

BROWN & BROWN INC  
Form 10-Q  
August 09, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2007

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  
incorporation or organization)

**59-0864469**

(I.R.S. Employer Identification  
Number)

®

**220 South Ridgewood Avenue,  
Daytona 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](http://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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares of the Registrant's common stock, \$.10 par value, outstanding as of August 8, 2007 was 140,336,595.

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**BROWN & BROWN, INC.**

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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)*

|   | <b>For the three months<br/>ended June 30,</b> |             | <b>For the six months<br/>ended June 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2007</b>                                    | <b>2006</b> | <b>2007</b>                                  | <b>2006</b> |
| <b>REVENUES</b>                                   |  |             |  |             |
| Commissions and fees                              | \$ 230,476                                     | \$ 217,427  | \$ 476,035                                   | \$ 445,342  |
| Investment income                                 | 12,990   | 2,956       | 24,569                                       | 5,165       |
| Other income, net                                 | 3,178  | 424         | 4,553  | 882         |
| Total revenues                                    | 246,644  | 220,807     | 505,157                                      | 451,389     |
| <b>EXPENSES</b>                                   |  |             |  |             |
| Employee compensation and benefits                | 112,636  | 103,180     | 223,446                                      | 203,910     |
| Non-cash stock-based compensation                 | 1,334  | 1,434       | 2,836  | 3,764       |
| Other operating expenses                          | 31,558   | 30,134      | 63,481                                       | 61,103      |
| Amortization                                      | 9,965  | 8,978       | 19,467                                       | 17,978      |
| Depreciation                                      | 3,239  | 2,785       | 6,279  | 5,380       |
| Interest  | 3,416  | 3,329       | 7,050  | 6,851       |
| Total expenses                                    | 162,148  | 149,840     | 322,559                                      | 298,986     |
| Income before income taxes                        | 84,496   | 70,967      | 182,598                                      | 152,403     |
| Income taxes                                      | 32,484   | 26,536      | 70,859                                       | 57,946      |
| Net income  | \$ 52,012                                      | \$ 44,431   | \$ 111,739                                   | \$ 94,457   |
| Net income per share:                             |  |             |  |             |
| Basic   | \$ 0.37  | \$ 0.32     | \$ 0.80                                      | \$ 0.68     |
| Diluted   | \$ 0.37  | \$ 0.32     | \$ 0.79                                      | \$ 0.67     |
| Weighted average number of shares<br>outstanding: |  |             |  |             |
| Basic   | 140,384  | 139,511     | 140,303                                      | 139,447     |
| Diluted   | 141,120  | 141,006     | 141,170                                      | 140,915     |
| Dividends declared per share                      | \$ 0.06  | \$ 0.05     | \$ 0.12                                      | \$ 0.10     |

*See accompanying notes to condensed consolidated financial statements.*

**BROWN & BROWN, INC.**  
**CONDENSED CONSOLIDATED**  
**BALANCE SHEETS**  
**(UNAUDITED)**

| <i>(in thousands, except per share data)</i>  | <b>June 30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|---|--------------------------|----------------------------------|
| <b>ASSETS</b>   |                          |                                  |
| Current Assets:   |                          |                                  |
| Cash and cash equivalents   | \$ 67,942                | \$ 88,490                        |
| Restricted cash and investments   | 240,509                  | 242,187                          |
| Short-term investments  | 2,637                    | 2,909                            |
| Premiums, commissions and fees receivable   | 273,811                  | 282,440                          |
| Other current assets  | 26,808                   | 32,180                           |
| Total current assets  | 611,707                  | 648,206                          |
| Fixed assets, net   | 58,493                   | 44,170                           |
| Goodwill  | 779,597                  | 684,521                          |
| Amortizable intangible assets, net  | 409,885                  | 396,069                          |
| Investments   | 649                      | 15,826                           |
| Other assets  | 24,361                   | 19,160                           |
| Total assets  | \$ 1,884,692             | \$ 1,807,952                     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                          |                                  |
| Current Liabilities:  |                          |                                  |
| Premiums payable to insurance companies   | \$ 423,772               | \$ 435,449                       |
| Premium deposits and credits due customers  | 31,368                   | 33,273                           |
| Accounts payable  | 29,785                   | 17,854                           |
| Accrued expenses  | 68,098                   | 86,009                           |
| Current portion of long-term debt   | 17,190                   | 18,082                           |
| Total current liabilities   | 570,213                  | 590,667                          |
| Long-term debt  | 225,432                  | 226,252                          |
| Deferred income taxes, net  | 53,556                   | 49,721                           |
| Other liabilities   | 12,576                   | 11,967                           |
| Shareholders' Equity:   |                          |                                  |
| Common stock, par value \$0.10 per share;<br>authorized 280,000 shares; issued and<br>outstanding 140,337 at 2007 and 140,016 at 2006 | 14,034                   | 14,002                           |
| Additional paid-in capital  | 218,237                  | 210,543                          |
| Retained earnings   | 790,570                  | 695,656                          |
| Accumulated other comprehensive income, net of related income tax<br>effect of \$44 at 2007 and \$5,359 at 2006                       | 74                       | 9,144                            |

|  |              |              |
|--|--------------|--------------|
| Total shareholders' equity                 | 1,022,915    | 929,345      |
| Total liabilities and shareholders' equity | \$ 1,884,692 | \$ 1,807,952 |

*See accompanying notes to condensed consolidated financial statements.*

**BROWN & BROWN, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF**  
**CASH FLOWS**  
**(UNAUDITED)**

| <i>(in thousands)</i>  | <b>For the six months<br/>ended June 30,</b> |                 |
|--|--|-----------------|
|  | <b>2007</b>                                  | <b>2006</b>     |
| <b>Cash flows from operating activities:</b>   |  |                 |
| Net income   | \$ 111,739                                   | \$ 94,457       |
| Adjustments to reconcile net income to net cash provided by operating activities:              |  |                 |
| Amortization   | 19,467                                       | 17,978          |
| Depreciation   | 6,279  | 5,380           |
| Non-cash stock-based compensation  | 2,836  | 3,764           |
| Deferred income taxes  | 5,318  | 1,544           |
| Net gain on sales of investments, fixed assets and customer accounts                           | (22,452)                                     | (249)           |
| Changes in operating assets and liabilities, net of effect from acquisitions and divestitures: |  |                 |
| Restricted cash and investments decrease (increase)  | 1,678  | (46,087)        |
| Premiums, commissions and fees receivable decrease (increase)                                  | 11,191                                       | (18,328)        |
| Other assets decrease  | 1,809  | 5,998           |
| Premiums payable to insurance companies (decrease) increase                                    | (13,259)                                     | 55,621          |
| Premium deposits and credits due customers (decrease)  | (1,905)                                      | (5,143)         |
| Accounts payable increase  | 11,143                                       | 12,481          |
| Accrued expenses (decrease)  | (19,098)                                     | (12,958)        |
| Other liabilities increase   | 534  | 666             |
| <b>Net cash provided by operating activities</b>   | <b>115,280</b>                               | <b>115,124</b>  |
| <b>Cash flows from investing activities:</b>   |  |                 |
| Additions to fixed assets  | (20,000)                                     | (9,096)         |
| Payments for businesses acquired, net of cash acquired   | (111,820)                                    | (89,014)        |
| Proceeds from sales of fixed assets and customer accounts                                      | 3,295  | 612             |
| Purchases of investments   | (118)  | (47)            |
| Proceeds from sales of investments   | 19,482                                       | 12              |
| <b>Net cash used in investing activities</b>   | <b>(109,161)</b>                             | <b>(97,533)</b> |
| <b>Cash flows from financing activities:</b>   |  |                 |
| Payments on long-term debt   | (14,873)                                     | (71,593)        |
| Borrowings on revolving credit facility  | 12,240                                       | -               |
| Payments on revolving credit facility  | (12,240)                                     | -               |
| Income tax benefit from issuance of common stock   | 4,421  | -               |
| Issuances of common stock for employee stock benefit plans                                     | 610  | 514             |
| Cash dividends paid  | (16,825)                                     | (13,944)        |
| <b>Net cash used in financing activities</b>   | <b>(26,667)</b>                              | <b>(85,023)</b> |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(20,548)</b>                              | <b>(67,432)</b> |
| Cash and cash equivalents at beginning of period   | 88,490                                       | 100,580         |

|   |    |        |    |        |
|---|----|--------|----|--------|
| <b>Cash and cash equivalents at end of period</b> | \$ | 67,942 | \$ | 33,148 |
|---|----|--------|----|--------|

*See accompanying notes to condensed consolidated financial statements.*



**BROWN & BROWN, INC.**  
**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, wholesale brokerage, and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty arena. 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 is comprised of two units - Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designed for specific industries, trade groups, governmental 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 areas, as well as Medicare set-aside 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 (“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 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, 2006.

Results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

**NOTE 3 • Net Income Per Share**

Basic net income per share is computed by dividing net income available to shareholders by the weighted average number of shares outstanding for the period. Basic net income per share excludes dilution. Diluted net income per share reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted to common stock.

The following table sets forth the computation of basic net income per share and diluted net income per share:

| <i>(in thousands, except per share data)</i> | <b>For the three months<br/>ended June 30,</b> |             | <b>For the six months<br/>ended June 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2007</b>                                    | <b>2006</b> | <b>2007</b>                                  | <b>2006</b> |
| Net income                                   | \$ 52,012                                      | \$ 44,431   | \$ 111,739                                   | \$ 94,457   |

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Weighted average number of common shares outstanding             | 140,384 | 139,511 | 140,303 | 139,447 |
| Dilutive effect of stock options using the treasury stock method | 736     | 1,495   | 867     | 1,468   |
| Weighted average number of shares outstanding                    | 141,120 | 141,006 | 141,170 | 140,915 |
| Net income per share:  |         |         |         |         |
| Basic  | \$ 0.37 | \$ 0.32 | \$ 0.80 | \$ 0.68 |
| Diluted  | \$ 0.37 | \$ 0.32 | \$ 0.79 | \$ 0.67 |

**NOTE 4 · New Accounting Pronouncements**

*Accounting for Uncertainty in Income Taxes* - In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109” (“FIN 48”). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Effective January 1, 2007, the Company has adopted the provisions of FIN 48 and there was no significant effect on the financial statements.

As of January 1, 2007, the Company provided a liability in the amount of \$591,022 of unrecognized tax benefits related to various federal and state income tax matters. Of this amount, \$591,022 would impact the Company's effective tax rate if recognized. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next 12 months.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service (“IRS”) for the years ended December 31, 2003 through 2006. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2002 through 2006. The Company is currently under IRS examination for the tax years ended December 31, 2004 and 2005. In addition, the Company is under an audit by the Department of Revenue for the State of Florida for the tax years ended December 31, 2002 through 2005.

The Company recognizes accrued interest and penalties related to uncertain tax positions in federal and state income tax expense. As of January 1, 2007, the Company accrued \$157,787 of interest and penalties related to uncertain tax positions. This amount includes \$65,600 in interest and penalties related to the adoption of FIN48 in the first quarter of 2007.

*Fair Value Measurements* - In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 establishes a framework for the measurement of assets and liabilities that uses fair value and expands disclosures about fair value measurements. SFAS 157 will apply whenever another GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for all interim periods within those fiscal years. Accordingly, the Company will be required to adopt SFAS 157 in the first quarter of 2008. The Company is currently evaluating the impact that the adoption of SFAS 157 will have, if any, on its consolidated financial statements and notes thereto.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact this standard may have on its financial position and results of operations.

