

BROWN & BROWN INC
Form 10-K
February 29, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 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)
**220 South Ridgewood Avenue, Daytona
Beach, FL**
(Address of principal executive offices)

59-0864469
(I.R.S. Employer Identification Number)
32114
(Zip Code)

Registrant's telephone number, including area code: (386) 252-9601
Registrant's Website: www.bbinsurance.com

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class
COMMON STOCK, \$0.10 PAR VALUE

Name of each exchange on which registered
NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant, computed by reference to the last reported price at which the stock was sold on June 30, 2007 (the last business day of the registrant's most recently completed second fiscal quarter) was \$2,810,919,399.

The number of outstanding shares of the registrant's Common Stock, \$.10 par value, outstanding as of February 26, 2008 was 140,726,472.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Brown & Brown, Inc.'s Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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PART I

ITEM 1. Business.**Disclosure Regarding Forward-Looking Statements**

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

material adverse changes in economic conditions in the markets we serve;

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

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

a significant portion of business written by Brown & Brown is for customers located in California, Florida, Georgia, Michigan, New Jersey, New York, Pennsylvania, Texas 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.

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

General

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

We are compensated for our services primarily by commissions paid by insurance companies and by fees paid by customers for certain services. The commission is usually a percentage of the premium paid by the insured. Commission rates generally depend upon the type of insurance, the particular insurance company and the nature

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of the services provided by us. In some cases, a commission is shared with other agents or brokers who have acted jointly with us in a transaction. We may also receive from an insurance company a profit-sharing contingent commission, which is a profit-sharing commission based primarily on underwriting results, but may also contain considerations for volume, growth and/or retention. Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, and (2) our Wholesale Brokerage and National Program Divisions which earn fees primarily for the issuing of insurance policies on behalf of insurance carriers. The amount of our revenue from commissions and fees is a function of, among other factors, continued new business production, retention of existing customers, acquisitions and fluctuations in insurance premium rates and insurable exposure units.

As of December 31, 2007, our activities were conducted in 198 locations in 38 states as follows:

Florida	38	Minnesota	3
New York	14	Nevada	3
New Jersey	11	North Carolina	3
Texas	11	South Carolina	3
California	10	Wisconsin	3

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Georgia	8	Connecticut	2
Colorado	7	Massachusetts	2
Illinois	7	Missouri	2
Pennsylvania	7	Montana	2
Virginia	7	New Hampshire	2
Washington	7	Alabama	1
Louisiana	6	Delaware	1
Arizona	5	Hawaii	1
Michigan	5	Kansas	1
Oklahoma	5	Nebraska	1
Arkansas	4	Ohio	1
Indiana	4	Oregon	1
Kentucky	4	Tennessee	1
New Mexico	4	West Virginia	1

Industry Overview

Premium pricing within the property and casualty insurance underwriting (risk-bearing) industry has historically been cyclical, displaying a high degree of volatility based on prevailing economic and competitive conditions. From the mid-1980s through 1999, the property and casualty insurance industry experienced a soft market during which the underwriting capacity of insurance companies expanded, stimulating an increase in competition and a decrease in premium rates and related commissions. The effect of this softness in rates on our revenues was somewhat offset by our acquisitions and new business production. As a result of increasing loss ratios (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, 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, the 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 companies from 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, the insurance premium rates, in general, declined during 2006. In addition to significant insurance pricing declines in the State of Florida, as discussed below, the insurance premium rates continued a gradual decline during 2007 in most of the other regions of the United States. One industry segment that was especially hit hard during 2007 was the home-building industry in southern California, and to a lesser extent Nevada, Arizona and Florida. We have a wholesale brokerage operation

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that focuses on placing property and casualty insurance products for that home-building segment and a program operation that places errors and omissions professional liability coverages for title agents. Both of these operations' revenues were significantly impacted by these national economic trends.

Florida Insurance Overview

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

In August 2002, the Florida Legislature created Citizens Property Insurance Corporation (Citizens), to be the insurer of last resort in Florida and therefore charged insurance rates that were higher than the general private insurance marketplace. In each of 2004 and 2005, four major hurricanes made landfall in Florida, and as a result of the significant insurance property losses, the insurance rates increased in 2006. To counter the increased property insurance rates, the State of Florida instructed Citizens to essentially cut their property insurance rates in half beginning in

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January 2007. By state law, Citizens has guaranteed their rates through January 1, 2009. Therefore, Citizens became the most competitive risk-bearer on commercial habitational coastal property exposures, such as condominiums, apartments, and certain assisted living facilities. Additionally, Citizens became the only insurance market for certain homeowner policies throughout Florida. By the end of 2007, Citizens was the largest single underwriter of coastal property in Florida.

Since Citizens became the main direct competitor against the risk-bearer of our Florida Intercoastal Underwriters (FIU) condominium program and the excess and surplus lines insurers represented by our wholesale brokerage segment such as our Hull & Company subsidiary, these programs suffered the largest amount of revenue loss to Citizens during 2007. Citizens' impact on our Florida Retail Division was less than on our National Program and Wholesale Brokerage Divisions, because to our Retail Offices, Citizens was now simply another risk-bearer with which to write business, although at slightly lower commission rates and a greater difficulty in placing coverage. For 2008, the insurance rates charged by Citizens are expected to be similar to their 2007 rates and therefore, the sequential year impact of Citizens' rates may not be as significant as they were on our 2007 results.

In the second half of 2007, the standard insurance companies started to become more competitive in the casualty (liability) business, including workers' compensation business. The rates in the Florida casualty business began to reduce as much as 20%-25% compared with 2006 rates. These competitive rates are likely to continue for at least the first half of 2008.

Current Year Company Overview

For us, 2007 was a year unlike any previous ones. For the first time since we began tracking internal revenue growth rates in 1997, we completed the year with a negative internal growth rate. Last year also consisted of four straight quarters of negative internal growth. Our total commissions and fees decreased \$27.9 million or (3.4)% in 2007 and this decrease is primarily attributed to the continued soft insurance marketplace in the United States, the governmental involvement in the Florida insurance marketplace and the negative impact of the economy on the home-building industry. Offsetting the negative internal revenue growth was a very successful year of 41 acquisitions (including books of business) with estimated annual revenues of \$108.3 million, of which \$67.7 million is reflected in our 2007 revenues.

During 2007, we also recorded an \$18.7 million gain on the sale of our investment in Rock-Tenn Company, which we owned for over 25 years. Additionally, during the year we recognized \$13.5 million in gains on the sale of various books of business (customer accounts). The sales of these accounts were related to individual circumstances in various offices and are not indicative of any expected trends. Finally, we settled an ongoing Internal Revenue Service (IRS) examination of our tax years 2004-2006 for the payment of \$1.1 million in interest.

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Business Combinations

Beginning in 1993 through 2007, we acquired 278 insurance intermediary operations, including acquired books of business (customer accounts), that had aggregate estimated annual revenues of \$742.3 million for the 12 calendar months immediately preceding the dates of acquisition. Of these, 41 operations were acquired during 2007, with aggregate estimated annual revenues of \$108.3 million for the 12 calendar months immediately preceding the dates of acquisitions and 32 operations were acquired during 2006, with aggregate estimated annual revenues of \$56.4 million for the 12 calendar months immediately preceding the dates of acquisition. During 2005, 32 operations were acquired with aggregate estimated annual revenues of \$125.9 million for the 12 calendar months immediately preceding the dates of acquisition.

See Note 2 to the Consolidated Financial Statements for a summary of our 2007 and 2006 acquisitions.

From January 1, 2008 through February 29, 2008, Brown & Brown acquired the assets and assumed certain liabilities of seven insurance intermediaries, two books of business (customer accounts) and the outstanding stock of one general insurance agency. The aggregate purchase price of these acquisitions was \$71,080,000, including \$65,918,000 of net cash payments, the issuance of \$185,000 in notes payable and the assumption of \$4,977,000 of liabilities. See Note 17 to the Consolidated Financial Statements for a summary of our 2008 acquisitions.

SEGMENT INFORMATION

Our business is divided into four reportable operating segments: (1) the Retail Division; (2) the Wholesale Brokerage Division; (3) the National Programs Division; and (4) the Services Division. The Retail Division provides a broad range of insurance products and services to commercial, public entity, professional and individual customers. The Wholesale Brokerage Division markets and sells excess and surplus commercial and personal insurance, and reinsurance, primarily through independent agents and brokers. The National Programs Division is comprised of two units: Professional Programs, which provides professional liability and related package products for certain professionals; and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public entities, and market niches. The Services

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Division provides clients with third-party claims administration, consulting for the workers' compensation insurance market, comprehensive medical utilization management services in both workers' compensation and all-lines liability arenas, and Medicare Secondary Payer statute compliance-related services.

