

BROWN & BROWN INC
Form 10-K
March 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

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 001-13619

BROWN & BROWN, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of)

59-0864469
(I.R.S. Employer)

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(incorporation or organization)
220 South Ridgewood Avenue, Daytona

Identification Number)

Beach, FL
(Address of principal executive offices)

32114
(Zip Code)

Registrant's telephone number, including area code: (386) 252-9601

Registrant's Website: www.bbinsurance.com

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, \$0.10 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

NOTE: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the price at which the stock was last sold on June 30, 2012 (the last business day of the registrant's most recently completed second fiscal quarter) was \$3,200,673,955.

The number of outstanding shares of the registrant's Common Stock, \$0.10 par value, as of February 20, 2013 was 143,943,521.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Brown & Brown, Inc.'s Proxy Statement for the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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BROWN & BROWN, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, we, Brown & Brown or the Company), make forward-looking statements within the safe harbor provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as may, will, should, expect, anticipate, believe, intend, estimate, plan and continue or similar words. We have based these statements on our current expectations about future events. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-K and the reports, statements, information and announcements incorporated by reference into this report are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include the following items, in addition to those matters described in Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations :

Projections of revenues, income, losses, cash flows, capital expenditures;

Future prospects;

Plans for future operations;

Expectations of the economic environment;

Material adverse changes in economic conditions in the markets we serve and in the general economy;

Future regulatory actions and conditions in the states in which we conduct our business;

Competition from others in the insurance agency, wholesale brokerage, insurance programs and service business;

The occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in California, Florida, Georgia, Indiana, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington, because a significant portion of business written by Brown & Brown is for customers located in these states;

The integration of our operations with those of businesses or assets we have acquired, including our January 2012 acquisition of Arrowhead General Insurance Agency Superholding Corporation (Arrowhead), or may acquire in the future and the failure to realize the expected benefits of such acquisition and integration;

Premium rates and exposure units set by insurance companies which have traditionally varied and are difficult to predict;

Our ability to forecast liquidity needs through at least the end of 2013;

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Our ability to renew or replace expiring leases;

Outcome of legal proceedings and governmental investigations;

Policy cancellations which can be unpredictable;

Potential changes to the tax rate that would affect the value of deferred tax assets and liabilities;

The inherent uncertainty in making estimates, judgments, and assumptions in the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP);

The performance of acquired businesses and its effect on estimated acquisition earn-out payable;

Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (SEC) filings; and

Assumptions as to any of the foregoing and all statements that are not based on historical fact but rather reflect our current expectations concerning future results and events.

Forward-looking statements that we make or that are made by others on our behalf are based on a knowledge of our business and the environment in which we operate, but because of the factors listed above, among others, actual results may differ from those in the forward-looking statements. Consequently, these cautionary statements qualify all of the forward-looking statements we make herein. We cannot assure you that the results or developments anticipated by us will be realized or, even if substantially realized, that those results or developments will result in the expected consequences for us or affect us, our business or our operations in the way we expect. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We assume no obligation to update any of the forward-looking statements.

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General**

We are a diversified insurance agency, wholesale brokerage, insurance programs and service organization with origins dating from 1939, headquartered in Daytona Beach and Tampa, Florida. We market and sell to our customers insurance products and services, primarily in the property, casualty and employee benefits areas. As an agent and broker, we do not assume underwriting risks. Instead, we provide our customers with quality, non-investment insurance contracts, as well as other targeted, customized risk management products and services.

We are compensated for our services primarily by commissions paid by insurance companies and by fees paid by customers for certain services. Commissions are usually a percentage of the premium paid by the insured. Commission rates generally depend upon the type of insurance, the particular insurance company and the nature of the services provided by us. In some cases, we share commissions with other agents or brokers who have acted jointly with us in a transaction. We may also receive from an insurance company a profit-sharing contingent commission, which is a profit-sharing commission based primarily on underwriting results, but may also contain considerations for volume, growth and/or retention. Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers compensation and all-lines liability arenas, as well as Medicare set-aside services, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services, and (2) our National Programs and Wholesale Brokerage Divisions, which earn fees primarily for the issuing of insurance policies on behalf of insurance carriers. The amount of our revenues from commissions and fees is a function of, among other factors, continued new business production, retention of existing customers, acquisitions and fluctuations in insurance premium rates and insurable exposure units, which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, sales and payroll levels).

As of December 31, 2012, our activities were conducted in 218 locations in 37 states as follows and one office in London, England:

Florida	41	Virginia	5	Missouri	2
California	20	Connecticut	4	New Hampshire	2
Washington	16	Kentucky	4	North Carolina	2
New York	15	Massachusetts	4	Delaware	1
Texas	13	Michigan	4	Hawaii	1
New Jersey	11	Arkansas	3	Montana	1
Georgia	9	Minnesota	3	Nevada	1
Pennsylvania	7	New Mexico	3	Ohio	1
Louisiana	7	Oregon	3	Utah	1
Colorado	6	Tennessee	3	West Virginia	1
Illinois	6	South Carolina	3	Wisconsin	1
Indiana	5	Arizona	2		
Oklahoma	5	Kansas	2		

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Industry Overview

Premium pricing within the property and casualty insurance underwriting (risk-bearing) industry has historically been cyclical, displaying a high degree of volatility based on prevailing economic and competitive conditions. From the mid-1980s through 1999, the property and casualty insurance industry experienced a soft market during which the underwriting capacity of insurance companies expanded, stimulating an increase in competition and a decrease in premium rates and related commissions. The dampening effect of this softness in rates on our revenues was somewhat offset by our acquisitions and new business production. As a result of increasing loss ratios (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, premium rates generally increased beginning in the first quarter of 2000 and continuing into 2003. During 2003, increases in premium rates began to moderate and, in certain lines of insurance, premium rates decreased. In 2004, as general premium rates continued to moderate, the insurance industry experienced the worst hurricane season since 1992 (when Hurricane Andrew hit south Florida). The insured losses from the 2004 hurricane season were absorbed relatively easily by the insurance industry and the general insurance premium rates continued to soften during 2005.

During the third quarter of 2005, the insurance industry experienced the worst hurricane season ever recorded. As a result of the significant losses incurred by insurance companies from these hurricanes, insurance premium rates in 2006 increased on coastal property, primarily in the southeastern region of the United States. In the other regions of the United States, insurance premium rates generally declined during 2006. In addition to significant insurance pricing declines in Florida (as discussed below) insurance premium rates continued to decline from 2007 through 2011 in most of the other U.S. regions.

Although insurance premium rates declined from 2008 through 2011 in most lines of coverage, the rates of decline appeared to be slowing. However, during the second half of 2008 through 2011, insurable exposure units, such as sales and payroll expenditures, declined significantly due to the weakening economy, primarily in the southeastern and western parts of the United States. From 2008 through 2011, declining exposure units had a greater adverse impact on our commissions and fees revenue than did declining insurance premium rates.

In the first quarter of 2012, insurance premium rates began to gradually increase for most lines of coverage. Correspondingly, insurable exposure units began to flatten, and in many cases, began to increase. As a result of increases in both insurance premium rates and insurable exposure units, we achieved positive internal organic revenue growth of our 2012 core commissions and fees for the first time since 2006. General insurance premium rates and insurable exposure units are expected to continue to modestly and gradually increase during 2013.

SEGMENT INFORMATION

Our business is divided into four reportable operating segments: (1) the Retail Division; (2) the National Programs Division; (3) the Wholesale Brokerage Division; and (4) the Services Division. The Retail Division provides a broad range of insurance products and services to commercial, public entity, professional and individual customers. The National Programs Division provides professional liability and related package products for certain professionals, and markets targeted products and services to specific industries, trade groups, public entities, and market niches. The Wholesale Brokerage Division markets and sells excess and surplus commercial and personal insurance, and reinsurance, primarily through independent agents and brokers. The Services Division provides customers with third-party claims administration, consulting for the workers compensation insurance market, comprehensive medical utilization management services in both workers compensation and all-lines liability arenas, Medicare Secondary Payer statute compliance-related services, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services. Effective January 1, 2012, certain profit center offices, with aggregate total revenues of \$16.9 million and \$13.1 million for 2011 and 2010, respectively, were reclassified from the National Programs Division to the Wholesale Brokerage Division, and as such, certain prior year amounts have been reclassified to conform to the current year presentation.

The following table summarizes (1) the commissions and fees revenue generated by each of our reportable operating segments for 2012, 2011 and, 2010, and (2) the percentage of our total commissions and fees revenue represented by each segment for each such period:

<i>(in thousands, except percentages)</i>	2012	%	2011	%	2010	%
Retail Division	\$ 639,708	53.7%	\$ 604,966	60.2%	\$ 573,809	59.3%
National Programs Division	251,929	21.2%	164,352	16.3%	175,838	18.2%
Wholesale Brokerage Division	182,822	15.4%	172,547	17.2%	170,150	17.6%
Services Division	116,247	9.8%	64,875	6.4%	46,336	4.8%
Other	(1,625)	(0.1)%	(778)	(0.1)%	784	0.1%
Total	\$ 1,189,081	100.0%	\$ 1,005,962	100.0%	\$ 966,917	100.0%

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We conduct all of our operations within the United States of America, except for one wholesale brokerage operation based in London, England that commenced business in March 2008. This operation earned \$9.7 million, \$9.1 million and \$9.9 million of revenues for the years ended December 31, 2012, 2011 and 2010, respectively. We do not have any material foreign long-lived assets.

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See Note 15 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for additional segment financial data relating to our business.

Retail Division

As of December 31, 2012, our Retail Division employed 3,240 persons. Our retail insurance agency business provides a broad range of insurance products and services to commercial, public and quasi-public entity, professional and individual customers. The categories of insurance we principally sell include: property insurance relating to physical damage to property and resultant interruption of business or extra expense caused by fire, windstorm or other perils; casualty insurance relating to legal liabilities, workers' compensation, commercial and private passenger automobile coverages; and fidelity and surety bonds. We also sell and service group and individual life, accident, disability, health, hospitalization, medical and dental insurance.

No material part of our retail business is attributable to a single customer or a few customers. During 2012, commissions and fees from our largest single Retail Division customer represented less than one quarter of one percent (0.25%) of the Retail Division's total commissions and fees revenue.

In connection with the selling and marketing of insurance coverages, we provide a broad range of related services to our customers, such as risk management and loss control surveys and analysis, consultation in connection with placing insurance coverages and claims processing. We believe these services are important factors in securing and retaining customers.

National Programs Division

As of December 31, 2012, our National Programs Division employed 1,373 persons. Our National Programs Division can be grouped into four broad categories; (1) Professional Programs; (2) Arrowhead Insurance Programs; (3) Commercial Programs; and (4) Public Entity-Related Programs:

Professional Programs. Professional Programs provide professional liability and related package insurance products tailored to the needs of specific professional groups. Professional Programs negotiates policy forms and coverage options with their specific insurance carrier. Securing endorsements of these products from a professional association or sponsoring company is also an integral part of their function. Professional Programs affiliate with professional groups, including but not limited to, dentists, oral surgeons, hygienists, lawyers, CPAs, optometrists, opticians, ophthalmologists, insurance agents, financial advisors, registered representatives, securities broker-dealers, benefit administrators, real estate brokers, real estate title agents and escrow agents. In addition, Professional Programs encompasses supplementary insurance related products to include weddings, events, medical facilities and cyber liability.

The Professional Protector Plan[®] for Dentists and the Lawyer's Protector Plan[®] are marketed and sold primarily through a national network of independent agencies including certain of our retail offices; however, certain professional liability programs, CalSurance[®] and TitlePac[®], are principally marketed and sold directly to our insured customers. Under our agency agreements with the insurance companies that underwrite these programs, we often have authority to bind coverages (subject to established guidelines), to bill and collect premiums and, in some cases, to adjust claims. For the programs that we market through independent agencies, we receive a wholesale commission or override, which is then shared with these independent agencies.

Below are brief descriptions of the Professional programs.

Allied Protector Plan: The Allied Protector PlanSM (APPSM) specializes in customized professional liability and business insurance programs for individual practitioners and businesses in the healthcare industry. The AAP program offers coverage to include, but not limited to, liability insurance for dental hygienists and dental assistants, home health agencies, physical therapy clinics, and medical directors. Also available through the AAP program is cyber/data breach insurance offering a solution to privacy breaches and information security exposures tailored to the needs of healthcare organizations.

Certified Public Accountants: The CPA Protector Plan[®] offers professional liability insurance for certified public accountant practitioners and firms throughout the United States.

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Dentists: Presented in 1969, the Professional Protector Plan (PPP) provides dental professionals insurance products including professional and general liability, property, employment practices liability, workers compensation, claims and risk management. The PPP® recognized the importance of policyholder and customer service and developed a customized, proprietary, web-based rating and policy issuance system which in turn provides a seamless policy delivery resource and access to policy information on a real time basis. Obtaining endorsements from state and local dental societies and associations plays an integral role in the PPP® partnership. The PPP is offered in all 50 states, District of Columbia, Puerto Rico and the Virgin Islands.

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Financial Professionals: CalSurance® and CITA Insurance have specialized in this niche since 1980 and offer professional liability programs designed for insurance agents, financial advisors, registered representatives, securities broker-dealers, benefit administrators, real estate brokers and real estate title agents. An important aspect of CalSurance® is Lancer Claims Services, which provides specialty claims administration for insurance companies underwriting CalSurance® product lines.

Lawyers: The Lawyer's Protector Plan® (LPP®), for 25 years, has been providing professional liability insurance with a niche focus on law firms with 1-50 attorneys. The LPP® program handles all aspects of insurance operations including underwriting, distribution management, policy issuance and claims. The LPP® is offered in 45 states.

Optometrists and Opticians: Since 1973, The Optometric Protector Plan® (OPP®) provides professional liability program for Eye Care Professionals, nationwide. The OPP® program offers professional insurance products for Optometrists, Ophthalmologists, Opticians and Ophthalmic Technicians. The OPP® is offered in all 50 states.

Real Estate Professionals: TitlePac® provides professional liability products and services designed for real estate title agents and escrow agents in 47 states and the District of Columbia.

Wedding Protector Plan® and Event Protector Plan®: Wedding Protector Plan® and Event Protector Plan® provide an online wedding/private event cancellation and postponement insurance policy that offers financial protection if certain unfortunate, unforeseen events should occur during the period leading up to and including the wedding day. General liability and liquor liability insurance products are also offered. Both the Wedding and Event Protector Plans are offered in 47 states.

Arrowhead Programs. Arrowhead is a Managing General Agent (MGA), General Agent (GA), and Program Administrator (PA) to the property and casualty insurance industry. Arrowhead acts as a virtual insurer providing outsourced product development, marketing, underwriting, actuarial, compliance and claims and other administrative services to insurance carrier partners. As an MGA, Arrowhead has the authority to underwrite, bind insurance carriers, issue policies, collect premiums and provide administrative and claims services.

Below are brief descriptions of the Arrowhead Programs:

Architects and Engineering, operating as Arrowhead Design Insurance (ADI) is a leading writer of professional liability insurance for architects, engineers and environmental consultants. ADI is a national program writing in 49 states.

Automotive Aftermarket - The Automotive Aftermarket Program is a new program launched in 2012 in conjunction with Zurich American Insurance Company's transfer of selected assets and employees to Arrowhead. The Automotive Aftermarket program writes commercial package insurance for non-dealership automotive services professionals such as auto recyclers, brake shops, equipment dealers, mechanical repairs, oil and lube shops, parts retailers and wholesalers, tire retailers and wholesalers and transmission mechanics.

Commercial is a program that offers three distinct products to commercial operations, primarily in California: commercial auto, commercial package and general liability.

Real Estate Errors & Omissions writes errors and omissions insurance for small to medium-sized residential real estate agents and brokers in California. Coverage includes real estate brokerage, property management, escrow, appraisal, leasing and consulting services.

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Earthquake and DIC is a Differences-in-Conditions (DIC) Program writing, notably earthquake, flood, and the All Risk insurance coverages to commercial property owners. The Earthquake and DIC program writes insurance on both a primary and excess layer basis.

Marine is a national program manager and wholesale producer of marine insurance products including yachts and high performance boats, small boats, commercial marine and marine artisan contractors.

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Personal Property provides a series of coverages for homeowners and renters in 17 states.

Residential Earthquake specializes in monoline residential earthquake coverage for California home and condominium owners.

Wheels provides private passenger automobile and motorcycle coverage for a range of drivers. Arrowhead's auto program offers two personal auto coverage types: one traditional non-standard auto product offering minimum state required liability limits and another targeting full coverage, multi-vehicle risks. The auto product is written in four states: California, Arizona, Michigan and Washington.

Workers Compensation provides workers compensation insurance coverage in 43 states for California-based insureds. Arrowhead's workers compensation program targets industry segments such as agriculture, contractors, food services, horticulture and manufacturing.

