

Celebrating
Brown & Brown
INSURANCE. **75** YEARS


In the swing

2014 Annual Report




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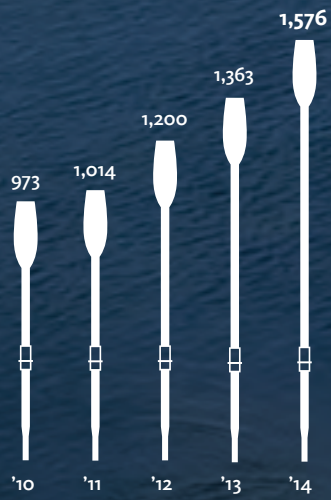




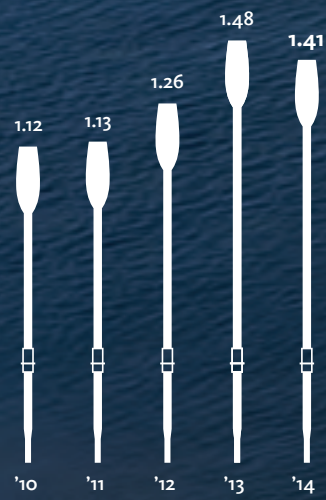
Brown & Brown is an independent insurance intermediary that through its licensed subsidiaries provides a variety of insurance products and services to corporate, public entity, institutional, trade, professional, association and individual customers. Our corporate culture is built on vision, speed, agility and strength that allows us to thrive in the very competitive insurance environment. This unique culture has enabled us to quickly chase down new opportunities, adapt our products and services to best meet market demands, and serve our many and varied customers. The Company is ranked as the sixth largest such organization in the United States and seventh in the world by *Business Insurance* magazine.



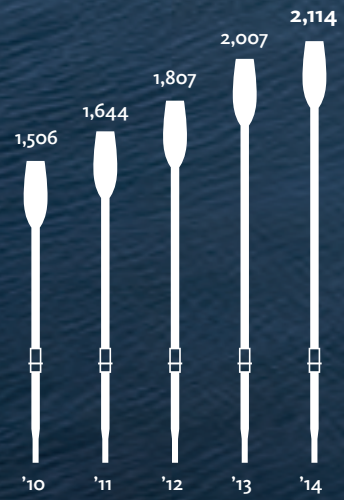
Total Revenues
dollars in millions



Net Income Per Share Diluted
in dollars



Shareholders' Equity
dollars in millions



In the “*swing*” means we focus, not on what makes us different, but on what makes us the same.

At Brown & Brown, what makes us the same is a fierce passion for exceeding our customers’ expectations – every time. Every division of our Company and every teammate contribute their unique talents and skills to this unifying mission. As you read this annual report, it will quickly become clear that everything we do is driven by this simple yet powerful precept. This ties in perfectly with our rowing theme this year, inspired by the book *The Boys in the Boat*⁽¹⁾. In it, Daniel James Brown discusses how the most important quality a rower must have is the ability to disregard one’s own ambitions and to pull, not just for oneself, but for one’s fellow teammates.

(1) Brown, Daniel James. *Boys in the Boat*. New York: Penguin Random House, 2013. Print.

To our shareholders:



Within Brown & Brown, as in rowing, every individual's contribution is crucial to the success of the team. Our bond is a common desire to be the best and do what is best for our customers. During the year, we made moves that improved our performance in 2014 and positioned us well for 2015 and beyond. I am honored to share with you both our achievements to our stern and our vision across the bow.

2014 was a good year for our Company, with adjusted earnings per share of \$1.63, a 14.0% increase over the previous year. Total revenue for the year was \$1,576 billion, up 15.6% from 2013. Adjusted organic growth for the year was 3.5%. We grew from 6,992 teammates in the prior year to 7,591 teammates in 2014, with 191 offices in 235 locations.

This year was marked by several important strategic decisions. We hired a new Chief Financial Officer, Andy Watts, who has been instrumental in helping us refine and achieve our goals. The Company's capital structure evolved with the creation of our new credit facility and our public debt debut when we issued \$500 million of 10-year bonds – another significant *first* for our Company. 2014 saw our first large stock repurchase initiative of \$75 million. Each of these decisions was carefully considered and thoughtfully designed to position Brown & Brown for another 75 years of continued success.

While our annual report highlights our financial achievements, make no mistake – Brown & Brown is all about people. Training for each teammate in every role begins immediately, with focus on ensuring we have the best people at all times. While our brokers, producers and

marketers may be the most visible, each and every teammate plays a critical role in our success. Just as in the world of rowing, winning teams in business leverage the unique strengths of each team member for the benefit of the group as a whole. Our culture promotes collaboration and appreciation of each teammate's strengths, all contributing to the benefit of our customers.

In rowing, the biggest and quickest rowers don't always win the race. The true strength of a team comes from working in perfect synchronicity which delivers unparalleled momentum toward a common goal – providing the best solutions and best service for our customers. In rowing terms, this is called being in the "*swing*." Our *swing* is to grow organically and profitably and close acquisitions that fit culturally. This is made possible by our 7,591 teammates. Their commitment to our customers drives our success year after year.

Our teammates also share a commitment to the communities we're fortunate to serve. Many volunteer their time to local organizations and charities. Some raise funds or make donations. We also help provide solutions for a number of non-profit organizations countrywide and I'm proud that we support our local communities.



