

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 1996.  
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 0-7201.

POE & BROWN, INC.  
(Exact name of Registrant as specified in its charter)

Florida 59-0864469  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification Number)

220 S. Ridgewood Ave., Daytona Beach, FL 32115  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (904) 252-9601

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

The number of shares of the Registrant's common stock, \$.10 par  
value, outstanding as of November 1, 1996, was 8,698,964.

POE & BROWN, INC.

Index to Form 10-Q  
For The Quarter Ended September 30, 1996

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## ITEM 1: FINANCIAL STATEMENTS

## POE &amp; BROWN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(In thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	1996	1995	1996	1995
<b>REVENUES</b>				
Commissions and fees	\$28,381	\$25,134	\$85,436	\$ 75,937
Investment income	756	978	2,399	2,834
Other income	289	238	940	568
Total revenues	<u>29,426</u>	<u>26,350</u>	<u>88,775</u>	<u>79,339</u>
<b>EXPENSES</b>				
Employee compensation and benefits	15,255	13,491	45,841	41,542
Other operating expenses	5,592	5,285	18,737	16,977
Interest and amortization	1,467	1,342	4,254	3,760
Total expenses	<u>22,314</u>	<u>20,118</u>	<u>68,832</u>	<u>62,279</u>
Income before income taxes	7,112	6,232	19,943	17,060
Income taxes	2,774	2,400	7,778	6,117
NET INCOME	<u>\$ 4,338</u>	<u>\$ 3,832</u>	<u>\$12,165</u>	<u>\$ 10,943</u>
Net income per share	<u>\$ .50</u>	<u>\$ .44</u>	<u>\$ 1.40</u>	<u>\$ 1.26</u>
Dividends declared per share	<u>\$ .13</u>	<u>\$ .12</u>	<u>\$ .37</u>	<u>\$ .36</u>
Weighted average number of shares outstanding	8,665	8,710	8,683	8,695

See notes to condensed consolidated financial statements.

## POE &amp; BROWN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share amounts)(Unaudited)  
September 30,  
1996(Audited)  
December 31,  
1995



Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,666	4,916
Provision for doubtful accounts	-	31
Deferred income taxes	-	(1,639)
Net gains on sales of investments, fixed assets and customer accounts	(898)	(498)
Premiums, commissions and fees receivable decrease	6,724	7,485
Other assets (increase)	(1,262)	(135)
Premiums payable to insurance companies increase	109	79
Premium deposit and credits due customers (decrease)	(1,473)	(1,998)
Accounts payable and accrued expenses increase (decrease)	118	(974)
Other liabilities (decrease) increase	(180)	788
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	20,969	18,998
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to fixed assets	(3,524)	(3,092)
Payments for businesses acquired, net of cash acquired	(10,969)	(3,935)
Proceeds from sales of fixed assets and customer accounts	848	520
Purchases of investments	(1,053)	(303)
Proceeds from sales of investments	624	413
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(14,074)	(6,397)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(1,795)	(1,995)
Proceeds from long-term debt	-	500
Exercise of stock options, issuances and purchases of stock	(944)	102
Cash dividends paid	(3,118)	(3,106)
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(5,857)	(4,499)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,038	8,102
Cash and cash equivalents at beginning of period	28,350	23,185
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 29,388	\$ 31,287
	=====	=====

See notes to condensed consolidated financial statements.

POE & BROWN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 1996

Note 1 - Basis of Financial Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals except for the adjustment described in Note 5) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

Results of operations for the three- and nine-month periods ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996.

#### Note 2 - Net Income Per Share

Net income per share is based upon the weighted average number of shares outstanding, adjusted for the dilutive effect of stock options, which is the same on both a primary and a fully-diluted basis.

#### Note 3 - Merger and Acquisitions

On March 1, 1995, the Company issued 146,300 shares of its common stock for all of the partnership interest in Insurance West, a Phoenix, Arizona general insurance agency. The merger has been accounted for as a pooling-of-interests and, accordingly, the Company's consolidated financial statements have been restated for all periods prior to the merger to include the results of operations, financial position, and cash flows of Insurance West. The separate company operating results of Insurance West for periods prior to the merger are not material to the Company's consolidated operating results.