Commercial Programs. Commercial Programs markets targeted products and services to specific industries, trade groups, and market niches. Most of these products and services are marketed and sold primarily through independent agents, including certain of our retail offices. However, a number of these products and services are also marketed and sold directly to insured customers. Under agency agreements with the insurance companies that underwrite these programs, we often have authority to bind coverages (subject to established guidelines), to bill and collect premiums and, in some cases, to adjust claims.

Acumen Re Management Corporation is a reinsurance underwriting management organization, primarily acting as an outsourced specific excess workers compensation, directors and officers liability, and errors and omissions liability facultative reinsurance underwriting facility.

AFC Insurance, Inc. (AFC) is a managing general underwriter, specializing in insurance products tailored to the health and human services industry. AFC works with retail agents in all states and targets home healthcare, group homes for the mentally and physically challenged, drug and alcohol facilities and programs for the developmentally disabled. AFC also has a separate program for independent pizza restaurants.

American Specialty Insurance & Risk Services, Inc. provides insurance and risk management services for customers in professional sports, motor sports, amateur sports, and the entertainment industry.

Fabricare: Irving Weber Associates, Inc. (IWA) has specialized in this niche since 1946, providing package insurance including workers compensation to dry cleaners, linen supply and uniform rental operations. They also offer insurance programs for independent grocery stores and restaurants.

Florida Intracoastal Underwriters, Limited Company (FIU) is a managing general agency that specializes in providing insurance coverage for coastal and inland high-value condominiums and apartments. FIU has developed a specialty reinsurance facility to support the underwriting activities associated with these risks.

Industry Consulting Group, Inc. (ICG) is a complete property tax service provider, and works with Proctor Financial, Inc. in providing solutions to the financial institutions industry. ICG provides a full range of property tax processing solutions, property valuations and appeals, and other services to the real estate, oil and gas, and financial institution industries. ICG features full electronic interfaces, sophisticated and flexible reporting and systems that are customized to individual specifications.

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Parcel Insurance Plan[®] (*PIP*) is a specialty insurance agency providing insurance coverage to commercial and private shippers for small packages and parcels with insured values of less than \$25,000 each.

Proctor Financial, Inc. (*Proctor*) provides insurance programs and compliance solutions for financial institutions that service mortgage loans. *Proctor*'s products include lender-placed fire and flood insurance, full insurance outsourcing, mortgage impairment, and blanket equity insurance. *Proctor* acts as a wholesaler and writes surplus lines property business for its financial institution customers.

Railroad Protector Plan[®] (*RRPP*) Introduced in 1997, this program provides insurance products for insureds servicing the railroad industry (not the railroads). The *RRPP*[®] insurance coverages include general liability, property, commercial auto, umbrella, workers comp and inland marine. The *RRPP*[®] is offered in 46 states.

Southwest Assurance Corporation (*SAC*) is a program that insures governmental entities' mosquito control operations. The *SAC*/mosquito program provides insurance coverage including general liability, pesticide applicators liability, commercial auto, property, D & O, crime, pollution, aviation, airport premises liability, underground storage tank, workers comp and chemical liability. The *SAC*/mosquito program is offered in 48 states.

Towing Operators Protector Plan[®] (*TOPP*). Introduced in 2009, this program targets towing operations that offer services to light class towing risks. The *TOPP*[®] program provides insurance coverage including general liability, commercial auto, garage keeper's legal liability, property and motor truck cargo coverage. The *TOPP*[®] program is offered in 21 states.

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Public Entity-Related Programs. Public Entity-Related Programs administers various insurance trusts specifically created for cities, counties, municipalities, school boards special taxing districts, and quasi-governmental agencies. These insurance coverages can range from providing fully insured programs to establishing risk retention insurance pools to excess and facultative specific coverages.

Downey is a program administrator of insurance trusts offering tailored property and casualty insurance products, risk management consulting, third-party administration and related services designed for cities, counties, municipalities, schools, special taxing districts, and other public entities in the State of Indiana.

Ephrata is a program administrator of insurance trusts offering tailored property and casualty insurance products, risk management consulting, third-party administration and related services designed for cities, counties, municipalities, and school boards in the State of Washington.

Ideal is a program administrator offering tailored property and casualty insurance products, risk management consulting, third-party administration and related services designed for municipalities, schools, fire districts, and other public entities in the State of Illinois.

PRNJ provides administrative services and insurance procurement for the Statewide Insurance Fund (*Statewide*). *Statewide* is a municipal joint insurance fund comprised of counties, municipalities, utility authorities, community colleges and emergency services entities in New Jersey.

PRU is the program administrator for the Preferred Governmental Insurance Trust (*PGIT*) offering tailored property and casualty insurance products, risk management consulting, third-party administration and related services designed for cities, counties, municipalities, schools, special taxing districts, and other public entities in the State of Florida.

Wholesale Brokerage Division

At December 31, 2012, our Wholesale Brokerage Division employed 943 persons. Our Wholesale Brokerage Division markets and sells excess and surplus commercial insurance products and services to retail insurance agencies (including our retail offices), and reinsurance products and services to insurance companies throughout the United States. The Wholesale Brokerage Division offices represent various U.S. and U.K. surplus lines insurance companies. Additionally, certain offices are also Lloyd's of London correspondents. The Wholesale Brokerage Division also represents admitted insurance companies for purposes of affording access to such companies for smaller agencies that otherwise do not have access to large insurance company representation. Excess and surplus insurance products encompass many insurance coverages, including personal lines, homeowners, yachts, jewelry, commercial property and casualty, commercial automobile, garage, restaurant, builder's risk and inland marine lines. Difficult-to-insure general liability and products liability coverages are a specialty, as is excess workers' compensation coverage. Wholesale brokers solicit business through mailings and direct contact with retail agency representatives. During 2012, commissions and fees from our largest Wholesale Brokerage Division customer represented approximately 0.9% of the Wholesale Brokerage Division's total commissions and fees revenue.

Services Division

At December 31, 2012, our Services Division employed 709 persons and provided a wide-range of insurance-related services.

Below are brief descriptions of the programs offered by the Services Division.

The Advocate Group assists individuals throughout the United States who are seeking to establish eligibility for coverage under the U.S. Government's Social Security Disability program and provides health plan selection and enrollment assistance for Medicare beneficiaries. The Advocate Group works closely with employer-sponsored group life, disability and health plan participants to assist disabled employees in receiving the education, advocacy and benefit coordination assistance necessary to achieve the fastest

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possible benefit approvals. In addition, The Advocator Group also provides second injury fund recovery services to the workers compensation insurance market.

American Claims Management (ACM) provides third-party administration (TPA) services to both the commercial and personal property and casualty insurance markets on a nationwide basis, and provides claims adjusting, administration, subrogation, litigation and data management services to insurance companies, self-insureds, public municipalities, insurance brokers and corporate entities. 60% of ACM 's 2012 net revenues were derived from the various Arrowhead programs in our National Programs Division, with the remainder generated from third parties.

Colonial Claims provides insurance claims adjusting and related services, including education and training services, throughout the United States. Colonial Claims handle property and casualty insurers' multi-line and catastrophic claims needs, including auto, earthquake, flood, hail, homeowners and wind claims. Colonial Claims adjusters are approved by the National Flood Insurance Program and are certified in each classification of loss that include dwelling, mobile home, condominium association, commercial and large losses.

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NuQuest/Bridge Point and Protocols provide a full spectrum of Medicare Secondary Payer (MSP) statute compliance services, from MSA Allocation through Professional Administration to over 250 insurance carriers, third-party administrators, self-insured employers, attorneys, brokers and related claims professionals nationwide. Specialty services include medical projections, life care plans, Medicare set-aside analysis, allocation and administration.

Preferred Governmental Claims Services (PGCS) provides TPA services for insurance entities and self-funded or fully-insured workers' compensation and liability plans. PGCS services include claims administration, cost containment consulting, services for secondary disability, and subrogation recoveries.

United Self-Insured Services (USIS) provides TPA services for insurance entities and self-funded or fully-insured workers' compensation and liability plans. USIS services include claims administration, access to major reinsurance markets, cost containment consulting, services for secondary disability, and subrogation recoveries and risk management services such as loss control. USIS services also includes managed care services, including medical networks, case management and utilization review services certified by the American Accreditation Health Care Commission.

In 2012, our three largest workers' compensation contracts represented approximately 8.9% of our Services Division's fees revenues, or approximately 0.9% of our total consolidated commissions and fees revenue.

Employees

At December 31, 2012, we had 6,438 full-time equivalent employees. We have agreements with our sales employees and certain other employees that include provisions restricting their ability to solicit business from our customers or to hire our employees for a period of time after separation from employment with us. The enforceability of such agreements varies from state to state depending upon state statutes, judicial decisions and factual circumstances. The majority of these agreements are at-will and terminable by either party; however, the covenants not to solicit our customers and employees generally extend for a period of two years after cessation of employment.

None of our employees is represented by a labor union, and we consider our relations with our employees to be satisfactory.

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Competition

The insurance intermediary business is highly competitive, and numerous firms actively compete with us for customers and insurance markets. Competition in the insurance business is largely based on innovation, quality of service and price. A number of firms and banks with substantially greater resources and market presence compete with us in the southeastern United States and elsewhere, particularly outside of Florida.

A number of insurance companies directly sell insurance, primarily to individuals, and do not pay commissions to third-party agents and brokers. In addition, the Internet continues to be a source for direct placement of personal lines business. To date, such direct sales efforts have had little effect on our operations, primarily because our Retail Division is commercially rather than individually oriented.

In addition, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 and regulations enacted thereunder permit banks, securities firms and insurance companies to affiliate. As a result, the financial services industry has experienced and may continue to experience consolidation, which in turn has resulted and could continue to result in increased competition from diversified financial institutions, including competition for acquisition prospects.

Regulation, Licensing and Agency Contracts

We and/or our designated employees must be licensed to act as agents, brokers, intermediaries or third-party administrators by state regulatory authorities in the states in which we conduct business. Regulations and licensing laws vary by individual state and are often complex.

The applicable licensing laws and regulations in all states are subject to amendment or reinterpretation by state regulatory authorities, and such authorities are vested in most cases with relatively broad discretion as to the granting, revocation, suspension and renewal of licenses. The possibility exists that we and/or our employees could be excluded or temporarily suspended from carrying on some or all of our activities in, or could otherwise be subjected to penalties by, a particular state.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the Securities and Exchange Commission (SEC). We make available free of charge on our website, at www.bbinsurance.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act and the rules promulgated thereunder, as soon as reasonably practicable after electronically filing or furnishing such material to the SEC. These documents are posted on our website at www.bbinsurance.com select the Investor Relations link and then the Publications & Filings link.

Copies of these reports, proxy statements and other information can be read and copied at:

SEC Public Reference Room

100 F Street NE

Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at www.sec.gov.

The charters of the Audit, Compensation and Nominating/Governance Committees of our Board of Directors as well as our Corporate Governance Principles, Code of Business Conduct and Ethics and Code of Ethics (CEO and Senior Financial Officers (including any amendments to, or waivers of any provision of any of these charters, principles or codes) are also available on our website or upon request. Requests for copies of any of these documents should be directed in writing to Corporate Secretary, Brown & Brown, Inc., 655 N. Franklin St, Suite 1900, Tampa, Florida 33602, or by telephone to (813) 222-4277.

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ITEM 1A. Risk Factors

WE CANNOT ACCURATELY FORECAST OUR COMMISSION REVENUES BECAUSE OUR COMMISSIONS DEPEND ON PREMIUM RATES CHARGED BY INSURANCE COMPANIES, WHICH HISTORICALLY HAVE VARIED AND, AS A RESULT, HAVE BEEN DIFFICULT TO PREDICT.

We are primarily engaged in the insurance agency, wholesale brokerage, and insurance programs business, and derive revenues principally from commissions paid by insurance companies. Commissions are based upon a percentage of premiums paid by customers for insurance products. The amount of such commissions is therefore highly dependent on premium rates charged by insurance companies. We do not determine insurance premiums. Premium rates are determined by insurance companies based on a fluctuating market. Historically, property and casualty premiums have been cyclical in nature and have varied widely based on market conditions.

As traditional risk-bearing insurance companies continue to outsource the production of premium revenue to non-affiliated brokers or agents such as us, those insurance companies may seek to further reduce their expenses by reducing the commission rates payable to those insurance agents or brokers. The reduction of these commission rates, along with general volatility and/or declines in premiums, may significantly affect our profitability. Because we do not determine the timing or extent of premium pricing changes, we cannot accurately forecast our commission revenues, including whether they will significantly decline. As a result, we may have to adjust our budgets for future acquisitions, capital expenditures, dividend payments, loan repayments and other expenditures to account for unexpected changes in revenues, and any decreases in premium rates may adversely affect the results of our operations.

CURRENT U.S. ECONOMIC CONDITIONS AND THE SHIFT AWAY FROM TRADITIONAL INSURANCE MARKETS MAY CONTINUE TO ADVERSLY AFFECT OUR BUSINESS.

Since late 2007, global consumer confidence has eroded amidst concerns over declining asset values, volatility in energy costs, geopolitical issues, the availability and cost of credit, high unemployment, and the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations. These concerns have slowed economic growth and resulted in a recession in the United States. Economic conditions have had a negative impact on our results of operations during the years since 2008 due to reduced customer demand. If these economic conditions worsen, a number of negative effects on our business could result, including declines in values of insurable exposure units, declines in insurance premium rates, and the financial insolvency, or reduced ability to pay, of certain of our customers. Any of these effects could decrease our net revenues and profitability.

In addition, there has been an increase in alternative insurance markets, such as self-insurance, captives, risk retention groups and non-insurance capital markets. While we compete in these segments on a fee-for-service basis, we cannot be certain that such alternative markets will provide the same level of profitability as traditional insurance markets.

OUR GROWTH STRATEGY DEPENDS IN PART ON THE ACQUISITION OF OTHER INSURANCE INTERMEDIARIES, WHICH MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS IN THE FUTURE AND WHICH, IF CONSUMMATED, MAY NOT BE ADVANTAGEOUS TO US.

Our growth strategy includes the acquisition of other insurance intermediaries. Our ability to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations, and expand into new markets requires us to implement and improve our operations and our financial and management information systems. Integrated, acquired businesses may not achieve levels of revenues, profitability, or productivity comparable to our existing operations, or otherwise perform as expected. In addition, we compete for acquisition and expansion opportunities with firms and banks that have substantially greater resources than we do. Acquisitions also involve a number of special risks, such as: diversion of management's attention; difficulties in the integration of acquired operations and retention of personnel; entry into unfamiliar markets; unanticipated problems or legal liabilities; estimation of the acquisition earn-out payable; and tax and accounting issues, some or all of which could have a material adverse effect on the results of our operations, financial condition and cash flows.

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WE COULD INCUR SUBSTANTIAL LOSSES FROM OUR CASH AND INVESTMENT ACCOUNTS IF ONE OF THE FINANCIAL INSTITUTIONS THAT WE USE FAILS OR IS TAKEN OVER BY THE U.S. FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC).

Traditionally, we have maintained cash and investment balances, including restricted cash held in premium trust accounts, at various depository institutions in amounts that are significantly in excess of the limits insured by the FDIC. While we began in the Fall of 2008 re-focusing our investment and cash management strategy by moving more of our cash into non-interest bearing accounts (which were FDIC-insured until December 31, 2012, and not subject to any limits) and money market accounts (a portion of which became FDIC insured in the Fall of 2008), we still maintain cash and investment balances in excess of the current limits insured by FDIC. As the credit crisis persists, the financial strength of some depository institutions has diminished and this trend may continue. If one or more of the depository institutions with which we maintain significant cash balances were to fail, our ability to access these funds might be temporarily or permanently limited, and we could face material liquidity problems and potential material financial losses.

OUR BUSINESS, AND THEREFORE OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION, MAY BE ADVERSELY AFFECTED BY THE FURTHER DISRUPTION IN THE U.S.-BASED CREDIT MARKETS AND BY FURTHER INSTABILITY OF FINANCIAL SYSTEMS.

The disruption in the U.S.-based credit markets, the repricing of credit risk and the deterioration of the financial and real estate markets over the past few years have created increasingly difficult conditions for financial institutions and certain insurance companies. These conditions include significant losses, greater volatility, significantly less liquidity, widening of credit spreads and a lack of price transparency in certain markets. While these conditions have somewhat abated since the Fall of 2008, it is difficult to predict when these conditions will completely end and the extent to which our markets, products and business will be adversely affected.

The unprecedented disruptions in the credit and financial markets had a significant material adverse impact on a number of financial institutions and limited access to capital and credit for many companies. Although we are not currently experiencing any limitation of access to our revolving credit facility (which matures in 2016) and are not aware of any issues impacting the ability or willingness of our lenders under such facility to honor their commitments to extend us credit, the failure of a lender could adversely affect our ability to borrow on that facility, which over time could negatively impact our ability to consummate significant acquisitions or make other significant capital expenditures. Continued adverse conditions in the credit markets in future years could adversely affect the availability and terms of future borrowings or renewals or refinancings.

We also have a significant amount of trade accounts receivable from some insurance companies with which we place insurance. If those insurance companies were to experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us, which could have a significant adverse impact on our financial condition and results of operations.