“Drawing on the experience and wisdom we’ve gained in our first 75 years, Brown & Brown is charting its course for the next 75 years and beyond.”

Drawing on the experience and wisdom we’ve gained in our first 75 years, Brown & Brown is charting its course for the next 75 years and beyond. We will continue to adapt to and anticipate changes in the industry. The core values that have set our pace thus far will continue to serve our Company, our shareholders and our customers in the future.

As we close in on our next goal of reaching \$2 billion in annual revenue, we remain committed to our core objectives:

- Exceed customers’ expectations each and every time
- Increase long-term shareholder value
- Grow our business organically and make quality acquisitions that fit culturally
- Cultivate and enhance excellent relationships with our strategic carrier partners
- Hire great people and enable, develop and reward our teammates

Keeping true to these objectives will enable us to reach our goal and will position us well for future success.

In conclusion, while there are external forces that may affect our industry or Company, we control our focus and discipline. These principles have served us well and will continue to do so as we move forward.

Thank you to everyone who helped make 2014 a good year. I am proud to work with such talented professionals in serving our customers, and I’m excited to see what 2015 holds.

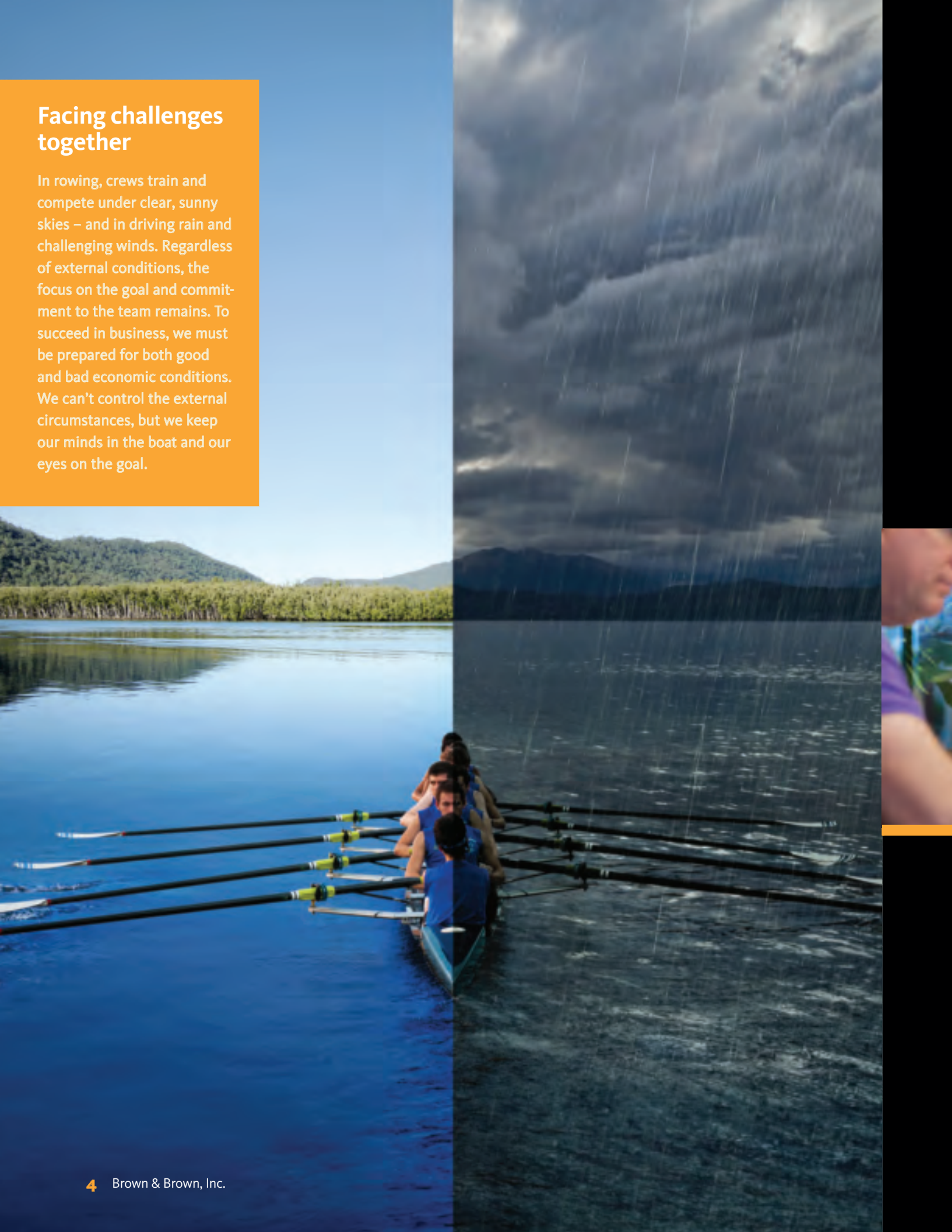
Regards,

A handwritten signature in black ink, reading "J. Powell Brown". The signature is fluid and cursive, with a large initial "J" and "B".

J. Powell Brown, CPCU
*President and
Chief Executive Officer*

Facing challenges together

In rowing, crews train and compete under clear, sunny skies – and in driving rain and challenging winds. Regardless of external conditions, the focus on the goal and commitment to the team remains. To succeed in business, we must be prepared for both good and bad economic conditions. We can't control the external circumstances, but we keep our minds in the boat and our eyes on the goal.



