our clients in a manner which exceeded their expectations. This client-focused philosophy worked from the beginning, creating the platform for Lockton's U.S. top ten ranking today.

Although a strong service culture emerged as the hallmark of our philosophy, we also recognized that specialization was critical. Rather than being all things to all people, our early focus was to specialize in a few select industries. Lockton began as a surety and construction house in 1968 and gained a national following as a specialty boutique. We embarked upon a diversification strategy in the 80s, by developing expertise in Transportation and the Restaurant and Hospitality industries and expanded our presence to Denver and St. Louis.

Core Value No. 2—Take care of our people
At each location we opened, the managing group

presence with the formal establishment of Lockton Benefit Company and the subsequent acquisition of the Dunning Company in Dallas. Today, we are one of the top 20 brokers of employee benefits and human resource consulting.

Core Value No. 4—Provide governance consistent with a private company

Our decisions are typically challenged by asking one simple question—“How does this decision impact our clients and people?” We proceed with the luxury of knowing that our decisions will not be subjected to the pressure of quarterly earnings or outside shareholders' interests.

This has created a competitive advantage for Lockton whether our investments be in people, systems or new locations. In the 2000s, we've continued our expansion in Houston, Atlanta and most recently San Diego. We have also augmented our geographic reach with continued specialization. Lockton has established practice groups in Financial Services; Healthcare; Staffing; Private Equity; Real Estate; and Technology and Telecommunications. We have also deepened our bench with nationally recognized experts in Property; Directors and Officers (D&O) Liability; and Enterprise Risk.

It has been a terrific ride. I could not have imagined that 35 years ago, we would be the nation's largest private broker. It began with a spark in my parent's basement. Then and now, Lockton truly is the best place to buy insurance and the best place to work.

Hot Company, Hot Issues

Lockton Companies is a leading insurance services, risk management, and human resources consulting organization. We serve a broad spectrum of corporate and institutional clients through

technologically advanced resources, a global network of affiliates, and a unique client focused culture. In recent industry periodicals, Lockton was ranked as the largest privately held insurance broker in the United States.

Our inaugural annual report examines compelling issues facing our clients and various segments of our industry. Corporate governance, construction defect, M&A due diligence, the crisis in healthcare, and employee benefits—these are all areas that have been affected by developments in the news and by the changing economy. It's been an unsettling year in many areas, but these unexpected events have served to remind us why the insurance industry plays such a vital role in our lives.



Corporate Governance

BOARD WALKING

Despite a decline in lawsuits after the Private Securities Litigation Reform Act (PSLRA) of 1995 was enacted, reports now indicate that suits are again increasing dramatically. The National

Economic Research Associates (NERA) cites a 104% increase in the number of companies sued in shareholder class actions,

with claim severity up an astronomical 459%. Shareholder litigation is returning much larger settlements to plaintiffs and their attorneys.

As a result, D&O insurance underwriters are forcing changes to manage the growing exposure to catastrophic losses. Significant premium increases, increased self-insured retentions, and restricted coverage terms and conditions are all being implemented.

Why the increase?

The 90s witnessed unprecedented wealth creation from new technologies, life-science breakthroughs, and the birth of the internet. Eventually, the bubble burst with the proliferation of failed IPOs which, in turn, chilled the market for D&O liability insurance.

Concomitant with the equity market dislocation, the economic downturn of 2000–2001 has generated increased shareholder litigation. Corporate governance issues are now at the forefront of legislative and regulatory agendas. For the first

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the Lockton way

Hard work, preparation, and a rigorous attention to the details define the way Lockton Financial Services does business. Members’ curriculum vitae includes securities litigation expert witness and prior underwriting experience from the world’s largest underwriters. Team members are experienced in arranging coverage for complex transactions such as securities offerings, corporate reorganizations, bankruptcies, partnerships, roll-ups, divestitures, and mergers and acquisitions.