OUR BUSINESS, AND THEREFORE OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION, MAY BE ADVERSELY AFFECTED BY ECONOMIC CONDITIONS THAT RESULT IN REDUCED INSURER CAPACITY.

Our results of operations depend on the continued capacity of insurance carriers to underwrite risk and provide coverage, which depends in turn on insurance companies' ability to procure reinsurance. We have no control over these matters. To the extent that reinsurance becomes less widely available, we may not be able to procure the amount or types of coverage that our customers desire and the coverage we are able to procure may be more expensive or limited.

INFLATION MAY ADVERSELY AFFECT OUR BUSINESS OPERATIONS IN THE FUTURE.

Given the current macroeconomic environment, it is possible that U.S. government actions, in the form of a monetary stimulus, a fiscal stimulus, or both, to the U.S. economy, could lead to inflationary conditions that would adversely affect our cost base, resulting in an increase in our employee compensation and benefits and our other operating expenses. This could harm our margins and profitability if we are unable to increase prices or cut costs enough to offset the effects of inflation on our cost base.

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WE ARE EXPOSED TO INTANGIBLE ASSET RISK; SPECIFICALLY, OUR GOODWILL MAY BECOME IMPAIRED IN THE FUTURE.

As of the date of the filing of our Annual Report on Form 10-K for the 2012 fiscal year, we have \$1,711,514,000 of goodwill recorded on our Consolidated Balance Sheet. We perform a goodwill impairment test on an annual basis and whenever events or changes in circumstances indicate that the carrying value of our goodwill may not be recoverable from estimated future cash flows. We completed our most recent evaluation of impairment for goodwill as of November 30, 2012 and determined that the fair value of goodwill exceeded the carrying value of such assets. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate or slower growth rates could result in the need to perform an additional impairment analysis prior to the next annual goodwill impairment test. If we were to conclude that a future write-down of our goodwill is necessary, we would then record the appropriate charge, which could result in material charges that are adverse to our operating results and financial position. See Notes 1 Summary of Significant Accounting Policies and Note 3 Goodwill to the Consolidated Financial Statements and Management's Report on Internal Control Over Financial Reporting.

Additionally, the carrying value of amortizable intangible assets attributable to each business or asset group comprising Brown & Brown is periodically reviewed by management to determine if there are events or changes in circumstances that would indicate that its carrying amount may not be recoverable. Accordingly, if there are any such circumstances that occur during the year, Brown & Brown assesses the carrying value of its amortizable intangible assets by considering the estimated future undiscounted cash flows generated by the corresponding business or asset group. Any impairment identified through this assessment may require that the carrying value of related amortizable intangible assets be adjusted; however, no impairments have been recorded for the years ended December 31, 2012, 2011 and 2010.

OUR BUSINESS PRACTICES AND COMPENSATION ARRANGEMENTS ARE SUBJECT TO UNCERTAINTY DUE TO INVESTIGATIONS BY GOVERNMENTAL AUTHORITIES AND POTENTIAL RELATED PRIVATE LITIGATION.

The business practices and compensation arrangements of the insurance intermediary industry, including our practices and arrangements, are subject to uncertainty due to investigations by various governmental authorities. As disclosed in prior years, certain of our offices are parties to profit-sharing contingent commission agreements with certain insurance companies, including agreements providing for potential payment of revenue-sharing commissions by insurance companies based primarily on the overall profitability of the aggregate business written with those insurance companies and/or additional factors such as retention ratios and the overall volume of business that an office or offices place with those insurance companies. Additionally, to a lesser extent, some of our offices are parties to override commission agreements with certain insurance companies, which provide for commission rates in excess of standard commission rates to be applied to specific lines of business, such as group health business, and which are based primarily on the overall volume of business that such office or offices placed with those insurance companies. The Company has not chosen to discontinue receiving profit-sharing contingent commissions or override commissions. The legislatures of various states may adopt new laws addressing contingent commission arrangements, including laws prohibiting such arrangements, and addressing disclosure of such arrangements to insureds. Various state departments of insurance may also adopt new regulations addressing these matters. While we cannot predict the outcome of the governmental inquiries and investigations into the insurance industry's commission payment practices or the responses by the market and government regulators, any unfavorable resolution of these matters could adversely affect our results of operations. Further, if such resolution included a material decrease in our profit-sharing contingent commissions and override commissions, it would likely adversely affect our results of operations.

OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION OR LIQUIDITY MAY BE MATERIALLY ADVERSELY AFFECTED BY ERRORS AND OMISSIONS AND THE OUTCOME OF CERTAIN ACTUAL AND POTENTIAL CLAIMS, LAWSUITS AND PROCEEDINGS.

We are subject to various actual and potential claims, lawsuits and other proceedings relating principally to alleged errors and omissions in connection with the placement or servicing of insurance and/or the provision of services in the ordinary course of business. Because we often assist customers with matters involving substantial amounts of money, including the placement of insurance and the handling of related claims that customers may assert, errors and omissions claims against us may arise alleging potential liability for all or part of the amounts in question. Claimants may seek large damage awards, and these claims may involve potentially significant legal costs. Such claims, lawsuits and other proceedings could, for example, include claims for damages based on allegations that our employees or sub-agents improperly failed to procure coverage, report claims on behalf of customers, provide insurance companies with complete and accurate information relating to the risks being insured or appropriately apply funds that we hold for our customers on a fiduciary basis. We have established provisions against these potential matters that we believe to be adequate in the light of current information and legal advice, and we adjust such provisions from time to time according to developments.

While most of the errors and omissions claims made against us (subject to our self-insured deductibles) have been covered by our professional indemnity insurance, our business, results of operations, financial condition and liquidity may be adversely affected if, in the future, our

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insurance coverage proves to be inadequate or unavailable, or if there is an increase in liabilities for which we self-insure. Our ability to obtain professional indemnity insurance in the amounts and with the deductibles we desire in the future may be adversely impacted by general developments in the market for such insurance or our own claims experience. In addition, claims, lawsuits and other proceedings may harm our reputation or divert management resources away from operating our business.

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WE DERIVE A SIGNIFICANT PORTION OF OUR COMMISSION REVENUES FROM A LIMITED NUMBER OF INSURANCE COMPANIES, THE LOSS OF WHICH COULD RESULT IN ADDITIONAL EXPENSE AND LOSS OF MARKET SHARE.

For the year ended December 31, 2012, no insurance company accounted for more than 5.0% of our total core commissions. For the year ended December 31, 2011 and 2010, approximately 5.2% and 5.0% of our total core commissions was derived from insurance policies underwritten by one insurance company, respectively. Should this insurance company seek to terminate their arrangements with us, we believe that other insurance companies are available to underwrite the business, although some additional expense and loss of market share could possibly result.

BECAUSE OUR BUSINESS IS HIGHLY CONCENTRATED IN CALIFORNIA, FLORIDA, GEORGIA, INDIANA, MASSACHUSETTS, MICHIGAN, NEW JERSEY, NEW YORK, PENNSYLVANIA, TEXAS AND WASHINGTON, ADVERSE ECONOMIC CONDITIONS OR REGULATORY CHANGES IN THESE STATES COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

A significant portion of our business is concentrated in California, Florida, Georgia, Indiana, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington. For the years ended December 31, 2012, 2011 and 2010, we derived \$933.2 million or 78.5%, \$765.7 million or 76.1% and \$739.0 million, or 76.4%, of our commissions and fees, respectively, from our operations located in these states. We believe that these revenues are attributable predominately to customers in these states. We believe the current regulatory environment for insurance intermediaries in these states is no more restrictive than in other states. The insurance business is primarily a state-regulated industry, and therefore, state legislatures may enact laws that adversely affect the insurance industry. Because our business is concentrated in the states identified above, we face greater exposure to unfavorable changes in regulatory conditions in those states than insurance intermediaries whose operations are more diversified through a greater number of states. In addition, the occurrence of adverse economic conditions, natural or other disasters, or other circumstances specific to or otherwise significantly impacting these states could adversely affect our financial condition, results of operations and cash flows.

WE HAVE EXPANDED OUR OPERATIONS INTERNATIONALLY, WHICH MAY RESULT IN A NUMBER OF ADDITIONAL RISKS AND REQUIRE MORE MANAGEMENT TIME AND EXPENSE THAN OUR DOMESTIC OPERATIONS TO ACHIEVE OR MAINTAIN PROFITABILITY.

In 2008, we expanded our operations to the United Kingdom. This was the first time we have opened an office outside the United States. In the future, we intend to continue to consider additional international expansion opportunities. Our international operations may be subject to a number of risks, including:

Difficulties in staffing and managing foreign operations;

Less flexible employee relationships, which may make it difficult and expensive to terminate employees and which limits our ability to prohibit employees from competing with us after their employment ceases;

Political and economic instability (including acts of terrorism and outbreaks of war);

Coordinating our communications and logistics across geographic distances and multiple time zones;

Unexpected changes in regulatory requirements and laws;

Adverse trade policies, and adverse changes to any of the policies of either the U.S. or any of the foreign jurisdictions in which we operate;

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Adverse changes in tax rates;

Legal or political constraints on our ability to maintain or increase prices;

Governmental restrictions on the transfer of funds to us from our operations outside the United States; and

Burdens of complying with a wide variety of labor practices and foreign laws, including those relating to export and import duties, environmental policies and privacy issues.

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OUR CURRENT MARKET SHARE MAY DECREASE AS A RESULT OF INCREASED COMPETITION FROM INSURANCE COMPANIES AND THE FINANCIAL SERVICES INDUSTRY.

The insurance intermediary business is highly competitive and we actively compete with numerous firms for customers and insurance companies, many of which have relationships with insurance companies or have a significant presence in niche insurance markets that may give them an advantage over us. Because relationships between insurance intermediaries and insurance companies or customers are often local or regional in nature, this potential competitive disadvantage is particularly pronounced outside of Florida. A number of insurance companies are engaged in the direct sale of insurance, primarily to individuals, and do not pay commissions to agents and brokers. In addition, as and to the extent that banks, securities firms and insurance companies affiliate, the financial services industry may experience further consolidation, and we therefore may experience increased competition from insurance companies and the financial services industry, as a growing number of larger financial institutions increasingly, and aggressively, offer a wider variety of financial services, including insurance, than we currently offer.

PROPOSED TORT REFORM LEGISLATION, IF ENACTED, COULD DECREASE DEMAND FOR LIABILITY INSURANCE, THEREBY REDUCING OUR COMMISSION REVENUES.

Legislation concerning tort reform has been considered, from time to time, in the United States Congress and in several state legislatures. Among the provisions considered in such legislation have been limitations on damage awards, including punitive damages, and various restrictions applicable to class action lawsuits. Enactment of these or similar provisions by Congress, or by states in which we sell insurance, could reduce the demand for liability insurance policies or lead to a decrease in policy limits of such policies sold, thereby reducing our commission revenues.

WE COMPETE IN A HIGHLY-REGULATED INDUSTRY, WHICH MAY RESULT IN INCREASED EXPENSES OR RESTRICTIONS ON OUR OPERATIONS.

We conduct business in most states and are subject to comprehensive regulation and supervision by government agencies in the states in which we do business. The primary purpose of such regulation and supervision is to provide safeguards for policyholders rather than to protect the interests of our stockholders. The laws of the various state jurisdictions establish supervisory agencies with broad administrative powers with respect to, among other things, licensing of entities to transact business, licensing of agents, admittance of assets, regulating premium rates, approving policy forms, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, requiring participation in guarantee funds and shared market mechanisms, and restricting payment of dividends. Also, in response to perceived excessive cost or inadequacy of available insurance, states have from time to time created state insurance funds and assigned risk pools, which compete directly, on a subsidized basis, with private insurance providers. We act as agents and brokers for such state insurance funds and assigned risk pools in California and certain other states. These state funds and pools could choose to reduce the sales or brokerage commissions we receive. Any such reductions, in a state in which we have substantial operations, such as Florida, California or New York, could substantially affect the profitability of our operations in such state, or cause us to change our marketing focus. Further, state insurance regulators and the National Association of Insurance Commissioners continually re-examine existing laws and regulations, and such re-examination may result in the enactment of insurance-related laws and regulations, or the issuance of interpretations thereof, that adversely affect our business. Although we believe that we are in compliance in all material respects with applicable local, state and federal laws, rules and regulations, there can be no assurance that more restrictive laws, rules or regulations will not be adopted in the future that could make compliance more difficult or expensive. Specifically, recently adopted federal financial services modernization legislation could lead to additional federal regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

PROFIT-SHARING CONTINGENT COMMISSIONS AND OVERRIDE COMMISSIONS PAID BY INSURANCE COMPANIES ARE LESS PREDICTABLE THAN USUAL, WHICH IMPAIRS OUR ABILITY TO PREDICT THE AMOUNT OF SUCH COMMISSIONS THAT WE WILL RECEIVE.

We derive a portion of our revenues from profit-sharing contingent commissions and override commissions paid by insurance companies. Profit-sharing contingent commissions are special revenue-sharing commissions paid by insurance companies based upon the profitability, volume and/or growth of the business placed with such companies during the prior year. We primarily receive these commissions in the first and second quarters of each year. These commissions generally have accounted for 4.3% to 5.7% of our previous year's total annual revenues over the last three years. Due to the inherent uncertainty of loss in our industry and changes in underwriting criteria due in part to the high loss ratios experienced by insurance companies, we cannot predict the payment of these profit-sharing contingent commissions. Further, we have no control over the ability of insurance companies to estimate loss reserves, which affects our ability to make profit-sharing calculations. Override commissions are paid by insurance companies based on the volume of business that we place with them and are generally paid over the course of the year. Because profit-sharing contingent commissions and override commissions materially affect our revenues, any decrease in their payment to us could adversely affect the results of our operations and our financial condition.

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WE HAVE NOT DETERMINED THE AMOUNT OF RESOURCES AND THE TIME THAT MAY BE NECESSARY TO ADEQUATELY RESPOND TO RAPID TECHNOLOGICAL CHANGE IN OUR INDUSTRY, WHICH MAY ADVERSELY AFFECT OUR BUSINESS AND OPERATING RESULTS.

Frequent technological changes, new products and services and evolving industry standards are influencing the insurance business. The Internet, for example, is increasingly used to securely transmit benefits and related information to customers and to facilitate business-to-business information exchange and transactions. We believe that the development and implementation of new technologies will require additional investment of our capital resources in the future. We have not determined, however, the amount of resources and the time that this development and implementation may require, which may result in short-term, unexpected interruptions to our business, or may result in a competitive disadvantage in price and/or efficiency, as we develop or implement new technologies.

QUARTERLY AND ANNUAL VARIATIONS IN OUR COMMISSIONS THAT RESULT FROM THE TIMING OF POLICY RENEWALS AND THE NET EFFECT OF NEW AND LOST BUSINESS PRODUCTION MAY HAVE UNEXPECTED EFFECTS ON OUR RESULTS OF OPERATIONS.

Our commission income (including profit-sharing contingent commissions and override commissions but excluding fees) can vary quarterly or annually due to the timing of policy renewals and the net effect of new and lost business production. We do not control the factors that cause these variations. Specifically, customers' demand for insurance products can influence the timing of renewals, new business and lost business (which includes policies that are not renewed), and cancellations. In addition, as discussed, we rely on insurance companies for the payment of certain commissions. Because these payments are processed internally by these insurance companies, we may not receive a payment that is otherwise expected from a particular insurance company in a particular quarter or year until after the end of that period, which can adversely affect our ability to budget for significant future expenditures. Quarterly and annual fluctuations in revenues based on increases and decreases associated with the timing of policy renewals may adversely affect our financial condition, results of operations and cash flows.

WE MAY EXPERIENCE VOLATILITY IN OUR STOCK PRICE THAT COULD AFFECT YOUR INVESTMENT.

The market price of our common stock may be subject to significant fluctuations in response to various factors, including: quarterly fluctuations in our operating results; changes in securities analysts' estimates of our future earnings; changes in securities analysts' predictions regarding the short-term and long-term future of our industry; and our loss of significant customers or significant business developments relating to us or our competitors. Our common stock's market price also may be affected by our ability to meet stock analysts' earnings and other expectations. Any failure to meet such expectations, even if minor, could cause the market price of our common stock to decline. In addition, stock markets have generally experienced a high level of price and volume volatility, and the market prices of equity securities of many listed companies have experienced wide price fluctuations not necessarily related to the operating performance of such companies. These broad market fluctuations may adversely affect our common stock's market price. In the past, securities class action lawsuits frequently have been instituted against companies following periods of volatility in the market price of such companies' securities. If any such litigation is initiated against us, it could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

OUR ABILITY TO CONDUCT BUSINESS WOULD BE NEGATIVELY IMPACTED IN THE EVENT OF AN INTERRUPTION IN INFORMATION TECHNOLOGY AND/OR DATA SECURITY AND/OR OUTSOURCING RELATIONSHIPS.