The following table sets forth a summary of (1) the commissions and fees revenue generated by each of our reportable operating segments for 2007, 2006 and 2005, and (2) the percentage of our total commissions and fees revenue represented by each segment for each such period:

<i>(in thousands, except percentages)</i>	2007	%	2006	%	2005	%
Retail Division	\$548,038	59.9%	\$516,489	59.7%	\$489,566	63.1%
Wholesale Brokerage Division	175,289	19.1	159,268	18.4	125,537	16.2
National Programs Division	157,008	17.2	156,996	18.2	133,147	17.2
Services Division	35,505	3.9	32,561	3.8	26,565	3.4
Other	(1,190)	(0.1)	(651)	(0.1)	728	0.1
Total	\$914,650	100.0%	\$864,663	100.0%	\$775,543	100.0%

See Note 16 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for additional segment financial data relating to our business.

Retail Division

As of December 31, 2007, our Retail Division employed 2,926 persons. Our retail insurance agency business provides a broad range of insurance products and services to commercial, public and quasi-public entity, professional and individual customers. The categories of insurance principally sold by us include: property

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insurance relating to physical damage to property and resultant interruption of business or extra expense caused by fire, windstorm or other perils; casualty insurance relating to legal liabilities, workers' compensation, commercial and private passenger automobile coverages; and fidelity and surety bonds. We also sell and service group and individual life, accident, disability, health, hospitalization, medical and dental insurance.

No material part of our retail business is attributable to a single customer or a few customers. During 2007, commissions and fees from our largest single Retail Division customer represented less than one percent of the Retail Division's total commissions and fees revenue.

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

Wholesale Brokerage Division

At December 31, 2007, the Wholesale Brokerage Division employed 1,071 persons. The Wholesale Brokerage Division markets excess and surplus commercial insurance products and services to retail insurance agencies (including our retail offices), and reinsurance products and services to insurance companies throughout the United States. Wholesale Brokerage Division offices represent various U.S. and U.K. surplus lines insurance companies and certain offices are also Lloyd's of London correspondents. The Wholesale Brokerage Division also represents admitted insurance companies for smaller agencies that do not have access to large insurance company representation. Excess and surplus insurance products include many insurance coverages, including personal lines homeowners, yachts, jewelry, commercial property and casualty, commercial automobile, garage, restaurant, builder's risk and inland marine lines. Difficult-to-insure general liability and products liability coverages are a specialty, as is excess workers' compensation coverage. Retail insurance agency business is solicited through mailings and direct contact with retail agency representatives.

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In March 2005, we acquired the assets of Hull & Company, Inc. and certain affiliated companies (Hull) with estimated annualized revenues of \$63.0 million which along with acquisitions of several other larger wholesale brokerage operations, which essentially tripled the Wholesale Brokerage Division's 2006 and 2005 revenues over its 2004 revenues.

On January 1, 2006, we acquired the assets of Axiom Intermediaries, LLC. (Axiom), which specializes in treaty and facultative reinsurance brokerage services. Axiom's total revenues in 2006 were \$11.5 million.

In September 2006, we acquired the assets of Delaware Valley Underwriting Agency, Inc. and certain affiliated companies with estimated annualized revenues of \$15.0 million.

In August 2007, we acquired the assets and assumed certain liabilities of The Combined Group, Inc. and certain affiliated companies with estimated annualized revenues of \$12.6 million.

National Programs Division

As of December 31, 2007, our National Programs Division employed 661 persons. Our National Programs Division consists of two units: Professional Programs and Special Programs.

Professional Programs. Professional Programs provides professional liability and related package insurance products for certain professionals. Professional Programs tailors insurance products to the needs of a particular professional group; negotiates policy forms, coverages and commission rates with an insurance company; and, in certain cases, secures the formal or informal endorsement of the product by a professional association or sponsoring company. The professional groups serviced by the Professional Programs include dentists, lawyers, optometrists, opticians, insurance agents, financial service representatives, benefit administrators, real estate title agents and escrow agents. The Professional Protector Plan® for Dentists and the Lawyer's Protector Plan® are marketed and sold primarily through a national network of independent agencies including certain of our retail offices, while certain of the professional liability programs of our CalSurance® and TitlePac® operations are principally marketed and sold directly to our insured customers. Under our agency agreements with the insurance companies that

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underwrite these programs, we often have authority to bind coverages (subject to established guidelines), to bill and collect premiums and, in some cases, to adjust claims. For the programs that we market through independent agencies, we receive a wholesale commission or override, which is then shared with these independent agencies.

Below are brief descriptions of the programs offered to professional groups by the Professional Programs unit of the National Programs Division.

Dentists: The Professional Protector Plan® for Dentists offers comprehensive coverage for dentists, oral surgeons, dental schools and dental students, including practice protection and professional liability. This program, initiated in 1969, is endorsed by a number of state and local dental societies and is offered in 49 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico.

Lawyers: The Lawyer's Protector Plan® (LPP®) was introduced in 1983, 10 years after we began marketing lawyers' professional liability insurance. This program is presently offered in 43 states, the District of Columbia and Puerto Rico.

Optometrists and Opticians: The Optometric Protector Plan® (OPP®) and the Optical Services Protector Plan® (OSPP®) were created in 1973 and 1987, respectively, to provide professional liability, package and workers' compensation coverages exclusively for optometrists and opticians. These programs insure optometrists and opticians nationwide.

CalSurance®: CalSurance® offers professional liability programs designed for insurance agents, financial advisors, registered representatives, securities broker-dealers, benefit administrators, real estate brokers and real estate title agents. CalSurance® also sells commercial insurance packages directly to customers in certain industry niches including destination resort and luxury hotels, independent pizza restaurants, and others. An important aspect of CalSurance® is Lancer Claims Services, which provides specialty claims administration for insurance companies underwriting CalSurance® product lines.

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

Special Programs. Special Programs markets targeted products and services to specific industries, trade groups, public and quasi-public entities, and market niches. All of the Special Programs, except for Parcel Insurance Plan® (PIP®), are marketed and sold primarily through independent agents, including certain of our retail offices. Parcel Insurance Plan® markets and sells its insurance product directly to insured customers. Under agency agreements with the insurance companies that underwrite these programs, we often have authority to bind coverages (subject to established guidelines), to bill and collect premiums and, in some cases, to adjust claims.

Below are brief descriptions of the Special Programs:

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

Public Risk Underwriters®, along with our similar offices in Florida and other states, are program administrators offering tailored property and casualty insurance products, risk management consulting, third-party administration and related services designed for municipalities, schools, fire districts, and other public entities.

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

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

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

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Professional Risk Specialty Group is a specialty insurance agency providing liability insurance products to various professional groups.

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

Acumen Re Management Corporation is a reinsurance underwriting management organization, primarily acting as an outsourced specific excess workers' compensation facultative reinsurance underwriting facility.

Commercial Programs serves the insurance needs of certain specialty trade/industry groups. Programs offered include:

Wholesalers & Distributors Preferred Program®. Introduced in 1997, this program provides property and casualty protection for businesses principally engaged in the wholesale-distribution industry.

Railroad Protector Plan®. Also introduced in 1997, this program is designed for contractors, manufacturers and other entities that service the needs of the railroad industry.

Environmental Protector Plan®. Introduced in 1998, this program provides a variety of specialized coverages, primarily to municipal mosquito control districts.

*Food Processors Preferred Program*SM. This program, introduced in 1998, provides property and casualty insurance protection for businesses involved in the handling and processing of various foods.

Services Division

At December 31, 2007, our Services Division employed 266 persons and provided the following services: (1) insurance-related services, including comprehensive risk management and third-party administration (TPA) services for insurance entities and self-funded or fully-insured workers' compensation and liability plans; (2) comprehensive medical utilization management services for both workers' compensation and all-lines liability insurance plans; and (3) Medicare Secondary Payer statute compliance-related services.

The Services Division's workers' compensation and liability plan TPA services include claims administration, access to major reinsurance markets, cost containment consulting, services for secondary disability, and subrogation recoveries and risk management services such as loss control. In 2007, our three largest workers' compensation contracts represented approximately 31.5% of our Services Division's fees revenue, or approximately 1.2% of our total consolidated commissions and fees revenue. In addition, the Services Division provides managed care services, including medical networks, case management and utilization review services, certified by the American Accreditation Health Care Commission.

Employees

At December 31, 2007, we had 5,047 full-time equivalent employees. We have agreements with our sales employees and certain other employees that include provisions restricting their right to solicit our insured customers and employees after separation from employment with us. The enforceability of such agreements varies from state to state depending upon state statutes, judicial decisions and factual circumstances. The majority of these agreements are at-will and terminable by either party; however, the covenants not to solicit our insured customers and employees generally extend for a period of two years after cessation of employment.