**NOTE 5 • Business Combinations****Acquisitions in 2007**

For the six months ended June 30, 2007, Brown & Brown acquired the assets and assumed certain liabilities of nine insurance intermediaries, the stock of three insurance intermediaries and several book of business (customer accounts). The aggregate purchase price of these acquisitions was \$122,056,000, including \$110,630,000 of net cash payments, the issuance of \$4,078,000 in notes payable and the assumption of \$7,348,000 of liabilities. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and obtain high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to goodwill. Acquisitions are initially recorded at preliminary fair values. Subsequently, the Company completes the final fair value allocations and any adjustments to assets or liabilities acquired are recorded in the current period.

All of these acquisitions have been accounted for as business combinations and are as follows:

| <i>(in thousands)</i>  |                         | <b>2007</b>                | <b>Net</b>        |                      | <b>Recorded</b>       |
|------------------------|-------------------------|----------------------------|-------------------|----------------------|-----------------------|
| <b>Name</b>            | <b>Business Segment</b> | <b>Date of Acquisition</b> | <b>Cash Paid</b>  | <b>Notes Payable</b> | <b>Purchase Price</b> |
| ALCOS, Inc.            | Retail                  | March 1                    | \$ 30,897         | \$ 3,563             | \$ 34,460             |
| Grinspec, Inc.         | Retail                  | April 1                    | 31,930            | -                    | 31,930                |
| Sobel Affiliates, Inc. | Retail                  | April 1                    | 33,038            | -                    | 33,038                |
| Other                  | Various                 | Various                    | 14,765            | 515                  | 15,280                |
| <b>Total</b>           |                         |                            | <b>\$ 110,630</b> | <b>\$ 4,078</b>      | <b>\$ 114,708</b>     |

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

| <i>(in thousands)</i>            | <b>ALCOS</b>     | <b>Grinspec</b>  | <b>Sobel</b>     | <b>Other</b>     | <b>Total</b>      |
|----------------------------------|------------------|------------------|------------------|------------------|-------------------|
| Fiduciary cash                   | \$ 627           | \$ -             | \$ -             | \$ 716           | \$ 1,343          |
| Other current assets             | 1,224            | 669              | 286              | 574              | 2,753             |
| Fixed assets                     | 720              | -                | 50               | 110              | 880               |
| Purchased customer accounts      | 7,820            | 9,153            | 10,850           | 5,304            | 33,127            |
| Noncompete agreements            | 130              | -                | 31               | 133              | 294               |
| Goodwill                         | 29,080           | 22,571           | 21,923           | 9,960            | 83,534            |
| Other Assets                     | 115              | -                | -                | 10               | 125               |
| <b>Total assets acquired</b>     | <b>39,716</b>    | <b>32,393</b>    | <b>33,140</b>    | <b>16,807</b>    | <b>122,056</b>    |
| Other current liabilities        | (2,098)          | (463)            | (102)            | (778)            | (3,441)           |
| Deferred income taxes            | (3,083)          | -                | -                | (749)            | (3,832)           |
| Other liabilities                | (75)             | -                | -                | -                | (75)              |
| <b>Total liabilities assumed</b> | <b>(5,256)</b>   | <b>(463)</b>     | <b>(102)</b>     | <b>(1,527)</b>   | <b>(7,348)</b>    |
| <b>Net assets acquired</b>       | <b>\$ 34,460</b> | <b>\$ 31,930</b> | <b>\$ 33,038</b> | <b>\$ 15,280</b> | <b>\$ 114,708</b> |

The weighted average useful lives for the above acquired amortizable intangible assets are as follows: purchased customer accounts, 15.0 years; and noncompete agreements, 4.7 years.

Goodwill of \$83,534,000, of which \$51,491,000 is expected to be deductible for income tax purposes, was assigned to the Retail, National Programs, Wholesale Brokerage and Services Divisions in the amounts of \$82,472,000, \$374,000, \$241,000 and \$447,000, respectively.

The results of operations for the acquisitions completed during 2007 have been combined with those of the Company since their respective acquisition dates. If the acquisitions had occurred as of the beginning of each 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)<br>(in thousands, except per share data) | For the three months<br>ended June 30, |            | For the six months<br>ended June 30, |            |
|--|--|------------|--------------------------------------|------------|
|  | 2007                                   | 2006       | 2007                                 | 2006       |
| Total revenues                                       | \$ 246,729                             | \$ 233,067 | \$ 515,183                           | \$ 477,169 |
| Income before income taxes                           | 84,523                                 | 74,630     | 185,809                              | 160,117    |
| Net income   | 52,029                                 | 46,724     | 113,704                              | 99,238     |
| Net income per share:                                |  |            |                                      |            |
| Basic  | \$ 0.37                                | \$ 0.33    | \$ 0.81                              | \$ 0.71    |
| Diluted  | \$ 0.37                                | \$ 0.33    | \$ 0.81                              | \$ 0.70    |

Weighted average number of shares  
outstanding:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | 140,384 | 139,511 | 140,303 | 139,447 |
| Diluted | 141,120 | 141,006 | 141,170 | 140,915 |

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 2007 as a result of these adjustments totaled \$11,590,000, of which \$11,542,000 was allocated to goodwill and \$48,000 to noncompete agreements. Of the \$11,590,000 net additional consideration paid, \$2,533,000 was paid in cash, \$9,020,000 was issued in notes payable and \$37,000 was assumed as net liabilities. As of June 30, 2007, the maximum future contingency payments related to acquisitions totaled \$200,571,000.

### Acquisitions in 2006

For the six months ended June 30, 2006, Brown & Brown acquired the assets and assumed certain liabilities of 11 entities. The aggregate purchase price of these acquisitions was \$101,507,000, including \$87,023,000 of net cash payments, the issuance of \$3,582,000 in notes payable and the assumption of \$10,902,000 of liabilities. Substantially all of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and obtain high-quality individuals. Acquisition purchase prices are based primarily on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to goodwill.

All of these acquisitions have been accounted for as business combinations and are as follows:

| (in thousands)            | Business Segment | 2006 Date of Acquisition | Net Cash Paid | Notes Payable | Recorded Purchase Price |
|---------------------------|------------------|--------------------------|---------------|---------------|-------------------------|
| Axiom Intermediaries, LLC | Brokerage        | January 1                | \$ 60,292     | \$ -          | \$ 60,292               |

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|       |  |         |         |           |          |           |
|-------|--|---------|---------|-----------|----------|-----------|
| Other |  | Various | Various | 26,731    | 3,582    | 30,313    |
| Total |  |         |         | \$ 87,023 | \$ 3,582 | \$ 90,605 |

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

| <i>(in thousands)</i>       | <b>Axiom</b> | <b>Other</b> | <b>Total</b> |
|-----------------------------|--------------|--------------|--------------|
| Fiduciary cash              | \$ 9,598     | \$ -         | \$ 9,598     |
| Other current assets        | 372          | 100          | 472          |
| Fixed assets                | 435          | 361          | 796          |
| Purchased customer accounts | 14,022       | 16,161       | 30,183       |
| Noncompete agreements       | 31           | 207          | 238          |
| Goodwill                    | 45,819       | 14,328       | 60,147       |
| Other assets                | 73           | -            | 73           |
| Total assets acquired       | 70,350       | 31,157       | 101,507      |
| Other current liabilities   | (10,058)     | (652)        | (10,710)     |
| Other liabilities           | -            | (192)        | (192)        |
| Total liabilities assumed   | (10,058)     | (844)        | (10,902)     |
| Net assets acquired         | \$ 60,292    | \$ 30,313    | \$ 90,605    |

The results of operations for the acquisitions completed during 2006 have been combined with those of the Company since their respective acquisition dates. If the acquisitions had occurred as of the beginning of each 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.

| <b>(UNAUDITED)</b><br><i>(in thousands, except per share data)</i> | <b>For the three months<br/>ended June 30,</b> |             | <b>For the six months<br/>ended June 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2006</b>                                    | <b>2005</b> | <b>2006</b>                                  | <b>2005</b> |
| Total revenues   | \$ 222,314                                     | \$ 203,859  | \$ 456,896                                   | \$ 414,788  |
| Income before income taxes   | 71,479   | 63,089      | 154,284                                      | 136,452     |
| Net income   | 44,751   | 38,638      | 95,623                                       | 83,395      |
| Net income per share:  |  |             |  |             |
| Basic  | \$ 0.32  | \$ 0.28     | \$ 0.69                                      | \$ 0.60     |
| Diluted  | \$ 0.32  | \$ 0.28     | \$ 0.68                                      | \$ 0.60     |
| Weighted average number of shares<br>outstanding:                  |  |             |  |             |
| Basic  | 139,511  | 138,312     | 139,447                                      | 138,318     |
| Diluted  | 141,006  | 139,476     | 140,915                                      | 139,448     |

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 2006 as a result of these adjustments totaled \$36,921,000, of which \$36,840,000 was allocated to goodwill. Of the \$36,921,000 net additional consideration paid, \$11,591,000 was paid in cash, \$24,373,000 was issued in notes payable and \$957,000 was assumed as net liabilities. As of June 30, 2006, the maximum future contingency payments related to acquisitions totaled \$188,533,000.





**NOTE 6 • 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, 2006 and identified no impairment as a result of the evaluation.

The changes in goodwill for the six months ended June 30, 2007 are as follows:

| <i>(in thousands)</i>                                |    | <b>Retail</b> | <b>National<br/>Programs</b> | <b>Wholesale<br/>Brokerage</b> | <b>Service</b> | <b>Total</b> |
|--|----|---------------|------------------------------|--------------------------------|----------------|--------------|
| Balance as of January 1, 2007                        | \$ | 329,504       | \$ 142,329                   | \$ 209,865                     | \$ 2,823       | \$ 684,521   |
| Goodwill of acquired businesses                      |    | 88,847        | 4,510                        | 1,272                          | 447            | 95,076       |
| Goodwill disposed of relating to sales of businesses |    | -             | -                            | -                              | -              | -            |
| Balance as of June 30, 2007                          | \$ | 418,351       | \$ 146,839                   | \$ 211,137                     | \$ 3,270       | \$ 779,597   |

**NOTE 7 • Amortizable Intangible Assets**

Amortizable intangible assets at June 30, 2007 and December 31, 2006 consisted of the following:

| <i>(in thousands)</i>       | <b>June 30, 2007</b>       |                             |                          |  | <b>December 31, 2006</b>   |                             |                          |  |
|-----------------------------|----------------------------|-----------------------------|--------------------------|--|----------------------------|-----------------------------|--------------------------|--|
|                             | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value | Weighted<br>Average<br>Life<br>(years) | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value | Weighted<br>Average<br>Life<br>(years) |
| Purchased customer accounts | \$ 574,798                 | \$ (168,073)                | \$ 406,725               | 14.9                                   | \$ 541,967                 | \$ (149,764)                | \$ 392,203               | 14.9                                   |
| Noncompete agreements       | 25,931                     | (22,771)                    | 3,160                    | 7.7                                    | 25,589                     | (21,723)                    | 3,866                    | 7.7                                    |
| Total                       | \$ 600,729                 | \$ (190,844)                | \$ 409,885               |  | \$ 567,556                 | \$ (171,487)                | \$ 396,069               |  |

Amortization expense for other amortizable intangible assets for the years ending December 31, 2007, 2008, 2009, 2010 and 2011 is estimated to be \$39,270,000, \$38,872,000, \$38,403,000, \$37,723,000, and \$36,301,000 respectively.