Our business relies on information systems to provide effective and efficient service to our customers, process claims, and timely and accurately report results to carriers. An interruption of our access to, or an inability to access, our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Computer viruses, hackers and other external hazards could expose our data systems to security breaches. These increased risks, and expanding regulatory requirements regarding data security, could expose us to data loss, monetary and reputational damages and significant increases in compliance costs.

We are taking steps to upgrade and expand our information systems capabilities. Maintaining, protecting and enhancing these capabilities to keep pace with evolving industry and regulatory standards, and changing customer preferences, requires an ongoing commitment of significant resources. If the information we rely upon to run our businesses was found to be inaccurate or unreliable or if we fail to maintain effectively our information systems and data integrity, we could experience operational disruptions, regulatory or other legal problems, increases in operating expenses, loss of existing customers, difficulty in attracting new customers, or suffer other adverse consequences.

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Our technological development projects may not deliver the benefits we expect once they are completed, or may be replaced or become obsolete more quickly than expected, which could result in the accelerated recognition of expenses. If we do not effectively and efficiently manage and upgrade our technology portfolio, or if the costs of doing so are higher than we expect, our ability to provide competitive services to new and existing customers in a cost-effective manner and our ability to implement our strategic initiatives could be adversely impacted.

IMPROPER DISCLOSURE OF CONFIDENTIAL INFORMATION COULD NEGATIVELY IMPACT OUR BUSINESS.

We are responsible for maintaining the security and privacy of our customers' confidential and proprietary information and the personal data of their employees. We have put in place policies, procedures and technological safeguards designed to protect the security and privacy of this information, however, we cannot guarantee that this information will not be improperly disclosed or accessed. Disclosure of this information could harm our reputation and subject us to liability under our contracts and laws that protect personal data, resulting in increased costs or loss of revenues.

Further, privacy laws and regulations are continuously changing and often are inconsistent among the states in which we operate. Our failure to adhere to or successfully implement procedures to respond to these requirements could result in legal liability or impairment to our reputation.

WE ARE SUBJECT TO LITIGATION WHICH, IF DETERMINED UNFAVORABLY TO US, COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS OR FINANCIAL CONDITION.

We are and may be subject to a number of claims, regulatory actions and other proceedings that arise in the ordinary course of business. We cannot, and likely will not be able to, predict the outcome of these claims, actions and proceedings with certainty.

An adverse outcome in connection with one or more of these matters could have a material adverse effect on our business, results of operations or financial condition in any given quarterly or annual period. In addition, regardless of monetary costs, these matters could have a material adverse effect on our reputation and cause harm to our carrier, customer or employee relationships, or divert personnel and management resources.

While we currently have insurance coverage for some of these potential liabilities, other potential liabilities may not be covered by insurance, insurers may dispute coverage or the amount of our insurance may not be enough to cover the damages awarded. In addition, some types of damages, like punitive damages, may not be covered by insurance. Insurance coverage for all or some forms of liability may become unavailable or prohibitively expensive in the future.

OUR INABILITY TO RETAIN OR HIRE QUALIFIED EMPLOYEES, AS WELL AS THE LOSS OF ANY OF OUR EXECUTIVE OFFICERS, COULD NEGATIVELY IMPACT OUR ABILITY TO RETAIN EXISTING BUSINESS AND GENERATE NEW BUSINESS.

Our success depends on our ability to attract and retain skilled and experienced personnel. There is significant competition from within the insurance industry and from businesses outside the industry for exceptional employees, especially in key positions. If we are not able to successfully attract, retain and motivate our employees, our business, financial results and reputation could be materially and adversely affected.

Losing employees who manage or support substantial customer relationships or possess substantial experience or expertise could adversely affect our ability to secure and complete customer engagements, which would adversely affect our results of operations. Also, if any of our key professionals were to join an existing competitor or form a competing company, some of our customers could choose to use the services of that competitor instead of our services. As previously disclosed, certain of our former executive officers ceased employment with us during the past three years. While they are prohibited from soliciting our employees and customers, they are not prohibited from competing with us.

In addition, we could be adversely affected if we fail to adequately plan for the succession of our Senior Leaders and key executives. While we have succession plans in place and we have employment arrangements with certain key executives, these do not guarantee that the services of these executives will continue to be available to us. Although we operate with a decentralized management system, the loss of our senior managers or other key personnel, or our inability to identify, recruit and retain such personnel, could materially and adversely affect our business, operating results and financial condition.

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CONSOLIDATION IN THE INDUSTRIES THAT WE SERVE COULD ADVERSELY AFFECT OUR BUSINESS.

Companies that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If two or more of our current customers merge or consolidate and combine their operations, it may decrease the overall amount of work that we perform for these customers. If one of our current customers merges or consolidates with a company that relies on another provider for its services, we may lose work from that customer or lose the opportunity to gain additional work. The increased market power of larger companies could also increase pricing and competitive pressures on us. Any of these possible results of industry consolidation could adversely affect our business.

HEALTHCARE REFORM AND INCREASED COSTS OF CURRENT EMPLOYEES' MEDICAL AND OTHER BENEFITS COULD HAVE A MATERIALLY ADVERSE AFFECT ON OUR BUSINESS.

Our profitability is affected by the cost of current employees' medical and other benefits. In recent years, we have experienced significant increases in these costs as a result of economic factors beyond our control. Although we have actively sought to contain increases in these costs, there can be no assurance we will succeed in limiting future cost increases, and continued upward pressure in these costs could reduce our profitability.

In addition, we believe that increased health care costs resulting from the 2010 health care reform bill could have a material adverse impact on our business, cash flows, financial condition or results of operations.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH NATURAL DISASTERS AND GLOBAL EVENTS.

Our operations may be subject to natural disasters or other business disruptions, which could seriously harm our results of operation and increase our costs and expenses. We are susceptible to losses and interruptions caused by hurricanes (including in Florida, where our headquarters are located), earthquakes (including California, where we maintain a relatively large number of offices, including those acquired in the Arrowhead transaction), power shortages, telecommunications failures, water shortages, floods, fire, extreme weather conditions, geopolitical events such as terrorist acts and other natural or manmade disasters. Our insurance coverage with respect to natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate, or may not continue to be available at commercially reasonable rates and terms.

CERTAIN OF OUR EXISTING STOCKHOLDERS HAVE SIGNIFICANT CONTROL OF THE COMPANY.

At December 31, 2012, our executive officers, directors and certain of their family members collectively beneficially owned approximately 18.4% of our outstanding common stock, of which J. Hyatt Brown, our Chairman, and his family members, which include his son Powell Brown, our President and Chief Executive Officer, beneficially owned approximately 16.6%. As a result, our executive officers, directors and certain of their family members have significant influence over (1) the election of our Board of Directors, (2) the approval or disapproval of any other matters requiring stockholder approval, and (3) our affairs and policies.

CHANGES IN LAWS AND REGULATIONS MAY INCREASE OUR COSTS.

The Sarbanes-Oxley Act of 2002, as amended (Sarbanes-Oxley) and the Dodd-Frank Act enacted in 2010 have required changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of these Acts, the SEC and the New York Stock Exchange have promulgated and will continue to promulgate new rules on a variety of subjects. Compliance with these new rules has increased our legal and financial and accounting costs. While these costs are no longer increasing, they may in fact increase in the future. These developments may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our Board of Directors or qualified executive officers.

From time to time new regulations are enacted, or existing requirements are changed, and it is difficult to anticipate how such regulations and changes will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted. For example, as global warming issues become more prevalent, the U.S. and foreign governments are beginning to respond to these issues. This increasing governmental focus on global warming may result in new environmental regulations that may negatively affect us and our customers. This could cause us to incur additional direct costs in complying with any new environmental regulations, as well as increased indirect costs resulting from our customers incurring additional compliance costs that get passed on to us. These costs may adversely impact our operations and financial condition.

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DUE TO INHERENT LIMITATIONS, THERE CAN BE NO ASSURANCE THAT OUR SYSTEM OF DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES WILL BE SUCCESSFUL IN PREVENTING ALL ERRORS OR FRAUD, OR IN INFORMING MANAGEMENT OF ALL MATERIAL INFORMATION IN A TIMELY MANNER.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and internal controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system reflects that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur simply because of error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of a control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

IF WE RECEIVE OTHER THAN AN UNQUALIFIED OPINION ON THE ADEQUACY OF OUR INTERNAL CONTROL OVER FINANCIAL REPORTING AS OF DECEMBER 31, 2013 AND FUTURE YEAR-ENDS AS REQUIRED BY SECTION 404 OF SARBANES-OXLEY, INVESTORS COULD LOSE CONFIDENCE IN THE RELIABILITY OF OUR FINANCIAL STATEMENTS, WHICH COULD RESULT IN A DECREASE IN THE VALUE OF YOUR SHARES.

As directed by Section 404 of Sarbanes-Oxley, the SEC adopted rules requiring public companies to include an annual report on internal control over financial reporting on Form 10-K that contains an assessment by management of the effectiveness of our internal control over financial reporting. We continuously conduct a rigorous review of our internal control over financial reporting in order to assure compliance with the Section 404 requirements. However, if our independent auditors interpret the Section 404 requirements and the related rules and regulations differently than we do, or if our independent auditors are not satisfied with our internal control over financial reporting or with the level at which it is documented, operated or reviewed, they may issue a report other than an unqualified opinion. A report other than an unqualified opinion could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

THERE ARE INHERENT UNCERTAINTIES INVOLVED IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS USED IN THE PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH U.S. GAAP. ANY CHANGES IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS.

The consolidated and condensed Consolidated Financial Statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income, and could have a material adverse effect on our financial position, results of operations and cash flows.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

We lease our executive offices, which are located at 220 South Ridgewood Avenue, Daytona Beach, Florida 32114, and 655 N. Franklin St, Suite 1900, Tampa, Florida 33602. We lease offices at each of our 219 locations, with the exception of Dansville and Jamestown, New York, where we own the buildings in which our offices are located. We also own an airplane hanger in Daytona Beach, Florida. There are no outstanding mortgages on our owned properties. Our operating leases expire on various dates. These leases generally contain renewal options and rent escalation clauses based on increases in the lessors' operating expenses and other charges. We expect that most leases will be renewed or

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replaced upon expiration. We believe that our facilities are suitable and adequate for present purposes, and that the productive capacity in such facilities is substantially being utilized. From time to time, we may have unused space and seek to sublet such space to third parties, depending on the demand for office space in the locations involved. In the future, we may need to purchase, build or lease additional facilities to meet the requirements projected in our long-term business plan. See Note 13 to the Consolidated Financial Statements for additional information on our lease commitments.

Table of Contents**ITEM 3. Legal Proceedings.**

See Note 13 to the Consolidated Financial Statements for information regarding our legal proceedings.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol BRO. The table below sets forth, for the quarterly periods indicated, the intra-day high and low sales prices for our common stock as reported on the NYSE Composite Tape, and the cash dividends declared on our common stock.

	High	Low	Cash Dividends Per Common Share
2011			
First Quarter	\$ 26.60	\$ 23.56	\$ 0.08
Second Quarter	\$ 27.07	\$ 24.84	\$ 0.08
Third Quarter	\$ 26.10	\$ 17.19	\$ 0.08
Fourth Quarter	\$ 23.31	\$ 16.77	\$ 0.085
2012			
First Quarter	\$ 25.00	\$ 21.85	\$ 0.085
Second Quarter	\$ 27.32	\$ 23.42	\$ 0.085
Third Quarter	\$ 28.17	\$ 24.71	\$ 0.085
Fourth Quarter	\$ 27.31	\$ 24.88	\$ 0.09

On February 20, 2013, there were 143,943,521 shares of our common stock outstanding, held by approximately 1,200 shareholders of record.

We intend to continue to pay quarterly dividends, subject to continued capital availability and determination by our Board of Directors that cash dividends continue to be in the best interests of our stockholders. Our dividend policy may be affected by, among other items, our views on potential future capital requirements, including those relating to the creation and expansion of sales distribution channels and investments and acquisitions, legal risks, stock repurchase programs and challenges to our business model.

On October 19, 2011, our Board of Directors approved a common stock repurchase plan to authorize the repurchase of up to \$100.0 million worth of shares of the Company's common stock during the subsequent twelve months. We did not repurchase any shares of our common stock under the repurchase plan.

Table of Contents**Equity Compensation Plan Information**

The following table sets forth information as of December 31, 2012, with respect to compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)(1)	Weighted-average exercise price of outstanding options, warrants and rights (b)(2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)(3)
Equity compensation plans approved by shareholders:			
Brown & Brown, Inc. 2000 Incentive Stock Option Plan	738,792	\$ 18.39	
Brown & Brown, Inc. 2010 Stock Incentive Plan	N/A	N/A	4,455,517
Brown & Brown, Inc. 1990 Employee Stock Purchase Plan	N/A	N/A	1,734,510
Brown & Brown, Inc. Performance Stock Plan	N/A	N/A	
Total	738,792	\$ 18.39	6,190,027
Equity compensation plans not approved by shareholders			

- (1) In addition to the number of securities listed in this column, 2,431,913 shares are issuable upon the vesting of restricted stock granted under the Brown & Brown, Inc. Performance Stock Plan and the Brown & Brown, Inc. 2010 Stock Incentive Plan, which represents the maximum number of shares that can vest based on the achievement of certain performance criteria.
- (2) The weighted-average exercise price excludes outstanding restricted stock as there is no exercise price associated with these equity awards.
- (3) All of the shares available for future issuance under the Brown & Brown, Inc. 2000 Incentive Stock Option Plan, the Brown & Brown, Inc. Performance Stock Plan, and the Brown & Brown, Inc. 2010 Stock Incentive Plan may be issued in connection with options, warrants, rights, restricted stock, or other stock-based awards.

Sales of Unregistered Securities

We did not sell any unregistered securities during 2012.

Issuer Purchases of Equity Securities

The following table presents information with respect to our purchases of our common stock during the three months ended December 31, 2012.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
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			Plans or Programs	
October 1, 2012 to October 31, 2012		\$		\$
November 1, 2012 to November 30, 2012	323	\$	26.08	\$
December 1, 2012 to December 31, 2012	585,815	\$	25.86	\$
Total	586,138	\$	25.86	\$

- (1) All of the shares reported above as purchased are attributable to shares withheld for employees payroll taxes and withholding taxes pertaining to the vesting of restricted shares awarded under our Performance Stock Plan and Incentive Stock Option Plan.

Table of Contents**PERFORMANCE GRAPH**

The following graph is a comparison of five-year cumulative total stockholder returns for our common stock as compared with the cumulative total stockholder return for the NYSE Composite Index, and a group of peer insurance broker and agency companies (Aon Corporation, Arthur J. Gallagher & Co, Marsh & McLennan Companies, Inc., and Willis Group Holdings, Ltd.). The returns of each company have been weighted according to such companies' respective stock market capitalizations as of December 31, 2007 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed \$100 investment on December 31, 2007, with all dividends reinvested.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**Among Brown & Brown, Inc., the NYSE Composite Index, and a Peer Group**

COMPANY/INDEX/MARKET	YEAR ENDING					
	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Brown & Brown, Inc.	\$ 100.00	\$ 90.20	\$ 78.80	\$ 106.63	\$ 102.28	\$ 116.65
NYSE Composite Index	\$ 100.00	\$ 60.74	\$ 77.92	\$ 88.36	\$ 84.96	\$ 98.55
Peer Group	\$ 100.00	\$ 92.58	\$ 85.59	\$ 109.22	\$ 122.80	\$ 136.25

We caution that the stock price performance shown in the graph should not be considered indicative of potential future stock price performance.

Table of Contents**ITEM 6. Selected Financial Data.**

The following selected Consolidated Financial Data for each of the five fiscal years in the period ended December 31, 2012 have been derived from our Consolidated Financial Statements. Such data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this Annual Report and with our Consolidated Financial Statements and related Notes thereto in Item 8 of Part II of this Annual Report.