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

Competition

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

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

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

Regulation, Licensing and Agency Contracts

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

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

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934 and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the Securities and Exchange Commission (SEC). We make available free of charge

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on our website, at www.bbinsurance.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and the rules promulgated thereunder, as soon as reasonably practicable after electronically filing or furnishing such material to the SEC. These documents are posted on our Web site at www.bbinsurance.com select the Investor Relations link and then the Publications & Filings link.

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

SEC Public Reference Room
100 F Street NE
Washington, D.C. 20549

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

The charters of the Audit, Compensation and Nominating/Governance Committees of our Board of Directors as well as our Corporate Governance Principles, Code of Business Conduct and Ethics and Code of Ethics CEO and Senior Financial Officers (including any amendments to, or waiver from, a provision of any of these charters, principles or codes) are also available on our website or upon request. Requests for copies of any of these documents should be directed in writing to Corporate Secretary, Brown & Brown, Inc., 3101 West Martin Luther King Jr. Blvd., Suite 400, Tampa, Florida 33607, or by telephone to (813) 222-4277.

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ITEM 1A. Risk Factors

As referenced, this Annual Report on Form 10-K includes certain forward-looking statements regarding various matters. The ultimate correctness of those forward-looking statements is dependent upon a number of known and unknown risks and events, and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be different from those expressed or implied by those statements. Undue reliance should not be placed on those forward-looking statements. The following important factors, among others, as well as those factors set forth in our other SEC filings from time to time, could affect future results and events, causing results and events to differ materially from those expressed or implied in our forward-looking statements. The risks and uncertainties described below are not the only ones facing Brown & Brown, Inc. and its subsidiaries. Additional risks and uncertainties, not presently known to us or otherwise, may also impair our business operations.

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

We are primarily engaged in insurance agency and wholesale brokerage activities and derive revenues principally from commissions paid by insurance companies. Commissions are based upon a percentage of premiums paid by customers for insurance products. The amount of such commissions is therefore highly dependent on premium rates charged by insurance companies. We do not determine insurance premiums. Premium rates are determined by insurance companies based on a fluctuating market. Historically, property and casualty premiums have been cyclical in nature and have varied widely based on market conditions. From the mid-1980s through 1999, general premium levels were depressed as a result of the expanded underwriting capacity of insurance companies and increased competition. In many cases, insurance companies lowered commission rates and increased volume requirements. Significant reductions in premium rates occurred during the years 1986 through 1999. As a result of increasing loss ratios (the comparison of incurred losses plus loss adjustment expenses against earned premiums) experience by insurance companies through 1999, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2004, there was a rapid transition as previously stable or increasing rates fell in most markets. These rate declines were most pronounced in the property and casualty market, with rates falling between 10% and 30% by year-end. Rate declines continued on a moderated basis through 2006, with the exception of premium rates on coastal property, which increased. In addition to significant insurance pricing declines in the State of Florida, the insurance premium rates continued a gradual decline during 2007 in most of the other regions of the United States. One industry segment that was especially hit hard during 2007 was the home-building industry in southern California, and to a lesser extent Nevada, Arizona and Florida. We have a wholesale brokerage operation that focuses on placing property and casualty insurance products for that home-building segment and a program operation that places errors and omissions professional liability coverages for title agents. Both of these operations' revenues were significantly impacted by these national economic trends.

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

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

The business practices and compensation arrangements of the insurance intermediary industry, including our practices and arrangements, are subject to uncertainty due to investigations by various governmental authorities and a related derivative demand from counsel for a purported shareholder which could result in a purported derivative action based on claimed improprieties in the manner in which we are compensated by insurance companies. The legislatures of various states may adopt new laws addressing contingent commission arrangements, including laws prohibiting such arrangements, and addressing disclosure of such arrangements to insureds. Various state departments of insurance may also adopt new regulations addressing these matters. While it is not possible to predict the outcome of the governmental inquiries and investigations into the insurance industry's commission payment practices, the derivative demand or the responses by the market and government regulators, any unfavorable resolution of these matters could adversely affect our results of operations, and if such resolution included a material decrease in our profit-sharing contingent commissions, it would be likely to have an adverse effect on our results of operations.

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

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

While most of the errors and omissions claims made against us have, subject to our self-insured deductibles, been covered by our professional indemnity insurance, our business, results of operations, financial condition and liquidity may be adversely affected if, in the future, our insurance coverage proves to be inadequate or unavailable or there is an increase in liabilities for which we self-insure. Our ability to obtain professional indemnity insurance in the amounts and with the deductibles we desire in the future may be adversely impacted by general developments in the market for such insurance or our own claims experience. In addition, claims, lawsuits and other proceedings may harm our reputation or divert management resources away from operating our business.

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

For the year ended December 31, 2007, approximately 5.3% and 5.3%, respectively, of our total revenues were derived from insurance policies underwritten by two separate insurance companies, respectively. For the year ended December 31, 2006, approximately 5.3% and 4.9%, respectively, of our total revenues were derived from insurance

policies underwritten by two separate insurance companies, respectively. For the year ended December 31, 2005, approximately 8.0% and 5.4%, respectively, of our total revenues were derived from insurance policies underwritten by two separate insurance companies, respectively. Should either of these insurance companies seek to terminate their arrangements with us, we believe that other insurance companies are available to underwrite the business, although some additional expense and loss of market share could possibly result. No other insurance company accounts for 5% or more of our total revenues.

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

A significant portion of our business is concentrated in California, Florida, Georgia, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington. For the years ended December 31, 2007, 2006 and December 31, 2005, we derived \$677.4 million or 74.1%, \$640.0 million, or 74.0%, and \$589.7 million, or 76.0%, of our commissions and fees from our operations located in these states, respectively. We believe that these revenues are attributable predominately to clients in these states. We believe the regulatory environment for insurance intermediaries in these states currently is no more restrictive than in other states. The insurance business is a state-regulated industry, and therefore, state legislatures may enact laws that adversely affect the insurance industry. Because our business is concentrated in a few states, we face greater exposure to unfavorable changes in regulatory conditions in those states than insurance intermediaries whose operations are more diversified through a greater number of states. In addition, the occurrence of adverse economic conditions, natural or other disasters, or other circumstances specific to or otherwise significantly impacting these states could adversely affect our financial condition, results of operations and cash flows.

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

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

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

We are planning to expand our operations to the United Kingdom, which will be the first time we've operated outside the United States. In addition, we intend to continue to consider additional international expansion opportunities. Our international operations may be subject to a number of risks, including:

difficulties in staffing and managing foreign operations;

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

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

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

unexpected changes in regulatory requirements and laws;

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

adverse changes in tax rates;

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

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

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

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

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

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

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

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

We conduct business in most states and are subject to comprehensive regulation and supervision by government agencies in the states in which we do business. The primary purpose of such regulation and supervision is to provide safeguards for policyholders rather than to protect the interests of our stockholders. The laws of the various state jurisdictions establish supervisory agencies with broad administrative powers with respect to, among other things, licensing of entities to transact business, licensing of agents, admittance of assets, regulating premium rates, approving policy forms, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, requiring participation in guarantee funds and shared market mechanisms, and restricting payment of dividends. Also, in response to perceived excessive cost or inadequacy of available insurance, states have from time to time created state insurance funds and assigned risk pools, which compete directly, on a subsidized basis, with private insurance providers. We act as agents and brokers for such state insurance funds and assigned risk pools in California and certain other states. These state funds and pools could choose to reduce the sales or brokerage commissions we receive. Any such reductions, in a state in which we have substantial operations, such as Florida, California or New York, could substantially affect the profitability of our operations in such state, or cause us to change our marketing focus. Further, state insurance regulators and the National Association of Insurance Commissioners continually re-examine existing laws and regulations, and such re-examination may result in the

enactment of insurance-related laws and regulations, or the issuance of interpretations thereof, that adversely affect our business. Although we believe that we are in compliance in all material respects with applicable local, state and federal laws, rules and regulations, there can be no assurance that more restrictive laws, rules or regulations will not be adopted in the future that could make compliance more difficult or

expensive. Specifically, recently adopted federal financial services modernization legislation could lead to additional federal regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

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

We derive a portion of our revenues from profit-sharing contingent commissions and override commissions paid by insurance companies. Profit-sharing contingent commissions are special revenue-sharing commissions paid by insurance companies based upon the profitability, volume and/or growth of the business placed with such companies during the prior year. We primarily receive these commissions in the first and second quarters of each year. The aggregate of these commissions generally have accounted for 5.2% to 6.6% of the previous year's total annual revenues over the last three years. Due to the inherent uncertainty of loss in our industry and changes in underwriting criteria due in part to the high loss ratios experienced by insurance companies, we cannot predict the payment of these profit-sharing contingent commissions. Further, we have no control over the ability of insurance companies to estimate loss reserves, which affects our ability to make profit-sharing calculations. Override commissions are paid by insurance companies based on the volume of business that we place with them and are generally paid over the course of the year. Because profit-sharing contingent commissions and override commissions affect our revenues, any decrease in their payment to us could adversely affect the results of our operations and our financial condition.