**NOTE 8 • Investments**

Investments consisted of the following:

| <i>(in thousands)</i>  | <b>June 30, 2007</b>  |                    | <b>December 31, 2006</b> |                    |
|--|-----------------------|--------------------|--------------------------|--------------------|
|  | <b>Carrying Value</b> |                    | <b>Carrying Value</b>    |                    |
|  | <b>Current</b>        | <b>Non-Current</b> | <b>Current</b>           | <b>Non-Current</b> |
| Available-for-sale marketable equity securities              | \$ 114                | \$ —               | \$ 240                   | \$ 15,181          |
| Non-marketable equity securities and certificates of deposit | 2,523                 | 649                | 2,669                    | 645                |
| Total investments  | \$ 2,637              | \$ 649             | \$ 2,909                 | \$ 15,826          |

The following table summarizes available-for-sale securities:

| <i>(in thousands)</i>         | <b>Cost</b> | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Estimated Fair Value</b> |
|-------------------------------|-------------|-------------------------------|--------------------------------|-----------------------------|
| Marketable equity securities: |             |                               |                                |                             |
| June 30, 2007                 | \$ 75       | \$ 39                         | \$ —                           | \$ 114                      |
| December 31, 2006             | \$ 550      | \$ 14,871                     | \$ —                           | \$ 15,421                   |

The following table summarizes the proceeds and realized gains/(losses) on non-marketable equity securities and certificates of deposit for the three and six months ended June 30, 2007 and 2006:

| <i>(in thousands)</i>       | <b>Proceeds</b> | <b>Gross Realized Gains</b> | <b>Gross Realized Losses</b> |
|-----------------------------|-----------------|-----------------------------|------------------------------|
| For the three months ended: |                 |                             |                              |
| June 30, 2007               | \$ 10,392       | \$ 9,919                    | \$ —                         |
| June 30, 2006               | \$ —            | \$ —                        | \$ —                         |
| For the six months ended:   |                 |                             |                              |
| June 30, 2007               | \$ 19,482       | \$ 18,759                   | \$ (500)                     |
| June 30, 2006               | \$ 12           | \$ 12                       | \$ —                         |

As of December 31, 2006, our largest security investment was 559,970 common stock shares of Rock-Tenn Company, a New York Stock Exchange listed company, which we have owned for more than 25 years. Our investment in Rock-Tenn Company accounted for 81% of the total value of available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit as of December 31, 2006. Rock-Tenn Company's closing stock price at June 30, 2007 and December 31, 2006 was \$31.72 and \$27.11 respectively. In late January 2007, the Board of Directors authorized the sale of half of our investment in Rock-Tenn Company, and subsequently authorized the sale of the balance of the shares. We realized a gain in excess of our original cost basis of \$8,840,000 in the first quarter of 2007 and \$9,824,000 in the second quarter of 2007. As of June 30, 2007, we have no remaining shares of Rock-Tenn Company.



**NOTE 9 • Long-Term Debt**

Long-term debt at June 30, 2007 and December 31, 2006 consisted of the following:

| <i>(in thousands)</i>     | <b>2007</b> |    | <b>2006</b> |
|---------------------------|-------------|----|-------------|
| Unsecured senior notes    | \$ 225,000  | \$ | 225,000     |
| Acquisition notes payable | 11,018      |    | 6,310       |
| Term loan agreements      | 6,428       |    | 12,857      |
| Revolving credit facility | -           |    | -           |
| Other notes payable       | 176         |    | 167         |
| Total debt                | 242,622     |    | 244,334     |
| Less current portion      | (17,190)    |    | (18,082)    |
| Long-term debt            | \$ 225,432  | \$ | 226,252     |

In July 2004, the Company completed a private placement of \$200.0 million of unsecured senior notes (the “Notes”). The \$200.0 million is divided into two series: Series A, for \$100.0 million due in 2011 and bearing interest at 5.57% per year; and Series B, for \$100.0 million due in 2014 and bearing interest at 6.08% per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. Brown & Brown has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of June 30, 2007 and December 31, 2006 there was an outstanding balance of \$200.0 million on the Notes.

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”). 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 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 (10) 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 Facility 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 annum.

Also on December 22, 2006, the Company entered into a Second Amendment to Amended and Restated Revolving and Term Loan Agreement (the “Second Term Amendment”) and a Third Amendment to Revolving Loan Agreement (the “Third Revolving Amendment”) with a national banking institution, amending the existing Amended and Restated Revolving and Term Loan Agreement dated January 3, 2001 (the “Term Agreement”) and the existing Revolving Loan Agreement dated September 29, 2003, as amended (the “Revolving Agreement”), respectively. The amendments provided covenant exceptions for the notes issued or to be issued under the Master Agreement, and relaxed or deleted certain other covenants. In the case of the Third Revolving Amendment, the lending commitment was reduced from \$75.0 million to \$20.0 million, the maturity date was extended from September 30, 2008 to December 20, 2011, and the applicable margins for advances and the availability fee were reduced. Based on the Company's funded debt to EBITDA ratio, the applicable margin for Eurodollar advances changed from a range of 0.625% to 01.625% to a range of 0.450% to 0.875%. The applicable margin for base rate advances changed from a range of 0.00% to 0.125% to the Prime Rate less 1.000%. The availability fee changed from a range of 0.175% to 0.250% to a range of 0.100% to 0.200%. The 90-day London Interbank Offering Rate (“LIBOR”) was 5.36% and 5.36% as of June 30, 2007 and December 31, 2006, respectively. There were no borrowings against this facility at June 30, 2007 or December 31, 2006.

In January 2001, Brown & Brown entered into a \$90.0 million unsecured seven-year term loan agreement with a national banking institution, bearing an interest rate based upon the 30-, 60- or 90-day LIBOR plus 0.50% to 1.00%,

depending upon Brown & Brown's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. The 90-day LIBOR was 5.36% and 5.36% as of June 30, 2007 and December 31, 2006, respectively. The loan was fully funded on January 3, 2001 and as of June 30, 2007 had an outstanding balance of \$6,428,000. This loan is to be repaid in equal quarterly installments of \$3,214,000 through December 31, 2007.

All four of these credit agreements require Brown & Brown to maintain certain financial ratios and comply with certain other covenants. Brown & Brown was in compliance with all such covenants as of June 30, 2007 and December 31, 2006.

To hedge the risk of increasing interest rates from January 2, 2002 through the remaining six years of its seven-year \$90.0 million term loan, Brown & Brown entered into an interest rate swap agreement that effectively converted the floating rate LIBOR-based interest payments to fixed interest rate payments at 4.53%. This agreement did not affect the required 0.50% to 1.00% credit risk spread portion of the term loan. In accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended, the fair value of the interest rate swap of approximately \$13,000, net of related income taxes of approximately \$7,000, was recorded in other assets as of June 30, 2007, and \$37,000, net of related income taxes of approximately \$22,000, was recorded in other assets as of December 31, 2006; with the related change in fair value reflected as other comprehensive income. Brown & Brown has designated and assessed the derivative as a highly effective cash flow hedge.

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 April 2011, including interest in the range from 0.0% to 8.00%.

**NOTE 10 • Supplemental Disclosures of Cash Flow Information**

| <i>(in thousands)</i>            | <b>For the six months<br/>ended June 30,</b> |             |
|----------------------------------|--|-------------|
|                                  | <b>2007</b>                                  | <b>2006</b> |
| Cash paid during the period for: |  |             |
| Interest                         | \$ 7,100                                     | \$ 7,720    |
| Income taxes                     | \$ 53,400                                    | \$ 52,096   |

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

| <i>(in thousands)</i>  | <b>For the six months<br/>ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2007</b>                                  | <b>2006</b> |
| Unrealized holding (loss) gain on available-for-sale securities, net of tax benefit of \$5,300 for 2007; net of tax effect of \$463 for 2006 | \$ (9,044)                                   | \$ 776      |
| Net (loss) gain on cash-flow hedging derivative, net of tax benefit of \$15 for 2007, net of tax effect of \$35 for 2006                     | \$ (26)                                      | \$ 74       |
| Notes payable issued or assumed for purchased customer accounts  | \$ 13,098                                    | \$ 27,955   |
| Notes received on the sale of fixed assets and customer accounts   | \$ 1,389                                     | \$ (1)      |

**NOTE 11 • Comprehensive Income**

The components of comprehensive income, net of related income tax effects, are as follows:

| <i>(in thousands)</i>   | <b>For the three months<br/>ended June 30,</b> |             | <b>For the six months<br/>ended June 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2007</b>                                    | <b>2006</b> | <b>2007</b>                                  | <b>2006</b> |
| Net income  | \$ 52,012                                      | \$ 44,431   | \$ 111,739                                   | \$ 94,457   |
| Net unrealized holding (loss) gain on available-for-sale securities | (5,845)  | 339         | (9,044)                                      | 776         |
| Net (loss) gain on cash-flow hedging derivative                     | (10)   | 23          | (26)   | 74          |
| Comprehensive income  | \$ 46,157                                      | \$ 44,793   | \$ 102,669                                   | \$ 95,307   |

## **NOTE 12 · Legal and Regulatory Proceedings**

### **Antitrust Actions and Related Matters**

On May 21, 2007, the named plaintiffs in the Antitrust Actions (defined below) settled with the Company in exchange for the Company's agreement to waive its claims for sanctions and to reasonably cooperate with plaintiffs in the event that they seek additional information from the Company. As previously disclosed, the Company was one of more than ten insurance intermediaries named together with a number of insurance companies as defendants in putative class action lawsuits purporting to be brought on behalf of policyholders. The Company initially became a defendant in certain of those actions in October and December of 2004. In February 2005, the Judicial Panel on Multi-District Litigation consolidated these cases, together with other putative class action lawsuits in which Brown & Brown, Inc. was not named as a party, to a single jurisdiction, the United States District Court, District of New Jersey, for pre-trial purposes. One of the consolidated actions, *In Re: Employee-Benefits Insurance Antitrust Litigation*, concerns employee benefits insurance and the other, styled *In Re: Insurance Brokerage Antitrust Litigation*, involves other lines of insurance. These two consolidated actions are collectively referred to in this report as the "Antitrust Actions." On April 5, 2007, the court dismissed the federal claims in the Antitrust Actions against all defendants, including the Company, but allowed the plaintiffs leave to file an amended complaint by May 22, 2007. Subsequently, the Company reached its settlement with the named plaintiffs in the Antitrust Actions and no further litigation has ensued.

### **Related Governmental Investigations**

As previously reported, governmental agencies in a number of states have looked or are looking into issues related to compensation practices in the insurance industry, and the Company continues to respond to written and oral requests for information and/or subpoenas seeking information related to this topic. To date, requests for information and/or subpoenas have been received from governmental agencies such as attorneys general and departments of insurance. Agencies in Arizona, Virginia and Washington have concluded their respective investigations of subsidiaries of Brown & Brown, Inc. based in those states with no further action as to these entities. As previously disclosed, the Company reached a settlement with the Florida governmental agencies identified above on December 8, 2006, which terminated the joint investigation of those agencies with respect to Brown & Brown, Inc. and its subsidiaries. The settlement involved no finding of wrongdoing, no fines or penalties and no prohibition of profit-sharing compensation. In addition to monetary payments, the settlement created certain affirmative obligations for enhanced disclosures to Florida policyholders concerning compensation received by the Company.

As previously disclosed in our public filings, offices of the Company are party to profit-sharing contingent compensation 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 that insurance company, and/or additional factors such as retention ratios and overall volume of business that an office or offices place with the insurance company. Additionally, to a lesser extent, some offices of the Company are party to override commission agreements with certain insurance companies, and these agreements provide for commission rates in excess of standard commission rates to be applied to specific lines of business, such as group health business, based primarily on the overall volume of such business that the office or offices in question place with the insurance company. The Company has not chosen to discontinue receiving profit-sharing contingent compensation or override commissions.

The Company cannot currently predict the impact or resolution of the various governmental inquiries and thus cannot reasonably estimate a range of possible loss, which could be material, or whether the resolution of these matters may harm the Company's business and/or lead to a decrease in or elimination of profit-sharing contingent compensation and override commissions, which could have a material adverse impact on the Company's consolidated financial condition.



**Other**

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 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.