(in thousands, except per share data, number of

Year Ended December 31

<i>employees and percentages</i>	2012	2011	2010	2009	2008
REVENUES					
Commissions and fees	\$ 1,189,081	\$ 1,005,962	\$ 966,917	\$ 964,863	\$ 965,983
Investment income	797	1,267	1,326	1,161	6,079
Other income, net	10,154	6,313	5,249	1,853	5,492
Total revenues	1,200,032	1,013,542	973,492	967,877	977,554
EXPENSES					
Employee compensation and benefits	608,506	508,675	487,820	484,680	485,783
Non-cash stock-based compensation	15,865	11,194	6,845	7,358	7,314
Other operating expenses	174,389	144,079	135,851	143,389	137,352
Amortization	63,573	54,755	51,442	49,857	46,631
Depreciation	15,373	12,392	12,639	13,240	13,286
Interest	16,097	14,132	14,471	14,599	14,690
Change in estimated acquisition earn-out payables	1,418	(2,206)	(1,674)		
Total expenses	895,221	743,021	707,394	713,123	705,056
Income before income taxes	304,811	270,521	266,098	254,754	272,498
Income taxes	120,766	106,526	104,346	101,460	106,374
Net income	\$ 184,045	\$ 163,995	\$ 161,752	\$ 153,294	\$ 166,124
EARNINGS PER SHARE INFORMATION					
Net income per share - diluted	\$ 1.26	\$ 1.13	\$ 1.12	\$ 1.08	\$ 1.17
Weighted average number of shares outstanding - diluted	142,010	140,264	139,318	137,507	136,884
Dividends declared per share	\$ 0.3450	\$ 0.3250	\$ 0.3125	\$ 0.3025	\$ 0.2850
YEAR-END FINANCIAL POSITION					
Total assets	\$ 3,128,058	\$ 2,607,011	\$ 2,400,814	\$ 2,224,226	\$ 2,119,580
Long-term debt	\$ 450,000	\$ 250,033	\$ 250,067	\$ 250,209	\$ 253,616
Total shareholders' equity	\$ 1,807,333	\$ 1,643,963	\$ 1,506,344	\$ 1,369,874	\$ 1,241,741
Total shares outstanding at year-end	143,878	143,352	142,795	142,076	141,544
OTHER INFORMATION					
Number of full-time equivalent employees at year-end	6,438	5,557	5,286	5,206	5,398
Total revenues per average number of employees ⁽¹⁾	\$ 191,729 ⁽²⁾	\$ 186,949	\$ 185,568	\$ 182,549	\$ 187,181
Stock price at year-end	\$ 25.46	\$ 22.63	\$ 23.94	\$ 17.97	\$ 20.90
Stock price earnings multiple at year-end ⁽³⁾	20.21	20.03	21.38	16.64	17.86
Return on beginning shareholders' equity ⁽⁴⁾	11%	11%	12%	12%	15%

(1) Represents total revenues divided by the average of the number of full-time equivalent employees at the beginning of the year and the number of full-time equivalent employees at the end of the year.

(2) Of the 881 increase in the number of full-time equivalent employees from 2011 to 2012, 523 employees related to the January 9, 2012 acquisition of Arrowhead, and therefore, are considered to be full-time equivalent as of January 1, 2012. Thus, the average number of full-time equivalent employees for 2012 is considered to be 6,259.

(3) Stock price at year-end divided by net income per share-diluted.

- (4) Represents net income divided by total shareholders' equity as of the beginning of the year.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
General

The following discussion should be read in conjunction with our Consolidated Financial Statements and the related Notes to those Consolidated Financial Statements included elsewhere in this Annual Report.

We are a diversified insurance agency, wholesale brokerage, insurance programs and services organization headquartered in Daytona Beach and Tampa, Florida. As an insurance intermediary, our principal sources of revenue are commissions paid by insurance companies and, to a lesser extent, fees paid directly by customers. Commission revenues generally represent a percentage of the premium paid by an insured and are materially affected by fluctuations in both premium rate levels charged by insurance companies and the insureds' underlying insurable exposure units, which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, or sales and payroll levels) to determine what premium to charge the insured. Insurance companies establish these premium rates based upon many factors, including reinsurance rates paid by such insurance companies, none of which we control.

The volume of business from new and existing customers, fluctuations in insurable exposure units and changes in general economic and competitive conditions all affect our revenues. For example, level rates of inflation or a general decline in economic activity could limit increases in the values of insurable exposure units. Conversely, the increasing costs of litigation settlements and awards have caused some customers to seek higher levels of insurance coverage. Historically, our revenues have typically grown as a result of an intense focus on net new business growth and acquisitions.

We foster a strong, decentralized sales culture with a goal of consistent, sustained growth over the long term. As of January 2013, our senior leadership group included eight executive officers with regional responsibility for oversight of designated operations within the Company, and four regional vice presidents in our Retail Division and one regional vice president in our Wholesale Brokerage Division who report directly to one of our executive officers. In October 2012, Kathy Colangelo was promoted to be Regional Vice President of our Wholesale Brokerage Division.

We increased revenues every year from 1993 to 2012, with the exception of 2009, when our revenues dropped 1.0%. Our revenues grew from \$95.6 million in 1993 to \$1.2 billion in 2012, reflecting a compound annual growth rate of 14.2%. In the same 19 year period, we increased net income from \$8.0 million to \$184.0 million in 2012, a compound annual growth rate of 17.9%.

The years 2007 through 2011 posed significant challenges for us and for our industry in the form of a prevailing decline in insurance premium rates, commonly referred to as a soft market and increased significant governmental involvement in the Florida insurance marketplace which resulted in a substantial loss of revenues for us. Additionally, beginning in the second half of 2008 and throughout 2011, there was a general decline in insurable exposure units as the consequence of the general weakening of the economy in the United States. As a result, from the first quarter of 2007 through the fourth quarter of 2011 we experienced negative internal revenue growth each quarter. Part of the decline in 2007 was the result of the increased governmental involvement in the Florida insurance marketplace, as described below in The Florida Insurance Overview. In 2010 and 2011, continued declining exposure units had a greater negative impact on our commissions and fees revenues than declining insurance premium rates.

Beginning in the first quarter of 2012, many insurance premium rates began to slightly increase. Additionally, in the second quarter of 2012, the general declines in insurable exposure units started to flatten and these exposures units subsequently began to gradually increase during the year. As a result, we recorded positive internal revenue growth for each quarter of 2012 for each of our four divisions with two exceptions; the first quarter for the Retail Division and the third quarter for the National Programs Division, in which declines of only 0.7% and 3.3%, respectively, were experienced.

For 2012, our consolidated internal revenue growth rate was 2.6%. In the event that the gradual increases in insurance premium rates and insurable exposure units that occurred in 2012 continue in 2013, we should continue to see positive quarterly internal growth rates in 2013.

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We also earn profit-sharing contingent commissions, which are profit-sharing commissions based primarily on underwriting results, but which may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 4.8% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are typically included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" excludes profit-sharing contingent commissions and guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In contrast, the term "core organic commissions and fees" is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). Core organic commissions and fees attempts to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes from (i) net new and lost accounts, (ii) net changes in our clients' exposure units, and (iii) net changes in insurance premium rates. The net changes in each of these three components can be determined for each of our customers. However, because our agency management accounting systems do not aggregate such data, it is not reportable. Core organic commissions and fees can reflect either positive growth with a net increase in revenues, or negative growth with a net decrease in revenues.

In recent years, five national insurance companies have replaced the loss-ratio based profit-sharing contingent commission calculation with a guaranteed fixed-base methodology, referred to as "Guaranteed Supplemental Commissions" ("GSCs"). Since GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2012, we accrued and earned \$9.1 million from GSCs during 2012, most of which will be collected in the first quarter of 2013. For the twelve-month periods ended December 31, 2011 and 2010, we earned \$12.1 million and \$13.4 million, respectively, from GSCs.

Fee revenues relate to fees negotiated in lieu of commissions, which are recognized as services are rendered. Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services, and (2) our National Programs and Wholesale Brokerage Divisions, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies. These services are provided over a period of time, typically one year. Fee revenues, as a percentage of our total commissions and fees, represented 21.7% in 2012, 16.4% in 2011 and 14.6% in 2010.

Historically, investment income has consisted primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. As a result of the bank liquidity and solvency issues in the United States in the last quarter of 2008, we moved substantial amounts of our cash into non-interest bearing checking accounts so that they would be fully insured by the Federal Deposit Insurance Corporation ("FDIC") or into money-market investment funds (a portion of which is FDIC insured) of SunTrust and Wells Fargo, two large national banks. Effective January 1, 2013, the FDIC ceased providing insurance guarantees on non-interest bearing checking accounts. Investment income also includes gains and losses realized from the sale of investments.

Florida Insurance Overview

Many states have established "Residual Markets," which are governmental or quasi-governmental insurance facilities that are intended to provide coverage to individuals and/or businesses that cannot buy insurance in the private marketplace, i.e., "insurers of last resort." These facilities can be designed to cover any type of risk or exposure; however, the exposures most commonly subject to such facilities are automobile or high-risk property exposures. Residual Markets can also be referred to as FAIR Plans, Windstorm Pools, Joint Underwriting Associations, or may even be given names styled after the private sector like "Citizens Property Insurance Corporation" in Florida.

In August 2002, the Florida Legislature created "Citizens Property Insurance Corporation" ("Citizens"), to be the "insurer of last resort" in Florida. Initially, Citizens charged insurance rates that were higher than those generally prevailing in the private insurance marketplace. In each of 2004 and 2005, four major hurricanes made landfall in Florida. As a result of the ensuing significant insurance property losses, Florida property insurance rates increased in 2006. To counter the higher property insurance rates, the State of Florida instructed Citizens to significantly reduce its property insurance rates beginning in January 2007. By state law, Citizens guaranteed these rates through January 1, 2010. As a result, Citizens became one of the most, if not the most, competitive risk-bearers for a large percentage of Florida's commercial habitational coastal property exposures, such as condominiums, apartments, and certain assisted living facilities. Additionally, Citizens became the only insurance market for certain homeowner policies throughout Florida. Today, Citizens is one of the largest underwriters of coastal property exposures in Florida.

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In 2007, Citizens became the principal direct competitor of the insurance companies that underwrite the condominium program administered by one of our indirect subsidiaries, Florida Intracoastal Underwriters, Limited Company (FIU), and the excess and surplus lines insurers represented by wholesale brokers such as Hull & Company, Inc., another of our subsidiaries. Consequently, these operations lost significant amounts of revenue to Citizens. From 2008 through 2012, Citizens' impact was not as dramatic as it had been in 2007; FIU's core commissions and fees decreased 19.7% during this four-year period. Citizens continued to be competitive against the excess and surplus lines insurers, and therefore Citizens negatively affected the revenues of our Florida-based wholesale brokerage operations, such as Hull & Company, Inc., from 2007 through 2012, although the impact has been decreasing each year.

Citizens' impact on our Florida retail offices was less severe than on our National Programs and Wholesale Brokerage Division operations because our retail offices have the ability to place business with Citizens, although at slightly lower commission rates and with greater difficulty than with other insurance companies.

Effective January 1, 2010, Citizens raised its insurance rates, on average, 10% for properties with values of less than \$10 million, and more than 10% for properties with values in excess of \$10 million. Citizens raised its insurance rates again in 2011 and 2012, and is expected to continue to increase its insurance rates in 2013. Our commission revenues from Citizens for 2012, 2011 and 2010 were approximately \$6.4 million, \$7.8 million, and \$8.3 million, respectively. If, as expected, Citizens continues to attempt to reduce its insured exposures, the financial impact of Citizens on our business should continue to be reduced in 2013.

Current Year Company Overview

2012 was an important transition year. After five years of experiencing negative internal growth in our core organic commissions and fees revenue as a direct result of the general weakness of the economy, we achieved a 2.6% positive internal revenue growth in 2012, which reflects a net growth of \$24.9 million in core organic commissions and fees. The net growth in core organic commissions and fees of \$24.9 million is a significant improvement from the comparable net lost revenues of \$21.5 million and \$40.1 million in 2011 and 2010, respectively. This improvement is principally attributable to rising insurance premium rates, and increasing insurance exposure units as a result of a gradually improving U. S. economy.

We have also succeeded in acquiring insurance operations that we believe may be of incrementally higher quality in each of the last three years. We completed 20 acquisitions in 2012, compared with the 38 and 33 acquisitions made in 2011 and 2010, respectively. However, the estimated annualized revenues from the 2012 acquisitions (excluding acquired books of business (customer accounts)) were \$149.6 million, an increase over the \$88.7 million and \$70.6 million that we acquired in 2011 and 2010, respectively.

Income before income taxes in 2012 increased over 2011 by 12.7%, or \$34.3 million, to \$304.8 million. However, that net increase of \$34.3 million includes \$44.2 million of income before income taxes related to new acquisitions that were stand-alone offices, and therefore, income before income taxes from those offices that existed in the same time periods of 2012 and 2011 (including the new acquisitions that folded in to those offices) decreased by \$10.0 million. The net decrease of \$10.0 million related primarily to: (1) \$5.4 million from a change in estimated acquisition earn-out payables, (2) \$1.9 million of increased interest expense related to the Arrowhead acquisition, (3) \$1.7 million in increased non-cash stock-based compensation primarily due to new grants issued, and (4) \$6.8 million earned by our Retail Division commissioned producers as a result of a special one-time bonus program for those whose 2012 production exceeded their 2011 production by at least 5%. Therefore, excluding these items, income before income taxes from those offices that existed in the same time periods of 2012 and 2011 (including the new acquisitions that folded in to those offices) increased by only \$5.8 million.

Acquisitions

Approximately 37,500 independent insurance agencies are estimated to be operating currently in the United States. Part of our continuing business strategy is to attract high-quality insurance intermediaries to join our operations. From 1993 through 2012, we acquired 440 insurance intermediary operations, excluding acquired books of business (customer accounts).

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A summary of our acquisitions over the last three years is as follows (in millions, except for number of acquisitions):

	Estimated							Aggregate	
	Number of Acquisitions	Annual Revenues	Net Cash Paid	Notes Issued	Other Payable	Liabilities Assumed	Recorded Earn-out Payable	Purchase Price	
2012	19	\$ 149.6	\$ 483.9	\$ 0.1	\$ 25.4	\$ 136.7	\$ 21.5	\$ 667.6	
2011	37	\$ 88.7	\$ 167.4	\$ 1.2	\$	\$ 15.7	\$ 30.5	\$ 214.8	
2010	33	\$ 70.6	\$ 158.6	\$ 0.8	\$	\$ 2.3	\$ 25.1	\$ 186.8	

On January 9, 2012, we completed the acquisition of Arrowhead pursuant to a merger agreement dated December 15, 2011 (the Merger Agreement). Under the Merger Agreement, the total cash purchase price of \$395.0 million is subject to adjustments for options to purchase shares of Arrowhead's common stock, working capital, sharing of net operating tax losses, Arrowhead's preferred stock units, transaction expenses, and closing debt. In addition, within 60 days following the third anniversary of the acquisition's closing date, we will pay to certain persons who were Arrowhead equityholders as of the closing date additional earn-out payments equal, collectively, to \$5.0 million, subject to certain adjustments based on the cumulative EBITDA of Arrowhead and all of its subsidiaries, as calculated pursuant to the Merger Agreement, during the final year of the three-year period following the acquisition's closing date.

Arrowhead is a national insurance program manager and one of the largest managing general agents (MGAs) in the property and casualty insurance industry.

Critical Accounting Policies

Our Consolidated Financial Statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We continually evaluate our estimates, which are based on historical experience and on assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for our judgments about the carrying values of our assets and liabilities, which values are not readily apparent from other sources. Actual results may differ from these estimates.

We believe that, of our significant accounting policies (see Note 1 Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements), the following critical accounting policies may involve a higher degree of judgment and complexity.

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is billed to the customer, whichever is later. Commission revenues related to installment billings at the Company's subsidiary, Arrowhead, are recorded on the later of the effective date of the policy or the first installment billing. At those dates, the earnings process has been completed, and we can reliably estimate the impact of policy cancellations for refunds and establish reserves accordingly. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted in accordance with known circumstances. Subsequent commission adjustments are recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments from insurance companies. Profit-sharing contingent commissions are recognized when determinable, which is when such commissions are received from insurance companies, or when we receive formal notification of the amount of such payments. Fee revenues are recognized as services are rendered.

Business Combinations and Purchase Price Allocations

We have acquired significant intangible assets through business acquisitions. These assets consist of purchased customer accounts, non-compete agreements, and the excess of purchase prices over the fair value of identifiable net assets acquired (Goodwill). The determination of estimated useful lives and the allocation of purchase price to intangible assets requires significant judgment and affects the amount of future amortization and possible impairment charges.

All of our business combinations initiated after June 30, 2001 have been accounted for using the purchase method. In connection with these acquisitions, we record the estimated value of the net tangible assets purchased and the value of the identifiable intangible assets purchased, which typically consist of purchased customer accounts and non-compete agreements. Purchased customer accounts include the physical records and files obtained from acquired businesses that contain information about insurance policies, customers and other matters essential to policy

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renewals. However, they primarily represent the present value of the underlying cash flows expected to be received over the estimated future renewal periods of the insurance policies comprising those purchased customer accounts. The valuation of purchased customer accounts involves significant estimates and assumptions concerning matters such as cancellation frequency, expenses and discount rates. Any change in these assumptions could affect the carrying value of purchased customer accounts. Non-compete agreements are valued based on their duration and any unique features of particular agreements. Purchased customer accounts and non-compete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and intangible assets is assigned to goodwill and is not amortized.

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Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one-to three-year period within a minimum and maximum price range. The recorded purchase prices for all acquisitions consummated after January 1, 2009 include an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations are recorded in the consolidated statement of income when incurred.

The fair value of earn-out obligations is based on the present value of the expected future payments to be made to the sellers of the acquired businesses in accordance with the provisions contained in the respective purchase agreements. In determining fair value, the acquired business's future performance is estimated using financial projections developed by management for the acquired business and this estimate reflects market participant assumptions regarding revenue growth and/or profitability. The expected future payments are estimated on the basis of the earn-out formula and performance targets specified in each purchase agreement compared to the associated financial projections. These estimates are then discounted to present value using a risk-adjusted rate that takes into consideration the likelihood that the forecasted earn-out payments will be made.

