BROWN & BROWN INC
Form 10-Q
August 02, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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	**59-0864469**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
220 South Ridgewood Avenue, Daytona Beach, FL	**32114**
(Address of principal executive offices)	**(Zip Code)**

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

Registrant s Website: www.bbinsurance.com

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, and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (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 x

The number of shares of the Registrant s common stock, $.10 par value, outstanding as of July 31, 2013 was 144,899,681.

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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 expect about future events. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-Q 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 Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations :

Projections of revenues, income, losses, cash flows, and 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) and our July 2013 acquisition of Beecher Carlson Holdings, Inc. (Beecher), 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;

- 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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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (UNAUDITED)

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share data)	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
REVENUES				
Commissions and fees	$ 324,150	$ 289,942	$ 657,943	$ 586,475
Investment income	239	187	425	322
Other income, net	1,403	787	2,436	6,605
Total revenues	325,792	290,916	660,804	593,402
EXPENSES				
Employee compensation and benefits	163,514	150,752	323,012	300,348
Non-cash stock-based compensation	3,623	3,738	7,473	7,485
Other operating expenses	47,397	42,220	93,736	85,620
Amortization	16,121	15,881	32,282	31,494
Depreciation	4,263	3,784	8,430	7,425
Interest	3,997	4,000	7,981	8,087
Change in estimated acquisition earn-out payables	656	(604)	2,178	(992)
Total expenses	239,571	219,771	475,092	439,467
Income before income taxes	86,221	71,145	185,712	153,935
Income taxes	34,214	28,674	73,574	62,031
Net income	$ 52,007	$ 42,471	$ 112,138	$ 91,904
Net income per share:				
Basic	$ 0.36	$ 0.30	$ 0.78	$ 0.64
Diluted	$ 0.36	$ 0.29	$ 0.77	$ 0.63
Weighted average number of shares outstanding:				
Basic	140,836	139,086	140,816	139,044
Diluted	143,021	141,828	142,938	141,664
Dividends declared per share	$ 0.09	$ 0.0850	$ 0.1800	$ 0.1700

See accompanying notes to condensed consolidated financial statements.

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BROWN & BROWN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except per share data)	June 30, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 385,525	$ 219,821
Restricted cash and investments	210,538	164,564
Short-term investments	12,205	8,183
Premiums, commissions and fees receivable	310,486	302,725
Deferred income taxes	15,051	24,408
Other current assets	38,767	39,811
Total current assets	972,572	759,512
Fixed assets, net	72,929	74,337
Goodwill	1,722,828	1,711,514
Amortizable intangible assets, net	538,767	566,538
Other assets	19,224	16,157
Total assets	$ 3,326,320	$ 3,128,058
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$ 476,529	$ 406,704
Premium deposits and credits due customers	31,216	32,867
Accounts payable	46,884	48,524
Accrued expenses and other liabilities	107,153	79,593
Current portion of long-term debt	33	93
Total current liabilities	661,815	567,781
Long-term debt	450,000	450,000
Deferred income taxes, net	249,195	237,630
Other liabilities	63,252	65,314
Shareholders Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued and outstanding 144,045 at 2013 and 143,878 at 2012	14,405	14,388
Additional paid-in capital	344,354	335,872
Retained earnings	1,543,299	1,457,073
Total shareholders equity	1,902,058	1,807,333
Total liabilities and shareholders equity	$ 3,326,320	$ 3,128,058

See accompanying notes to condensed consolidated financial statements.