During the first quarter of 1995, the Company acquired substantially all of the assets of King Insurance Agency, Inc. of Naples, Florida. During the second quarter of 1995, the Company acquired substantially all of the assets of S. Lloyd Underwriters, Inc. of Ft. Lauderdale, Florida. During the third quarter of 1995 the Company acquired substantially all of the assets of Roehrig/Flood & Associates of St. Petersburg, Florida and the Robert Scott Gordon Insurance Agency of Newtown Square, Pennsylvania. During the first quarter of 1996, the Company acquired a majority interest in Florida Intracoastal Underwriters, Ltd. of Miami Lakes, Florida. During the second quarter of 1996, the Company acquired substantially all of the assets of B & R International, Inc. of Atlanta, Georgia. During the third quarter of 1996, the Company acquired substantially all of the assets of Anderson-Reeve & Associates of Phoenix, Arizona and Larry Breen & Associates of Orlando, Florida. These acquisitions have been accounted for using the purchase method of accounting. Pro forma results of operations for the nine-month periods ended September 30, 1995 and 1996 resulting from these acquisitions were not materially different from the results of operations as reported. The results of operations for these companies have been combined with those of the Company since their respective acquisition dates.

#### Note 4 - Long-Term Debt

The Company continues to maintain its credit agreement with a major insurance company under which \$5 million (the maximum amount available for borrowings) was outstanding at September 30, 1996, at an interest rate equal to the prime lending rate plus one percent. The available amount will decrease by \$1 million each August, as described in Note 7 to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

In November 1994, the Company entered into a revolving credit facility with a national banking institution which provides for available borrowings of up to \$10 million. As of September 30, 1996, there were no borrowings against this line of credit.

#### Note 5 - Income Taxes

In 1992, the Internal Revenue Service (Service) completed examinations of the Company's federal income tax returns for the tax years 1988, 1989, and 1990. As a result of its examinations, the Service issued Reports of Proposed Adjustments asserting income tax deficiencies which, by including interest and state income taxes for the periods examined and the Company's estimates of similar adjustments for subsequent periods through December 31, 1993, would total \$6,100,000. The disputed items related primarily to the deductibility of amortization of purchased

customer accounts and non-compete agreements. In addition, the Service's report included a dispute regarding the time at which the Company's payments made pursuant to certain indemnity agreements would be deductible for tax reporting purposes. During 1994, the Company reached a settlement agreement with the Service with respect to certain of the disputed amortization items and the indemnity agreement payment issue. In March 1995, the Company reached a settlement agreement with the Service with respect to the remaining disputed items. Based upon this settlement and after taking into consideration the reductions in the Company's general tax reserves resulting from current and expected payments under the settlement agreement, the Company recorded a \$451,000 adjustment to decrease reserves in the first quarter of 1995 with a corresponding reduction to its income tax provision.

#### Note 6 - Contingencies

The Company is not a party to any legal proceedings other than various claims and lawsuits arising in the normal course of business. Management of the Company does not believe that any such claims or lawsuits will have a material effect on the Company's financial condition or results of operations.

#### Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### Results of Operations

**Net Income.** Net income for the third quarter of 1996 was \$4,338,000, or \$.50 per share, compared with net income in the third quarter of 1995 of \$3,832,000, or \$.44 per share, a 14% increase in per share earnings. Net income for the nine months ended September 30, 1996 was \$12,165,000, or \$1.40 per share, compared with 1995 same period net income of \$10,943,000, or \$1.26 per share, for an 11% increase. Excluding a first quarter 1995 favorable tax reserve adjustment of \$.05 per share, per share earnings from recurring operations are up 16% in 1996.

**Commissions and Fees.** Commissions and fees for the third quarter of 1996 increased \$3,247,000, or 13% from 1995. Approximately \$1,013,000 of this increase represents revenues from acquired agencies with the remainder due to new business production. Commissions and fees for the nine months ended September 30, 1996 were \$85,436,000 compared to \$75,937,000 for the same period in 1995, a 12% increase. The 1996 increase is due to new business production and approximately \$3,098,000 of revenues from acquired agencies.

**Investment Income.** Investment income for the quarter and nine-month periods ended September 30, 1996 decreased \$222,000 and \$435,000, respectively, from the same periods in 1995. This decrease is primarily due to lower levels of invested cash and changes in interest rate returns.

**Other Income.** Other income primarily includes gains and losses from the sale of customer accounts and other assets. Other income increased approximately \$372,000 for the nine months ended September 30, 1996 over the same period for 1995 and approximately \$51,000 for the three months ended September 30, 1996 over the same period for 1995.

**Employee Compensation and Benefits.** Employee compensation and benefits increased during both the three and nine months ended September 30, 1996. The increase for the nine-month period ended September 30, 1996 was 10% while the increase for the quarter ended September 30, 1996 was 13%. This increase is primarily due to additional compensation expense as a result of the increased commission and fee revenues and increase in the number of employees as a result of acquisitions. Compensation and employee benefits as a percentage of total revenues were generally consistent between the 1996 and 1995 periods.