Among the above-referenced claims, and as previously described in the Company's public filings, there are several threatened and pending legal claims and lawsuits against Brown & Brown, Inc. and Brown & Brown Insurance Services of Texas, Inc. (BBTX), a subsidiary of Brown & Brown, Inc., arising out of BBTX's involvement with the procurement and placement of workers' compensation insurance coverage for entities including several professional employer organizations. One such action, styled *Great American Insurance Company, et al. v. The Contractor's Advantage, Inc., et al.*, Cause No. 2002-33960, pending in the 189th Judicial District Court in Harris County, Texas, asserts numerous causes of action, including fraud, civil conspiracy, federal Lanham Act and RICO violations, breach of fiduciary duty, breach of contract, negligence and violations of the Texas Insurance Code against BBTX, Brown & Brown, Inc. and other defendants, and seeks recovery of punitive or extraordinary damages (such as treble damages) and attorneys' fees. Although the ultimate outcome of the matters referenced in this section titled "Other" 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 received, 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 carriers could take the 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.

For a more complete discussion of the foregoing matters, please see Item 3 of Part I of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for our fiscal year ended December 31, 2006 and Note 13 to the Consolidated Financial Statements contained in Item 8 of Part II thereof.

**NOTE 13 · 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, governmental, professional and individual customers; the National Programs Division, which is comprised of two units - Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which 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 administration, consulting for the workers' compensation and employee benefit self-insurance markets, managed healthcare services and Medicare set-aside services. Brown & Brown conducts all of its operations within the United States of America.

Summarized financial information concerning Brown & Brown's reportable segments for the three and six months ended June 30, 2007 and 2006 is shown in the following table. 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 six months ended June 30, 2007*

| <i>(in thousands)</i>         | <b>Retail</b> | <b>National<br/>Programs</b> | <b>Wholesale<br/>Brokerage</b> | <b>Services</b> | <b>Other</b> | <b>Total</b> |
|-------------------------------|---------------|------------------------------|--------------------------------|-----------------|--------------|--------------|
| Total revenues                | \$ 297,375    | \$ 71,475                    | \$ 95,250                      | \$ 18,155       | \$ 22,902    | \$ 505,157   |
| Investment income             | 99            | 241                          | 1,463                          | 17              | 22,749       | 24,569       |
| Amortization                  | 10,231        | 4,520                        | 4,466                          | 231             | 19           | 19,467       |
| Depreciation                  | 2,840         | 1,408                        | 1,261                          | 295             | 475          | 6,279        |
| Interest                      | 9,743         | 5,221                        | 9,382                          | 332             | (17,628)     | 7,050        |
| Income before<br>income taxes | 96,210        | 17,975                       | 19,401                         | 4,361           | 44,651       | 182,598      |
| Total assets                  | 1,280,543     | 511,571                      | 654,854                        | 37,864          | (600,140)    | 1,884,692    |
| Capital expenditures          | 2,925         | 1,006                        | 2,000                          | 241             | 13,828       | 20,000       |

*For the six months ended June 30, 2006*

| <i>(in thousands)</i>         | <b>Retail</b> | <b>National<br/>Programs</b> | <b>Wholesale<br/>Brokerage</b> | <b>Services</b> | <b>Other</b> | <b>Total</b> |
|-------------------------------|---------------|------------------------------|--------------------------------|-----------------|--------------|--------------|
| Total revenues                | \$ 270,928    | \$ 75,579                    | \$ 86,645                      | \$ 14,719       | \$ 3,518     | \$ 451,389   |
| Investment income             | 35            | 194                          | 2,102                          | 25              | 2,809        | 5,165        |
| Amortization                  | 9,661         | 4,326                        | 3,871                          | 97              | 23           | 17,978       |
| Depreciation                  | 2,792         | 1,079                        | 943                            | 239             | 327          | 5,380        |
| Interest                      | 9,657         | 5,144                        | 8,949                          | 111             | (17,010)     | 6,851        |
| Income before<br>income taxes | 81,905        | 23,648                       | 18,655                         | 3,539           | 24,656       | 152,403      |
| Total assets                  | 1,067,518     | 498,830                      | 608,963                        | 29,522          | (489,602)    | 1,715,231    |
| Capital expenditures          | 3,761         | 2,689                        | 1,048                          | 337             | 1,261        | 9,096        |

## **ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

THE FOLLOWING DISCUSSION UPDATES THE MD&A CONTAINED IN THE COMPANY'S 2006 ANNUAL REPORT ON FORM 10-K, AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.

### **GENERAL**

We are a diversified insurance agency, wholesale brokerage and services 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 the employee benefits areas. As an agent and broker, we do not assume underwriting risks. Instead, we provide our customers with quality insurance contracts, as well as other targeted, customized risk management products and services.

Our commissions and fees revenue is comprised of commissions paid by insurance companies and fees paid directly by customers. Commission revenues generally represent a percentage of the premium paid by the 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, sales and payroll levels) so as to determine what premium to charge the insured. These premium rates are established by insurance companies based upon many factors, including reinsurance rates paid by insurance carriers, none of which we control. Beginning in 1986 and continuing through 1999, commission revenues were adversely influenced by a consistent decline in premium rates resulting from intense competition among property and casualty insurance companies for market share. This condition of a prevailing decline in premium rates, commonly referred to as a "soft market," generally resulted in flat to reduced commissions on renewal business. The effect of this softness in rates on our commission revenues was somewhat offset by our acquisitions and net 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, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2003, the 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 the insurance carriers as the result of these hurricanes, the 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. During the first half of 2007, a "soft market" generally prevailed in most regions of the United States, and this condition is expected to continue throughout the year.

The volume of business from new and existing insured customers, fluctuations in insurable exposure units and changes in general economic and competitive conditions further impact our revenues. For example, the increasing costs of litigation settlements and awards have caused some customers to seek higher levels of insurance coverage. Conversely, level rates of inflation or general declines in economic activity could limit increases in the values of insurable exposure units. Our revenues have continued to grow as a result of an intense focus on net new business growth and acquisitions. We anticipate that results of operations will continue to be influenced by these competitive and economic conditions throughout 2007.

We also earn "profit-sharing contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but 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 underwriting results and other aforementioned considerations for the prior year(s). Over the last three calendar years profit-sharing contingent commissions have averaged approximately 5.4% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are 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 therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. Recently, three national insurance carriers announced the replacement of the current loss-ratio based profit-sharing contingent commission calculation with a more guaranteed fixed-based methodology. As of June 30, 2007, \$3.2 million was accrued for these new "Guaranteed Supplemental Commissions" and additional accruals will be made on a quarterly basis going forward, as appropriate.

Fee revenues are generated primarily by 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. In each of the past three calendar years, fee revenues generated by the Services Division have declined as a percentage of our total commissions and fees, from 4.0% in 2004 to 3.8% in 2006. This declining trend is expected to continue as the revenues from our other reportable segments grow at a faster pace.

Investment income consists 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 subject to the requirements of applicable laws. Investment income also includes gains and losses realized from the sale of investments.

### **Critical Accounting Policies**

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("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 various other 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 under different assumptions or conditions.

The more critical accounting and reporting policies include our accounting for revenue recognition, business acquisitions and purchase price allocations, intangible asset impairments, reserves for litigation and derivative interests. In particular, the accounting for these areas requires significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 in the "Notes to Consolidated Financial Statements" in our 2006 Annual Report on Form 10-K on file with the Securities and Exchange Commission for details regarding our critical and significant accounting policies.

**RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

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 Condensed Consolidated Financial Results for the three and six month periods ended June 30, 2007 and 2006 is as follows (in thousands, except percentages):

|  | For the three months<br>ended June 30, |            |             | For the six months<br>ended June 30, |            |             |
|--|--|------------|-------------|--------------------------------------|------------|-------------|
|  | 2007                                   | 2006       | %<br>Change | 2007                                 | 2006       | %<br>Change |
| <b>REVENUES</b>                          |  |            |             |                                      |            |             |
| Commissions and fees                     | \$ 227,730                             | \$ 212,823 | 7.0%        | \$ 429,232                           | \$ 407,271 | 5.4%        |
| Profit-sharing contingent commissions    | 2,746                                  | 4,604      | (40.4)%     | 46,803                               | 38,071     | 22.9%       |
| Investment income                        | 12,990                                 | 2,956      | 339.4%      | 24,569                               | 5,165      | 375.7%      |
| Other income, net                        | 3,178                                  | 424        | 649.5%      | 4,553                                | 882        | 416.2%      |
| Total revenues                           | 246,644                                | 220,807    | 11.7%       | 505,157                              | 451,389    | 11.9%       |
| <b>EXPENSES</b>                          |  |            |             |                                      |            |             |
| Employee compensation and benefits       | 112,636                                | 103,180    | 9.2%        | 223,446                              | 203,910    | 9.6%        |
| Non-cash stock-based compensation        | 1,334                                  | 1,434      | (7.0)%      | 2,836                                | 3,764      | (24.7)%     |
| Other operating expenses                 | 31,558                                 | 30,134     | 4.7%        | 63,481                               | 61,103     | 3.9%        |
| Amortization                             | 9,965                                  | 8,978      | 11.0%       | 19,467                               | 17,978     | 8.3%        |
| Depreciation                             | 3,239                                  | 2,785      | 16.3%       | 6,279                                | 5,380      | 16.7%       |
| Interest                                 | 3,416                                  | 3,329      | 2.6%        | 7,050                                | 6,851      | 2.9%        |
| Total expenses                           | 162,148                                | 149,840    | 8.2%        | 322,559                              | 298,986    | 7.9%        |
| Income before income taxes               | 84,496                                 | 70,967     | 19.1%       | 182,598                              | 152,403    | 19.8%       |
| Income taxes                             | 32,484                                 | 26,536     | 22.4%       | 70,859                               | 57,946     | 22.3%       |
| <b>NET INCOME</b>                        | \$ 52,012                              | \$ 44,431  | 17.1%       | \$ 111,739                           | \$ 94,457  | 18.3%       |
| Net internal growth rate - core          |  |            |             |                                      |            |             |
| commissions and fees                     | (1.0)%                                 | 6.8%       |             | (1.4)%                               | 4.1%       |             |
| Employee compensation and benefits ratio | 45.7%                                  | 46.7%      |             | 44.2%                                | 45.2%      |             |
| Other operating expenses ratio           | 12.8%                                  | 13.6%      |             | 12.6%                                | 13.5%      |             |

|   |    |       |    |       |    |           |    |           |
|---|----|-------|----|-------|----|-----------|----|-----------|
| Capital expenditures                      | \$ | 3,721 | \$ | 4,619 | \$ | 20,000    | \$ | 9,096     |
| Total assets at June<br>30, 2007 and 2006 |    |       |    |       | \$ | 1,884,692 | \$ | 1,715,231 |

### Net Income

Net income for the second quarter of 2007 was \$52.0 million, or \$0.37 per diluted share, compared with net income in the second quarter of 2006 of \$44.4 million, or \$0.32 per diluted share, a 15.6% increase on a per-share basis. Net income for the six months ended June 30, 2007 was \$111.7 million or \$0.79 per diluted share, compared with net income for the comparable period in 2006 of \$94.5 million, or \$0.67 per diluted share, a 17.9 % increase on a per-share basis.

### Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions, for the second quarter of 2007 increased \$13.0 million, or 6.0%, over the same period in 2006. Profit-sharing contingent commissions for the second quarter of 2007 decreased \$1.9 million over the second quarter of 2006, to \$2.7 million. Core commissions and fees are our commissions and fees, less (i) profit-sharing contingent commissions and (ii) divested business (commissions and fees generated from offices, books of business or niches sold or terminated). Core commissions and fees revenue for the second quarter of 2007 increased \$16.1 million, of which approximately \$18.2 million represents core commissions and fees from agencies acquired since the third quarter of 2006. After divested business of \$1.2 million, the remaining net decrease of \$2.1 million represents net lost business, which reflects a (1.0%) internal growth rate for core commissions and fees.