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BROWN & BROWN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	For the six months ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 112,138	$ 91,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	32,282	31,494
Depreciation	8,430	7,425
Non-cash stock-based compensation	7,473	7,485
Change in estimated acquisition earn-out payables	2,178	(992)
Deferred income taxes	20,922	25,385
Income tax benefit from exercise of shares from the stock benefit plans	(307)	(55)
Net gain on sales of investments, fixed assets and customer accounts	(974)	(2,361)
Payments on acquisition earn-outs in excess of original estimated payables	(1,926)	
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:		
Restricted cash and investments (increase)	(45,974)	(62,005)
Premiums, commissions and fees receivable (increase)	(6,307)	(6,355)
Other assets (increase)	(1,386)	(9,747)
Premiums payable to insurance companies increase	69,008	50,028
Premium deposits and credits due customers (decrease)	(1,651)	(854)
Accounts payable increase	6,725	33,269
Accrued expenses and other liabilities increase (decrease)	27,517	(27,969)
Other liabilities (decrease)	(6,263)	(23,903)
Net cash provided by operating activities	221,885	112,749
Cash flows from investing activities:		
Additions to fixed assets	(7,123)	(12,677)
Payments for businesses acquired, net of cash acquired	(14,384)	(369,733)
Proceeds from sales of fixed assets and customer accounts	513	4,504
Purchases of investments	(9,935)	(3,147)
Proceeds from sales of investments	5,914	3,084
Net cash used in investing activities	(25,015)	(377,969)
Cash flows from financing activities:		
Payments on acquisition earn-outs	(6,153)	(1,645)
Proceeds from long-term debt		200,000
Payments on long-term debt	(60)	(624)
Borrowings on revolving credit facilities		100,000
Payments on revolving credit facilities		(100,000)
Income tax benefit from exercise of shares from the stock benefit plans	307	55
Issuances of common stock for employee stock benefit plans	725	288
Repurchase stock benefit plan shares for employees to fund tax withholdings	(73)	(1,084)
Cash dividends paid	(25,912)	(24,363)
Net cash (used in) provided by financing activities	(31,166)	172,627

Net increase (decrease) in cash and cash equivalents	165,704	(92,593)
Cash and cash equivalents at beginning of period	219,821	286,305
Cash and cash equivalents at end of period	$ 385,525	$ 193,712

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1· Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries (collectively, Brown & Brown or the Company) is a diversified insurance agency, insurance programs, wholesale brokerage and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown s business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, professional and individual customers; the National Programs Division, which 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; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial insurance and reinsurance, primarily through independent agents and brokers; and the 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.

NOTE 2· Basis of Financial Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

NOTE 3· Net Income Per Share

Accounting Standards Codification (ASC) Topic 260 *Earnings Per Share* is the authoritative guidance that states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share (EPS) pursuant to the two-class method. The two-class method determines EPS for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Performance stock shares granted to employees under the Company s Performance Stock Plan and Stock Incentive Plan are considered participating securities as they receive non-forfeitable dividend equivalents at the same rate as common stock.

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Basic EPS is computed based on the weighted average number of common shares (including participating securities) issued and outstanding during the period. Diluted EPS is computed based on the weighted average number of common shares issued and outstanding plus equivalent shares assuming the exercise of stock options. The dilutive effect of stock options is computed by application of the treasury stock method. The following is a reconciliation between basic and diluted weighted average shares outstanding:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands, except per share data)	**2013**	**2012**	**2013**	**2012**
Net income	$ 52,007	$ 42,471	$ 112,138	$ 91,904
Net income attributable to unvested awarded performance stock	(1,157)	(1,248)	(2,467)	(2,744)
Net income attributable to common shares	$ 50,850	$ 41,223	$ 109,671	$ 89,160
Weighted average number of common shares outstanding basic	144,041	143,298	143,984	143,323
Less unvested awarded performance stock included in weighted average number of common shares outstanding basic	(3,205)	(4,212)	(3,168)	(4,279)
Weighted average number of common shares outstanding for basic earnings per common share	140,836	139,086	140,816	139,044
Dilutive effect of stock options	2,185	2,742	2,122	2,620
Weighted average number of shares outstanding diluted	143,021	141,828	142,938	141,664
Net income per share:				
Basic	$ 0.36	$ 0.30	$ 0.78	$ 0.64
Diluted	$ 0.36	$ 0.29	$ 0.77	$ 0.63

NOTE 4· Business Combinations

Acquisitions in 2013

During the six months ended June 30, 2013, Brown & Brown has acquired the assets and assumed certain liabilities of two insurance intermediaries and a book of business (customer accounts). The aggregate purchase price of these acquisitions was $17,865,000, including $14,366,000 of cash payments, the issuance of $85,000 in other payables, the assumption of $860,000 of liabilities and $2,554,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown s core businesses and to attract and hire high-quality individuals. 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 price for all acquisitions consummated after January 1, 2009 included 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 will be 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 outlined 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 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 payments 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.