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

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

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

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

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

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

THE LOSS OF ANY MEMBER OF OUR SENIOR MANAGEMENT TEAM, PARTICULARLY OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, J. HYATT BROWN, COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND FUTURE OPERATING RESULTS.

We believe that our future success partly depends on our ability to attract and retain experienced personnel, including senior management, brokers and other key personnel. The loss of any of our senior managers or other key personnel, or our inability to identify, recruit and retain such personnel, could materially and adversely affect our business, operating results and financial condition. Although we operate with a decentralized management system, the loss of the services of J. Hyatt Brown, our Chairman and Chief Executive Officer, who beneficially owned approximately 15.3% of our outstanding common stock as of February 23, 2008, and is key to the development and implementation of our business strategy, could adversely affect our financial condition and future operating results. We maintain a \$5 million key man life insurance policy with respect to Mr. Brown. We also maintain a \$20 million insurance policy on the lives of Mr. Brown and his wife. Under the terms of an agreement with Mr. and Mrs. Brown, at the option of the Brown estate, we will purchase, upon the death of the later to die of Mr. Brown or his wife, shares of our common stock owned by Mr. and Mrs. Brown up to the maximum number that would exhaust the proceeds of the policy.

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

At February 23, 2008, our executive officers, directors and certain of their family members collectively beneficially owned approximately 20.5% of our outstanding common stock, of which J. Hyatt Brown, our Chairman and Chief Executive Officer, and his family members, which include his sons Powell Brown, our President, and Barrett Brown, also an employee of the Company, beneficially owned approximately 17%. As a result, our executive officers, directors and certain of their family members have significant influence over (1) the election of our Board of Directors, (2) the approval or disapproval of any other matters requiring stockholder approval, and (3) the affairs and policies of Brown & Brown.

CHANGES IN THE SECURITIES LAWS AND REGULATIONS HAVE INCREASED AND MAY CONTINUE TO INCREASE OUR COSTS.

The Sarbanes-Oxley Act of 2002 has required changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of that Act, the Securities and Exchange Commission (SEC) and the New York Stock Exchange have promulgated new rules on a variety of subjects. Compliance with these new rules has increased our legal and financial and accounting costs, and we expect these increased costs to continue for the foreseeable future. These developments may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our Board of Directors or qualified executive officers.

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

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

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

IF WE RECEIVE OTHER THAN AN UNQUALIFIED OPINION ON THE ADEQUACY OF OUR INTERNAL CONTROL OVER FINANCIAL REPORTING AS OF DECEMBER 31, 2008 AND FUTURE YEAR-ENDS AS REQUIRED BY SECTION 404 OF THE

SARBANES-OXLEY ACT OF 2002, INVESTORS COULD LOSE CONFIDENCE IN THE RELIABILITY OF OUR FINANCIAL STATEMENTS, WHICH COULD RESULT IN A DECREASE IN THE VALUE OF YOUR SHARES.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include an annual report on internal control over financial reporting on Form 10-K that contains an assessment by management of the effectiveness of our internal control over financial reporting. While we continuously conduct a rigorous review of our internal control over financial reporting in order to assure compliance with the Section 404 requirements, if our independent auditors interpret the Section 404 requirements and the related rules and regulations differently than we do or if our independent auditors are not satisfied with our internal control over financial reporting or with the level at which it is documented, operated or reviewed, they may issue a report other than an unqualified opinion. A report other than an unqualified opinion could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

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

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

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ITEM 1B. *Unresolved Staff Comments.*

None.

ITEM 2. *Properties.*

We lease our executive offices, which are located at 220 South Ridgewood Avenue, Daytona Beach, Florida 32114, and 3101 West Martin Luther King Jr. Boulevard., Suite 400, Tampa, Florida 33607. We lease offices at each of our 198 locations with the exception of Dansville and Jamestown, New York where we own the buildings in which our offices are located. In addition, we own a building in Loreauville, Louisiana where we no longer have an office, as well as a parcel of undeveloped property outside of Lafayette, Louisiana. There are no outstanding mortgages on our owned properties. Our operating leases expire on various dates. These leases generally contain renewal options and rent escalation clauses based on increases in the lessors' operating expenses and other charges. We expect that most leases will be renewed or replaced upon expiration. We believe that our facilities are suitable and adequate for present purposes, and that the productive capacity in such facilities is substantially being utilized. From time to time, we may have unused space and seek to sublet such space to third parties, depending on the demand for office space in the locations involved. In the future, we may need to purchase, build or lease additional facilities to meet the requirements projected in our long-term business plan. See Note 13 to the Consolidated Financial Statements for additional information on our lease commitments.

ITEM 3. *Legal Proceedings.*

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

ITEM 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of security holders during our fourth quarter ended December 31, 2007.

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PART II

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

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol BRO . The table below sets forth, for the quarterly periods indicated, the intra-day high and low sales prices for our common stock as reported on the NYSE Composite Tape and dividends declared on our common stock. All per-share amounts have been restated to give effect to the two-for-one common stock split effected on November 28, 2005.

	High	Low	Cash Dividends Per Common Share
2006			
First Quarter	\$ 33.23	\$ 27.86	\$ 0.050
Second Quarter	\$ 35.25	\$ 28.15	\$ 0.050
Third Quarter	\$ 32.50	\$ 27.06	\$ 0.050
Fourth Quarter	\$ 30.77	\$ 28.00	\$ 0.060
2007			
First Quarter	\$ 29.02	\$ 26.72	\$ 0.060
Second Quarter	\$ 28.59	\$ 25.03	\$ 0.060
Third Quarter	\$ 29.15	\$ 24.65	\$ 0.060
Fourth Quarter	\$ 27.71	\$ 23.10	\$ 0.070

On February 15, 2008, there were 140,726,472 shares of our common stock outstanding, held by approximately 1,121 shareholders of record.

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

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2007, with respect to compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	1,253,468	\$ 12.49	14,333,146
Equity compensation plans not approved by shareholders			
Total	1,253,468	\$ 12.49	14,333,146

Sales of Unregistered Securities

We made no sales of unregistered securities during 2007.

Issuer Purchases of Equity Securities

We did not purchase any shares of Brown & Brown, Inc. common stock during the fourth quarter of 2007.

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PERFORMANCE GRAPH

The following graph is a comparison of five-year cumulative total stockholder returns for our common stock as compared with the cumulative total stockholder return for the Standard & Poor's 500 Index, and a group of peer insurance broker and agency companies (Aon Corporation, Arthur J. Gallagher & Co, Hilb, Rogal and Hobbs Company, and Marsh & McLennan Companies, Inc.). The returns of each company have been weighted according to such companies' respective stock market capitalizations as of December 31, 2002 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed \$100 investment on December 31, 2002, with all dividends reinvested.

COMPANY/INDEX/MARKET	FISCAL YEAR ENDING					
	12/31/2002	12/31/2003	12/31/2004	12/30/2005	12/29/2006	12/31/2007
Brown & Brown Inc	100.00	101.68	136.78	193.26	179.78	151.19
Customer Selected Stock List	100.00	110.96	94.31	101.93	103.31	106.16
NYSE Market Index	100.00	129.55	146.29	158.37	185.55	195.46

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

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ITEM 6. Selected Financial Data.

The following selected Consolidated Financial Data for each of the five fiscal years in the period ended December 31, 2007 have been derived from our Consolidated Financial Statements. Such data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this Annual Report and with our Consolidated Financial Statements and related Notes thereto in Item 8 of Part II of this Annual Report.