Lockton does not “mass market” business, but takes a focused approach to syndicating our clients’ risk to the marketplace. This approach invariably yields better results for our clients, as well as our trading partners. A primary goal is to differentiate our client’s risk from the myriad of opportunities D&O underwriters see daily, thereby increasing the underwriter’s interest in our client. Client participation in the process is strongly recommended.

Accurate and complete information is now of the utmost importance in the underwriting process. Lockton first assists its clients with an assessment of its risk profile. Meetings with senior management, financial statement analysis, and risk analy-

sis are typical parts of the process, as are detailed analyses of market capitalization, loss-trend, and limit of liability and retention.

From this research, Lockton then develops a comprehensive underwriting memorandum that includes a business and operational-risk profile; a Q&A section that proactively addresses potential concerns, exposure and loss information; and coverage specifications. It is available as hard copy, on a CD-ROM, and in a web-based format.

The bottom line?

Management can no longer take a disinterested view in how its Board of Directors governs: Shareholder unrest, regulatory oversight and potential governmental reform are making the stakes too high. Despite the gloomy atmosphere, companies retaining a skilled, experienced broker—and investing in good risk management—can still navigate toward a successful outcome that is both achievable and rewarding.

Who to Call

The complex nature of executive liability exposures and coverages requires a specialized team dedicated to its product lines. Lockton’s Financial Services is a national resource group available to all Lockton offices and clients. Executive liability product lines include:

- Directors and Officers Liability
- General Partnership Liability
- Employment Practices Liability
- Pension Trust / Fiduciary Liability
- Professional Liability
- Executive Risk (Crime and Kidnap & Ransom)
- Related Financial Products

In addition to transactional skills, Lockton Financial Services provides client consulting when reporting a claim to underwriters. Team members have extensive claim experience, including investigation, client advocacy and interaction with panel or appointed defense counsel. Our senior team members have successfully assisted clients with complex allocation matters, including covered and uncovered defendant and covered and uncovered allegation issues. We are thoroughly familiar with policy forms utilized by the leading markets as well as existing case law and insurer claim practices. Close professional relationships, based upon mutual respect with senior claims executives allows the Lockton group to be an effective client advocate when reporting, processing, negotiating, or settling difficult losses.

Additional services include assisting in identifying exposures and risks; updates on industry trends, developments, and changes in legislation; application and renewal assistance; recommendations for premium allocation and budgeting for future years; and alternative risk financing strategies.



Lisa McAleenan, St. Louis;
Brad Villers, Houston;
Jed Shea, Kansas City;
Leri Beck, Dallas.

CONSTRUCTION

BREAKING THE MOLD

“Plaintiff’s attorneys

Building is the lifeblood of the economy; new construction creating opportunities for service providers from the architect to the engineer. It reflects our economic health, and provides jobs for skilled laborers.

In this industry, solid surety credit and affordable insurance can be the difference between a winning bid and being out of work. With fiscally challenged state legislators and public works projects in decline, many contractors are confronted with serious issues.

The state of the industry

Credit markets have tightened considerably, with bankruptcies at an all time high. The surety market has withdrawn capacity on the heels of an unprofitable 2001. Both markets are positively correlated with economic conditions and, with the downturn, have suffered losses.

Pricing began a general ascent, spiking with the tragic consequences of September 11th. The reinsurance market withdrew support to primary risk takers, with significant jumps in self-insured retentions and pricing being passed on to the contractor.

One bright spot in the construction landscape has been real estate. In an effort to stimulate the economy, the Federal Reserve’s interest rate policy inadvertently created a windfall for homebuilders as demand outstripped supply. Despite this window of relief, plaintiff’s attorneys have

developed fertile ground with allegations of construction defect and mold. Mold claims have skyrocketed nationally with litigation commonplace in California, Texas, and Florida.

Why the sudden surge in court cases?

Credit it to the “mold is gold” syndrome. This fungus is fast becoming the next asbestos as contractors struggle to find insurance. The flood of litigation began in the western U.S., resulting in class action suits. Prior to this litigation, reputable contractors would often fix defects or investigate mold problems, even when not obligated. They knew the value of word-of-mouth within their business and wanted their customers to be satisfied. But as certain law firms began initiating legal action, often over minor problems, the pending litigation discouraged builders from fixing the problems.