Commissions and fees for the six months ended June 30, 2007 increased \$30.7 million, or 6.9%, over the same period in 2006. For the six months ended June 30, 2007, profit-sharing contingent commissions increased \$8.7 million over the comparable period in 2006. Core commissions and fees revenue for the first six months of 2007 increased \$24.0 million, of which approximately \$29.6 million of the total increase represents core commissions and fees from agencies acquired since the comparable period in 2006. After divested business of \$2.0 million, the remaining \$5.6 million represents net lost business, which reflects a (1.4%) internal growth rate for core commissions and fees.

### **Investment Income**

Investment income for the three months ended June 30, 2007 increased \$10.0 million, or 339.4%, over the same period in 2006. Investment income for the six months ended June 30, 2007 increased \$19.4 million, or 375.7%, over the same period in 2006. These increases are primarily due to the sale of our investment in Rock-Tenn Company which we have owned for over 25 years, for net gains of approximately \$8.8 million in the first quarter of 2007 and \$9.8 million in the second quarter of 2007.

### **Other Income, net**

Other income for the three months ended June 30, 2007 increased \$2.8 million, or 649.5%, over the same period in 2006. Other income for the six months ended June 30, 2007 increased \$3.7 million, or 416.2%, over the same period in 2006. Other income consists primarily of gains and losses from the sale and disposition of assets. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth.

### **Employee Compensation and Benefits**

Employee compensation and benefits for the second quarter of 2007 increased \$9.5 million, or 9.2%, over the same period in 2006. This increase is primarily related to the addition of new employees from acquisitions completed since July 1, 2006. Employee compensation and benefits as a percentage of total revenue decreased to 45.7% for the second quarter of 2007, from 46.7% for the second quarter of 2006. Excluding the impact of the gain on the sale of the Rock-Tenn Company stock, employee compensation and benefits as a percentage of total revenues increased to 47.6% of total revenues from 46.7% in the second quarter of 2006. This increase in the expense percentage represents approximately \$2.0 million in net additional salaries costs.

Employee compensation and benefits for the six months ended June 30, 2007 increased \$19.5 million, or 9.6%, over the same period in 2006. For the six months ended June 30, 2007, employee compensation and benefits as a percentage of total revenue decreased to 44.2%, from 45.2% for the same period in 2006. The improved percentage for the six months ended June 30, 2007 was primarily the result of the impact of increased revenues due to more profit-sharing contingent commissions received in the first half of 2007 versus 2006, and the gain on the sale of the Rock-Tenn Company stock. Excluding the impact of the gain on the sale of the Rock-Tenn Company stock, employee compensation and benefits as a percentage of the total revenues increased to 45.9% of total revenues from 45.2% in the first six months of 2006. This increase in the expense percentage represents approximately \$3.6 million in net additional salaries costs.

### **Non-Cash Stock-Based Compensation**

Non-cash stock-based compensation for the three and six months ended June 30, 2007 decreased approximately \$0.1 million, or 7.0%, and \$0.9 million, or 24.7%, respectively. For the entire year of 2007, we expect the total non-cash stock-based compensation expense to be approximately \$6.0 million to \$6.5 million, as compared to the total cost for the year 2006 of \$5.4 million. The increased annual estimated cost primarily relates to the expensing of the 15% discount granted to employees under the Company's Employee Stock Purchase Plan.

### **Other Operating Expenses**

Other operating expenses for the second quarter of 2007 increased \$1.4 million, or 4.7%, over the same period in 2006. These increases are primarily the result of acquisitions completed since the third quarter of 2006 that had no comparable results in the same period of 2006. Other operating expenses as a percentage of revenues for the second quarter of 2007 decreased to 12.8%, compared with 13.6% for the same period in 2006. Excluding the impact of the

gain on the sale of the Rock-Tenn Company stock, other operating expenses as a percentage of the total revenues decreased to only 13.3% of total revenues from 13.6% in the second quarter of 2006. The improvement in this expense percentage represents approximately \$0.8 million in net cost savings which were generated from lower bad debt expense and professional fees than in the comparable period of 2006.

For the six months ended June 30, 2007, other operating expenses increased \$2.4 million, or 3.9%, over the same period in 2006. For the six months ended June 30, 2007, other operating expenses as a percentage of revenues decreased to 12.6%, compared with 13.5% for the same period in 2006. Excluding the impact of the gain on the sale of the Rock-Tenn Company stock, other operating expenses as a percentage of the total revenues decreased to 13.0% of total revenues from 13.5% in the first half of 2006. The improvement in this expense percentage represents approximately \$2.4 million in net cost savings which were generated primarily from lower errors and omissions expense and bad debt expense in the first half of 2007 than in the first half of 2006.

### **Amortization**

Amortization expense for the second quarter of 2007 increased \$1.0 million, or 11.0%, over the second quarter of 2006. For the six months ended June 30, 2007, amortization expense increased \$1.5 million, or 8.3%, over the same period in 2006. These increases are primarily due to the amortization of additional intangible assets as a result of acquisitions completed since July 1, 2006.



### **Depreciation**

Depreciation expense for the second quarter of 2007 increased \$0.5 million, or 16.3 %, over the second quarter of 2006. For the six months ended June 30, 2007, depreciation expense increased \$0.9 million, or 16.7%, over the same period in 2006. These increases are due primarily to the purchase of new computers, related equipment and software, and the depreciation associated with new acquisitions completed since July 1, 2006.

### **Interest Expense**

Interest expense for the second quarter of 2007 increased \$0.1 million, or 2.6%, over the same period in 2006. For the six months ended June 30, 2007, interest expense increased \$0.2 million, or 2.9%, over the same period in 2006. These increases are primarily due to the additional \$25.0 million of unsecured Series C Senior Notes issued in the fourth quarter of 2006.

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**RESULTS OF OPERATIONS - SEGMENT INFORMATION**

As discussed in Note 13 of the Notes to Condensed Consolidated Financial Statements, we operate in four reportable segments: the Retail, National Programs, Wholesale Brokerage and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses are the result of 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 places greater emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of employee compensation and benefits to total revenues, and the gradual improvement of the percentage of other operating expenses to total revenues.

The internal growth rates for our core commissions and fees for the three months ended June 30, 2007 and 2006, by divisional units are as follows (in thousands, except percentages):

| 2007   | For the three months<br>ended June 30, |            | Total<br>Net<br>Change | Total<br>Net<br>Growth % | Less<br>Acquisition<br>Revenues | Internal<br>Net<br>Growth % |
|--|--|------------|------------------------|--------------------------|---------------------------------|-----------------------------|
|  | 2007                                   | 2006       |                        |                          |                                 |                             |
| Florida Retail                                 | \$ 50,876                              | \$ 46,812  | \$ 4,064               | 8.7%                     | \$ 762                          | 7.1%                        |
| National Retail                                | 65,150                                 | 52,052     | 13,098                 | 25.2%                    | 11,711                          | 2.7%                        |
| Western Retail                                 | 25,472                                 | 26,426     | (954)                  | (3.6)%                   | 122                             | (4.1)%                      |
| <b>Total Retail<sup>(1)</sup></b>              | 141,498                                | 125,290    | 16,208                 | 12.9%                    | 12,595                          | 2.9%                        |
| Professional Programs                          | 9,080                                  | 9,034      | 46                     | 0.5%                     | 131                             | (0.9)%                      |
| Special Programs                               | 22,599                                 | 26,525     | (3,926)                | (14.8)%                  | 1,454                           | (20.3)%                     |
| <b>Total National<br/>Programs</b>             | 31,679                                 | 35,559     | (3,880)                | (10.9)%                  | 1,585                           | (15.4)%                     |
| <b>Wholesale Brokerage</b>                     | 45,369                                 | 42,736     | 2,633                  | 6.2%                     | 3,390                           | (1.8)%                      |
| <b>Services</b>                                | 9,184                                  | 8,051      | 1,133                  | 14.1%                    | 654                             | 5.9%                        |
| <b>Total Core<br/>Commissions<br/>and Fees</b> | \$ 227,730                             | \$ 211,636 | \$ 16,094              | 7.6%                     | \$ 18,224                       | (1.0)%                      |

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended June 30, 2007 and 2006 is as follows (in thousands, except percentages):

|                                       | For the three months<br>ended June 30, |            |
|---------------------------------------|--|------------|
|                                       | 2007                                   | 2006       |
| Total core commissions and fees       | \$ 227,730                             | \$ 211,636 |
| Profit-sharing contingent commissions | 2,746                                  | 4,604      |
| Divested business                     | -                                      | 1,187      |

|                         |    |         |    |         |
|-------------------------|----|---------|----|---------|
| Total commission & fees | \$ | 230,476 | \$ | 217,427 |
|-------------------------|----|---------|----|---------|

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| 2006   | For the three months<br>ended June 30, |            | Total<br>Net<br>Change | Total<br>Net<br>Growth % | Less<br>Acquisition<br>Revenues | Internal<br>Net<br>Growth % |
|--|--|------------|------------------------|--------------------------|---------------------------------|-----------------------------|
|  | 2006                                   | 2005       |                        |                          |                                 |                             |
| Florida Retail                                 | \$ 47,029                              | \$ 40,738  | \$ 6,291               | 15.4%                    | \$ 97                           | 15.2%                       |
| National Retail                                | 53,025                                 | 51,134     | 1,891                  | 3.7%                     | 3,024                           | (2.2)%                      |
| Western Retail                                 | 26,423                                 | 25,513     | 910                    | 3.6%                     | 1,495                           | (2.3)%                      |
| <b>Total Retail<sup>(1)</sup></b>              | 126,477                                | 117,385    | 9,092                  | 7.7%                     | 4,616                           | 3.8%                        |
| Professional Programs                          | 9,124                                  | 9,647      | (523)                  | (5.4)%                   | -                               | (5.4)%                      |
| Special Programs                               | 26,435                                 | 20,705     | 5,730                  | 27.7%                    | 1,706                           | 19.4%                       |
| <b>Total National<br/>Programs</b>             | 35,559                                 | 30,352     | 5,207                  | 17.2%                    | 1,706                           | 11.5%                       |
| <b>Wholesale Brokerage</b>                     | 42,736                                 | 34,077     | 8,659                  | 25.4%                    | 4,103                           | 13.4%                       |
| <b>Services</b>                                | 8,051                                  | 6,449      | 1,602                  | 24.8%                    | 1,348                           | 3.9%                        |
| <b>Total Core<br/>Commissions<br/>and Fees</b> | \$ 212,823                             | \$ 188,263 | \$ 24,560              | 13.0%                    | \$ 11,773                       | 6.8%                        |

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended June 30, 2006 and 2005 is as follows (in thousands, except percentages):

|                                       | For the three months<br>ended June 30, |            |
|---------------------------------------|--|------------|
|                                       | 2006                                   | 2005       |
| Total core commissions and fees       | \$ 212,823                             | \$ 188,263 |
| Profit-sharing contingent commissions | 4,604                                  | 4,002      |
| Divested business                     | -                                      | 473        |
| Total commission & fees               | \$ 217,427                             | \$ 192,738 |

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 13 which includes corporate and consolidation items.