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company s Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period, as defined in ASC Topic 805 *Business Combinations* (ASC 805). For the six months ended June 30, 2013, several adjustments were made within the permitted measurement period that resulted in reduction to the aggregate purchase price of the applicable acquisitions of $1,115,000, including $18,000 of cash payments, a reduction of $454,000 in other payables, the assumption of $42,000 of liabilities and the reduction of $721,000 in recorded earn-out payables.

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The following table summarizes the aggregate purchase price allocations made as of the date of each acquisition for current year acquisitions and adjustments made during the measurement period for prior year acquisitions:

(in thousands)

Name	Business Segment	Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-Out Payable	Net Assets Acquired	*Maximum Potential Earn-Out Payable*
Arrowhead General Insurance Agency Superholding Corporation	National Programs; Services	January 9, 2012	$	$ (454)	$	$ (454)	*$*
Insurcorp & GGM Investments LLC	Retail	May 1, 2012			(834)	(834)	
Richard W. Endlar Insurance Agency, Inc.	Retail	May 1, 2012			220	220	
Texas Security General Insurance Agency, Inc.	Wholesale Brokerage	September 1, 2012			(107)	(107)	
The Rollins Agency, Inc.	Retail	June 1, 2013	13,792	50	2,256	16,098	*4,300*
Other	Various	Various	592	35	298	925	*448*
Total			$ 14,384	$ (369)	$ 1,833	$ 15,848	*$ 4,748*

The following table summarizes the estimated fair values of the aggregate assets and liabilities acquired as of the date of each acquisitions and adjustments made during the measurement period for prior year acquisition:

(in thousands)	Rollins	Arrowhead	Insurcorp	Endlar	Texas Security	Other	Total
Other current assets	$	$	$	$	$ 25	$ 1,455	$ 1,480
Fixed assets	30					1	31
Goodwill	13,019	(454)	(566)	216	(843)	(685)	10,687
Purchased customer accounts	3,876		(268)	4	708	170	4,490
Non-compete agreements	31					31	62
Total assets acquired	16,956	(454)	(834)	220	(110)	972	16,750
Other current liabilities	(858)				3	(47)	(902)
Net assets acquired	$ 16,098	$ (454)	$ (834)	$ 220	$ (107)	$ 925	$ 15,848

The weighted average useful lives for the acquired amortizable intangible assets are as follows: purchased customer accounts, 15.0 years; and non-compete agreements, 5.0 years.

Goodwill of $10,687,000, was allocated to the Retail, National Programs and Wholesale Brokerage Divisions in the amounts of $11,984,000, ($454,000) and ($843,000), respectively. Of the total goodwill of $10,687,000, $9,308,000 is currently deductible for income tax purposes and ($454,000) is non-deductible. The remaining $1,833,000 relates to the earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2013 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through June 30, 2013, included in the Condensed Consolidated Statement of Income for the three and six months ended June 30, 2013, were $627,000 and $142,000, respectively. If the acquisitions had occurred as of the beginning of the period, the Company s results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED) (in thousands, except per share data)	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Total revenues	$ 326,753	$ 292,242	$ 663,460	$ 596,931
Income before income taxes	86,506	71,528	186,503	154,953
Net income	52,179	42,700	112,616	92,511

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(UNAUDITED) (in thousands, except per share data)	For the three months ended June 30, 2013	2012	For the six months ended June 30, 2013	2012
Net income per share:				
Basic	$ 0.36	$ 0.30	$ 0.78	$ 0.65
Diluted	$ 0.36	$ 0.29	$ 0.77	$ 0.63
Weighted average number of shares outstanding:				
Basic	140,836	139,086	140,816	139,044
Diluted	143,021	141,828	142,938	141,664

Acquisitions in 2012

During the six months ended June 30, 2012, Brown & Brown acquired the assets and assumed certain liabilities of seven insurance intermediaries and all of the stock of one insurance intermediary. The aggregate purchase price of these acquisitions was $599,122,000, including $428,612,000 of cash payments, the issuance of notes payable of $59,000, the issuance of $23,594,000 in other payables, the assumption of $133,938,000 of liabilities and $12,919,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown s core businesses and to attract and hire high-quality individuals. 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 price for all acquisitions consummated after January 1, 2009 included 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 will be 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 outlined 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 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 payments 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.