Intangible Assets Impairment

Goodwill is subject to at least an annual assessment for impairment measured by a fair-value-based test. Amortizable intangible assets are amortized over their useful lives and are subject to an impairment review based on an estimate of the undiscounted future cash flows resulting from the use of the assets. To determine if there is potential impairment of goodwill, we compare the fair value of each reporting unit with its carrying value. If the fair value of the reporting unit is less than its carrying value, an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of earnings before interest, income taxes, depreciation, amortization and change in estimated acquisition earn-out payables (EBITDAC).

Management assesses the recoverability of our goodwill on an annual basis, and assesses the recoverability of our amortizable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) significant decline in our market capitalization. If the recoverability of these assets is unlikely because of the existence of one or more of the above-referenced factors, an impairment analysis is performed. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2012 and determined that the fair value of goodwill exceeded the carrying value of such assets. Additionally, there have been no impairments recorded for amortizable intangible assets for the years ended December 31, 2012, 2011 and 2010.

Non-Cash Stock-Based Compensation

We grant stock options and non-vested stock awards to our employees, and the related compensation expense is required to be recognized in the financial statements based upon the grant-date fair value of those awards.

Litigation Claims

We are subject to numerous litigation claims that arise in the ordinary course of business. If it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss is estimable, an accrual for the costs to resolve these claims is recorded in accrued expenses in the accompanying Consolidated Balance Sheets. Professional fees related to these claims are included in other operating expenses in the accompanying Consolidated Statements of Income. Management, with the assistance of in-house and outside counsel, determines whether it is probable that a liability has been incurred and estimates the amount of loss based upon analysis of individual issues. New developments or changes in settlement strategy in dealing with these matters may significantly affect the required reserves and affect our net income.

New Accounting Pronouncements

See Note 1 of the Notes to Consolidated Financial Statements for a discussion of the effects of the adoption of new accounting standards.

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The following discussion and analysis regarding results of operations and liquidity and capital resources should be considered in conjunction with the accompanying Consolidated Financial Statements and related Notes.

Financial information relating to our Consolidated Financial Results is as follows (in thousands, except percentages):

	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 1,136,252	19.5%	\$ 950,685	5.8%	\$ 898,833
Profit-sharing contingent commissions	43,683	1.1%	43,198	(21.1)%	54,732
Guaranteed supplemental commissions	9,146	(24.3)%	12,079	(9.5)%	13,352
Investment income	797	(37.1)%	1,267	(4.4)%	1,326
Other income, net	10,154	60.8%	6,313	20.3%	5,249
Total revenues	1,200,032	18.4%	1,013,542	4.1%	973,492
EXPENSES					
Employee compensation and benefits	608,506	19.6%	508,675	4.3%	487,820
Non-cash stock-based compensation	15,865	41.7%	11,194	63.5%	6,845
Other operating expenses	174,389	21.0%	144,079	6.1%	135,851
Amortization	63,573	16.1%	54,755	6.4%	51,442
Depreciation	15,373	24.1%	12,392	(2.0)%	12,639
Interest	16,097	13.9%	14,132	(2.3)%	14,471
Change in estimated acquisition earn-out payables	1,418	NMF ⁽¹⁾	(2,206)	31.8%	(1,674)
Total expenses	895,221	20.5%	743,021	5.0%	707,394
Income before income taxes	\$ 304,811	12.7%	\$ 270,521	1.7%	\$ 266,098
Net internal growth rate – core commissions and fees	2.6%		(2.4)%		(4.5)%
Employee compensation and benefits ratio	50.7%		50.2%		50.1%
Other operating expenses ratio	14.5%		14.2%		14.0%
Capital expenditures	\$ 24,028		\$ 13,608		\$ 10,454
Total assets at December 31	\$ 3,128,058		\$ 2,607,011		\$ 2,400,814

(1) NMF = Not a meaningful figure

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions and GSCs, increased \$183.1 million, or 18.2% in 2012. Profit-sharing contingent commissions and GSCs decreased \$2.4 million or 4.4% in 2012 to \$52.8 million, due primarily to \$4.1 million and \$1.2 million reductions in profit-sharing contingent commissions and GSCs in our Retail and Wholesale Brokerage Divisions, respectively; but these reductions were partially offset by a \$3.2 million increase in our National Programs Division. Core commissions and fees revenue increased \$185.6 million on a net basis, of which approximately \$171.4 million represented core commissions and fees from acquisitions that had no comparable revenues in 2011. After taking into account divested business of \$10.7 million, the remaining net increase of \$24.9 million, representing net new business, reflects a 2.6% internal growth rate for core organic commissions and fees.

Commissions and fees revenue, including profit-sharing contingent commissions and GSCs, increased 4.0% in 2011. Profit-sharing contingent commissions decreased \$11.5 million to \$43.2 million in 2011, with the decrease primarily due to reductions in amounts paid to offices in our National Programs and Wholesale Brokerage Divisions. Core organic commissions and fees revenue decreased 2.4% in 2011. The 2011 decrease of 2.4% represents \$21.5 million of net lost core commissions and fees revenue, of which \$21.2 million was attributable to our Retail Division. The remaining \$0.3 million of net lost core commissions and fees revenue related to a \$4.5 million reduction in our National Programs Division, which was partially offset by a \$3.6 million increase in our Wholesale Brokerage Division and a \$0.6 million increase in our Services

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Division. The declines in profit-sharing contingent commissions and core organic commissions and fees during 2011 were more than offset by the addition of \$77.6 million of core commissions and fees revenue from acquired operations.

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Investment Income

Investment income decreased to \$0.8 million in 2012, compared with \$1.3 million in 2011, mainly due to lower average daily invested balances in 2012 than in 2011. Investment income of \$1.3 million in 2011 was effectively flat as compared with 2010. Even though the average daily invested balance in 2011 was higher in 2010, the lower income yields negated any income growth.

Other Income, Net

Other income for 2012 reflected income of \$10.2 million, compared with \$6.3 million in 2011 and \$5.2 million in 2010. We recognized gains of \$4.3 million, \$2.3 million and \$1.2 million from sales of books of business (customer accounts) in 2012, 2011, and 2010, respectively. Although we are not in the business of selling books of business, we periodically will sell an office or a book of business because it does not produce reasonable margins or demonstrate a potential for growth, or for other reasons related to the particular assets in question. Other income also included \$3.6 million, \$1.3 million and \$2.3 million in 2012, 2011, and 2010, respectively, paid to us in connection with settlements of litigation against former employees for violation of restrictive covenants contained in their employment agreements with us. Additionally, we recognized non-recurring gains, rental income and sales of software services of \$2.3 million, \$2.3 million and \$0.9 million in 2012, 2011, and 2010, respectively.

Employee Compensation and Benefits

Employee compensation and benefits expense increased, on a net basis, approximately 19.6% or \$99.8 million in 2012. However, that net increase included \$80.9 million of new compensation costs related to new acquisitions that were stand-alone offices, and therefore, employee compensation and benefits from those offices that existed in the same time periods of 2012 and 2011 (including the new acquisitions that folded in to those offices) increased by \$18.9 million. The employee compensation and benefit increases from these offices were primarily related to increases in staff and management salaries of \$3.2 million, new salaried producers of \$1.3 million, profit center bonuses of \$1.4 million, health insurance costs of \$1.8 million, employee 401(k)/profit-sharing contributions of \$0.7 million and bonus incentives of \$8.1 million primarily due to \$6.8 million earned by our Retail Division commissioned producers as a result of a special one-time bonus program for those whose 2012 production exceeded their 2011 production by at least 5%.

Employee compensation and benefits expense increased, on a net basis, approximately 4.3% or \$20.9 million in 2011. However, that net increase included \$27.8 million of new compensation costs related to new acquisitions that were stand-alone offices, and therefore, employee compensation and benefits from those offices that existed in the same time periods of 2011 and 2010 (including the new acquisitions that folded in to those offices) decreased by \$6.9 million. The employee compensation and benefit reductions from these offices were primarily related to reductions in staff and management salaries of \$6.8 million and reductions in commissions paid to producers of \$2.8 million; the aggregate of which was partially off-set by an increase in bonuses of \$2.7 million.

Employee compensation and benefits expense as a percentage of total revenues increased in 2012 to 50.7% as compared to 50.2% for 2011 and 50.1% for 2010. We had 6,438 full-time equivalent employees at December 31, 2012, compared with 5,557 at December 31, 2011 and 5,286 at December 31, 2010. Of the net increase of 881 full-time equivalent employees at December 31, 2012 over the prior year-end, an increase of 759 was attributable to acquisitions, thus reflecting a net increase of 122 employees in the offices existing at both year-ends.

Non-Cash Stock-Based Compensation

We have an employee stock purchase plan, and grant stock options and non-vested stock awards to our employees. Compensation expense for all share-based awards is recognized in the financial statements based upon the grant-date fair value of those awards. For 2012, 2011 and 2010, the non-cash stock-based compensation expense incorporates the costs related to each of our four stock-based plans as explained in Note 11 of the Notes to the Consolidated Financial Statements.

Non-cash stock-based compensation increased 41.7%, or \$4.7 million, in 2012 as a result of new grants under our Stock Incentive Plan (SIP) that will vest in four to ten years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated earnings per share growth at certain levels by us, over three-to five-year measurement periods.

Non-cash stock-based compensation increased 63.5%, or \$4.3 million, in 2011 as a result of new grants under our SIP that will vest in six to ten years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated EPS growth at certain levels by us, over a five-year measurement period ending December 31, 2015.

Other Operating Expenses

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As a percentage of total revenues, other operating expenses represented 14.5% in 2012, 14.2% in 2011, and 14.0% in 2010. Other operating expenses in 2012 increased \$30.3 million over 2011, of which \$33.3 million was related to acquisitions that joined as stand-alone offices. Therefore, other operating expenses attributable to offices that existed in the same periods in both 2012 and 2011 (including the new acquisitions that folded in to those offices) decreased by \$3.0 million. Of the \$3.0 million decrease, \$2.7 million

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related to reductions in office rents and related expenses, \$2.2 million related to a reduction in legal expenses and \$2.0 million related to lower insurance costs. These cost savings were partially offset by increases of \$1.3 million in consulting and inspection services, \$1.1 million for litigation reserves, and \$1.0 million in employee sales meetings.

Other operating expenses in 2011 increased \$8.2 million over 2010, of which \$10.0 million was related to acquisitions that joined as stand-alone offices. Therefore, other operating expenses attributable to offices that existed in the same periods in both 2011 and 2010 (including the new acquisitions that folded in to those offices) decreased by \$1.8 million. Of the \$1.8 million decrease, \$2.4 million related to reductions in office rents and related expenses, and \$1.9 million related to lower insurance costs. These cost savings were partially offset by a \$2.6 million increase in legal costs which was primarily related to the enforcement of restrictive covenants contained in our employment agreements with former employees.

Amortization

Amortization expense increased \$8.8 million, or 16.1%, in 2012, and \$3.3 million, or 6.4%, in 2011. The increases in 2012 and 2011 were due to the amortization of additional intangible assets as a result of acquisitions completed in those years.

Depreciation

Depreciation increased 24.1% in 2012, and decreased 2.0% in 2011. The increase in 2012 was due primarily to the addition of fixed assets as a result of recent acquisitions. The decrease in 2011 was the result of certain fixed assets becoming fully depreciated.

Interest Expense

Interest expense increased \$2.0 million, or 13.9%, in 2012, and decreased \$0.3 million, or 2.3%, in 2011. The 2012 increase was due primarily to the additional debt borrowed in connection with our acquisition of Arrowhead, and the 2011 decrease was due primarily to loan principal reductions.

Change in estimated acquisition earn-out payables

Accounting Standards Codification (ASC) Topic 805 *Business Combinations* is the authoritative guidance requiring an acquirer to recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities (with only limited exceptions) upon initially obtaining control of an acquired entity. Additionally, the fair value of contingent consideration arrangements (such as earn-out purchase arrangements) at the acquisition date must be included in the purchase price consideration. As a result, the recorded purchase prices for all acquisitions consummated after January 1, 2009 include an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in these earn-out obligations are required to be recorded in the consolidated statement of income when incurred. Estimations of potential earn-out obligations are typically based upon future earnings of the acquired entities, usually for periods ranging from one to three years.

The net charge or credit to the Consolidated Statement of Income for the period is the combination of the net change in the estimated acquisition earn-out payables balance, and the interest expense imputed on the outstanding balance of the estimated acquisition earn-out payables.

As of December 31, 2012, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3). The resulting net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, 2012, 2011, and 2010 were as follows (in thousands):

	2012	2011	2010
Change in fair value on estimated acquisition earn-out payables	\$ (1,051)	\$ (4,043)	\$ (2,606)
Interest expense accretion	2,469	1,837	932
Net change in earnings from estimated acquisition earn-out payables	\$ 1,418	\$ (2,206)	\$ (1,674)

The fair values of the estimated earn-out payables were reduced in 2012, 2011 and 2010 since certain acquisitions did not perform at the level estimated based on our original projections. An acquisition is considered to be performing well if its operating profit exceeds the level needed to

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reach the minimum purchase price. However, a reduction in the estimated acquisition earn-out payable can occur even though the acquisition is performing well, if it is not performing at the level contemplated by our original estimate.

As of December 31, 2012, the estimated acquisition earn-out payables equaled \$52,987,000, of which \$10,164,000 was recorded as accounts payable and \$42,823,000 was recorded as other non-current liability. As of December 31, 2011, the estimated acquisition earn-out payables equaled \$47,715,000, of which \$3,654,000 was recorded as accounts payable and \$44,061,000 was recorded as other non-current liability.

Table of Contents**Income Taxes**

The effective tax rate on income from operations was 39.6% in 2012, 39.4% in 2011, and 39.2% in 2010. The higher effective annual tax rates are primarily the result of higher average effective state income tax rates.

RESULTS OF OPERATIONS SEGMENT INFORMATION

As discussed in Note 15 of the Notes to Consolidated Financial Statements, we operate four reportable segments or divisions: the Retail, National Programs, Wholesale Brokerage, and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses result from completed acquisitions within a given division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. As such, in evaluating the operational efficiency of a division, management emphasizes the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of total employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

The term "core commissions and fees" excludes profit-sharing contingent commissions and GSCs, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In contrast, the term "core organic commissions and fees" is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). Core organic commissions and fees attempts to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes attributable to (i) net new and lost accounts, (ii) net changes in our clients' exposure units, and (iii) net changes in insurance premium rates. The net changes in each of these three components can be determined for each of our customers. However, because our agency management accounting systems do not aggregate such data, it is not reportable. Core organic commissions and fees reflect either "positive" growth with a net increase in revenues, or "negative" growth with a net decrease in revenues.

The internal growth rates for our core organic commissions and fees for the three years ended December 31, 2012, 2011 and 2010, by Division, are as follows (in thousands, except percentages):

2012	For the years ended December 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2012	2011					
Retail⁽¹⁾	\$ 618,562	\$ 571,129	\$ 47,433	8.3%	\$ 38,734	\$ 8,699	1.5%
National Programs	233,261	148,841	84,420	56.7%	83,281	1,139	0.8%
Wholesale Brokerage	168,182	155,151	13,031	8.4%	3,598	9,433	6.1%
Services	116,247	64,875	51,372	79.2%	45,783	5,589	8.6%
Total core commissions and fees	\$ 1,136,252	\$ 939,996	\$ 196,256	20.9%	\$ 171,396	\$ 24,860	2.6%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2012 and 2011 is as follows (in thousands):

	For the years ended December 31,	
	2012	2011
Total core commissions and fees	\$ 1,136,252	\$ 939,996
Profit-sharing contingent commissions	43,683	43,198
Guaranteed supplemental commissions	9,146	12,079
Divested business		10,689
Total commissions and fees	\$ 1,189,081	\$ 1,005,962

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2011	For the years ended December 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2011	2010					
Retail⁽¹⁾	\$ 580,304	\$ 544,004	\$ 36,300	6.7%	\$ 57,541	\$ (21,241)	(3.9)%
National Programs	148,842	152,209	(3,367)	(2.2)%	1,140	(4,507)	(3.0)%
Wholesale Brokerage	156,664	151,822	4,842	3.2%	1,186	3,656	2.4%
Services	64,875	46,486	18,389	39.6%	17,773	616	1.3%
Total core commissions and fees	\$ 950,685	\$ 894,521	\$ 56,164	6.3%	\$ 77,640	\$ (21,476)	(2.4)%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2011 and 2010 is as follows (in thousands):

	For the years ended December 31,	
	2011	2010
Total core commissions and fees	\$ 950,685	\$ 894,521
Profit-sharing contingent commissions	43,198	54,732
Guaranteed supplemental commissions	12,079	13,352
Divested business		4,312
Total commissions and fees	\$ 1,005,962	\$ 966,917

2010	For the years ended December 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2010	2009					
Retail⁽¹⁾	\$ 548,885	\$ 550,237	\$ (1,352)	(0.2)%	\$ 23,586	\$ (24,938)	(4.5)%
National Programs	152,281	165,700	(13,419)	(8.1)%	739	(14,158)	(8.5)%
Wholesale Brokerage	151,331	151,177	154	0.1%	1,094	(940)	(0.6)%
Services	46,336	32,689	13,647	41.7%	13,716	(69)	(0.2)%
Total core commissions and fees	\$ 898,833	\$ 899,803	\$ (970)	(0.1)%	\$ 39,135	\$ (40,105)	(4.5)%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2010 and 2009 is as follows (in thousands):

	For the years ended December 31,	
	2010	2009
Total core commissions and fees	\$ 898,833	\$ 899,803
Profit-sharing contingent commissions	54,732	47,637
Guaranteed supplemental commissions	13,352	15,884
Divested business		1,539
Total commissions and fees	\$ 966,917	\$ 964,863

(1) The Retail Division figures include commissions and fees reported in the Other column of the Segment Information in Note 15 of the Notes to the Consolidated Financial Statements, which includes corporate and consolidation items.