To succeed, you must adapt to all types of conditions.

Brown & Brown is there for our customers during both smooth rowing and rough waters. As markets change, we help our customers with solutions that adapt to their risk management and changing business needs and expectations.



At Brown & Brown, we foster a team approach to serving our customers, working with them through various industry conditions, and as their businesses grow and change.

We provide solutions not only for our customers, but for entire industries. When we discovered that affordable insurance was not available for a certain industry segment, we created an entirely new product that met regulatory requirements and provided nursing homes with innovative insurance coverage.

The federal Affordable Care Act (“ACA”) has created choppy waters for many employers, with its web of regulations, reporting requirements and potential pitfalls. We have

teammates dedicated solely to employee benefits issues and have been able to educate our customers as to what steps they need to take to comply with the ACA. In certain cases, smaller companies lack the resources to access proprietary exchanges, or the ability to fully understand certain issues – we provide this type of holistic service to our customers.

Whether waters are as smooth as glass or roiled with turbulent waves, we never take our eye off our customers, their changing needs and the solutions we need to have in our boat.

It's a simple concept: everyone pulls... together.

The way Brown & Brown recruits, hires and trains its teammates differentiates us from our competitors.



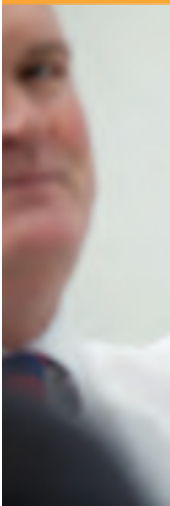
The reason Brown & Brown has such broad and deep insurance expertise in so many industries and classes of risk is primarily due to the people we recruit and how we train, so they are continually at the top of their game.


We are constantly seeking great teammates, which means we are always hiring and receiving referrals. When we find a candidate that possesses the critical skills required to be a success in the insurance industry, and most importantly on the Brown & Brown team, we have them join immediately.

Training begins day one with our proprietary Brown & Brown University. This program is unique in the industry, and provides extensive technical and specialized training for all insurance, sales and service professionals.

Our teammates are empowered to make decisions and quickly present solutions to our customers – a differentiator for Brown & Brown. When an issue or opportunity arises, our customers often need a quick resolution. Our culture of individual and team accountability encourages our teammates to do, and be, their best at all times.

A great team in business is similar to a great rowing crew. A crew must have total confidence that no one person will get the full weight of the pull. We strive to hire teammates who will inspire this kind of confidence and excellence. The power of “we” gives our Company a competitive edge our competitors can't match.





Many strengths with one goal

To create a winning crew, it's important to choose teammates with different strengths and temperaments: some analytical and deliberate, some decisive and spontaneous, and still others who excel under pressure – all of these must mesh. At Brown & Brown, we hire the best people for each role in our crew to achieve peak performance that leads to success.





Balance, harmony and working together

Success is not the result of a single individual's efforts. In rowing and in business, success comes from talented people working as one toward a common goal. Team members must perform at their best and be able to depend on each other to do so if the race is to be won.

The depth and breadth of our insurance knowledge is second to none.

Great crew teams are a balanced blend of physical abilities and diverse personalities that provide equilibrium. At Brown & Brown, it's the diversified structure and balanced business approach that are key to the Company's longevity and continued growth.



As an organization, we operate four segments/divisions: Retail, National Programs, Wholesale Brokerage and Services. Our annual revenue is delivered through these divisions, bringing balance to our business and diversification across our customer base.

We work in almost every industry, so our revenue is not concentrated in any one line of coverage or geographic location. This is possible because the Company has approximately 7,600 teammates distributed across a variety of specialized areas in which they are technically proficient. We write coverage in industries from professional services to manufacturing, hospitality to high tech, and construction to transportation. We insure personal property from recreational vehicles to homes, mobile equipment to fine art, and

pontoon boats to luxury yachts. We write coverage for builders risk, flood damage and public entities. We also provide services including claims processing, Medicare Set-aside and Social Security disability benefit advocacy.

Balance is also achieved by leveraging the capabilities across our Company to best serve our customers and accentuating our operations. By having businesses that are counter-cyclical to broad economic conditions, we create a business with economic resiliency.

In rowing, balance, harmony and working together create the *swing* that makes the work feel effortless. The strengths of each of our four divisions create balance and the ability to power the success of our Company.

Businesses will not succeed without the right equipment.

Our relationships with our carriers are built on a foundation of mutual trust and confidence. We have gained the trust of our carrier partners because of our longevity in the industry, quality of the business we sell and the breadth of our distribution. We cultivate and nurture deep relationships with our diverse portfolio of carrier partners.

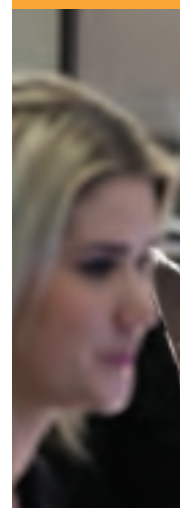


The relationships we have with our insurance carriers are key to our continued long-term success. We choose our carrier partners carefully, seeking those that meet strict criteria for financial stability, diverse risk appetite and specializations.