The acquisition made during the six months ended June 30, 2012 have been accounted for as business combinations and were as follows:

(in thousands)

Name	Business Segment	2012 Date of Acquisition	Cash Paid	Note Payable	Other Payable	Recorded Earn-Out Payable	Net Assets Acquired	*Maximum Potential Earn-Out Payable*
Arrowhead General Insurance Agency Superholding Corporation	National Programs; Services	January 9	$ 397,531	$	$ 22,694	$ 3,634	$ 423,859	*$ 5,000*
Insurcorp & GGM Investments LLC (d/b/a Maalouf Benefit Resources)	Retail	May 1	15,500		900	4,932	21,332	*17,000*
Other	Various	Various	15,581	59		4,353	19,993	*10,235*
Total			$ 428,612	$ 59	$ 23,594	$ 12,919	$ 465,184	*$ 32,235*

The following table summarizes the estimated fair values of the aggregate assets and liabilities acquired as of the date of each acquisition:

(in thousands)	Arrowhead	Insurcorp	Other	Total
Cash	$ 61,786	$	$	$ 61,786

Other current assets	68,381		219	68,600
Fixed assets	4,629	25	67	4,721
Goodwill	321,774	14,856	12,931	349,561

(in thousands)	Arrowhead	Insurcorp	Other	Total
Purchased customer accounts	99,515	6,529	8,190	114,234
Non-compete agreements	100	22	97	219
Other assets	1			1
Total assets acquired	556,186	21,432	21,504	599,122
Other current liabilities	(105,905)	(100)	(1,510)	(107,515)
Deferred income taxes, net	(26,423)			(26,423)
Total liabilities assumed	(132,328)	(100)	(1,510)	(133,938)
Net assets acquired	$ 423,858	$ 21,332	$ 19,994	$ 465,184

The weighted average useful lives for the acquired amortizable intangible assets are as follows: purchased customer accounts, 15.0 years; and non-compete agreements, 5.0 years.

Goodwill of $349,561,000, was allocated to the Retail, National Programs, Wholesale Brokerage and Services Divisions in the amounts of $26,976,000, $252,761,000, $811,000 and $69,013,000, respectively. Of the total goodwill of $349,561,000, $19,909,000 is currently deductible for income tax purposes and $316,733,000 is non-deductible. The remaining $12,919,000 relates to the earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2012 have been combined with those of the Company since their respective acquisition dates. The total revenues and income (loss) before income taxes from the acquisitions completed through June 30, 2012, included in the Condensed Consolidated Statement of Income for the three months ended June 30, 2012, were $30,554,000 and ($814,000), respectively. The total revenues and income (loss) before income taxes from the acquisitions completed through June 30, 2012, included in the Condensed Consolidated Statement of Income for the six months ended June 30, 2012, were $58,266,000 and ($452,000), respectively. If the acquisitions had occurred as of the beginning of the period, the Company s results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	For the three months ended June 30,		For the six months ended June 30,	
(in thousands, except per share data)	2012	2011	2012	2011
Total revenues	$ 291,763	$ 277,522	$ 599,965	$ 570,176
Income before income taxes	71,473	70,022	156,202	155,203
Net income	42,667	42,189	93,257	93,622
Net income per share:				
Basic	$ 0.30	$ 0.30	$ 0.65	$ 0.66
Diluted	$ 0.29	$ 0.29	$ 0.64	$ 0.64
Weighted average number of shares outstanding:				
Basic	139,086	138,379	139,044	138,365
Diluted	141,828	139,942	141,664	140,950

For acquisitions consummated prior to January 1, 2009, additional consideration paid to sellers as a result of purchase price earn-out provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by the Company in 2013 as a result of these adjustments totaled $627,000, all of which was allocated to goodwill. Of the $627,000 net additional consideration paid, $627,000 was issued as an other payable. The net additional consideration paid by the Company in 2012 as a result of these adjustments totaled $2,907,000, all of which was allocated to goodwill. Of the $2,907,000 net additional consideration paid, $2,907,000 was paid in cash.

As of June 30, 2013, the maximum future contingency payments related to all acquisitions totaled $135,199,000, all of which relates to acquisitions consummated subsequent to January 1, 2009.

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 will be recorded in the consolidated statement of income when incurred. Potential earn-out obligations are typically based upon future earnings of the acquired entities, usually between one and three years.