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The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. Approximately 95.7% of the Retail Division's commissions and fees revenue is commission-based. Because most of our other operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions, net of related compensation, which we receive will be reflected in our pre-tax income.

Financial information relating to Brown & Brown's Retail Division is as follows (in thousands, except percentages):

	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 619,975	6.7%	\$ 581,125	6.1%	\$ 547,881
Profit-sharing contingent commissions	12,843	(12.8)%	14,736	(3.5)%	15,274
Guaranteed supplemental commissions	6,890	(24.3)%	9,105	(14.5)%	10,654
Investment income	108	5.9%	102	(40.0)%	170
Other income, net	4,613	116.5%	2,131	97.0%	1,082
Total revenues	644,429	6.1%	607,199	5.6%	575,061
EXPENSES					
Employee compensation and benefits	326,574	7.5%	303,841	5.2%	288,957
Non-cash stock-based compensation	5,680	(7.1)%	6,114	74.0%	3,514
Other operating expenses	98,532	(0.2)%	98,745	6.0%	93,184
Amortization	34,639	3.8%	33,373	8.6%	30,725
Depreciation	5,181	2.7%	5,046	(5.7)%	5,349
Interest	26,641	(3.8)%	27,688	2.4%	27,037
Change in estimated acquisition earn-out payables	1,968	NMF ⁽¹⁾	(5,415)	212.8%	(1,731)
Total expenses	499,215	6.4%	469,392	5.0%	447,035
Income before income taxes	\$ 145,214	5.4%	\$ 137,807	7.6%	\$ 128,026
Net internal growth rate – core organic commissions and fees	1.5%		(3.9)%		(4.5)%
Employee compensation and benefits ratio	50.7%		50.0%		50.2%
Other operating expenses ratio	15.3%		16.3%		16.2%
Capital expenditures	\$ 5,732		\$ 6,102		\$ 4,852
Total assets at December 31	\$ 2,420,759		\$ 2,155,413		\$ 1,914,587

(1) NMF = Not a meaningful figure

The Retail Division's total revenues in 2012 increased 6.1%, or \$37.2 million, over the same period in 2011, to \$644.4 million. Profit-sharing contingent commissions and GSCs in 2012 decreased \$4.1 million, or 17.2%, from 2011, to \$19.7 million, primarily due to increased loss ratios resulting in lower profitability for insurance companies in 2011, and to the fact that two national insurance carriers who provided us GSC contracts in 2011 changed to profit-sharing contingency contracts in 2012. The \$38.9 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$38.7 million related to core commissions and fees revenue from acquisitions that had no comparable revenues in 2011, (ii) a decrease of \$8.5 million related to commissions and fees revenue recorded in 2011 from business divested or transferred to the Wholesale Brokerage Division during 2012, and (iii) the remaining net increase of \$8.7 million primarily related to net new business. The Retail Division's internal growth rate for core organic commissions and fees revenue was 1.5% for 2012, and resulted primarily from stabilizing insurable exposure units with slightly stronger upward pressure on general insurance premium rates.

Income before income taxes for 2012 increased 5.4%, or \$7.4 million, over the same period in 2011, to \$145.2 million. Included in the \$7.4 million net increase in income before income taxes is another \$7.4 million net expense increase in change in estimated acquisition earn-out

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payables and a \$0.3 million net expense increase from amortization, depreciation and inter-company interest changes. Excluding these items and the \$4.1 million decrease in profit-sharing contingent commissions and GSCs, income before income taxes for 2012 increased \$19.2 million over 2011, of which \$8.7 million originated from new acquisitions that were stand-alone operations, and \$10.5 million was generated by offices in existence in both 2011 and 2012. Of the \$10.5 million increase from existing offices, \$8.7 million (\$1.4 million of fold-in acquired revenues) was attributed to organic growth of core commissions and fees, \$5.6 million cost savings from other operating expenses, \$0.5 reduction in non-cash stock-based compensation, but [Illegible] offset by \$4.9 million increase in compensation and employee benefits. The \$4.9 million net increase in compensation and employee benefits was primarily due to the one-time producer bonuses of \$6.8 million paid to commissioned producers whose 2012 production exceeded their 2011 production by at least five percent, which was partially offset by a reduction of approximately \$2.0 million less staff salaries. The \$5.6 million reduction in other operating expenses was primarily related to reductions in occupancy/office rents, legal and claims settlements, insurance expense, and data processing costs.

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The Retail Division's total revenues in 2011 increased 5.6%, or \$32.1 million, over the same period in 2010, to \$607.2 million. Profit-sharing contingent commissions and GSCs in 2011 decreased \$2.1 million, or 8.0%, from 2010, primarily due to increased loss ratios resulting in lower profitability for insurance companies in 2010, and less premiums written as a result of the slowing U.S. economy. The \$33.2 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$57.5 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in 2010, (ii) a decrease of \$3.7 million related to commissions and fees revenue recorded in 2010 from business divested during 2011, (iii) a decrease of \$0.4 million for business transferred to our Wholesale Brokerage Division, and (iv) a net decrease of \$21.2 million primarily attributable to net lost business. The Retail Division's negative growth rate for core organic commissions and fees revenue was (3.9)% for 2011, and resulted primarily from lower property insurance rates and reduced insurable exposure units in most areas of the United States. However, as of the end of 2011, there were indications that exposure units' rates of decline were slowing, and some property insurance rates were beginning to increase slightly.

Income before income taxes for 2011 increased 7.6%, or \$9.8 million, over the same period in 2010, to \$137.8 million. The increase was mainly due to the profitability of our new acquisitions, and general cost savings that partially offset the decline in core organic commissions and fees. Of the \$9.8 million net increase in income before income taxes, \$3.7 million resulted from the change in estimated acquisition earn-out payables. Partially offsetting the \$21.2 million reduction in core organic commissions and fees were reductions of approximately \$9.9 million in compensation expense and \$6.3 million in other operating expenses, led by lower rent and insurance costs.

National Programs Division

The National Programs Division provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and markets targeted products and services designated for specific industries, trade groups, public and quasi-public entities and market niches. Like the Retail Division and the Wholesale Brokerage Division, the National Programs Division's revenues are primarily commission-based.

Financial information relating to our National Programs Division is as follows (in thousands, except percentages):

	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 233,261	56.7%	\$ 148,842	(2.3)%	\$ 152,281
Profit-sharing contingent commissions	18,392	22.4%	15,029	(34.4)%	22,894
Guaranteed supplemental commissions	276	(42.6)%	481	(27.5)%	663
Investment income	20	%		(100.0)%	1
Other income, net	994	NMF ⁽¹⁾	75	(64.6)%	212
Total revenues	252,943	53.8%	164,427	(6.6)%	176,051
EXPENSES					
Employee compensation and benefits	110,362	63.4%	67,560	%	67,547
Non-cash stock-based compensation	3,707	177.5%	1,336	74.2%	767
Other operating expenses	44,248	88.4%	23,486	0.6%	23,351
Amortization	13,936	79.4%	7,770	(7.8)%	8,427
Depreciation	4,600	56.6%	2,937	(2.2)%	3,004
Interest	25,674	NMF ⁽¹⁾	1,381	(48.3)%	2,670
Change in estimated acquisition earn-out payables	(1,075)	111.6%	(508)	NMF ⁽¹⁾	21
Total expenses	201,452	93.8%	103,962	(1.7)%	105,787
Income before income taxes	\$ 51,491	(14.8)%	\$ 60,465	(13.9)%	\$ 70,264
Net internal growth rate – core organic commissions and fees	0.8%		(3.0)%		(8.5)%
Employee compensation and benefits ratio	43.6%		41.1%		38.4%
Other operating expenses ratio	17.5%		14.3%		13.3%
Capital expenditures	\$ 9,633		\$ 1,968		\$ 2,377
Total assets at December 31	\$ 1,183,191		\$ 680,251		\$ 624,540

(1) NMF = Not a meaningful figure

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The National Programs Division's total revenues in 2012 increased \$88.5 million to \$252.9 million, a 53.8% increase over 2011. Profit-sharing contingent commissions and GSCs in 2012 increased \$3.2 million over 2011, due primarily to profit-sharing contingent commissions earned at our Arrowhead operation. Of the \$84.4 million net increase in core commissions and fees for National Programs: (i) an increase of approximately \$83.3 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in 2011; and (ii) a net increase of \$1.1 million was primarily related to net new business. Therefore, the National Programs Division's internal growth rate for core organic commissions and fees revenue was 0.8% for 2012. Of the \$1.1 million of net new business, \$2.2 million related to a net increase in commissions and fees revenue at Proctor Financial, Inc., (Proctor), which was partially offset by \$1.7 million of net lost business in our facultative reinsurance facility, and the remaining \$0.6 million of net new business was generated by various other programs.

Income before income taxes for 2012 decreased 14.8%, or \$9.0 million, from the same period in 2011, to \$51.5 million. This net decrease was due to: (i) a reduction of \$5.6 million from the offices that existed in both 2012 and 2011, primarily as a result of reduced profit-sharing contingent commissions and GSCs of \$1.3 million and increased compensation expense mainly related to increased staffing levels at Proctor, (ii) loss before income taxes and change in estimated acquisition earn-out payables of (\$4.8) million related to new acquisitions that were stand-alone offices (primarily the Arrowhead acquisition), and (iii) a \$1.4 million income credit generated from the change in estimated acquisition earn-out payables. Income before income taxes and inter-company interest expense related to new acquisitions that were stand-alone offices (primarily the Arrowhead acquisition) that had no comparable earnings in the same period of 2011 was approximately \$21.7 million for 2012; however those earnings were offset by \$25.0 million of inter-company interest expense allocation.

The National Programs Division's total revenues in 2011 decreased \$11.6 million, or 6.6% to \$164.4 million from 2010. Profit-sharing contingent commissions and GSCs in 2011 decreased \$8.0 million from 2010, of which \$2.9 million related to our condominium program at Florida Intracoastal Underwriters, Limited Company (FIU), and \$4.4 million related to Proctor. The decrease in FIU's profit-sharing contingent commissions in 2011 was principally attributable to fact that in 2010, FIU received a higher amount of profit-sharing contingent commissions because they included a delayed 2009 payment. Proctor's decreased profit-sharing contingent commissions were the direct result of the lower premiums generated by Proctor in 2010. Of the \$3.4 million net decrease in core commissions and fees for National Programs: (i) an increase of approximately \$1.1 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2010, and (ii) a net decrease of \$4.5 million was primarily related to net lost business. Therefore, the National Programs Division's negative growth rate for core organic commissions and fees revenue was (3.0)% for 2011. Of the \$4.5 million of net lost business, \$4.4 million related to Proctor, and was primarily the result of its loss of a large customer, \$1.5 million related to our CalSurance® operations and \$1.1 million related to FIU, all of which was partially offset by a \$1.3 million increase related to our public entity business and a \$1.2 million net aggregate increase attributable to the other programs in the Division.

Income before income taxes for 2011 decreased 13.9%, or \$9.8 million, from the same period in 2010, to \$60.5 million. This decrease was primarily driven by the reductions in profit-sharing contingent commissions. Non-cash stock grant compensation increased \$0.6 million due to new SIP grants made in the first quarter of 2011; and other operating expenses increased \$0.1 million. Additionally, interest expense of this Division relating to prior acquisitions decreased by \$1.3 million, primarily due to the 1.0% annual reduction in the cost of capital interest rate charged against the total purchase price of each of the Division's prior acquisitions.

Table of Contents**Wholesale Brokerage Division**

The Wholesale Brokerage Division markets and sells excess and surplus commercial and personal lines insurance and reinsurance, primarily through independent agents and brokers. Like the Retail and National Programs Divisions, the Wholesale Brokerage Division's revenues are primarily commission-based.

Financial information relating to our Wholesale Brokerage Division is as follows (in thousands, except percentages):

	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 168,182	7.4%	\$ 156,664	3.5%	\$ 151,331
Profit-sharing contingent commissions	12,448	(7.3)%	13,433	(18.9)%	16,564
Guaranteed supplemental commissions	2,192	(10.5)%	2,450	8.6%	2,255
Investment income	22	(35.3)%	34	17.2%	29
Other income, net	721	(54.3)%	1,577	(3.5)%	1,634
Total revenues	183,565	5.4%	174,158	1.4%	171,813
EXPENSES					
Employee compensation and benefits	87,293	5.2%	82,974	(1.1)%	83,927
Non-cash stock-based compensation	1,328	(10.4)%	1,482	102.7%	731
Other operating expenses	33,486	6.7%	31,379	(3.2)%	32,421
Amortization	11,280	2.2%	11,032	0.4%	10,987
Depreciation	2,718	4.8%	2,594	(5.3)%	2,740
Interest	3,974	(47.0)%	7,495	(33.9)%	11,342
Change in estimated acquisition earn-out payables	131	(81.0)%	691	NMF ⁽¹⁾	(246)
Total expenses	140,210	1.9%	137,647	(3.0)%	141,902
Income before income taxes	\$ 43,355	18.7%	\$ 36,511	22.1%	\$ 29,911
Net internal growth rate – core organic commissions and fees	6.1%		2.4%		(0.6)%
Employee compensation and benefits ratio	47.6%		47.6%		48.8%
Other operating expenses ratio	18.2%		18.0%		18.9%
Capital expenditures	\$ 3,383		\$ 2,658		\$ 1,893
Total assets at December 31	\$ 837,364		\$ 712,212		\$ 673,927

(1) NMF = Not a meaningful figure

The Wholesale Brokerage Division's total revenues for 2012 increased 5.4%, or \$9.4 million, over the same period in 2011, to \$183.6 million. Profit-sharing contingent commissions and GSCs for 2012 decreased \$1.2 million from the same period of 2011, primarily due to developed losses and increased loss ratios experienced by our insurance carrier partners. Of the \$11.5 million net increase in core commissions and fees revenue: (i) an increase of approximately \$3.6 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2011; (ii) a decrease of \$1.5 million related to commissions and fees revenue recorded in 2011 from business divested or transferred from the Retail Division during 2012; and (iii) the remaining net increase of \$9.4 million primarily related to new business and continued increases in premium rates on many lines of insurance, but primarily on coastal property. As such, the Wholesale Brokerage Division's internal growth rate for core organic commissions and fees revenue was 6.1% for 2012.

Income before income taxes for 2012 increased 18.7%, or \$6.8 million over the same period in 2011 to \$43.4 million, primarily due to a net reduction in the inter-company interest expense allocation of \$3.5 million. Additionally, while total revenues increased by \$9.4 million, employee compensation and benefits cost increased \$4.3 million, and other operating expenses increased by \$2.1 million. Employee compensation and benefit expense increased primarily due to higher bonus expense as a result of the Division's increased profitability, and \$1.2 million in new producer salaries. Other operating expenses increased as a result of higher costs for data processing, telephone and inter-company overhead charges.

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The Wholesale Brokerage Division's total revenues in 2011 increased \$2.3 million over 2010, of which \$5.3 million resulting from an increase in core commissions and fees revenue was partially offset by a \$2.9 million reduction in profit-sharing contingent commissions and GSCs. Of the \$5.3 million net increase in core commissions and fees revenue: (i) an increase of approximately \$1.2 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2010; (ii) a decrease of \$0.4 million related to commissions and fees revenue recorded in 2010 for business divested during 2011; and (iii) the remaining net increase of \$3.7 million primarily related to net new business. As such, the Wholesale Brokerage Division's

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core organic commissions and fees revenue for 2011 was 2.4%. The positive internal growth rate in 2011 compared with the negative growth rate in 2010 reflected the gradual stabilization of coastal property insurance rates and the fact that excess and surplus lines insurance products continued to be competitive with the products of admitted carriers, including the Citizens Property Insurance Corporation in Florida.