In many cases, our carrier partners give us underwriting authority or claims adjudication responsibility, which are enormous demonstrations of trust. In return, we provide our key carrier partners with the ability to reduce their expense ratios, increase efficiencies, improve distribution, and industry leading modeling tools and processing – all with the objective of helping them improve their returns.

The ultimate goal is to create solutions that benefit our customers. The depth and breadth of our relationships with our carriers allow us to bring the right solution to the right customer at the right time – sometimes bringing multiple carriers to the table to cooperate on a unique and complex coverage need.

Without the right equipment, even the most well-trained team will struggle to win the race. Brown & Brown is fortunate to work with strong and committed carriers that propel us forward into an exciting future.





The best equipment is critical

A successful crew cannot succeed without the right tools. A team with inadequate training, a substandard boat and lack of direction will surely fail. At Brown & Brown we are guided by our core principles as we provide solutions and services that exceed our customers' expectations.





Self-discipline as culture

Coaching a winning team requires the ability to model and inspire the self-discipline needed to consistently achieve peak performance. Brown & Brown's culture of leadership throughout the Company opens doors and encourages each teammate to be his or her best at all times. This creates tremendous opportunities for all of us to learn from each other.

The drive that propels great companies to even greater heights.

Great leaders are focused on delivering for their teams and sharing successes. A crucial component of leadership is the ability to mentor, coach and advocate. When a leader sees that a teammate's stroke is off, the leader works with the teammate to get him or her into the *swing*.



At Brown & Brown, leadership is not reserved for a select few. Everyone, in every position, is encouraged and expected to demonstrate leadership every day. Leaders are the steady voice at the stern of the boat, remaining calm and cool regardless of conditions.

This sounds very serious – and it is. However, great leaders must also have a sense of humor, humility and common sense – especially about themselves. The waters won't always be calm, and it's critical to be able to face every challenge with both focus and the ability to laugh.

Finally, the glue that holds these characteristics together is passion. It's impossible to be a great leader or to achieve success, if you're not passionate about what you do.

While the sales teams may be the rowers in the boat and in the spotlight, they can't perform without their teammates in Marketing, Underwriting, Service, Finance, Legal, Team Resources and Information Technology, who make sure the boat gets in the water and is ready to go at a high rate of speed each day.

Brown & Brown is fortunate to have a culture of strong leadership. Our passion and consistency will perpetuate this culture – and our success – for years to come.

Our winning strategy will guide us to continued growth.

Our strategic plan is the engine that powers Brown & Brown as we strive to be the best diversified insurance broker serving the middle market.



Our strategic business plan has four pillars upon which it rests. The first is that we are in the people recruiting and enhancing business. We work tirelessly to have the best insurance professionals in the industry, giving them the tools and training to excel each day.

The second is that we are in the selling and servicing of insurance business. Every day we strive to provide our customers with excellence in both service and innovative insurance solutions that are delivered by us – their key business partner.

Third, we operate as a “make no big mistakes” business. We stick to the core insurance business that made us an industry

leader, without complicating our ventures into risky or unfamiliar waters. Under our disciplined approach, we may take risks, but they are controlled to avoid material variations.

Lastly, we are in the money-making business. This means we make acquisitions and run our businesses in a profitable manner with a steadfast goal of increasing value for our shareholders.

In rowing, strategy hinges upon the discipline required to achieve the ultimate from mind, heart and body. Our strategy has served us well for the first 75 years and we expect it will for the next 75 years and beyond.



A unified strategy to win

Central to rowing principles is that when everyone rows together the *swing* becomes the ninth rower. To achieve *swing*, every teammate must row in synch with each individual, working together to achieve a common goal. A sound strategy is critical in creating this type of unity, providing the blueprint necessary to build lasting success.

Retail

The Retail Division is the largest of Brown & Brown's four divisions and generated approximately 51% of the Company's total revenues in 2014. With a laser focus on risks and protecting our customers, this division includes almost 3,700 insurance professionals, operates in 100 locations, writes business in all 50 states, and has a physical presence in 34 states within the United States, the Cayman Islands and Bermuda.

Our broad and deep insurance expertise across both industry and geography gives us a distinct competitive advantage. Brown & Brown is uniquely qualified to address the insurance needs of middle market businesses, as well as those of individuals – we are solutions providers.

Some of the types of insurance coverage we offer include, but are not limited to, multi-peril packages for both property and casualty, employee benefits, workers' compensation, professional liability, medical malpractice, builders' risk, cyber security, as well as personal insurance needs such as homes, umbrella policies, antique vehicles, fine art and wine collections.

We are a specialty distribution channel with risk of insured loss being borne by our broad and diverse network of hundreds of insurance companies. We are proud of the strong, long-term relationships we have built with our carriers partners, which enable us to garner focused attention on the needs of our customers.

A significant differentiator of Brown & Brown is that our customers hear from us throughout the term of their policy and not just at renewal time. Being key business partners for each of our customers year round, means we are constantly anticipating potential areas of risk and communicating emerging industry issues. As an example, Brown & Brown is doing significant work to assist our customers to proactively manage the complex issues associated with the creation, implementation, and ongoing compliance of the Affordable Care Act ("ACA"). To meet the rigorous requirements imposed upon our customers by the ACA, we continue to hire and train the industry's best healthcare experts. With the Supreme Court set to hear several related cases, the ACA will continue to be an area of focus into the foreseeable future.