Although mold may be grabbing the spotlight, the lawsuit trend extends to general construction defect, with legislation taking a toll in reduced marketplace capacity. Rising insurance rates is now a serious issue, with outright denial of insurance to subcontractors occurring in many cases. Furthermore, contractors pointed fingers through a series of cross complaints, which used premium dollars for defense, not less costs, further exacerbating the problem.

To help address these problems, Lockton has redesigned the way home builders have managed

and financed risk. First, to eliminate the cross complaints, the trade contractors and the residential builders agreed to pool risk in a wrap-up or owner controlled insurance program. Second, to mitigate the homeowners’ litigation, the builders agreed to provide statutory warranty coverage in exchange for binding arbitration. By inserting a binding arbitration clause into the closing documents, legal expenses are reduced and dollars made available for maintenance and corrective action.

But changing the way transactions are handled is only one part of the Lockton solution. We bring expertise and service to our work with home builders as well as the entire spectrum of contractors and related service providers. Lockton was founded as a specialist firm with construction as our largest market segment. Our capabilities have paralleled the needs of this industry. Whether the problem be mold, construction defect, or workers’ compensation issues, abating problems is the mark of a Lockton company.

Who to Call

The construction industry has been one of Lockton Companies’ largest areas of specialization. We currently represent over 600 commercial and residential contractors and more than 100 engineering and/or architectural firms. Our clients include members of the *Engineering News-Record’s* Top 100 General Contractors; Top Design Firms; Top Design Build Firms and; Top 100 Specialty Contractors. We also represent 3 of the top 5 residential builders in the nation.

With representation comes expertise. The Lockton Construction Group is national in scope and can deliver client service worldwide. Key services include:

- State of the Art Program Design and Risk Financing Strategies
- Credit Analysis and Surety Arrangements
- Owner Controlled Insurance Programs/Wrap-Up Consultation
- Contract review and advisory services
- Project Finance
- Certificate of Insurance Arrangements
- National Risk Control Services
- Policy Wording Review
- Actuarial/Loss Forecasting
- Risk retention analysis
- Syndication and Market Placement
- Hands-on claim management support
- Workers’ Compensation Cost Containment Services

Additional services include technical audits of current property placements, detailed reviews of coverage terms and conditions, and assistance to complex claim recoveries.

Furthermore, our Construction Group is supplemented by National Teams with expertise in securing coverage for large property risks; directors and officers liability; global insurance programs and; alternative risk financing studies. Full access to these professionals is a service of the Lockton Construction Group.



Brad Gibson, Denver;
Celia Ferri, Kansas City;
Patrick Pihyl, Kansas City.

Mergers & Acquisitions

OVERDUE DILIGENCE

The hot economy of the 1990s brought a proliferation of mergers and buyouts. Not surprisingly, many improprieties and misrepresentations began surfacing, often after the deal had been closed. In chicken-and-egg fashion, the recent economic downturn and financial restatements by accounting firms quickly resulted in skepticism on the part of potential investors.

Who's responsible?

Accountability has suddenly become fashionable again, but at Lockton, it never went out of style. Insurance products and risk management due diligence teams are often the difference between closing a deal and being left at the table. In the current restructuring environment, it is important that the prospective buyer understand its total cost of risk so that its impact on earnings are accurately reflected in the purchase price. Coverage deficiencies can vary greatly from deal to deal. A smart buyer not only brings in his legal and accounting resources, but calls his insurance broker in the beginning to augment the due diligence process.

That process may involve reviewing letters of intent, purchase and sale agreements, recapitalization agreements, leases, historical insurance program structures, and open litigation. The Lockton M&A team takes a hard, detailed look at a company's liabilities and how they are managed.



Standing:
Barun Banerjee, New York;
Jeff Mizre, Los Angeles;
Mark Rusas, Kansas City;
Kevin Malloy, New York.