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As of June 30, 2013 and 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 additions, payments, and net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the three and six months ended June 30, 2013 and 2012, were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2013	2012	2013	2012
Balance as of the beginning of the period	$ 49,469	$ 51,908	$ 52,987	$ 47,715
Additions to estimated acquisition earn-out payables	2,554	8,205	1,833	12,919
Payments for estimated acquisition earn-out payables	(3,761)	(1,512)	(8,080)	(1,645)
Subtotal	48,262	58,601	46,740	58,989
Net change in earnings from estimated acquisition earn-out payables:				
Change in fair value on estimated acquisition earn-out payables	159	(1,236)	1,156	(2,206)
Interest expense accretion	497	632	1,022	1,214
Net change in earnings from estimated acquisition earn-out payables	656	(604)	2,178	(992)
Balance as of June 30	$ 48,918	$ 57,997	$ 48,918	$ 57,997

Of the $48,918,000 estimated acquisition earn-out payables as of June 30, 2013, $14,455,000 was recorded as accounts payable and $34,463,000 was recorded as other non-current liabilities. Of the $57,997,000 in estimated acquisition earn-out payables as of June 30, 2012, $16,682,000 was recorded as accounts payable and $41,315,000 was recorded as other non-current liabilities.

NOTE 5· Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. Brown & Brown completed its most recent annual assessment as of November 30, 2012, and identified no impairment as a result of the evaluation.

The changes in the carrying value of goodwill by operating segment for the six months ended June 30, 2013 are as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2013	$ 876,219	$ 439,180	$ 288,054	$ 108,061	$ 1,711,514
Goodwill of acquired businesses	11,984	173	(843)		11,314
Balance as of June 30, 2013	$ 888,203	$ 439,353	$ 287,211	$ 108,061	$ 1,722,828

NOTE 6· Amortizable Intangible Assets

Amortizable intangible assets at June 30, 2013 and December 31, 2012, consisted of the following:

	June 30, 2013				December 31, 2012			
(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (Years)(1)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (Years)(1)

Purchased customer accounts	$ 1,009,452	$ (471,638)	$ 537,814	14.9	$ 1,005,031	$ (439,623)	$ 565,408	14.9
Non-compete agreements	25,382	(24,429)	953	7.2	25,320	(24,190)	1,130	7.2
Total	$ 1,034,834	$ (496,067)	$ 538,767		$ 1,030,351	$ (463,813)	$ 566,538	

Amortization expense for amortizable intangible assets for the years ending December 31, 2013, 2014, 2015, 2016 and 2017, is estimated to be $64,271,000, $63,327,000, $62,038,000, $57,457,000, and $54,745,000, respectively.

(1) Weighted average life calculated as of the date of acquisition.

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NOTE 7· Long-Term Debt

Long-term debt at June 30, 2013 and December 31, 2012, consisted of the following:

(in thousands)	**2013**	**2012**
Unsecured senior notes	$ 450,000	$ 450,000
Acquisition notes payable	33	93
Revolving credit facility		
Total debt	450,033	450,093
Less current portion	(33)	(93)
Long-term debt	$ 450,000	$ 450,000

In July 2004, the Company completed a private placement of $200.0 million of unsecured senior notes (the Notes). The $200.0 million was divided into two series: (1) Series A, which closed on September 15, 2004, for $100.0 million 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. Brown & Brown has 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 June 30, 2013 and December 31, 2012, there was an outstanding balance on the Notes of $100.0 million.

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the Master Agreement) with a national insurance company (the Purchaser). On September 30, 2009, the Company 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 the Company in 2004. The Master Agreement provides for a $200.0 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 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, and 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 June 30, 2013, and December 31, 2012, 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, the Company 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 the Company 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, the Company 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, among other things, 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 additional 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. The Revolving Agreement was amended and restated by the SunTrust Revolver (as defined in the below paragraph).

On January 9, 2012, the Company 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 provided 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 amount 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 the Company s 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, the Company 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 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. At June 30, 2013 and December 31, 2012, there were no borrowings against this SunTrust Revolver.

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 June 30, 2013 were 0.19% and 0.25%, respectively.

The Notes, the Master Agreement, the SunTrust Agreement and the JPM Agreement all require the Company to maintain certain financial ratios and comply with certain other covenants. The Company was in compliance with all such covenants as of June 30, 2013 and December 31, 2012.