(in thousands, except per share data, number of employees and percentages) ⁽¹⁾

	Year Ended December 31,				
	2007	2006	2005	2004	2003
REVENUES					
Commissions & fees ⁽²⁾	\$ 914,650	\$ 864,663	\$ 775,543	\$ 638,267	\$ 545,287
Investment income	30,494	11,479	6,578	2,715	1,428
Other income, net	14,523	1,862	3,686	5,952	4,325
Total revenues	959,667	878,004	785,807	646,934	551,040
EXPENSES					
Employee compensation and benefits	444,101	404,891	374,943	314,221	268,372
Non-cash stock-based compensation	5,667	5,416	3,337	2,625	2,272
Other operating expenses	131,371	126,492	105,622	84,927	74,617
Amortization	40,436	36,498	33,245	22,146	17,470

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<i>(in thousands, except per share data, number of employees and percentages) ⁽¹⁾</i>	Year Ended December 31,				
Depreciation	12,763	11,309	10,061	8,910	8,203
Interest	13,802	13,357	14,469	7,156	3,624
Total expenses	648,140	597,963	541,677	439,985	374,558
Income before income taxes	311,527	280,041	244,130	206,949	176,482
Income taxes	120,568	107,691	93,579	78,106	66,160
Net income	\$ 190,959	\$ 172,350	\$ 150,551	\$ 128,843	\$ 110,322

EARNINGS PER SHARE INFORMATION

Net income per share diluted	\$ 1.35	\$ 1.22	\$ 1.08	\$ 0.93	\$ 0.80
Weighted average number of shares outstanding diluted	141,257	141,020	139,776	138,888	137,794
Dividends declared per share	\$ 0.2500	\$ 0.2100	\$ 0.1700	\$ 0.1450	\$ 0.1213

YEAR-END FINANCIAL POSITION

Total assets	\$ 1,960,659	\$ 1,807,952	\$ 1,608,660	\$ 1,249,517	\$ 865,854
Long-term debt	\$ 227,707	\$ 226,252	\$ 214,179	\$ 227,063	\$ 41,107
Shareholders' equity ⁽³⁾	\$ 1,097,458	\$ 929,345	\$ 764,344	\$ 624,325	\$ 498,035
Total shares outstanding	140,673	140,016	139,383	138,318	137,122

OTHER INFORMATION

Number of full-time equivalent employees	5,047	4,733	4,540	3,960	3,517
Revenue per average number of employees	\$ 196,251	\$ 189,368	\$ 184,896	\$ 173,046	\$ 159,699
Book value per share at year-end	\$ 7.80	\$ 6.64	\$ 5.48	\$ 4.51	\$ 3.63
Stock price at year-end	\$ 23.50	\$ 28.21	\$ 30.54	\$ 21.78	\$ 16.31
Stock price earnings multiple at year-end	17.41	23.12	28.35	23.41	20.38
Return on beginning shareholders' equity	21%	23%	24%	26%	28%

- (1) All share and per share information has been restated to give effect to a two-for-one common stock split that became effective November 28, 2005.
- (2) See Note 2 to the Consolidated Financial Statements for information regarding business combination transactions which impact the comparability of this information.
- (3) Shareholders' equity as of December 31, 2007, 2006, 2005, 2004 and 2003 included net increases of \$13,000, \$9,144,000, \$4,446,000, \$4,467,000 and \$4,227,000, respectively, as a result of the Company's applications of Statement of Financial Accounting Standards (SFAS) 115, Accounting for Certain Investments in Debt and Equity Securities, and SFAS 133, Accounting for Derivatives Instruments and Hedging Activities.

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

General

The following discussion should be read in conjunction with our Consolidated Financial Statements and the related Notes to those Consolidated Financial Statements, included elsewhere in this Annual Report. All share and per share information has been restated to give effect to a two-for-one common stock split that became effective November 28, 2005.

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We are a diversified insurance agency, wholesale brokerage and services organization headquartered in Daytona Beach and Tampa, Florida. Since 1993, our stated corporate objective has been to increase our net income per share by at least 15% every year. We have increased revenues from \$95.6 million in 1993 (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to \$959.7 million in 2007, a compound annual growth rate of 17.9%. In the same period, we increased net income from \$8.0 million (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to \$191.0 million in 2007, a compound annual growth rate of 25.4%. Since 1993, excluding the historical impact of poolings, our pre-tax margins (income before income taxes and minority interest divided by total revenues) improved in all but one year, and in that year, the pre-tax margin was essentially flat. These improvements have resulted primarily from net new business growth (new business production offset by lost business), revenues generated by acquisitions, continued operating efficiencies and for 2007, the sale of our investment in Rock-Tenn Company. Unlike our prior year's results, our revenue growth in 2007 was driven primarily by the acquisition of 41 agency entities and several books of business (customer accounts) generating total annualized revenues of approximately \$108.3 million.

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 decline, 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, the insurance premium rates, in general, declined during 2006.

In addition to significant insurance pricing declines in the State of Florida, as previously discussed, the insurance premium rates continued a gradual decline during 2007 in most of the other regions of the United States. One industry segment that was especially hit hard during 2007 was the home building industry in Southern California, and to a lesser extent Nevada, Arizona and Florida. We have a wholesale brokerage operation that focus on placing property and casualty insurance products for that home building segment and a program operation that places errors and omissions professional liability coverages for title agents. Both of these operations' revenues were negatively impacted by these national economic trends.

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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. Historically, our revenues have continued to grow as a result of an intense focus on net new business growth and acquisitions, however 2007 was highlighted by very substantial governmental involvement in the Florida insurance marketplace that resulted in a substantial loss of revenues (see the Business section of this Annual Report on Form 10-K for further discussion of Citizens and its effect on our results of operations). We anticipate that results of operations will continue to be influenced by these competitive and economic conditions in 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 years profit-sharing contingent commissions have averaged approximately 5.8% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are primarily 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 companies announced the replacement of the current loss-ratio based profit-sharing contingent commission calculation with a more guaranteed fixed-based methodology, referred to as Guaranteed Supplemental Commissions (GSC). Since these new GSC are not subject to the uncertainty of loss-ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2007, \$6.6 million was accrued for GSC earned during 2007, but which will not be collected until the first quarter of 2008.

Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, and (2) our Wholesale Brokerage and National Program Divisions which earn fees primarily for the issuing of insurance policies on behalf of insurance carriers. In each of the past three years, fee revenues have increased as a percentage of our total commissions and fees, from 13.6% in 2005 to 14.3% in 2007.

Investment income, historically, 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. Investment income also includes gains and losses realized from the sale of investments. In 2007, we sold our investment in Rock-Tenn Company which we have owned for over 25 years, for a net gain of \$18.7 million.

Acquisitions

During 2007, we acquired the assets and assumed certain liabilities of 38 insurance intermediary operations, the stock of three insurance intermediaries and several books of business (customer accounts). The aggregate purchase price was \$241.4 million, including \$207.9 million of net cash payments, the issuance of \$13.0 million in notes payable and the assumption of \$20.5 million of liabilities. These acquisitions had estimated aggregate annualized revenues of \$108.3 million.

During 2006, we acquired the assets and assumed certain liabilities of 32 insurance intermediary operations and several books of business (customer accounts). The aggregate purchase price was \$155.9 million, including \$138.7 million of net cash payments, the issuance of \$3.7 million in notes payable and the assumption of \$13.5 million of liabilities. These acquisitions had estimated aggregate annualized revenues of \$56.4 million.

During 2005, we acquired the assets and assumed certain liabilities of 32 insurance intermediary operations and several books of business (customer accounts). The aggregate purchase price was \$288.6 million, including \$244.0 million of net cash payments, the issuance of \$38.1 million in notes payable and the assumption of \$6.5 million of liabilities. These acquisitions had estimated aggregate annualized revenues of \$125.9 million.

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.

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

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is billed to the customer, whichever is later. At that date, the earnings process has been completed, and we can reliably estimate the impact of policy cancellations for refunds and establish reserves accordingly. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted by known circumstances. Subsequent commission adjustments are recognized upon notification from the insurance companies. Profit-sharing contingent commissions from insurance companies are recognized when determinable, which is when such commissions are received, or when officially notified. Fee revenues are recognized as services are rendered.

Business Combinations and Purchase Price Allocations

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

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, all of our business combinations initiated after June 30, 2001 have been accounted for using the purchase method. In connection with these acquisitions, we record the estimated value of the net tangible assets purchased and the value of the identifiable intangible assets purchased, which typically consist of purchased customer accounts and noncompete agreements. Purchased customer accounts partially include the physical records and files obtained from acquired businesses that contain information about insurance policies, customers and other matters essential to policy renewals. However, they primarily represent the present value of the underlying cash flows expected to be received over the estimated future renewal periods of the insurance policies comprising those purchased customer accounts. The valuation of purchased customer accounts involves significant estimates and assumptions concerning matters such as cancellation frequency, expenses and discount rates. Any change in these assumptions could affect the carrying value of purchased customer accounts. Noncompete agreements are valued based on the duration and any unique features of each specific agreement. Purchased customer accounts and noncompete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and intangible assets is assigned to goodwill and is no longer amortized, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142).