The success record of Brown & Brown's Retail Division is attributable to its major asset: our people. Recruitment, hiring and the continuous training of our teammates creates unmatched expertise, enabling us to address virtually any type of risk our customers may encounter.

At Brown & Brown, we provide insurance solutions extremely well and have every intention of maximizing our performance and helping our customers reach new heights each and every year.

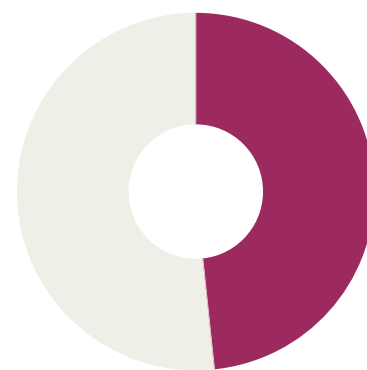
Contribution to
Total Revenues

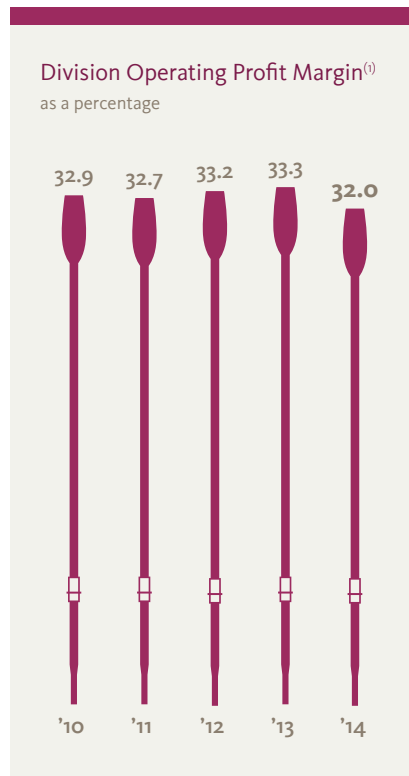
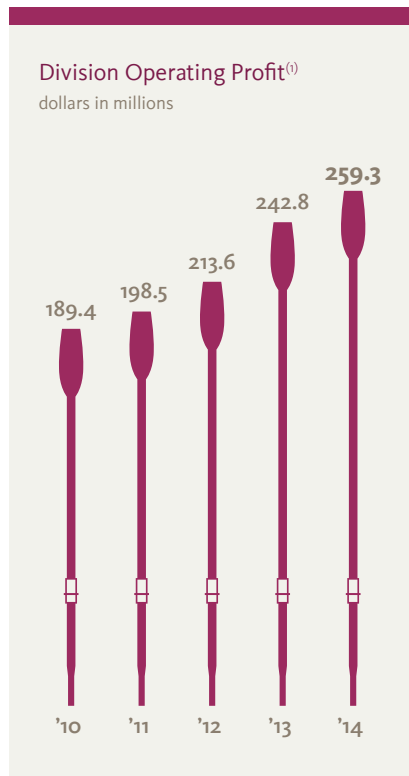
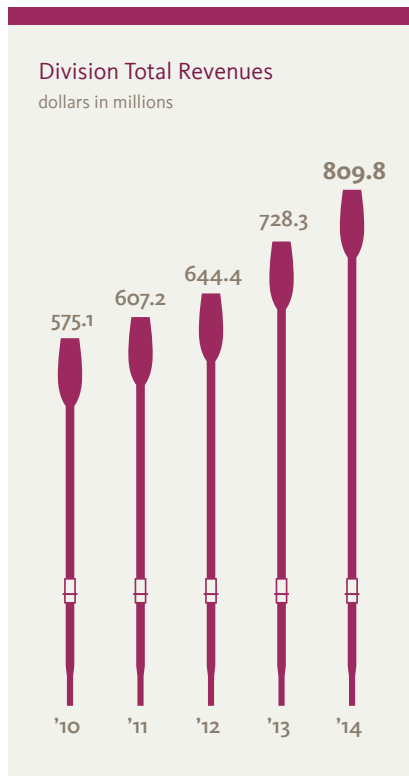
51.4%



Contribution to Total
Adjusted Operating
Profit

49.4%





(1) Please see non-GAAP reconciliation on page 86.

Retail Division Office Locations

- Arizona
 - Arkansas
 - California
 - Colorado
 - Connecticut
 - Delaware
 - Florida
 - Georgia
 - Hawaii
 - Illinois
 - Indiana
 - Kentucky
 - Louisiana
 - Massachusetts
 - Michigan
 - Minnesota
 - Mississippi
 - Nevada
 - New Hampshire
 - New Jersey
 - New Mexico
 - New York
 - Ohio
 - Oklahoma
 - Oregon
 - Pennsylvania
 - Rhode Island
 - South Carolina
 - Tennessee
 - Texas
 - Vermont
 - Virginia
 - Washington
 - Wisconsin
- OUTSIDE THE U.S.**
- Bermuda
 - Cayman Islands

National Programs

In 2014, the National Programs Division of Brown & Brown delivered approximately 25% of the Company's revenue. In virtually all of our programs, our insurance carrier partners have delegated underwriting, policy issuance, billing, and, in many instances, claims-handling authority to our programs' operations. These programs are generally distributed through nationwide networks of independent agents and Brown & Brown retail offices, and offer targeted products and services designed for specific industries, trade groups, professionals, public entities and market niches.