The internal growth rates for our core commissions and fees for the six months ended June 30, 2007 and 2006, by divisional units are as follows (in thousands, except percentages):

| 2007   | For the six months<br>ended June 30, |                   | Total<br>Net<br>Change | Total<br>Net<br>Growth % | Less<br>Acquisition<br>Revenues | Internal<br>Net<br>Growth % |
|--|--------------------------------------|-------------------|------------------------|--------------------------|---------------------------------|-----------------------------|
|  | 2007                                 | 2006              |                        |                          |                                 |                             |
| Florida Retail                                 | \$ 94,794                            | \$ 85,987         | \$ 8,807               | 10.2%                    | \$ 1,329                        | 8.7%                        |
| National Retail                                | 118,284                              | 102,579           | 15,705                 | 15.3%                    | 14,673                          | 1.0%                        |
| Western Retail                                 | 48,779                               | 51,454            | (2,675)                | (5.2)%                   | 281                             | (5.7)%                      |
| <b>Total Retail<sup>(1)</sup></b>              | <b>261,857</b>                       | <b>240,020</b>    | <b>21,837</b>          | <b>9.1%</b>              | <b>16,283</b>                   | <b>2.3%</b>                 |
| Professional Programs                          | 19,518                               | 19,191            | 327                    | 1.7%                     | 257                             | 0.4%                        |
| Special Programs                               | 47,083                               | 53,484            | (6,401)                | (12.0)%                  | 3,318                           | (18.2)%                     |
| <b>Total National<br/>Programs</b>             | <b>66,601</b>                        | <b>72,675</b>     | <b>(6,074)</b>         | <b>(8.4)%</b>            | <b>3,575</b>                    | <b>(13.3)%</b>              |
| <b>Wholesale Brokerage</b>                     | <b>82,636</b>                        | <b>77,879</b>     | <b>4,757</b>           | <b>6.1%</b>              | <b>7,367</b>                    | <b>(3.4)%</b>               |
| <b>Services</b>                                | <b>18,138</b>                        | <b>14,695</b>     | <b>3,443</b>           | <b>23.4%</b>             | <b>2,328</b>                    | <b>7.6%</b>                 |
| <b>Total Core<br/>Commissions<br/>and Fees</b> | <b>\$ 429,232</b>                    | <b>\$ 405,269</b> | <b>\$ 23,963</b>       | <b>5.9%</b>              | <b>\$ 29,553</b>                | <b>(1.4)%</b>               |

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the six months ended June 30, 2007 and 2006 is as follows (in thousands, except percentages):

|                                       | For the six months<br>ended June 30, |            |
|---------------------------------------|--------------------------------------|------------|
|                                       | 2007                                 | 2006       |
| Total core commissions and fees       | \$ 429,232                           | \$ 405,269 |
| Profit-sharing contingent commissions | 46,803                               | 38,071     |
| Divested business                     | -                                    | 2,002      |
| Total commission & fees               | \$ 476,035                           | \$ 445,342 |

| 2006   | For the six months<br>ended June 30, |                   | Total<br>Net<br>Change | Total<br>Net<br>Growth % | Less<br>Acquisition<br>Revenues | Internal<br>Net<br>Growth % |
|--|--------------------------------------|-------------------|------------------------|--------------------------|---------------------------------|-----------------------------|
|  | 2006                                 | 2005              |                        |                          |                                 |                             |
| Florida Retail                                 | \$ 86,289                            | \$ 78,049         | \$ 8,240               | 10.6%                    | \$ 381                          | 10.1%                       |
| National Retail                                | 104,282                              | 100,560           | 3,722                  | 3.7%                     | 6,099                           | (2.4)%                      |
| Western Retail                                 | 51,451                               | 50,630            | 821                    | 1.6%                     | 2,865                           | (4.0)%                      |
| <b>Total Retail<sup>(1)</sup></b>              | <b>242,022</b>                       | <b>229,239</b>    | <b>12,783</b>          | <b>5.6%</b>              | <b>9,345</b>                    | <b>1.5%</b>                 |
| Professional Programs                          | 19,462                               | 20,613            | (1,151)                | (5.6)%                   | -                               | (5.6)%                      |
| Special Programs                               | 53,213                               | 42,117            | 11,096                 | 26.3%                    | 4,229                           | 16.3%                       |
| <b>Total National<br/>Programs</b>             | <b>72,675</b>                        | <b>62,730</b>     | <b>9,945</b>           | <b>15.9%</b>             | <b>4,229</b>                    | <b>9.1%</b>                 |
| <b>Wholesale Brokerage</b>                     | <b>77,879</b>                        | <b>55,444</b>     | <b>22,435</b>          | <b>40.5%</b>             | <b>17,168</b>                   | <b>9.5%</b>                 |
| <b>Services</b>                                | <b>14,695</b>                        | <b>12,833</b>     | <b>1,862</b>           | <b>14.5%</b>             | <b>1,348</b>                    | <b>4.0%</b>                 |
| <b>Total Core<br/>Commissions<br/>and Fees</b> | <b>\$ 407,271</b>                    | <b>\$ 360,246</b> | <b>\$ 47,025</b>       | <b>13.1%</b>             | <b>\$ 32,090</b>                | <b>4.1%</b>                 |

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the six months ended June 30, 2006 and 2005 is as follows (in thousands, except percentages):

|                                       | For the six months<br>ended June 30, |                   |
|---------------------------------------|--------------------------------------|-------------------|
|                                       | 2006                                 | 2005              |
| Total core commissions and fees       | \$ 407,271                           | \$ 360,246        |
| Profit-sharing contingent commissions | 38,071                               | 31,846            |
| Divested business                     | -                                    | 961               |
| <b>Total commission &amp; fees</b>    | <b>\$ 445,342</b>                    | <b>\$ 393,053</b> |

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 13 which includes corporate and consolidation items.

**Retail Division**

The Retail Division provides a broad range of insurance products and services to commercial, public entity, professional and individual insured customers. Since the majority of our operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions, net of related compensation, that we receive will be reflected in our pre-tax income.

Financial information relating to Brown & Brown's Retail Division for the three-and six-month periods ended June 30, 2007 and 2006 is as follows (in thousands, except percentages):

|  | For the three months<br>ended June 30, |            |             | For the six months<br>ended June 30, |              |             |
|--|--|------------|-------------|--------------------------------------|--------------|-------------|
|  | 2007                                   | 2006       | %<br>Change | 2007                                 | 2006         | %<br>Change |
| <b>REVENUES</b>                                |  |            |             |                                      |              |             |
| Commissions and fees                           | \$ 142,068                             | \$ 126,213 | 12.6%       | \$ 261,725                           | \$ 241,657   | 8.3%        |
| Profit-sharing<br>contingent<br>commissions    | 1,220                                  | 1,979      | (38.4)%     | 30,989                               | 28,742       | 7.8%        |
| Investment income                              | 53                                     | 13         | 307.7%      | 99                                   | 35           | 182.9%      |
| Other income, net                              | 3,215                                  | 172        | NMF         | 4,562                                | 494          | 823.5%      |
| Total revenues                                 | 146,556                                | 128,377    | 14.2%       | 297,375                              | 270,928      | 9.8%        |
| <b>EXPENSES</b>                                |  |            |             |                                      |              |             |
| Employee<br>compensation and<br>benefits       | 68,771                                 | 60,673     | 13.3%       | 133,443                              | 123,304      | 8.2%        |
| Non-cash stock-based<br>compensation           | 838                                    | 746        | 12.3%       | 1,622                                | 1,485        | 9.2%        |
| Other operating<br>expenses                    | 22,038                                 | 21,099     | 4.5%        | 43,286                               | 42,124       | 2.8%        |
| Amortization                                   | 5,347                                  | 4,833      | 10.6%       | 10,231                               | 9,661        | 5.9%        |
| Depreciation                                   | 1,451                                  | 1,418      | 2.3%        | 2,840                                | 2,792        | 1.7%        |
| Interest                                       | 5,448                                  | 4,873      | 11.8%       | 9,743                                | 9,657        | 0.9%        |
| Total expenses                                 | 103,893                                | 93,642     | 10.9%       | 201,165                              | 189,023      | 6.4%        |
| Income before income<br>taxes                  | \$ 42,663                              | \$ 34,735  | 22.8%       | \$ 96,210                            | \$ 81,905    | 17.5%       |
| Net internal growth<br>rate - core             |  |            |             |                                      |              |             |
| commissions and fees                           | 2.9%                                   | 3.8%       |             | 2.3%                                 | 1.5%         |             |
| Employee<br>compensation and<br>benefits ratio | 46.9%                                  | 47.3%      |             | 44.9%                                | 45.5%        |             |
| Other operating<br>expenses ratio              | 15.0%                                  | 16.4%      |             | 14.6%                                | 15.5%        |             |
| Capital expenditures                           | \$ 1,518                               | \$ 2,255   |             | \$ 2,925                             | \$ 3,761     |             |
|  |  |            |             | \$ 1,280,543                         | \$ 1,067,518 |             |

Total assets at June 30,  
2007 and 2006

The Retail Division's total revenues during the three months ended June 30, 2007 increased 14.2 %, or \$18.2 million, to \$146.6 million. Profit-sharing contingent commissions for the second quarter of 2007 decreased \$0.8 million from the second quarter of 2006. Of the increase in revenues, approximately \$12.6 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2006. Commissions and fees recorded in the second quarter of 2006 from business divested during 2007 was \$1.2 million. The Retail Division's internal growth rate for core commissions and fees was 2.9% for the second quarter of 2007, and was driven by higher insurance property rates in the southeastern United States. However, in other regions of the United States, insurance premium rates continue to soften. Income before income taxes for the three months ended June 30, 2007 increased 22.8 %, or \$7.9 million, to \$42.7 million. This increase is primarily due to the earnings from acquisitions and the net new business

The Retail Division's total revenues during the six months ended June 30, 2007 increased 9.8%, or \$26.4 million, to \$297.4 million. Profit-sharing contingent commissions for the six months ended June 30, 2007, increased \$2.2 million, over the same period in 2006. Of the increase in revenues, approximately \$16.3 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2006. Commissions and fees recorded in the six months ended June 30, 2006 from business divested during 2007 was \$2.0 million. The balance of the increase is primarily due to net new business growth in core commissions and fees. The Retail Division's internal growth rate for core commissions and fees was 2.3% for the six months ended June 30, 2007. Income before income taxes for the six months ended June 30, 2007 increased 17.5%, or \$14.3 million, to \$96.2 million. This increase is primarily due to the earnings from acquisitions and net new business.



**National Programs Division**

The National Programs Division is comprised of two units: Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents; and Special Programs, which markets targeted products and services designated for specific industries, trade groups, governmental entities and market niches. Like the Retail Division, the National Programs Division's revenues are primarily commission-based.

Financial information relating to our National Programs Division for the three-and six-month periods ended June 30, 2007 and 2006 is as follows (in thousands, except percentages):

|  | For the three months<br>ended June 30, |           |             | For the six months<br>ended June 30, |           |             |
|--|--|-----------|-------------|--------------------------------------|-----------|-------------|
|  | 2007                                   | 2006      | %<br>Change | 2007                                 | 2006      | %<br>Change |
| <b>REVENUES</b>                                      |  |           |             |                                      |           |             |
| Commissions and fees                                 | \$ 31,679                              | \$ 35,559 | (10.9)%     | \$ 66,601                            | \$ 72,675 | (8.4)%      |
| Profit-sharing contingent commissions                | 953                                    | 905       | 5.3%        | 4,644                                | 2,682     | 73.2%       |
| Investment income                                    | 118                                    | 97        | 21.6%       | 241                                  | 194       | 24.2%       |
| Other income (loss), net                             | -                                      | 17        | (100.0)%    | (11)                                 | 28        | (139.3)%    |
| Total revenues                                       | 32,750                                 | 36,578    | (10.5)%     | 71,475                               | 75,579    | (5.4)%      |
| <b>EXPENSES</b>                                      |  |           |             |                                      |           |             |
| Employee compensation and benefits                   | 14,438                                 | 14,192    | 1.7%        | 30,046                               | 29,864    | 0.6%        |
| Non-cash stock-based compensation                    | 215                                    | 131       | 64.1%       | 405                                  | 262       | 54.6%       |
| Other operating expenses                             | 5,855                                  | 5,433     | 7.8%        | 11,900                               | 11,256    | 5.7%        |
| Amortization   | 2,261                                  | 2,138     | 5.8%        | 4,520                                | 4,326     | 4.5%        |
| Depreciation   | 711                                    | 543       | 30.9%       | 1,408                                | 1,079     | 30.5%       |
| Interest   | 2,527                                  | 2,527     | 0.0%        | 5,221                                | 5,144     | 1.5%        |
| Total expenses                                       | 26,007                                 | 24,964    | 4.2%        | 53,500                               | 51,931    | 3.0%        |
| Income before income taxes                           | \$ 6,743                               | \$ 11,614 | (41.9)%     | \$ 17,975                            | \$ 23,648 | (24.0)%     |
| Net internal growth rate - core commissions and fees | (15.4)%                                | 11.5%     |             | (13.3)%                              | 9.1%      |             |
| Employee compensation and benefits ratio             | 44.1%                                  | 38.8%     |             | 42.0%                                | 39.5%     |             |
|  | 17.9%                                  | 14.9%     |             | 16.6%                                | 14.9%     |             |