**Other Operating Expenses.** Other operating expenses for the three months ended September 30, 1996 increased \$307,000 over the same period in 1995 but declined as a percentage of total revenues from 20% to 19%. Other operating expenses for the nine months ended September 30, 1996 increased \$1,760,000 from 1995

and remained constant as a percentage of total revenues. This increase is primarily attributable to costs associated with acquisitions.

Interest and Amortization. Interest and amortization expense increased \$125,000 during the third quarter of 1996 and \$494,000 during the nine months ended September 30, 1996 over the same periods in 1995. This increase is primarily the result of acquisition transactions.

Income Taxes. The Company's effective tax rates for the three months ended September 30, 1996 and 1995 were 39% and 38.5%, respectively. The Company's effective tax rate for the nine-month period increased from 35.9% in 1995 to 39% in 1996. The increase in the effective tax rate is primarily the result of a \$451,000 reduction in the Company's income tax reserves during the first quarter of 1995 due to the favorable tax settlement in March 1995 of the remaining outstanding Internal Revenue Service examinations assessments which the Company had originally protested. See Note 5 to the Condensed Consolidated Financial Statements for further information.

#### Liquidity and Capital Resources

The Company's cash and cash equivalents of \$29,388,000 at September 30, 1996 increased by \$1,038,000 from \$28,350,000 at December 31, 1995. During the nine months ended September 30, 1996, \$20,969,000 of cash was provided primarily from operating activities. Of this amount, \$10,969,000 was used to acquire businesses, \$3,524,000 for additions to fixed assets, \$1,795,000 for payment on long-term debt and the remainder primarily to pay dividends on the Company's common stock. The current ratio at September 30, 1996 was 1.05 compared to 1.13 as of December 31, 1995.

The Company has a revolving credit agreement with a major insurance company under which up to \$5 million presently may be borrowed at an interest rate equal to the prime lending rate plus one percent. The amount of available credit decreases by \$1 million each August through the year 2001, when it will expire. As of September 30, 1996, the maximum amount of borrowings was outstanding. In November 1994, the Company entered into a revolving credit facility with a national banking institution that provides for available borrowings of up to \$10 million. As of September 30, 1996, there were no borrowings against this line of credit. The Company believes that its existing cash, cash equivalents, short-term investments portfolio, funds generated from operations, and available credit facility borrowings are sufficient to satisfy its normal financial needs.

POE & BROWN, INC.  
PART II - OTHER INFORMATION

#### ITEM 1 - LEGAL PROCEEDINGS

The Company is involved in various pending or threatened proceedings by or against the Company or one or more of its subsidiaries which involve routine litigation relating to insurance risks placed by the Company and other contractual matters. The Company's management does not believe that any of such pending or threatened proceedings will have a material adverse effect on the consolidated financial position or results of operations of the Company.

#### ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

- Exhibit 3a - Articles of Incorporation (incorporated by reference to Form 10-K for the year ended December 31, 1994)
- Exhibit 3b - Amended and Restated Bylaws (incorporated by reference to Form 10-Q for the quarter ended June 30, 1996)
- Exhibit 11 - Statement re: Computation of Per Share Earnings
- Exhibit 27 - Financial Data Schedule (for SEC use only)

(b) There were no reports filed on Form 8-K during the quarter ended September 30, 1996.

SIGNATURES

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

POE & BROWN, INC.

Date: November 11, 1996

/s/ James A. Orchard

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James A. Orchard, Vice President,  
Treasurer and Chief Financial Officer  
(duly authorized officer and principal  
financial officer and principal  
accounting officer)



Exhibit 11 - Statement Re: Computation of Per Share Earnings (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Average shares outstanding	8,645	8,664	8,658	8,654
Net effect of dilutive stock options, based on the treasury stock method	<u>20</u>	<u>46</u>	<u>25</u>	<u>41</u>
Total shares used in computation	<u>8,665</u> =====	<u>8,710</u> =====	<u>8,683</u> =====	<u>8,695</u> =====
Net income	<u>\$4,338</u> =====	<u>\$3,832</u> =====	<u>\$12,165</u> =====	<u>\$10,943</u> =====
Net income per share	<u>\$ .50</u> =====	<u>\$ .44</u> =====	<u>\$ 1.40</u> =====	<u>\$ 1.26</u> =====

This Schedule contains summary financial information extracted from the financial statements of Poe & Brown, Inc. for the nine months ended September 30, 1996, and is qualified in its entirety by reference to such financial statement

9-MOS	DEC-31-1996	
	SEP-30-1996	
		29,388
		1,760
		49,829
		100
		0
	88,478	24,068
	12,461	
	164,337	
	84,622	0
	0	0
		866
		6,061
164,337		0
	88,775	0
		0
	64,578	
	0	
	0	
	705	
	19,943	
	7,778	
	12,165	
	0	
	0	
		0
	12,165	
	1.40	
	1.40	