The National Programs Division can be broadly split into two groups: professional programs, and property and casualty programs. These groups encompass a wide variety of innovative and unique programs that can be further broken down into five main categories.

- Commercial lines programs offer packages designed specifically for broad based categories of customers, and includes coverage for programs like workers' compensation, contractor's equipment, professional sports activities and manufactured housing. Some of our leading programs in this category are American Specialty Insurance & Risk Services, Arrowhead Workers Compensation and OnPoint Underwriters.
- Personal lines programs include residential, auto, and earthquake coverage. Leading programs for personal lines include Arrowhead Personal Property and Arrowhead Residential Earthquake.
- Specialty lines include programs such as flood coverage, difference in conditions ("DIC") commercial earthquake, habitation properties, food chains, and lender-placed coverage to insure against specific risks. Our specialty lines programs include brands such as Wright Flood,

Sigma Underwriting, Florida Intracoastal Underwriters, Arrowhead Special Risk Division and Proctor Financial.

- Professional liability programs include protection for architects, engineers, dentists, realtors, attorneys and physicians. These programs include brands such as CalSurance® and Professional Protector Plans®.
- Public entity lines are programs where Brown & Brown manages the full range of services related to self-insured risk pools for municipalities and public entities. Programs in this category include Canfield & Associates, Wright Public Entity, Downey Public Risk Underwriters, and Public Risk Underwriters.

Our Company has been creating programs for more than 40 years. Our experience and scale make it possible for us to continue to grow and expand. We are one of the largest operators in the U.S. programs sector, placing more than \$2.6 billion in premium from approximately 50 programs and more than 100 products. We have a very broad base of insurance carriers that have partnered with us for many years.

Our National Programs Division works in niche areas where we make a difference and deliver coverage into the market for our carrier partners. Our national presence gives us tremendous reach and depth. Our teammates are talented professionals who bring extensive experience and value to every program. Finally, we have a vast, strong distribution system of approximately 10,000 retailers that makes it possible to uniquely distribute a program offering, whether it's done through our Retail and Wholesale Brokerage Divisions, an association or a group of distributors.

Contribution to Total Revenues

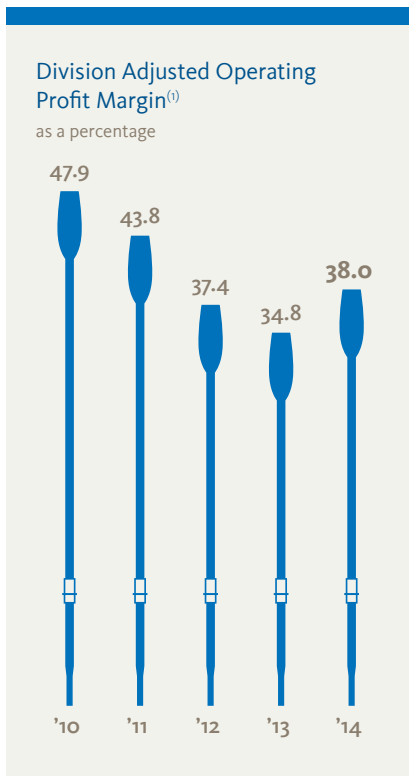
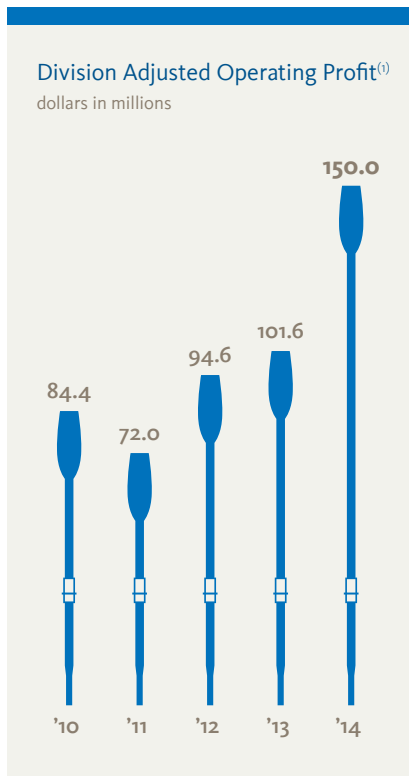
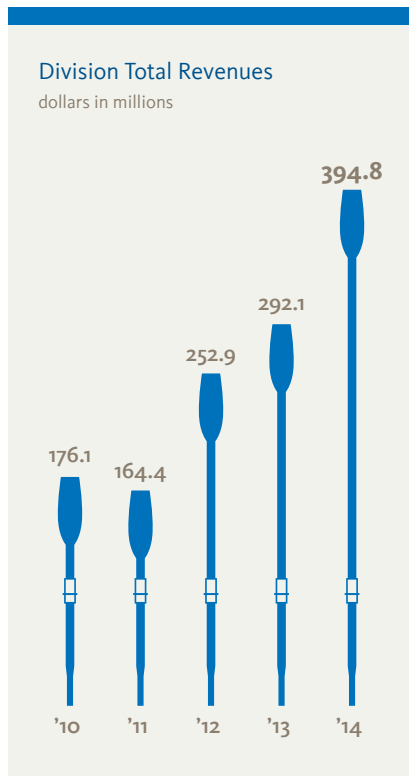
25.1%



Contribution to Total Adjusted Operating Profit

28.6%





(1) Please see non-GAAP reconciliation on page 86.