Seated:
Nancy Weisz, Kansas City;
Andy Guerin, New York;
Donna Barron, New York.

“Due diligence teams are often the difference between closing a deal and being left at the table.”

Public perception
How has the public's view of the rampant merger failures and scandals affected Lockton's day-to-day business? Not a great deal. We continue to focus on the basics—thorough document review, quantitative analysis, and, where appropriate, restructured insurance programs. In many of those reported cases, inaccurate calculation of accruals for retained losses, insufficient coverages, and excessive deductibles had unexpected impacts to the balance sheets. Had Lockton's brand of due diligence been performed for those risks and had those risks been addressed, those disasters could have been avoided.

Many prospective buyers mistakenly regard an asset purchase as a transaction that does not carry forward any exposed liabilities. Litigation management insurance is a new tool for those potentially disastrous liabilities—a creative way to use insurance as a means to cap liabilities or fund litigation-related expenses. It is even possible for a liability to be sold to a carrier, thus transferring the risk and removing it from the balance sheet altogether.

One important result of the changing M&A marketplace has been the need for spin-off underwriting. Lending institutions are requiring borrowers to divest themselves of non-core assets. By selling their subsidiaries, the large conglomerates generate cash and lose any drain from the asset. No longer covered by the umbrella of the parent company, the new independent companies

are requiring stand alone insurance. Lockton has successfully implemented programs for these smaller insureds allowing them to enjoy coverage terms similar to those of their parent companies. From our exhaustive review of the target company, we are able to design the best program and to educate the acquiring company regarding where its insurance costs are going. We look close. That is the reason so many private equity and leveraged buyout companies are looking close at Lockton for their insurance and risk management needs.

Who to Call

Our team of experts brings a keen risk management perspective to the transaction process. Our culture as an entrepreneurial company also makes us a good partner for deal-making visionaries, and our size allows us to be much more responsive to urgent time demands than larger, bureaucracy-laden brokers.

It has been proven repeatedly that by adding another set of well-trained eyes to the task of due diligence, costly pitfalls and hidden liabilities can be averted. Moreover, additional insight can be gained, and new opportunities are also likely to be uncovered.

We specialize in enhancing investment outcomes. First, by exposing potential problems in a target company's insurance program, and second, by developing creative solutions which convert those obstacles into insurable risks.

Examples of Obstacles That Lockton M&A Converts Into Insurable Risks:

- Uninsured and underinsured litigation
- Environmental conditions
- Underfunded accruals
- Unquantifiable historical products liability
- Impasses related to reps and warranties
- Exhausted policy limits
- Letter of credit issues

Lockton provides clients with a comprehensive risk analysis, and helps determine the best way for clients to manage their unique exposures. We examine historic programs, and often find uncovered exposures, insufficient limits, or a depleted policy limit from historical loss experience that needs to be replaced.



Healthcare

LIFE SUPPORT

“Medical

Life expectancy no longer means simply how many years we will live. Our increased longevity, medical breakthroughs, and advances in technology give

the phrase an entirely new subtext. We are asking not only what we can expect from life, but whether or not we will be able to pay for it. The “lottery” mentality of jury awards, a growing nursing shortage, the increasing elderly population, and the rise in medical costs are all pointing to one diagnosis: our healthcare system is in need of some intensive care.

Professional liability premiums for managed care companies, hospitals, physicians, and nursing homes have become exorbitant and often unavailable. Premiums have skyrocketed, self-insured retentions are increasing, and in some states the situation has reached a crisis level, forcing doctors to relocate to more favorable legal jurisdictions.

The perfect storm

These events have been taking shape for some time. Medical professional liability claims are often referred to as having a long “tail”—there is often a lag time of years between the time the medical event occurs, the time the claim is filed, and the date that the claim goes to trial or settles. Within the last few years, jury awards have skyrocketed, leaving many insurers underreserved.

As a result, medical malpractice coverage has gone from the best-performing casualty line of insurance to the worst. The current climate creates many challenges for our clients, some that pose major threats to their business.

How are we achieving such success in this difficult marketplace?