Intangible Assets Impairment

Effective January 1, 2002, we adopted SFAS No. 142, which requires that goodwill be subject to at least an annual assessment for impairment by applying a fair-value based test. Amortizable intangible assets are amortized over their useful lives and are subject to lower-of-cost-or-market impairment testing. SFAS No. 142 requires us to compare the fair value of each reporting unit with its carrying value to determine if there is potential impairment

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of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of revenues, and earnings before interest, income taxes, depreciation and amortization (EBITDA).

Management assesses the recoverability of our goodwill on an annual basis, and of our amortizable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) significant decline in our market capitalization. If the recoverability of these assets is unlikely because of the existence of one or more of the above-referenced factors, an impairment analysis is performed. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2007 and identified no impairment as a result of the evaluation.

Non-Cash Stock-Based Compensation

The Company grants stock options and non-vested stock awards (previously referred to as restricted stock) to its employees, officers and directors. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment (SFAS 123R), for its stock-based compensation plans. Among other things, SFAS 123R requires that compensation expense for all share-based awards be recognized in the financial statements based upon the grant-date fair value of those awards.

Reserves for Litigation

We are subject to numerous litigation claims that arise in the ordinary course of business. In accordance with SFAS No. 5, Accounting for Contingencies, if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss is estimable, an accrual for the costs to resolve these claims is recorded in accrued expenses in the accompanying

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Consolidated Balance Sheets. Professional fees related to these claims are included in other operating expenses in the accompanying Consolidated Statements of Income. Management, with the assistance of inside and outside counsel, determines whether it is probable that a liability has been incurred and estimates the amount of loss based upon analysis of individual issues. New developments or changes in settlement strategy in dealing with these matters may significantly affect the required reserves and impact our net income.

Derivative Instruments

In 2002, we entered into one derivative financial instrument an interest rate exchange agreement, or swap to manage the exposure to fluctuations in interest rates on our \$90 million variable rate debt. As of December 31, 2006, we maintained this swap agreement, whereby we pay a fixed rate on the notional amount to a bank and the bank pays us a variable rate on the notional amount equal to a base London InterBank Offering Rate (LIBOR). We have assessed this derivative as a highly effective cash flow hedge, and accordingly, changes in the fair market value of the swap are reflected in other comprehensive income. The fair market value of this instrument is determined by quotes obtained from the related counter-parties in combination with a valuation model utilizing discounted cash flows. The valuation of this derivative instrument is a significant estimate that is largely affected by changes in interest rates. As of December 31, 2007 this interest rate swap agreement expired in conjunction with the final payment on the related \$90 million variable rate debt.

New Accounting Pronouncements

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

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RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

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

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

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	\$ 857,027	4.1%	\$ 823,615	11.2%	\$ 740,567
Profit-sharing contingent commissions	57,623	40.4%	41,048	17.4%	34,976
Investment income	30,494	165.7%	11,479	74.5%	6,578
Other income, net	14,523	680.0%	1,862	(49.5)%	3,686
Total revenues	959,667	9.3%	878,004	11.7%	785,807
EXPENSES					
Employee compensation and benefits	444,101	9.7%	404,891	8.0%	374,943
Non-cash stock-based compensation	5,667	4.6%	5,416	62.3%	3,337
Other operating expenses	131,371	3.9%	126,492	19.8%	105,622
Amortization	40,436	10.8%	36,498	9.8%	33,245
Depreciation	12,763	12.9%	11,309	12.4%	10,061
Interest	13,802	3.3%	13,357	(7.7)%	14,469
Total expenses	648,140	8.4%	597,963	10.4%	541,677
Income before income taxes	\$ 311,527	11.2%	\$ 280,041	14.7%	\$ 244,130
Net internal growth rate core commissions and fees	(3.4)%		4.0%		3.1%
Employee compensation and benefits ratio	46.3%		46.1%		47.7%
Other operating expenses ratio	13.7%		14.4%		13.4%
Capital expenditures	\$ 30,643		\$ 14,979		\$ 13,426

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	2007	Percent Change	2006	Percent Change	2005
Total assets at December 31	\$ 1,960,659		\$ 1,807,952		\$ 1,608,660

Commissions and Fees

Commissions and fees revenue, including profit-sharing contingent commissions, increased 5.8% in 2007, 11.5% in 2006 and 21.5% in 2005. Profit-sharing contingent commissions increased \$16.6 million to \$57.6 million in 2007 and \$6.1 million to \$41.0 million in 2006, primarily as a result of a better than average year for insurance companies' loss ratios. Core commissions and fees revenue decreased (3.4%) in 2007 and increased 4.0% in 2006 and 3.1% in 2005, when excluding commissions and fees revenue generated from acquired operations and also from divested operations. The 2007 decrease of 3.4% represents \$27.9 million of net lost core commission and fees revenue, of which \$23.0 million is related to our various operations impacted by the Florida insurance marketplace, \$6.2 million is related to our operation that serves the home-building industry in southern California, with our remaining operations at a minimal aggregate revenue growth.

Investment Income

Investment income increased to \$30.5 million in 2007, compared with \$11.5 million in 2006 and \$6.6 million in 2005. The increase in 2007 over 2006 of \$19.0 million was primarily due to the sale of our investment in Rock-Tenn Company which we owned for over 25 years, for a net gain of \$18.7 million. The increase in 2006 over 2005 was primarily the result of higher investment yields earned with higher average available cash balances.

Other Income, net

Other income consists primarily of gains and losses from the sale and disposition of assets. In 2007, gains of \$13.7 million were recognized from the sale of books of business (customer accounts) as compared with \$1.1 million and \$2.7 million in 2006 and 2005, respectively. Although we are not in the business of selling books of businesses (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. Even though the sales of customer accounts were unusually high during 2007, we do not believe that it is indicative of a future trend.

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Employee Compensation and Benefits

Employee compensation and benefits increased approximately 9.7% or \$39.2 million in 2007, of which \$33.5 million was related to acquisitions that were stand-alone offices. Of the remaining \$5.7 million, the majority related to the average annual 3.5% salary increase given to non-producer employees. Additionally, during 2007, \$1.6 million of the increase related to a funding true-up to the 2006 employee profit-sharing contribution. Employee compensation and benefits increased approximately 8.0% in 2006 and 19.3% in 2005, primarily as a result of acquisitions and an increase in commissions paid on net new business. Employee compensation and benefits as a percentage of total revenues were 46.1% in 2006 and 47.7% in 2005, reflecting a gradual improvement in personnel efficiencies as revenues grow. We had 5,047 full-time equivalent employees at December 31, 2007, compared with 4,733 at December 31, 2006 and 4,540 at December 31, 2005. Of the 314 net increase in full-time equivalent employees at December 31, 2007 over the prior year-end, 508 were from the acquisitions that were stand-alone offices, thus resulting in a net reduction of 194 employees in the offices existing at both year-ends.

Non-Cash Stock-Based Compensation

The Company grants stock options and non-vested stock awards to its employees, officers and directors. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment (SFAS 123R), for its stock-based compensation plans. Among other things, SFAS 123R requires that compensation expense for all share-based awards be recognized in the financial statements based upon the grant-date fair value of those awards.

Prior to January 1, 2006, the Company accounted for stock-based compensation using the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations, and disclosure requirements established by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transitions and Disclosures (SFAS 148). Under APB No. 25, no compensation expense was

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recognized for either stock options issued under the Company's stock compensation plans or for stock purchased under the Company's 1990 Employee Stock Purchase Plan (ESPP). The pro forma effects on net income and earnings per share for stock options and ESPP awards were instead disclosed in a footnote to the financial statements. Compensation expense was previously recognized for awards of non-vested stock, based upon the market value of the common stock on the date of award, on a straight-line basis over the requisite service period with the effect of forfeitures recognized as they occurred. As such the 2005 non-cash stock-based compensation expense of \$3.3 million was solely related to the Performance Stock Plan (PSP) grants under APB 25.

For 2007 and 2006, the non-cash stock-based compensation under SFAS 123R incorporates costs related to each of our three stock-based plans as explained in Note 11 to the consolidated financial statements.

Since the last significant company-wide grants of PSP shares occurred in January 2003 and that the five-year period for the related shares to become awarded expired in January 2008 as did the unawarded shares, we expect to grant new PSP shares to deserving office leaders and producers in February 2008. Additionally, we may issue incentive stock options (ISO) to certain corporate leaders. The expected annual cost of these additional PSP and ISO grants is expected to be between \$1.5 million and \$2.5 million.