Other operating  
expenses ratio

|   |    |     |    |       |    |         |    |         |
|---|----|-----|----|-------|----|---------|----|---------|
| Capital expenditures                      | \$ | 547 | \$ | 1,283 | \$ | 1,006   | \$ | 2,689   |
| Total assets at June<br>30, 2007 and 2006 |    |     |    |       | \$ | 511,571 | \$ | 498,830 |

Total revenues for National Programs for the three months ended June 30, 2007 decreased 10.5%, or \$3.8 million, to \$32.8 million. Profit-sharing contingent commissions for the second quarter of 2007 increased less than \$0.1 million over the second quarter of 2006. Included within the net decrease in revenues, approximately \$1.6 million is related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2006. The remaining net decrease of approximately \$5.5 million is primarily due to net lost business, of which \$5.4 million is from the condominium program administered by one of our subsidiaries, Florida Intercoastal Underwriters, Limited Company (“FIU”) as described below. Therefore, the National Programs Division's internal growth rate for the core commissions and fees was (15.4%) for the three months ended June 30, 2007. Income before income taxes for the three months ended June 30, 2007 decreased 41.9%, or \$4.9 million, to \$6.7 million, from the same period in 2006. This decrease is primarily due to net lost business.

Total revenues for National Programs for the six months ended June 30, 2007 decreased 5.4%, or \$4.1 million, to \$71.5 million. Profit-sharing contingent commissions for the six months ended June 30, 2007 increased \$2.0 million over the same period in 2006. Of the net decrease in revenues, approximately \$3.6 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2006. The remaining net decrease of approximately \$9.6 million is primarily due to net lost business. Therefore the National Programs Division's internal growth rate for core commissions and fees was (13.3%) for the six months ended June 30, 2007. The Professional Programs Unit, within the National Programs Division, had a 0.4% in internal growth rate due to stabilizing professional liability rates. However, the Special Programs Unit had a (18.2)% internal growth rate, primarily due to \$9.8 million of lost business in the condominium program administered by FIU. This lost business was primarily a result of the changing rate structure implemented by Citizens Property Insurance Corporation, which is sponsored by the State of Florida (“Citizens”). Income before income taxes for the six months ended June 30, 2007 decreased 24.0%, or \$5.7 million, to \$18.0 million, from the same period in 2006. This decrease is primarily due to net lost business.

**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 for the three-and six-month periods ended June 30, 2007 and 2006 is as follows (in thousands, except percentages):

|  | For the three months<br>ended June 30, |           |             | For the six months<br>ended June 30, |            |             |
|--|--|-----------|-------------|--------------------------------------|------------|-------------|
|  | 2007                                   | 2006      | %<br>Change | 2007                                 | 2006       | %<br>Change |
| <b>REVENUES</b>                                |  |           |             |                                      |            |             |
| Commissions and fees                           | \$ 45,369                              | \$ 42,736 | 6.2%        | \$ 82,636                            | \$ 77,879  | 6.1%        |
| Profit-sharing<br>contingent<br>commissions    | 573                                    | 1,720     | (66.7)%     | 11,170                               | 6,647      | 68.0%       |
| Investment income                              | 758                                    | 1,196     | (36.6)%     | 1,463                                | 2,102      | (30.4)%     |
| Other income (loss),<br>net                    | (36)                                   | 11        | (427.3)%    | (19)                                 | 17         | (211.8)%    |
| Total revenues                                 | 46,664                                 | 45,663    | 2.2%        | 95,250                               | 86,645     | 9.9%        |
| <b>EXPENSES</b>                                |  |           |             |                                      |            |             |
| Employee<br>compensation and<br>benefits       | 22,586                                 | 20,495    | 10.2%       | 44,880                               | 39,105     | 14.8%       |
| Non-cash stock-based<br>compensation           | 278                                    | 129       | 115.5%      | 395                                  | 259        | 52.5%       |
| Other operating<br>expenses                    | 7,825                                  | 7,429     | 5.3%        | 15,465                               | 14,863     | 4.1%        |
| Amortization                                   | 2,232                                  | 1,909     | 16.9%       | 4,466                                | 3,871      | 15.4%       |
| Depreciation                                   | 660                                    | 524       | 26.0%       | 1,261                                | 943        | 33.7%       |
| Interest                                       | 4,527                                  | 4,508     | 0.4%        | 9,382                                | 8,949      | 4.8%        |
| Total expenses                                 | 38,108                                 | 34,994    | 8.9%        | 75,849                               | 67,990     | 11.6%       |
| Income before income<br>taxes                  | \$ 8,556                               | \$ 10,669 | (19.8)%     | \$ 19,401                            | \$ 18,655  | 4.0%        |
| Net internal growth<br>rate - core             |  |           |             |                                      |            |             |
| commissions and fees                           | (1.8)%                                 | 13.4%     |             | (3.4)%                               | 9.5%       |             |
| Employee<br>compensation and<br>benefits ratio | 48.4%                                  | 44.9%     |             | 47.1%                                | 45.1%      |             |
| Other operating<br>expenses ratio              | 16.8%                                  | 16.3%     |             | 16.2%                                | 17.2%      |             |
| Capital expenditures                           | \$ 1,431                               | \$ 671    |             | \$ 2,000                             | \$ 1,048   |             |
|  |  |           |             | \$ 654,854                           | \$ 608,963 |             |

Total assets at June  
30, 2007 and 2006

The Wholesale Brokerage Division's total revenues for the three months ended June 30, 2007 increased 2.2%, or \$1.0 million, to \$46.7 million over the same period in 2006. Profit-sharing contingent commissions for the second quarter of 2007 decreased \$1.1 million from the same quarter of 2006. Of the increase in revenues, approximately \$3.4 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2006. The remaining net decrease is primarily due to \$0.8 million of net lost business in core commissions and fees. As such, the Wholesale Brokerage Division's internal growth rate for core commissions and fees was (1.8)% for the second quarter of 2007. Income before income taxes for the three months ended June 30, 2007 decreased 19.8%, or \$2.1 million, to \$8.6 million from the same period in 2006, primarily due to the decrease in profit-sharing contingent commissions and net lost business.

The Wholesale Brokerage Division's total revenues for the six months ended June 30, 2007 increased 9.9%, or \$8.6 million, to \$95.3 million over the same period in 2006. Profit-sharing contingent commissions for the six months ended June 30, 2007 increased \$4.5 million from the same period in 2006. Of the increase in revenues, approximately \$7.4 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2006. The remaining net decrease is primarily due to net lost business of \$2.6 million in core commissions and fees. As such, the Wholesale Brokerage Division's internal growth rate for core commissions and fees was (3.4)% for the six months ended June 30, 2007. A majority of the net lost business was the result of the \$3.3 million impact that the slowing residential home builders market had on one of our Wholesale Brokerage operations that focuses on that industry in the southwestern region of the United States, and a \$3.9 million impact primarily from business moving from excess and surplus lines insurance carriers to Citizens. Income before income taxes for the six months ended June 30, 2007 increased 4.0%, or \$0.7 million, to \$19.4 million over the same period in 2006, primarily due to the increase in profit-sharing contingent commissions.

## Services Division

The Services Division provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability areas, as well as Medicare set-aside services. Unlike our other segments, approximately 98% of the Services Division's 2007 commissions and fees revenue is generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division for the three-and six-month periods ended June 30, 2007 and 2006 is as follows (in thousands, except percentages):

|  | For the three months<br>ended June 30, |          |             | For the six months<br>ended June 30, |           |             |
|--|--|----------|-------------|--------------------------------------|-----------|-------------|
|  | 2007                                   | 2006     | %<br>Change | 2007                                 | 2006      | %<br>Change |
| <b>REVENUES</b>  |  |          |             |                                      |           |             |
| Commissions and fees                                       | \$ 9,184                               | \$ 8,051 | 14.1%       | \$ 18,138                            | \$ 14,695 | 23.4%       |
| Profit-sharing<br>contingent<br>commissions                | -                                      | -        | -           | -                                    | -         | -           |
| Investment income  | 11                                     | 12       | (8.3)%      | 17                                   | 25        | (32.0)%     |
| Other income (loss),<br>net                                | (1)                                    | (2)      | (50.0)%     | -                                    | (1)       | (100.0)%    |
| Total revenues   | 9,194                                  | 8,061    | 14.1%       | 18,155                               | 14,719    | 23.3%       |
| <b>EXPENSES</b>  |  |          |             |                                      |           |             |
| Employee<br>compensation and<br>benefits                   | 5,054                                  | 4,451    | 13.5%       | 10,106                               | 8,351     | 21.0%       |
| Non-cash stock-based<br>compensation                       | 35                                     | 29       | 20.7%       | 70                                   | 59        | 18.6%       |
| Other operating<br>expenses                                | 1,411                                  | 1,243    | 13.5%       | 2,760                                | 2,323     | 18.8%       |
| Amortization   | 116                                    | 86       | 34.9%       | 231                                  | 97        | 138.1%      |
| Depreciation   | 144                                    | 134      | 7.5%        | 295                                  | 239       | 23.4%       |
| Interest   | 167                                    | 110      | 51.8%       | 332                                  | 111       | 199.1%      |
| Total expenses   | 6,927                                  | 6,053    | 14.4%       | 13,794                               | 11,180    | 23.4%       |
| Income before income<br>taxes                              | \$ 2,267                               | \$ 2,008 | 12.9%       | \$ 4,361                             | \$ 3,539  | 23.2%       |
| Net internal growth<br>rate - core<br>commissions and fees | 5.9%                                   | 3.9%     |             | 7.6%                                 | 4.0%      |             |
| Employee<br>compensation and<br>benefits ratio             | 55.0%                                  | 55.2%    |             | 55.7%                                | 56.7%     |             |

|  |    |       |    |       |    |        |    |        |
|--|----|-------|----|-------|----|--------|----|--------|
| Other operating expenses ratio         |    | 15.3% |    | 15.4% |    | 15.2%  |    | 15.8%  |
| Capital expenditures                   | \$ | 118   | \$ | 217   | \$ | 241    | \$ | 337    |
| Total assets at June 30, 2007 and 2006 |    |       |    |       | \$ | 37,864 | \$ | 29,522 |

The Services Division's total revenues for the three months ended June 30, 2007 increased 14.1%, or \$1.1 million, to \$9.2 million from the same period in 2006. Core commissions and fees reflect an internal growth rate of 5.9% for the second quarter of 2007. Income before income taxes for the three months ended June 30, 2007 increased 12.9%, or \$0.3 million, to \$2.3 million from the same period in 2006, primarily due to the earnings from acquisitions and net new business from the net internal growth rate.

The Services Division's total revenues for the six months ended June 30, 2007 increased 23.3%, or \$3.4 million, to \$18.2 million from the same period in 2006. Core commissions and fees reflect an internal growth rate of 7.6% for the six months ended June 30, 2007. Income before income taxes for the six months ended June 30, 2007 increased 23.2%, or \$0.8 million, to \$4.4 million from the same period in 2006 primarily due to the earnings from acquisitions and net new business. As of August 1, 2007, one of our largest third-party administration clients has taken their service in-house and as a result, the Services Division will lose approximately \$430,000 of revenues per month.