We address these difficult times by staying abreast of the issues facing our clients, giving them alternative ways to finance their risks, and by putting in place ancillary services that reduce their overall claims cost. We are also making sure that our submissions receive priority by providing comprehensive information and analysis that differentiate our submissions.

In the healthcare field, we have to take the time to sell our client's company to the insurance company, which means that we need to understand our client's business.

Keeping current with changes in market conditions is vital

As insurers go bankrupt or pull out of the healthcare marketplace, Lockton is vigilant in the pursuit of “new capacity.” History has proven, however, that the lowest price on the block is not always the safest deal, and it is Lockton's job to be acutely aware of the stability of this new capacity.

To further set ourselves apart from other

providers, the Lockton team includes a clinical loss control Associate. Our R.N. works with our clients on the development of policies and procedures, in-house training issues, OSHA compliance, and JCAHO accreditation. By examining problem areas and recommending ways to improve risk, we deliver tremendous service and help improve client bottom lines.

We have also added a litigation specialist who functions as an intermediary in resolving difficult professional liability claims. In addition, our internal financial analysts work with our larger clients to structure the best feasible combination of insurance and self-insurance based upon market conditions and the client's historical experience. These analysts also help our clients evaluate alternative solutions, including captives, rent-a-captives, and risk retention groups.

Whether our client is a large multistate hospital chain or a small rural hospital, the Lockton Healthcare Practice Group is providing the industry with our unique style of special care.

Who to Call

The evolutionary state of U.S. healthcare, combined with financial problems in today's markets, requires an innovative team. Lockton's Healthcare Practice is a national leader, delivering solutions in the healthcare industry. Our Healthcare Practice offers:

- Direct access to major national coverage
- Specialized expertise, including an R.N. and litigation specialist on staff
- Superior customer service, reflected by a client retention ratio of 97%
- A full service team that provides comprehensive solutions for all property and casualty exposures
- Sophisticated risk financing experience including self-insured trusts and captives
- Member of American Hospital Association (AHA) and other industry groups
- Diverse backgrounds including medical malpractice underwriting and insurance regulation

Lockton's Healthcare Practice studies industry trends to provide the highest-quality service to clients. This group is structured to look at their clients' Property and Casualty Programs as a whole. This shortens lines of communication, establishes accountability for all coverage and service, and allows for coordination between all team members.

We spend a tremendous amount of time developing intimate knowledge of our customers' business. This knowledge enables us to design and place the most efficient risk transfer program available in the market place. In depth understanding of our customers business allows us to provide superior service. We are very proactive in surfacing issues and resolving problems for our customers.

In addition to extraordinary healthcare expertise Lockton delivers a wide array of additional resources including: Risk Management, Loss Control, Claims, and Claim Cost Control. Full access to these Lockton professionals is a provided service of the Healthcare Practice.



Standing:

Manique Barska, Los Angeles;

Bob Theimer, St. Louis;

Elaine Szauffer, Kansas City;

Dennis Moore, San Diego.

Seated:

Becky Sullivan, Kansas City;

Brad Darr, Kansas City.

Lockton Benefit Group

CONSPICUOUS CONSUMERS

“When presented

The annual renewal of company benefit programs has become a source of frustration for both employers and employees. Business managers are under pressure to

control costs and operate more efficiently. The cost of benefits continues to increase precipitously. Employees are spending more for less coverage, and employees are discontent with less coverage and higher copays. Unfortunately, the industry has not provided creative solutions lately.

Employees are frustrated with the high costs of insurance and administration. They argue that employees do not realize that it costs several thousand dollars annually to provide benefits for each employee, yet employees are the first to complain if certain coverage is not provided.

Crossing the threshold of passive acceptance

Consumer-driven healthcare (“CDHC”) might provide a new paradigm. In addition to inflationary costs, other factors have given rise to the potential popularity of these plans: the overall economic downturn, the backlash against managed care’s cost control techniques, and the empowerment of “boomer consumers.”