Other Operating Expenses

As a percentage of total revenues, other operating expenses was 13.7% in 2007, 14.4% in 2006 and 13.4% in 2005. Other operating expenses in 2007 increased \$4.9 million over the 2006 amount which also included a one-time \$5.8 million payment to the State of Florida described below, therefore having an effective increase in cost of \$10.7 million. The intermediaries acquired in 2007 that were not combined with existing company offices and became stand-alone offices, accounted for \$11.1 million of the \$10.7 million net increase. Thus, excluding the effects of acquisitions, the 2007 Other Operating expenses were slightly less than 2006.

For 2006, legal and professional fee expenses increased \$1.7 million over the amount expended in 2005. The increase in legal and professional fee expenses was primarily the result of the various ongoing investigations and

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litigation relating to agent and broker compensation, including profit-sharing contingent commissions, by state regulators and, to a lesser extent, by the requirements of compliance with the Sarbanes-Oxley Act of 2002. Additionally, in 2006 a total of \$5.8 million was paid to State of Florida regulatory authorities and other parties, which concluded the State of Florida's investigation of compensation paid to us (See Note 13). Excluding the impact of these increased legal and professional fee expenses and settlement payments, other operating expenses declined as a percentage of total revenues each year from 2005 to 2006, which is attributable to the effective cost containment measures brought about by our initiative designed to identify areas of excess expense. This decrease is also due to the fact that, in a net internal revenue growth environment, certain significant other operating expenses such as office rent, office supplies, data processing, and telephone costs, increase at a slower rate than commissions and fees revenue during the same period.

Amortization

Amortization expense increased \$3.9 million, or 10.8% in 2007, \$3.3 million, or 9.8% in 2006, and \$11.1 million, or 50.1% in 2005. The increases in 2007 and 2006 were due to the amortization of additional intangible assets as a result of acquisitions completed in those years.

Depreciation

Depreciation increased 12.9% in 2007, 12.4% in 2007 and 12.9% in 2005. These increases were primarily due to the purchase of new computers, related equipment and software, corporate aircraft and the depreciation of fixed assets associated with acquisitions completed in those years.

Interest Expense

Interest expense increased \$0.4 million or 3.3%, in 2007 over 2006 primarily as a result of the additional \$25.0 million that was borrowed in December 2006 but which was partially offset by the \$12.9 reduction in the term loan balance due to the normal quarterly principal payments. Interest expense decreased \$1.1 million, or 7.7%, in 2006 over 2005 as a result of lower average debt balances due to the normal quarterly principal payments.

Income Taxes

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The effective tax rate on income from operations was 38.7% in 2007, 38.5% in 2006 and 38.3% in 2005. The higher effective tax rate in 2007 and 2006, compared with 2005, was primarily the result of increased amounts of business conducted in states having higher state tax rates and a \$1.1 million settlement payment to the U.S. Internal Revenue Service (IRS) in 2007. During 2007, the IRS concluded their audit of our 2004-2006 tax years in which they disputed our method of recognizing profit-sharing contingent commissions for tax purposes. We recognize profit-sharing contingent commissions when determinable, which is when such commissions are received, however, the IRS believes that we should estimate those monies as of each December 31. We agreed to resolve this dispute for a \$1.1 million payment of interest and our agreement to accrue at each December 31, for tax purposes only, a known amount of profit-sharing contingent commissions represented by the actual amount of profit-sharing contingent commissions received in the first quarter of the related year, with a true-up adjustment to the actual amount received by the end of the following March 31. Since this method for tax purposes differs from the method used for book purposes, it will result in a current deferred tax asset as of December 31 each year with that balance reversing by the following March 31 when the related profit-sharing contingent commissions are recognized for financial accounting purposes.

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RESULTS OF OPERATIONS SEGMENT INFORMATION

As discussed in Note 16 of the Notes to Consolidated Financial Statements, we operate in four reportable segments: the Retail, Wholesale Brokerage, National Programs 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 emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of total employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

The internal growth rates for our core commissions and fees for the three years ended December 31, 2007, 2006 and 2005, by divisional units are as follows (in thousands, except percentages):

2007	For the years ended December 31,					
	2007	2006	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$ %
Florida Retail	\$ 175,330	\$ 175,205	\$ 125	0.1%	\$ 3,108	\$ (2,983) (1.7)%
National Retail	242,762	202,763	39,999	19.7%	40,808	(809) (0.4)%
Western Retail	95,357	101,386	(6,029)	(5.9)%	436	(6,465) (6.4)%
Total Retail⁽¹⁾	513,449	479,354	34,095	7.1%	44,352	(10,257) (2.1)%
Wholesale Brokerage	156,978	151,278	5,700	3.8%	15,221	(9,521) (6.3)%
Professional Programs	42,348	40,867	1,481	3.6%	423	1,058 2.6%
Special Programs	108,747	113,141	(4,394)	(3.9)%	5,357	(9,751) (8.6)%
Total National Programs	151,095	154,008	(2,913)	(1.9)%	5,780	(8,693) (5.6)%
Services	35,505	32,561	2,944	9.0%	2,328	616 1.9%
Total Core Commissions and Fees	\$ 857,027	\$ 817,201	\$ 39,826	4.9%	\$ 67,681	\$ (27,855) (3.4)%

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

For the years
ended December 31,

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	For the years ended December 31,	
	2007	2006
Total core commissions and fees	\$857,027	\$817,201
Profit-sharing contingent commissions	57,623	41,048
Divested business		6,414
Total commission & fees	\$914,650	\$864,663

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2006	For the years ended December 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2006	2005					
Florida Retail	\$175,885	\$155,741	\$20,144	12.9%	\$ 493	\$19,651	12.6%
National Retail	206,661	198,033	8,628	4.4%	11,417	(2,789)	(1.4)%
Western Retail	103,222	103,951	(729)	(0.7)%	4,760	(5,489)	(5.3)%
Total Retail⁽¹⁾	485,768	457,725	28,043	6.1%	16,670	11,373	2.5%
Wholesale Brokerage	151,278	120,889	30,389	25.1%	25,616	4,773	3.9%
Professional Programs	40,867	41,930	(1,063)	(2.5)%	43	(1,106)	(2.6)%
Special Programs	113,141	90,933	22,208	24.4%	9,255	12,953	14.2%
Total National Programs	154,008	132,863	21,145	15.9%	9,298	11,847	8.9%
Services	32,561	26,565	5,996	22.6%	4,496	1,500	5.6%
Total Core Commissions and Fees	\$823,615	\$738,042	\$85,573	11.6%	\$56,080	\$29,493	4.0%

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

	For the years ended December 31,	
	2006	2005
Total core commissions and fees	\$823,615	\$738,042
Profit-sharing contingent commissions	41,048	34,976
Divested business		2,525
Total commission & fees	\$864,663	\$775,543

2005
For the years
ended December 31,

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2005	For the years ended December 31,						
	2005	2004	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
Florida Retail	\$ 155,973	\$ 140,895	\$ 15,078	10.7%	\$ 5,694	\$ 9,384	6.7%
National Retail	201,112	182,098	19,014	10.4%	20,540	(1,526)	(0.8)%
Western Retail	104,879	107,529	(2,650)	(2.5)%	2,699	(5,349)	(5.0)%
Total Retail⁽¹⁾	461,964	430,522	31,442	7.3%	28,933	2,509	0.6%
Wholesale Brokerage	120,889	38,080	82,809	217.5%	73,317	9,492	24.9%
Professional Programs	41,861	42,463	(602)	(1.4)%	715	(1,317)	(3.1)%
Special Programs	89,288	66,601	22,687	34.1%	17,155	5,532	8.3%
Total National Programs	131,149	109,064	22,085	20.2%	17,870	4,215	3.9%
Services	26,565	24,334	2,231	9.2%		2,231	9.2%
Total Core Commissions and Fees	\$ 740,567	\$ 602,000	\$ 138,567	23.0%	\$ 120,120	\$ 18,447	3.1%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December, 2005 and 2004 is as follows (in thousands, except percentages):

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	For the years ended December 31,	
	2005	2004
Total core commissions and fees	\$ 740,567	\$ 602,000
Profit-sharing contingent commissions	34,976	30,652
Divested business		5,615
Total commission & fees	\$ 775,543	\$ 638,267

(1) The Retail segment includes commissions and fees reported in the Other column of the Segment Information in Note 16 which includes corporate and consolidation items.

Retail Division

The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. More than 96.1% of the Retail Division's commissions and fees revenue are commission-based. Since the majority of our other operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions that we receive will be reflected in our pre-tax income. The Retail Division's commissions and fees revenue accounted for 63.1% of our total consolidated commissions and fees revenue in 2005 but declined to 59.9% in 2007, mainly due to continued acquisitions in the National Programs and Wholesale Brokerage Divisions.