Acquisition notes payable represent debt incurred to former owners of certain insurance operations acquired by Brown & Brown. These notes and future contingent payments are payable in monthly, quarterly and annual installments through July 2013.

NOTE 8· Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

	For the six months ended June 30,	
(in thousands)	**2013**	**2012**
Cash paid during the period for:		
Interest	$ 7,660	$ 7,764
Income taxes	$ 52,077	$ 45,261

Brown & Brown s significant non-cash investing and financing activities are summarized as follows:

	For the six months ended June 30,	
(in thousands)	**2013**	**2012**
Other payable issued for purchased customer accounts	$ 257	$ 23,594
Notes payable issued or assumed for purchased customer accounts	$	$ 59
Estimated acquisition earn-out payables and related charges	$ 1,833	$ 12,919
Notes received on the sale of fixed assets and customer accounts	$ 614	$ 1,273

NOTE 9· Legal and Regulatory Proceedings

The Company is involved in numerous pending or threatened proceedings by or against Brown & Brown, Inc. or one or more of its subsidiaries that arise in the ordinary course of business. The damages that may be claimed against the Company in these various proceedings are in some cases substantial, including in many instances claims for punitive or extraordinary damages. Some of these claims and lawsuits have been resolved, others are in the process of being resolved and others are still in the investigation or discovery phase. The Company will continue to respond appropriately to these claims and lawsuits and to vigorously protect its interests.

Although the ultimate outcome of such matters cannot be ascertained and liabilities in indeterminate amounts may be imposed on Brown & Brown, Inc. or its subsidiaries, on the basis of present information, availability of insurance and legal advice, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the Company s consolidated financial position. However, as (i) one or more of the Company s insurance companies could take the

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position that portions of these claims are not covered by the Company s insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded, and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters.

NOTE 10· Segment Information

Brown & Brown s business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers; the National Programs Division, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities, and market niches; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers; and the 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 service, Social Security disability and Medicare benefits advocacy services and catastrophe claims adjusting services.

Brown & Brown conducts all of its operations within the United States of America, except for one wholesale brokerage operation based in London, England which commenced business in March 2008. This operation earned $2.8 million and $3.1 million of total revenues for the three months ended June 30, 2013 and 2012, respectively. This operation earned $5.9 million and $5.8 million of total revenues for the six months ended June 30, 2013 and 2012, respectively. Additionally, this operation earned $9.7 million of total revenues for the year ended December 31, 2012. Long-lived assets held outside of the United States during the six months ended June 30, 2013 and 2012 were not material.

The accounting policies of the reportable segments are the same as those described in Note 1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2012. Brown & Brown evaluates the performance of its segments based upon revenues and income before income taxes. Inter-segment revenues are eliminated.

Summarized financial information concerning Brown & Brown s reportable segments is shown in the following tables. The Other column includes any income and expenses not allocated to reportable segments and corporate-related items, including the inter-company interest expense charge to the reporting segment.

	For the three months ended June 30, 2013					
(in thousands)	**Retail**	**National Programs**	**Wholesale Brokerage**	**Services**	**Other**	**Total**
Total revenues	$ 171,819	$ 68,354	$ 54,823	$ 30,403	$ 393	$ 325,792
Investment income	$ 23	$ 5	$ 4	$	$ 207	$ 239
Amortization	$ 8,789	$ 3,511	$ 2,887	$ 925	$ 9	$ 16,121
Depreciation	$ 1,371	$ 1,326	$ 716	$ 401	$ 449	$ 4,263
Interest expense	$ 5,649	$ 5,590	$ 723	$ 1,883	$ (9,848)	$ 3,997
Income before income taxes	$ 44,482	$ 11,226	$ 15,760	$ 2,589	$ 12,164	$ 86,221
Total assets	$ 2,501,084	$ 1,224,175	$ 925,901	$ 246,235	$ (1,571,075)	$ 3,326,320
Capital expenditures	$ 1,488	$ 1,420	$ 561	$ 379	$ 328	$ 4,176