Lockton Benefit Group has closely monitored the growing concept of CDHC, educating our clients on this emerging topic through regular

articles published in our *Benefit News* publication. Lockton has developed a unique database for tracking the emerging CDHC players and their plans. While evolving programs differ by provider, they all share a common goal: to engage their members in their own healthcare decisions, allowing consumers to have a positive impact on the cost and quality of healthcare.

For an employer interested in pursuing a CDHC approach, there are two primary alternatives. One involves making CDHC a theme by modifying current plans and encouraging members to make sound decisions. Simply sharing data regarding employer costs and employee costs can be very valuable. Employees will likely be surprised that their prescriptions actually cost nine times more than the \$20 copay and consider switching to a generic. Raising emergency room copays may encourage more physician appointments and less unnecessary emergency room trips.

The second, more aggressive, alternative is to implement a CDHC plan design. One model gaining attention is a high-deductible insurance plan with a spending account feature—the Healthcare Reimbursement Account (HRA). When it is presented to employees in terms of spending their own money, they are likely to make more efficient decisions.

An intriguing concept with lingering uncertainties

CDHC raises as many questions as it answers. Will healthcare providers cooperate? Will cost really go down, or will employees opt to save money by foregoing early treatment only to end up spending more in the long run? There are also legal and financial issues surrounding this approach. Although actual implementation of CDHC is only now emerging, remember that 401(k) plans were originally slow to gain acceptance, and for many of the same reasons. One that is cited frequently: employees won’t understand it.

Will employees have the time, patience, and resources to become informed consumers? One certainty today is that efficient decisions cannot be made without the appropriate information. At Lockton, we believe the future success of any CDHC program is reliant on current and accurate data. To this end, we have developed InfoLock, an internal SQL-driven database that will aggregate client data. While no one can be certain what the landscape will look like as things evolve, Lockton has concentrated on developing tools to help our clients succeed in any future arena.

Who to Call

Our clients navigate a highly-regulated and inflationary environment. Lockton Benefit Group employs inventive approaches to assist our clients in making informed decisions. Through our vast internal resources and utilization of emerging technologies, Lockton Benefit Group is a recognized national leader in providing comprehensive solutions to mid- to large-sized companies in a wide range of business. Our employee benefits practice offers the following products and services:

- Needs Driven and Customer-centric Health and Welfare Consulting Services
- Specialized Due Diligence resources provided to Lockton’s Mergers & Acquisitions Practice, reducing delays in an area where urgency is paramount
- Comprehensive Retirement Plan services, each customized and backed by our significant marketplace presence and vendor clout
- Employee Education and Communication Services to maximize employer investments and to engage employees as consumers
- Employee eSolutions and web-based administration alternatives
- Strategic Planning Services that ensure our clients’ employee benefits objectives are in line with their general business objectives

Lockton Benefit Group associates analyze industry trends in order to keep our clients informed on all contemporary issues. We have developed InfoLock, an internal SQL-driven database that will help us in analyzing a client’s claims data, which will enable appropriate employer strategies for maximizing the return on their insurance dollar.

Because of Lockton Benefit Group’s breadth of services, our clients are better able to manage all of their employee benefit plans within a single advisor relationship. This allows for meaningful strategic planning activities that address all programs offered by our clients.



Jenny Housley, Kansas City;
Phil Fischer, St. Louis;
Leslie Kostner, Kansas City

Marjagement's D & A

FIRE PROOF

September 11th left an indelible mark on all Americans. The financial services sector, most notably the insurance industry, suffered significant loss of life, and we mourned the loss of many friends. Despite this setback, we are proud to be part of a nation and industry that has responded to this tragedy with unyielding strength and perseverance.

Market conditions during fiscal year 2002 have been challenging. The past year has seen economic uncertainty, international unrest, and accounting scandals. In this turbulent year, Lockton Associates have worked harder than ever to support our clients as they attempt to operate amidst great uncertainty. Risk takers are returning to basic fundamentals by seeking underwriting profits as investment results have turned volatile.