National Programs

- AFC Insurance
- Allied Protector Plan[®]
- American Specialty
- Arrowhead General Insurance Agency
- Downey Public Risk Underwriters
- Canfield
- Florida Intracoastal Underwriters
- OnPoint Underwriting
- Optometric Protector Plan[®]
- Parcel Insurance Plan
- Public Risk Advisors of New Jersey
- CalSurance Associates
- CITA Insurance Services
- CPA Protector Plan[®]
- Professional Protector Plan for Dentists
- Ideal Insurance Agency
- Irving Weber Associates
- Lawyer's Protector Plan[®]
- Texas Monarch Management Corporation
- Proctor Financial
- Professional Service Plan
- Professional Risk Specialty Group
- Public Risk Underwriters
- TitlePac[®]
- Wright Flood
- Wright Public Entity
- Wright Specialty

For additional information on National Programs please visit: www.natprograms.com

Wholesale Brokerage

In 2014, the Wholesale Division was responsible for approximately 15% of the Company's revenue, placing \$2.1 billion in premium for the year. This division is in the solutions business and we excel at what we do. We operate in two practices; brokerage and binding authority. We are one of the top ten largest wholesalers in the world, with almost 330 insurance brokers and more than 1,000 teammates doing business in all of the United States and the United Kingdom. We do business through the Brown & Brown network and with more than 12,000 independent retailers.

The best way to think about the Wholesale Division is as an extension of a retail agent's marketing or placement capabilities. Working with us gives smaller agents the ability to access insurance carriers and pursue business they would not otherwise be able to write.

We're able to be creative and excel at what we do because we have specifically aligned our brokers by industry and line of coverage. If you're engaging with one of our property brokers, they deal solely with property and know the business and geographical issues very well. Many of our competitors use a generalist model that attempts to sell everything, which is not an effective way to serve our customers' best interests.

Working with our Wholesale Division gives retailers the advantage of our broad and deep carrier relationships. In most cases, we've done a great deal more business with the carrier than the retail agent. Rather than approaching a carrier as a smaller business, working through our Wholesale Division puts the strength, capabilities, and size of our Company behind the retailer to provide the best solution for the customer. No matter the risk, we are able to find a market to provide coverage.

Finally, we're flexible in how we work with retail agents. We can either walk them through the process of assisting their customer or accompany them on customer visits. That level of service is unique in the industry.

Opportunities are presented to the Wholesale Division in a way that is quite different than the usual avenues. Generally speaking, when a retailer comes to us, there's an issue that cannot be addressed by the standard insurance carriers. For example, they may be working on a renewal and aren't content with the coverage and/or price structure. This is when they turn to us for a solution, which enables us to provide our capabilities to help solve the problem. With our expertise, we know exactly what the issue is and how to work with the retailer and our carriers to provide the best coverage at the right price for the customer.

Contribution to
Total Revenues

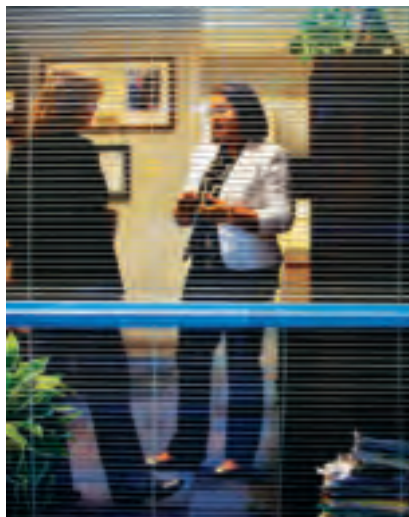
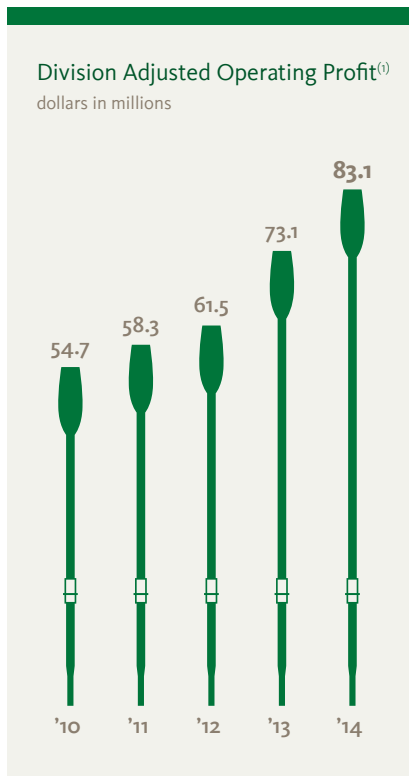
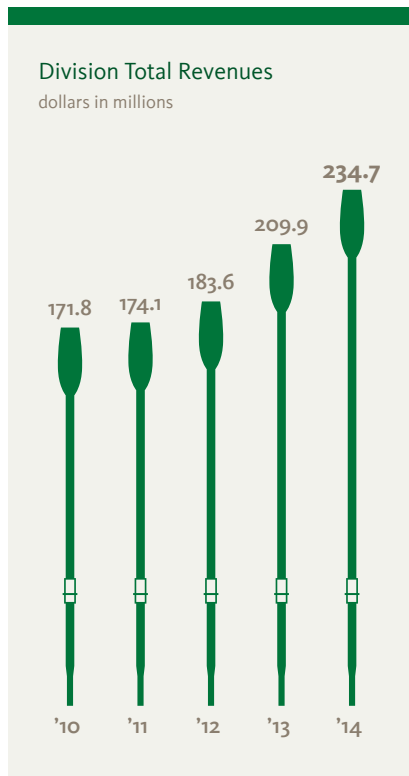
14.9%



Contribution to Total
Adjusted Operating
Profit

15.8%





(1) Please see non-GAAP reconciliation on page 86.