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

2007

2006

2005

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		Percent Change		Percent Change	
REVENUES					
Commissions and fees	\$ 514,639	5.8%	\$ 486,419	5.5%	\$ 461,236
Profit-sharing contingent commissions	33,399	11.1%	30,070	6.1%	28,330
Investment income	260	87.1%	139	(12.6)%	159
Other income, net	14,140	NMF%	1,361	(7.9)%	1,477
Total revenues	562,438	8.6%	517,989	5.5%	491,202
EXPENSES					
Employee compensation and benefits	263,056	8.5%	242,469	4.0%	233,124
Non-cash stock-based compensation	3,243	9.0%	2,976	35.4%	2,198
Other operating expenses	88,359	6.5%	82,966	2.3%	81,063
Amortization	21,659	12.2%	19,305	(0.3)%	19,368
Depreciation	5,723	1.8%	5,621	(0.4)%	5,641
Interest	21,094	11.6%	18,903	(9.7)%	20,927
Total expenses	403,134	8.3%	372,240	2.7%	362,321
Income before income taxes	\$ 159,304	9.3%	\$ 145,749	13.1%	\$ 128,881
Net internal growth rate – core commissions and fees	(2.1)%		2.5%		0.6%
Employee compensation and benefits ratio	46.8%		46.8%		47.5%
Other operating expenses ratio	15.7%		16.0%		16.5%
Capital expenditures	\$ 5,816		\$ 5,952		\$ 6,186
Total assets at December 31	\$ 1,356,772		\$ 1,103,107		\$ 1,002,781

The Retail Division's total revenues in 2007 increased \$44.4 million to \$562.4 million, a 8.6% increase over 2006. Of this increase, approximately \$34.1 million was the net growth in core commissions and fees, however, \$44.4 million was from acquisitions for which there were no comparable revenues in 2006; and therefore, \$10.3 million was lost on a same-store sales basis resulting in a negative internal growth rate of 2.1%. The majority of the negative internal growth resulted from continued competitive insurance pricing in the western United States. However, the most competitive pricing in the second half of the 2007 year occurred in Florida, and this insurance pricing environment is likely to continue for at least the first half of 2008.

Income before income taxes in 2007 increased \$13.6 million from 2006, of which \$13.7 million was from an historically high amount of gains from the sales of books of business (customer accounts). Even though the sales of customer accounts were higher than normal during 2007, we do not believe that it is indicative of a future trend. The remaining decrease was due the reduced earnings from the negative growth in core commissions and fees, but offset by earnings from acquisitions.

The Retail Division's total revenues in 2006 increased \$26.8 million to \$518.0 million, a 5.5% increase over 2005. Of this increase, approximately \$16.7 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2005. The remaining increase was primarily due to net new business growth. The Retail Division's net internal growth rate in core commissions and fees revenue was 2.5% in 2006, excluding revenues recognized in 2006 from new acquisitions and the 2005 commissions and fees revenue from divested business. The net internal growth rate of core commissions and fees revenue for the Retail Division in 2005 was 0.6%. The increase in the net internal growth rate from core commission and fees from 2005 to 2006 primarily reflects increased premium rates for coastal property in the southeastern part of the United States, but offset by lower insurance premium rates in most other parts of the country.

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Income before income taxes in 2006 increased \$16.9 million to \$145.7 million, a 13.1% increase over 2005. This increase was due to revenues from acquisitions, a positive net internal growth rate and the continued focus on holding our general expense growth rate to a lower percentage than our revenue growth rate.

Wholesale Brokerage Division

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

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

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	\$ 156,978	3.8%	\$ 151,278	25.1%	\$ 120,889
Profit-sharing contingent commissions	18,311	129.2%	7,990	71.9%	4,648
Investment income	2,927	(27.1)%	4,017	151.2%	1,599
Other income (loss), net	726	NMF%	61	(365.2)%	(23)
Total revenues	178,942	9.5%	163,346	28.5%	127,113
EXPENSES					
Employee compensation and benefits	87,500	11.5%	78,459	32.0%	59,432
Non-cash stock-based compensation	791	52.4%	519	216.5%	164
Other operating expenses	31,522	10.3%	28,582	44.3%	19,808
Amortization	9,237	14.2%	8,087	42.6%	5,672
Depreciation	2,715	30.8%	2,075	61.5%	1,285
Interest	19,188	2.3%	18,759	50.7%	12,446
Total expenses	150,953	10.6%	136,481	38.1%	98,807
Income before income taxes	\$ 27,989	4.2%	\$ 26,865	(5.1)%	\$ 28,306
Net internal growth rate – core commissions and fees	(6.3)%		3.9%		24.9%
Employee compensation and benefits ratio	48.9%		48.0%		46.8%
Other operating expenses ratio	17.6%		17.5%		15.6%
Capital expenditures	\$ 2,835		\$ 2,085		\$ 1,969
Total assets at December 31	\$ 640,931		\$ 618,374		\$ 476,653

Total revenues in 2007 increased \$15.6 million over 2006, of which \$10.3 million was from increased profit-sharing contingent commissions and \$5.7 million from core commissions and fees. Profit-sharing contingent commissions increased as a result of higher insurance company profitability resulting from the increased premium rates during 2006 as well as new profit-sharing contingent commissions from operations acquired in 2006. Of the net increase in core commissions and fees of \$5.7 million, approximately \$15.2 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2006. The Wholesale Brokerage Division's net internal growth rate for core commissions and fees revenue in 2007 was (6.3)% or \$9.5 million less revenues than in 2006, excluding core commissions and fees revenue recognized in 2007 from new acquisitions. The negative internal growth rate for the Wholesale Brokerage Division was primarily the result of the continuation of lost revenues from the same wholesale operations that had the most significant loss of revenues in 2006. One of

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those operations, which focuses on home-building construction accounts in the western region of the United States, lost \$6.2 million as a result of the continued slow-down in economic activity in that region during the year as well as lower insurance premium rates. The other significantly affected operation was the Florida-based wholesale brokerage operations of Hull & Company, which lost \$5.8 million of revenues in 2007 as a result of the competitive rate environment created by Citizens. Offsetting some of the lost business in Florida due to Citizens, we did have revenue growth in our binding authority operations and our reinsurance intermediary, Axiom Re.

Income before income taxes in 2007 increased \$1.1 million to \$28.0 million, a 4.2% increase over 2006. This increase is attributable in part to the fact that the 2007 loss from our reinsurance intermediary was \$2.1 million less than in 2006, and higher earnings from our binding authority operations mainly driven by higher profit-sharing contingent commissions. Offsetting these increases, our operation that focuses on home building construction accounts in the western region of the United States had \$2.9 million less income before income taxes than it earned in 2006, due to the reduction of revenues mentioned above.

Total revenues in 2006 increased \$36.2 million to \$163.3 million, a 28.5% increase over 2005. Of this increase, approximately \$25.6 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2005. The Wholesale Brokerage Division's net internal growth rate for core commissions and fees revenue in 2006 was 3.9%, excluding core commissions and fees revenue recognized in 2006 from new acquisitions. The weaker internal growth rate than in recent years for the Wholesale Brokerage Division was primarily the result of lower revenues from two of our operations. One of those operations, which focuses on home-building construction accounts in the western region of the United States, experienced a slow-down in economic activity during the year as well as lower insurance premium rates. The second operation was the personal lines wholesale brokerage arm of Hull & Company which had significant premium capacity restrictions on placing coastal property coverage with their insurance carriers, which was not the case in 2005.

Income before income taxes in 2006 decreased \$1.4 million to \$26.9 million, a 5.1% decrease over 2005. This decrease is attributable in part to Axiom Re and Delaware Valley Underwriting Agency operations acquired in 2006, which had an aggregate loss before income taxes of \$4.0 million as a result of initial transitional issues and net lost business. Additionally, our operation that focuses on home-building construction accounts in the western region of the United States had income before income taxes of \$3.0 million less than it earned in 2005, due to the reduction of revenues mentioned above. Offsetting these losses were net increases in income before income taxes from our other wholesale brokerage operations.

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, public and quasi-public entities and market niches. Like the Retail Division, the National Programs Division's revenues are primarily commission-based.

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

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	\$ 151,095	(1.9)%	\$ 154,008	17.4%	\$ 131,149
Profit-sharing contingent commissions	5,913	97.9%	2,988	49.5%	1,998
Investment income	513	18.8%	432	17.7%	367
Other income, net	27	35.0%	20	(95.2)%	416
Total revenues	157,548	0.1%	157,448	17.6%	133,930
EXPENSES					
Employee compensation and benefits	62,755	3.4%	60,692	11.9%	54,238
Non-cash stock-based compensation	801	53.2%	523	45.7%	359
Other operating expenses	25,084	(3.6)%	26,014	27.4%	