Strategic Initiatives

During fiscal year 2002, we launched a number of initiatives that are illustrative of our bullish outlook. First, Lockton established a national Property Group with specialist brokers that are assisting our client executives with program design and market access, and enhancing our profile with the global underwriting community. Second, we strengthened our Financial Services Team with new hires in Houston, New York, and Kansas City. Third, we augmented our Risk Management Group with nationally recognized

“Lockton has

created a meaningful

employment

alternative with

significant career

opportunities.”

in our company by recruiting the best people and expanding our capabilities for our clients.

Results

Our revenues for the fiscal year ending April 30, 2002, were \$258,221,689, a 33 percent increase over the previous year. We are proud of this achievement, since the average growth for the top 10 brokers was 14.3%. However, we believe that the manner in which growth was achieved is more important than the increase in revenue itself. While many of our competitors grow through acquisition, Lockton grows simply by keeping customers and attracting new ones.

Growth

While the aforementioned figures for the last period are noteworthy, our sustained growth over an extended period illustrates the true strength of our culture and commitment from the industry's most talented professionals. Lockton has achieved a cumulative annual growth rate (CAGR) of 23% over the last 20 years.

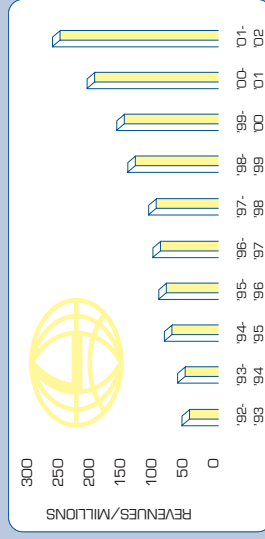
This type of sustained growth would not be possible without world-class Associates. Lockton

has created a meaningful employment alternative with significant career opportunities where talented and ambitious people can grow and thrive. Our turnover is exceptionally low and a reflection of our work environment. Low turnover of Associates translates to long term, knowledgeable business partners for our customers.

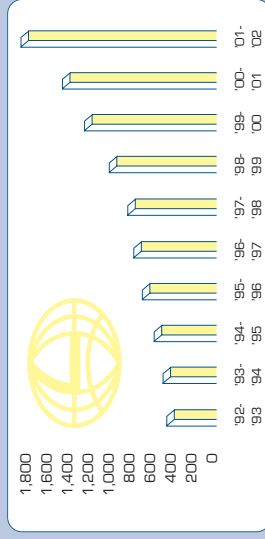
During last year, Lockton had the opportunity to open new offices in Atlanta and Houston. In Atlanta, we opened with an employee benefits platform, and in Houston, we have initially focused on both risk management and energy opportunities. We welcome our newest Associates and look forward to their contributions to the organization.

We are thrilled to have added another great year to our history. More important than the results are the new customers and Associates that have joined us. Going forward we are faced with a challenging business environment and a tough insurance market. Our Associates are excited and energized by the opportunities to help clients solve problems with new and creative solutions. At Lockton, our focus remains simple: we strive to provide the most uncommon results in a most common business.

Revenue Growth



Associate Growth



David Lockton, Chairman

Locations



Where To Find Us

<p>Atlanta 3455 Peachtree Road NE, 5th Floor Atlanta, GA 30326 404-460-3600 Sean Murphy – President</p>	<p>Houston 5847 San Felipe, Suite 320 Houston, TX 77057 713-458-3200 Tim Kelly – President</p>	<p>Lockton Risk Services 8700 State Line Road, Suite 100 Leawood, KS 66206 913-672-7500 Steve Egnolite – President</p>
<p>Chicago 8755 W. Higgins Road, Suite 200 Chicago, IL 60631 773-444-6000 Tom Pluss – President</p>	<p>Irvine Newport Gateway – Tower J 19800 MacArthur Boulevard Suite 550 Irvine, CA 92612 949-252-4400 Tim Noonan – President</p>	<p>Los Angeles 725 S. Figueroa 35th Floor Los Angeles, CA 90017 213-688-0065 Tim Noonan – President</p>
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