### Other

As discussed in Note 13 of the Notes to Consolidated Financial Statements, the "Other" column in the Segment Information table includes any income and expenses not allocated to reportable segments, and corporate-related items, including the inter-company interest expense charged to the reporting segment.

Investment income included in the "Other" column in the Segment Information table reflects a realized gain from the sale of our common stock investment in Rock-Tenn Company of \$18,664,000, of which \$8,840,000 was realized in the first quarter of 2007 and \$9,824,000 was realized in the second quarter of 2007. As of June 30, 2007, we no longer own any shares of Rock-Tenn Company.

**LIQUIDITY AND CAPITAL RESOURCES**

Our cash and cash equivalents of \$67.9 million at June 30, 2007 reflected a decrease of \$20.5 million from the \$88.5 million balance at December 31, 2006. For the six-month period ended June 30, 2007, \$115.3 million of cash was provided from operating activities. Also during this period, \$111.8 million of cash was used for acquisitions, \$20.0 million was used for additions to fixed assets, \$14.9 million was used for payments on long-term debt and \$16.8 million was used for payment of dividends.

**Contractual Cash Obligations**

As of June 30, 2007, our contractual cash obligations were as follows:

| <i>(in thousands)</i>                                 | <b>Total</b> | <b>Payments Due by Period</b> |                  |                  | <b>After 5<br/>Years</b> |
|---|--------------|-------------------------------|------------------|------------------|--------------------------|
|   |              | <b>Less Than<br/>1 Year</b>   | <b>1-3 Years</b> | <b>4-5 Years</b> |                          |
| Long-term debt  | \$ 242,586   | \$ 17,154                     | \$ 294           | \$ 100,138       | \$ 125,000               |
| Capital lease obligations                             | 36           | 36                            | -                | -                | -                        |
| Other long-term liabilities                           | 12,576       | 10,094                        | 315              | 395              | 1,772                    |
| Operating leases                                      | 91,267       | 22,061                        | 35,821           | 19,816           | 13,569                   |
| Interest obligations                                  | 79,859       | 13,223                        | 26,166           | 21,723           | 18,747                   |
| Maximum future<br>acquisition contingency<br>payments | 200,571      | 84,156                        | 83,165           | 33,250           | -                        |
| Total contractual cash<br>obligations                 | \$ 626,895   | \$ 146,724                    | \$ 145,761       | \$ 175,322       | \$ 159,088               |

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: Series A, for \$100.0 million due in 2011 and bearing interest at 5.57% per year; and Series B, for \$100.0 million due in 2014 and bearing interest at 6.08% per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. Brown & Brown has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of June 30, 2007 and December 31, 2006 there was an outstanding balance of \$200.0 million on the Notes.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the “Master Agreement”) with a national insurance company (the “Purchaser”). 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 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 (10) 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 Facility 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 annum.

Also on December 22, 2006, we entered into a Second Amendment to Amended and Restated Revolving and Term Loan Agreement (the “Second Term Amendment”) and a Third Amendment to Revolving Loan Agreement (the “Third Revolving Amendment”) with a national banking institution, amending the existing Amended and Restated Revolving and Term Loan Agreement dated January 3, 2001 (the “Term Agreement”) and the existing Revolving Loan Agreement dated September 29, 2003, as amended (the “Revolving Agreement”), respectively. The amendments provided covenant exceptions for the notes issued or to be issued under the Master Agreement, and relaxed or deleted certain other covenants. In the case of the Third Revolving Amendment, the lending commitment was reduced from \$75.0 million to \$20.0 million, the maturity date was extended from September 30, 2008 to December 20, 2011, and the applicable margins for advances and the availability fee were reduced. Based on our funded debt to EBITDA ratio, the applicable margin for Eurodollar advances changed from a range of 0.625% to 1.625% to a range of 0.450% to 0.875%. The applicable margin for base rate advances changed from a range of 0.00% to 0.125% to the Prime Rate less 1.000%. The availability fee changed from a range of 0.175% to 0.250% to a range of 0.100% to 0.200%. The 90-day London Interbank Offering Rate (“LIBOR”) was 5.36% and 5.36% as of June 30, 2007 and December 2006, respectively. There were no borrowings against this facility at June 30, 2007 or December 31, 2006.

In January 2001, we entered into a \$90.0 million unsecured seven-year term loan agreement with a national banking institution, bearing an interest rate based upon the 30-, 60- or 90-day LIBOR plus 0.50% to 1.00%, depending upon our quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. The 90-day LIBOR was 5.36% and 5.36% as of June 30, 2007 and December 2006, respectively. The loan was fully funded on January 3, 2001 and as of June 30, 2007 had an outstanding balance of \$6,428,000. This loan is to be repaid in equal quarterly installments of \$3,214,000 through December 2007.

All four of these credit agreements require us to maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of June 30, 2007 and December 31, 2006.

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 Revolving Agreement described above, will be sufficient to satisfy our normal liquidity needs through at least the next 12 months. 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 have the ability to raise additional capital through either the private or public debt markets, or the public equity market.





### **Disclosure Regarding Forward-Looking Statements**

We make “forward-looking statements” within the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995 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,” “expect,” “anticipate,” “believe,” “estimate,” “plan” and “or similar words. We have based these statements on our current expectations about future events. Although we believe that our expectations reflected in or suggested by our forward-looking statements are reasonable, our actual results may differ materially from what we currently expect. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include:

- material adverse changes in economic conditions in the markets we serve;
- future regulatory actions and conditions in the states in which we conduct our business;
- competition from others in the insurance agency and brokerage business;
- a significant portion of business written by Brown & Brown is for customers located in Arizona, California, Florida, Georgia, Michigan, New Jersey, New York, Pennsylvania and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on our business, although no such conditions have been encountered in the past;
- the integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration; and
- other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (“SEC”) filings.

You should carefully read this report completely and with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

We do not undertake any obligation to publicly update or revise any forward-looking statements.

### **ITEM 3. 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, available-for-sale marketable equity securities, non-marketable 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 certificates of deposit at June 30, 2007 and December 31, 2006 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 any significant equity securities received in conjunction with an acquisition shortly after the acquisition date. As of December 31, 2006, our largest security investment was 559,970 common stock shares of Rock-Tenn Company, a New York Stock Exchange listed company, which we have owned for more than 25 years. Our investment in Rock-Tenn Company accounted

for 81% of the total value of available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit as of December 31, 2006. Rock-Tenn Company's closing stock price at June 30, 2007 and December 31, 2006 was \$31.72 and \$27.11 respectively. In late January 2007, the stock of Rock-Tenn Company began trading in excess of \$32.00 per share and the Board of Directors authorized the sale of one half of our investment, and subsequently authorized the sale of the balance of the shares. We realized a gain in excess of our original cost basis of \$8,840,000 in the first quarter of 2007 and \$9,824,000 in the second quarter of 2007. As of June 30, 2007, we have no remaining shares of Rock-Tenn Company and thus have no current exposure to equity price risk relating to the common stock of Rock-Tenn Company.

To hedge the risk of increasing interest rates from January 2, 2002 through the remaining six years of our seven-year \$90 million term loan, on December 5, 2001 we entered into an interest rate swap agreement that effectively converted the floating rate interest payments based on LIBOR to fixed interest rate payments at 4.53%. This agreement did not impact or change the required 0.50% to 1.00% credit risk spread portion of the term loan. We do not otherwise enter into derivatives, swaps or other similar financial instruments for trading or speculative purposes.

At June 30, 2007, the interest rate swap agreement was as follows:

| <i>(in thousands, except percentages)</i> | <b>Contractual/<br/>Notional Amount</b> | <b>Fair Value</b> | <b>Weighted Average<br/>Pay Rates</b> | <b>Weighted Average<br/>Received Rates</b> |
|---|---|-------------------|---------------------------------------|--|
| Interest rate swap agreement              | \$6,428                                 | \$20              | 4.53%                                 | 5.36%                                      |

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation (the “Evaluation”) required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 and 15d-15 under the Exchange Act (“Disclosure Controls”). Based on the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls provide reasonable assurance that the Disclosure Controls, as described in this Item 4, are effective in alerting them timely to material information required to be included in our periodic SEC reports.

##### **Changes in Internal Controls**

There has not been any change in our internal control over financial reporting identified in connection with the Evaluation that occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, those controls.

##### **Inherent Limitations of Internal Control Over Financial Reporting**

Our management, including our CEO and CFO, does not expect that our Disclosure Controls and internal controls 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 must reflect the fact 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 because of simple 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 the 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 not be detected.

##### **CEO and CFO Certifications**

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are supplied in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the “Section 302 Certifications”). This Item 4 of this Report is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.



## PART II

### ITEM 1. LEGAL PROCEEDINGS

In Item 3 of Part I of the Company's Annual Report on Form 10-K for its fiscal year ending December 31, 2006, certain information concerning certain legal proceedings and other matters was disclosed. Such information was current as of the date of filing. Additional relevant information is set forth below.

As disclosed in the Company's Quarterly Report on Form 10-Q for its fiscal quarter ending March 31, 2007, on April 5, 2007, the United States District Court, District of New Jersey, dismissed all claims alleging violations of federal law against all defendants, including the Company, in two lawsuits (which had been previously consolidated, along with certain other suits, for pre-trial purposes). *In Re: Employee-Benefits Insurance Antitrust Litigation*, concerning employee benefits insurance, and *In Re: Insurance Brokerage Antitrust Litigation*, concerning other lines of insurance, but allowed the plaintiffs leave to file an amended complaint by May 22, 2007.

Subsequently, on May 21, 2007, the plaintiffs in these lawsuits settled with the Company in exchange for the Company's agreement to waive its claims for sanctions and to reasonably cooperate with plaintiffs in the event that they seek additional information from the Company.

### ITEM 1A. RISK FACTORS

There were no material changes from the risk factors previously disclosed in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders was held on May 16, 2007. At the meeting, one matter was submitted to a vote of security holders.

#### 1. Election of eleven directors

The number of votes cast for, withheld or abstaining with respect to the election of each of the directors is set forth below:

|                        | <u>For</u>  | <u>Abstain/<br/>Withheld</u> |
|------------------------|-------------|------------------------------|
| J. Hyatt<br>Brown      | 118,069,566 | 6,963,703                    |
| Samuel P.<br>Bell, III | 94,915,315  | 30,117,954                   |
| Hugh M.<br>Brown       | 124,506,899 | 526,370                      |
| Bradley<br>Currey, Jr. | 124,256,822 | 776,447                      |
| Jim W.<br>Henderson    | 124,595,397 | 437,872                      |
| Theodore J.<br>Hoepner | 124,264,757 | 768,512                      |

|                   |             |           |
|-------------------|-------------|-----------|
| David H. Hughes   | 124,263,363 | 769,906   |
| Toni Jennings     | 124,526,310 | 506,959   |
| John R. Riedman   | 119,164,031 | 5,869,238 |
| Jan E. Smith      | 118,838,342 | 6,194,927 |
| Chilton D. Varner | 124,889,659 | 143,610   |

**ITEM 6. EXHIBITS**

The following exhibits are filed as a part of this Report:

- 3.1 Articles of Amendment to Articles of Incorporation (adopted April 24, 2003) (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 2003), and Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 1999).
- 3.2 Bylaws (incorporated by reference to Exhibit 3b to Form 10-K for the year ended December 31, 2002).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
- 32.1 Section 1350 Certification by the Chief Executive Officer of the Registrant.
- 32.2 Section 1350 Certification by the Chief Financial Officer of the Registrant.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BROWN & BROWN, INC.**

/s/ CORY T. WALKER

**Cory T. Walker**

**Sr. Vice President, Chief Financial  
Officer and Treasurer**

(duly authorized officer, principal  
financial officer and principal accounting  
officer)

Date: August 9, 2007