Income before income taxes for 2011 increased 22.1%, or \$6.6 million, over the same period in 2010, to \$36.5 million. Even though total revenues increased by \$2.3 million, total expenses were reduced by \$4.3 million. Employee compensation and benefits expense was reduced \$1.0 million, primarily due to lower management and staff salaries and lower commissions paid to producers, and other operating expenses were reduced by \$1.0 million, primarily in the areas of office rents, postage, and insurance costs. Additionally, interest expenses of the Wholesale Brokerage Division related to prior acquisitions decreased by \$3.8 million, primarily due to the 1.0% annual reduction in the cost of capital interest rate charged against the total purchase price of each of the Division's prior acquisitions.

Services Division

The Services Division provides insurance-related services, including third-party claims administration (TPA) and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, Social Security disability and Medicare benefits advocacy services, and, effective in December 2011, catastrophe claims adjusting services.

Unlike our other segments, nearly all of the Services Division's 2012 commissions and fees revenue was generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division is as follows (in thousands, except percentages):

	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 116,247	79.2%	\$ 64,875	40.0%	\$ 46,336
Profit-sharing contingent commissions		%		%	
Guaranteed supplemental commissions		%		%	
Investment income	1	(99.2)%	128	753.3%	15
Other income, net	488	(49.6)%	969	909.4%	96
Total revenues	116,736	76.9%	65,972	42.0%	46,447
EXPENSES					
Employee compensation and benefits	59,235	71.7%	34,494	30.4%	26,443
Non-cash stock-based compensation	597	171.4%	220	152.9%	87
Other operating expenses	26,180	125.2%	11,626	50.3%	7,734
Amortization	3,680	44.8%	2,541	101.0%	1,264
Depreciation	1,278	116.6%	590	67.6%	352
Interest	8,602	49.7%	5,746	121.7%	2,592
Change in estimated acquisition earn-out payables	394	(87.0)%	3,026	973.0%	282
Total expenses	99,966	71.6%	58,243	50.3%	38,754
Income before income taxes	\$ 16,770	117.0%	\$ 7,729	0.5%	\$ 7,693
Net internal growth rate – core organic commissions and fees	8.6%		1.3%		(0.2)%
Employee compensation and benefits ratio	50.7%		52.3%		56.9%
Other operating expenses ratio	22.4%		17.6%		16.7%
Capital expenditures	\$ 2,519		\$ 689		\$ 419
Total assets at December 31	\$ 238,430		\$ 166,060		\$ 145,321

The Services Division's total revenues for 2012 increased 76.9%, or \$50.8 million, over the same period in 2011, to \$116.7 million. Of the \$51.4 million net increase in core commissions and fees revenue: (i) an increase of approximately \$45.8 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2011; and (ii) the remaining net increase of \$5.6 million primarily related to net new business. As such, the Services Division's internal growth rate for core organic commissions and fees revenue was

8.6% for 2012.

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Income before income taxes in 2012 increased \$9.0 million over 2011. This net increase was due to: (i) a net increase of \$1.2 million from the offices that existed in both 2012 and 2011, excluding the impact of the change in estimated acquisition earn-out payables, (ii) income before income taxes and change in estimated acquisition earn-out payables of \$5.2 million related to new acquisitions that were stand-alone offices, and (iii) a \$2.6 million income credit generated from the change in estimated acquisition earn-out payables. Income before income taxes, and inter-company interest expense and change in estimated acquisition earn-out payables, related to new acquisitions that were stand-alone offices that had no comparable earnings in the same period of 2011 totaled approximately \$8.8 million for 2012; however, those earnings were partially offset by \$3.6 million of inter-company interest expense allocation.

The Services Division's total revenues in 2011 increased \$19.5 million over 2010, almost exclusively due to acquired revenues attributable to our new Social Security disability and Medicare benefits advocacy services. The net increase in the Division's core organic commissions and fees in this period was primarily due to our Medicare Secondary Payer statute (MSP) compliance-related services.

Income before income taxes in 2011 increased less than \$0.1 million over 2010. Even though the operations acquired in 2011 added substantially to income before income taxes, it was substantially offset by \$3.2 million of inter-company interest charged against the total purchase price of the Division's acquisitions and a \$2.7 million charge for the change in estimated acquisition earn-out payables.

Other

As discussed in Note 15 of the Notes to Consolidated Financial Statements, the Other column in the Segment Information table includes all income and expenses not allocated to reportable segments, as well as corporate-related items, including the inter-company interest expense charges to reporting segments.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents of \$219.8 million at December 31, 2012 reflected a decrease of \$66.5 million from the \$286.3 million balance at December 31, 2011. During 2012, \$220.3 million of cash was provided from operating activities. Also during this period, \$425.1 million of cash was used for acquisitions, \$24.0 million was used for additions to fixed assets, \$200.0 million was provided from proceeds received on new long-term debt, and \$49.5 million was used for payment of dividends.

Our cash and cash equivalents of \$286.3 million at December 31, 2011 reflected an increase of \$13.3 million from the \$273.0 million balance at December 31, 2010. During 2011, \$237.5 million of cash was provided from operating activities. Also during this period, \$166.1 million of cash was used for acquisitions, \$13.6 million was used for additions to fixed assets, \$102.1 million was used for payments on long-term debt and \$46.5 million was used for payment of dividends. Additionally, in the third quarter of 2011, we borrowed \$100.0 million on our Master Agreement to fund the repayment of our \$100.0 million of Series A Senior Notes that matured on September 15, 2011.

Our cash and cash equivalents of \$273.0 million at December 31, 2010 reflected an increase of \$75.9 million from the \$197.1 million balance at December 31, 2009. During 2010, \$296.1 million of cash was provided from operating activities. Also during this period, \$157.6 million of cash was used for acquisitions, \$10.4 million was used for additions to fixed assets, \$19.4 million was used for payments on long-term debt and \$44.5 million was used for payment of dividends.

On January 9, 2012, we completed the acquisition of Arrowhead for a total cash purchase price of \$395.0 million, subject to certain adjustments and potential earn-out payments of up to \$5 million in the aggregate following the third anniversary of the acquisition's closing date. We financed the acquisition through various modified and new credit facilities.

Our ratio of current assets to current liabilities (the current ratio) was 1.34 and 1.47 at December 31, 2012 and 2011, respectively.

Contractual Cash Obligations

As of December 31, 2012, our contractual cash obligations were as follows:

<i>(in thousands)</i>	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 450,093	\$ 93	\$ 125,000	\$ 225,000	\$ 100,000

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Other liabilities	46,945	24,455	14,147	5,863	2,480
Operating leases	133,878	30,645	48,602	31,331	23,300
Interest obligations	53,425	15,835	21,517	12,885	3,188
Unrecognized tax benefits	294		294		
Maximum future acquisition contingency payments	146,858	30,833	116,025		
Total contractual cash obligations	\$ 831,493	\$ 101,861	\$ 325,585	\$ 275,079	\$ 128,968

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Debt

In July 2004, we completed a private placement of \$200.0 million of unsecured senior notes (the Notes). The \$200.0 million is divided into two series: (1) Series A, which closed on September 15, 2004, for \$100.0 million was due in 2011 and bore interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for \$100.0 million due in 2014 and bearing interest at 6.08% per year. We have used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. On September 15, 2011, the \$100.0 million of Series A Notes were redeemed on their normal maturity date. As of December 31, 2012 and 2011, there was an outstanding balance on the Notes of \$100.0 million.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the Master Agreement) with a national insurance company (the Purchaser). On September 30, 2009, we and the Purchaser amended the Master Agreement to extend the term of the agreement until August 20, 2012. The Purchaser also purchased Notes issued by us in 2004. The Master Agreement provided for a \$200.0 million private uncommitted shelf facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of \$25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, \$25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. On September 15, 2011, pursuant to a Confirmation of Acceptance dated January 21, 2011 (the Confirmation), in connection with the Master Agreement, \$100.0 million in Series E Senior Notes due September 15, 2018, with a fixed interest rate of 4.50% per year, were issued. The Series E Senior Notes were issued for the sole purpose of retiring the Series A Senior Notes. As of December 31, 2012, and December 31, 2011, there was an outstanding debt balance issued under the provisions of the Master Agreement of \$150.0 million. The Master Agreement expired on September 30, 2012 and was not extended.

On October 12, 2012, we entered into a Master Note Facility Agreement (the New Master Agreement) with another national insurance company (the New Purchaser). The New Purchaser also purchased Notes issued by us in 2004. The New Master Agreement provides for a \$125.0 million private uncommitted shelf facility for the issuance of unsecured senior notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The New Master Agreement includes various covenants, limitations and events of default similar to the Master Agreement.

On June 12, 2008, we entered into an Amended and Restated Revolving Loan Agreement dated as of June 3, 2008 (the Prior Loan Agreement), with a national banking institution, amending and restating the Revolving Loan Agreement dated September 29, 2003, as amended (the Revolving Agreement), to increase the lending commitment to \$50.0 million (subject to potential increases up to \$100.0 million) and to extend the maturity date from December 20, 2011, to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of \$75.0 million. After a series of amendments that provided covenant exceptions for the notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to \$20.0 million. At December 31, 2012 and December 31, 2011, there were no borrowings against this facility.

On January 9, 2012, we entered into: (1) an amended and restated revolving and term loan credit agreement (the SunTrust Agreement) with SunTrust Bank (SunTrust) that provides for (a) a \$100.0 million term loan (the SunTrust Term Loan) and (b) a \$50.0 million revolving line of credit (the SunTrust Revolver) and (2) a \$50.0 million promissory note (the JPM Note) in favor of JPMorgan Chase Bank, N.A. (JPMorgan), pursuant to a letter agreement executed by JP Morgan (together with the JPM Note, (the JPM Agreement) that provides for a \$50.0 million uncommitted line of credit bridge facility (the JPM Bridge Facility). The SunTrust Term Loan, the SunTrust Revolver and the JPM Bridge Facility were each funded on January 9, 2012, and provided the financing for the Arrowhead acquisition. The SunTrust Agreement amended and restated the Prior Loan Agreement.

The maturity date for the SunTrust Term Loan and the SunTrust Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. Both the SunTrust Term Loan and the SunTrust Revolver may be increased by up to \$50.0 million (bringing the total available to \$150.0 million for the SunTrust Term Loan and \$100.0 million for the SunTrust Revolver). The calculation of interest and fees for the SunTrust Agreement is generally based on our funded debt-to-EBITDA ratio. Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the SunTrust Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the SunTrust Term Loan and SunTrust Revolver are unsecured and the SunTrust Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers and that are substantially similar to those contained in the Prior Loan Agreement.

The maturity date for the JPM Bridge Facility was February 3, 2012, at which time all outstanding principal and unpaid interest would have been due. On January 26, 2012, we entered into a term loan agreement (the JPM Agreement) with JPMorgan that provided for a \$100.0 million term loan (the JPM Term Loan). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM

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Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver's amount outstanding was reduced to zero.

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The maturity date for the JPM Term Loan is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. Interest is charged at a rate equal to the Alternative Base Rate or 1.00% above the Adjusted LIBOR Rate, each as more fully described in the JPM Agreement. Fees include an up-front fee. The obligations under the JPM Term Loan are unsecured and the JPM Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers.

The 30-day LIBOR and Adjusted LIBOR Rate as of December 31, 2012 were 0.23% and 0.25%, respectively.

The Notes, the Master Agreement, the SunTrust Agreement and the JPM Agreement all require that we maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of December 31, 2012 and 2011.

Neither we nor our subsidiaries has ever incurred off-balance sheet obligations through the use of, or investment in, off-balance sheet derivative financial instruments or structured finance or special purpose entities organized as corporations, partnerships or limited liability companies or trusts.

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with our Master Agreement and the SunTrust Agreement and the JPM Agreement described above, will be sufficient to satisfy our normal liquidity needs through at least the end of 2013. Additionally, we believe that funds generated from future operations will be sufficient to satisfy our normal liquidity needs, including the required annual principal payments on our long-term debt.

Historically, much of our cash has been used for acquisitions. If additional acquisition opportunities should become available that exceed our current cash flow, we believe that given our relatively low debt-to-total-capitalization ratio, we would be able to raise additional capital through either the private or public debt markets.

For further discussion of our cash management and risk management policies, see [Quantitative and Qualitative Disclosures About Market Risk](#).

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and equity prices. We are exposed to market risk through our investments, revolving credit line and term loan agreements.

Our invested assets are held as cash and cash equivalents, restricted cash and investments, available-for-sale equity securities, equity securities and certificates of deposit. These investments are subject to interest rate risk and equity price risk. The fair values of our cash and cash equivalents, restricted cash and investments, and certificates of deposit at December 31, 2012 and 2011 approximated their respective carrying values due to their short-term duration and, therefore, such market risk is not considered to be material.

We do not actively invest or trade in equity securities. In addition, we generally dispose of equity securities received in conjunction with an acquisition shortly after the acquisition date.

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ITEM 8. Financial Statements and Supplementary Data.

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Table of Contents**BROWN & BROWN, INC.****CONSOLIDATED STATEMENTS OF INCOME**

<i>(in thousands, except per share data)</i>	Year Ended December 31,		
	2012	2011	2010
REVENUES			
Commissions and fees	\$ 1,189,081	\$ 1,005,962	\$ 966,917
Investment income	797	1,267	1,326
Other income, net	10,154	6,313	5,249
Total revenues	1,200,032	1,013,542	973,492
EXPENSES			
Employee compensation and benefits	608,506	508,675	487,820
Non-cash stock-based compensation	15,865	11,194	6,845
Other operating expenses	174,389	144,079	135,851
Amortization	63,573	54,755	51,442
Depreciation	15,373	12,392	12,639
Interest	16,097	14,132	14,471
Change in estimated acquisition earn-out payables	1,418	(2,206)	(1,674)
Total expenses	895,221	743,021	707,394
Income before income taxes	304,811	270,521	266,098
Income taxes	120,766	106,526	104,346
Net income	\$ 184,045	\$ 163,995	\$ 161,752
Net income per share:			
Basic	\$ 1.28	\$ 1.15	\$ 1.14
Diluted	\$ 1.26	\$ 1.13	\$ 1.12
Weighted average number of shares outstanding:			
Basic	139,364	138,582	137,924
Diluted	142,010	140,264	139,318
Dividends declared per share	\$ 0.3450	\$ 0.3250	\$ 0.3125

See accompanying notes to consolidated financial statements.

Table of Contents**BROWN & BROWN, INC.****CONSOLIDATED BALANCE SHEETS**

<i>(in thousands, except per share data)</i>	At December 31,	
	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 219,821	\$ 286,305
Restricted cash and investments	164,564	130,535
Short-term investments	8,183	7,627
Premiums, commissions and fees receivable	302,725	240,257
Deferred income taxes	24,408	19,863
Other current assets	39,811	23,540
Total current assets	759,512	708,127
Fixed assets, net	74,337	61,360
Goodwill	1,711,514	1,323,469
Amortizable intangible assets, net	566,538	496,182
Other assets	16,157	17,873
Total assets	\$ 3,128,058	\$ 2,607,011
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	\$ 406,704	\$ 327,096
Premium deposits and credits due customers	32,867	30,048
Accounts payable	48,524	22,384
Accrued expenses and other liabilities	79,593	100,865
Current portion of long-term debt	93	1,227
Total current liabilities	567,781	481,620
Long-term debt	450,000	250,033
Deferred income taxes, net	237,630	178,052
Other liabilities	65,314	53,343
Commitments and contingencies (Note 13)		
Shareholders' Equity:		
Common stock, par value \$0.10 per share; authorized 280,000 shares; issued and outstanding 143,878 at 2012 and 143,352 at 2011	14,388	14,335
Additional paid-in capital	335,872	307,059
Retained earnings	1,457,073	1,322,562
Accumulated other comprehensive income, net of related income tax effect of \$0 at 2012 and \$4 at 2011		7
Total shareholders' equity	1,807,333	1,643,963
Total liabilities and shareholders' equity	\$ 3,128,058	\$ 2,607,011

See accompanying notes to consolidated financial statements.

Table of Contents**BROWN & BROWN, INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

<i>(in thousands, except per share data)</i>	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares Outstanding	Par Value				
Balance at January 1, 2010	142,076	\$ 14,208	\$ 267,856	\$ 1,087,805	\$ 5	\$ 1,369,874
Net income				161,752		161,752
Net unrealized holding loss on available-for-sale securities					2	2
Comprehensive income						161,754
Common stock issued for employee stock benefit plans	705	70	7,495			7,565
Income tax benefit from exercise of stock benefit plans			11,391			11,391
Common stock issued to directors	14	1	255			256
Cash dividends paid (\$0.3125 per share)				(44,496)		(44,496)
Balance at December 31, 2010	142,795	\$ 14,279	\$ 286,997	\$ 1,205,061	\$ 7	\$ 1,506,344
Net income and comprehensive income				163,995		163,995
Common stock issued for employee stock benefit plans	545	55	18,859			18,914
Income tax benefit from exercise of stock benefit plans			916			916
Common stock issued to directors	12	1	287			288
Cash dividends paid (\$0.3250 per share)				(46,494)		(46,494)
Balance at December 31, 2011	143,352	\$ 14,335	\$ 307,059	\$ 1,322,562	\$ 7	\$ 1,643,963