	For the three months ended June 30, 2012					
(in thousands)	**Retail**	**National Programs**	**Wholesale Brokerage**	**Services**	**Other**	**Total**
Total revenues	$ 162,019	$ 52,966	$ 47,483	$ 27,660	$ 788	$ 290,916
Investment income	$ 27	$ 11	$ 5	$	$ 144	$ 187
Amortization	$ 8,652	$ 3,278	$ 2,786	$ 1,156	$ 9	$ 15,881
Depreciation	$ 1,294	$ 1,136	$ 661	$ 304	$ 389	$ 3,784
Interest expense	$ 6,704	$ 4,351	$ 895	$ 4,481	$ (12,431)	$ 4,000
Income before income taxes	$ 33,886	$ 9,238	$ 11,195	$ 2,618	$ 14,208	$ 71,145
Total assets	$ 2,229,198	$ 1,149,268	$ 795,134	$ 268,629	$ (1,344,938)	$ 3,097,291
Capital expenditures	$ 1,574	$ 3,434	$ 712	$ 444	$ 608	$ 6,772

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(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
	For the six months ended June 30, 2013					
Total revenues	$ 346,387	$ 137,294	$ 103,520	$ 73,050	$ 553	$ 660,804
Investment income	$ 46	$ 10	$ 9	$ 1	$ 359	$ 425
Amortization	$ 17,600	$ 7,030	$ 5,784	$ 1,849	$ 19	$ 32,282
Depreciation	$ 2,742	$ 2,574	$ 1,423	$ 798	$ 893	$ 8,430
Interest expense	$ 11,849	$ 11,284	$ 1,478	$ 3,804	$ (20,434)	$ 7,981
Income before income taxes	$ 90,693	$ 25,238	$ 26,122	$ 16,542	$ 27,117	$ 185,712
Total assets	$ 2,501,084	$ 1,224,175	$ 925,901	$ 246,235	$ (1,571,075)	$ 3,326,320
Capital expenditures	$ 2,823	$ 2,312	$ 1,097	$ 498	$ 393	$ 7,123

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
	For the six months ended June 30, 2012					
Total revenues	$ 329,223	$ 117,573	$ 90,787	$ 53,490	$ 2,329	$ 593,402
Investment income	$ 52	$ 11	$ 11	$	$ 248	$ 322
Amortization	$ 17,179	$ 6,454	$ 5,573	$ 2,269	$ 19	$ 31,494
Depreciation	$ 2,552	$ 2,278	$ 1,317	$ 529	$ 749	$ 7,425
Interest expense	$ 13,638	$ 11,003	$ 2,121	$ 6,001	$ (24,676)	$ 8,087
Income before income taxes	$ 76,086	$ 25,195	$ 20,072	$ 5,605	$ 26,977	$ 153,935
Total assets	$ 2,229,198	$ 1,149,268	$ 795,134	$ 268,629	$ (1,344,938)	$ 3,097,291
Capital expenditures	$ 2,635	$ 5,850	$ 1,886	$ 805	$ 1,501	$ 12,677

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NOTE 11· Subsequent Event

On July 1, 2013, Brown & Brown acquired Beecher Carlson Holdings, Inc. (Beecher), an insurance and risk management broker with operations that include retail brokerage, program management and captive management, pursuant to a merger agreement, dated May 21, 2013, among the Company, Brown & Brown Merger Co., a wholly-owned subsidiary of the Company, Beecher, and BC Sellers Representative LLC, solely in its capacity as the representative of Beecher s shareholders. The aggregate purchase price for Beecher was $454,475,000, including $364,644,000 of cash payments and the assumption of $89,831,000 of liabilities. Beecher was acquired primarily to expand Brown & Brown s Retail and National Programs businesses, and to attract and hire high-quality individuals.

The Beecher acquisition will be accounted for as business combination as follows:

(in thousands)

Name	2013 Date of Acquisition	Cash Paid	Recorded Earn-out Payable	Net Assets Acquired	*Maximum Potential Earn-out Payable*
Beecher	July 1	$ 364,644	$	$ 364,644	$

The following table summarizes the preliminary estimated fair values of Beecher s aggregate assets and liabilities acquired:

(in thousands)	Beecher
Cash	$ 40,361
Other current assets	44,433
Fixed assets	1,786
Goodwill	264,972
Purchased customer accounts	99,017
Non-compete agreements	2,913
Other assets	933

Total assets acquired