Wholesale Brokerage Division

- APEX Insurance Services
- Big Sky Underwriters
- Braishfield Associates
- Combined Group Insurance Services
- Decus Insurance Brokers
- ECC Insurance Brokers
- Evergreen Re
- Graham Rogers
- Halcyon Underwriters
- Hull & Company
- MacDuff Underwriters
- Mile High Markets
- National Risk Solutions
- Peachtree Special Risk Brokers
- Procor Solutions & Consulting
- Public Risk Underwriters GA
- Public Risk Underwriters TX
- Sigma Underwriting Managers
- Summit Risk Services
- Texas Security General Insurance Agency

Services

In 2014, the Services Division of Brown & Brown was responsible for delivering approximately 9% of the Company's revenue. Since its inception in 1982, the one unifying thread running through this division is our commitment to providing outstanding service for every customer we serve – no matter if that customer is an individual, a company or an insurance carrier.

Having a common operating philosophy which is underpinned by service is key, as our businesses provide specialized offerings to multiple markets. These include offerings such as claims processing for floods, property, auto, Social Security advocacy and Medicare Set-aside. As a result of building deep and lasting relationships with our customers, we have a very high retention rate. That's something we're extremely proud of and a differentiator in the industry. To deliver great service, we hire, train and retain the best teammates in the industry.

Some of our businesses include:

American Claims Management, Inc. (ACM) | A national third-party administrator which provides comprehensive insurance claims handling and related services primarily for commercial and personal lines claims.

USIS® and PGCS® | Full-service third-party claims administrators with capabilities of handling various types of claims, including workers' compensation, auto, professional and general liability. USIS also offers medical management and managed care services.

ICA | A national service provider delivering comprehensive claims management solutions including catastrophe response, daily response and staff augmentation for both personal and commercial lines of insurance.

Colonial Claims | The national leader in yearly volume of National Flood Insurance Program claims adjusted for the past 20 years.

The Advocate GroupSM | A company specializing in Social Security disability advocacy and Medicare enrollment decision support services.

NuQuest/Bridge Pointe® and Protocols® | Recognized leaders in Medicare Secondary Payer Compliance. Multidisciplinary consulting firms specializing in medical settlement planning for parties involved in complex workers' compensation and personal injury cases.

In addition to the best people in the industry, our strengths include a broad network and national presence. We do business in all of the United States and manage thousands of claims annually. We are also able to build a strong bond with our insurance carrier partners as we offer them efficient claims management through our scale and technology platforms.

While the Services Division works in areas ranging from auto claims to Social Security disability advocacy, our success is directly attributable to our commitment and our love of providing outstanding service to our customers.

Contribution to
Total Revenues

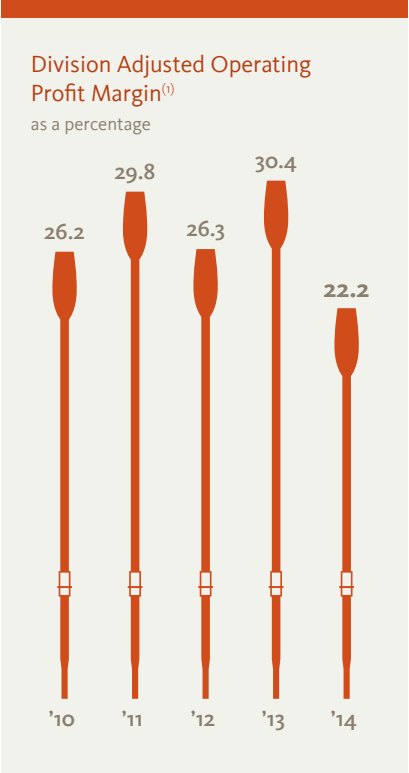
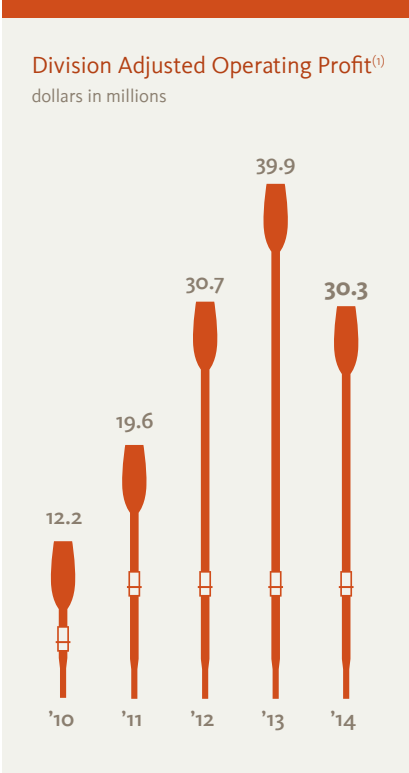
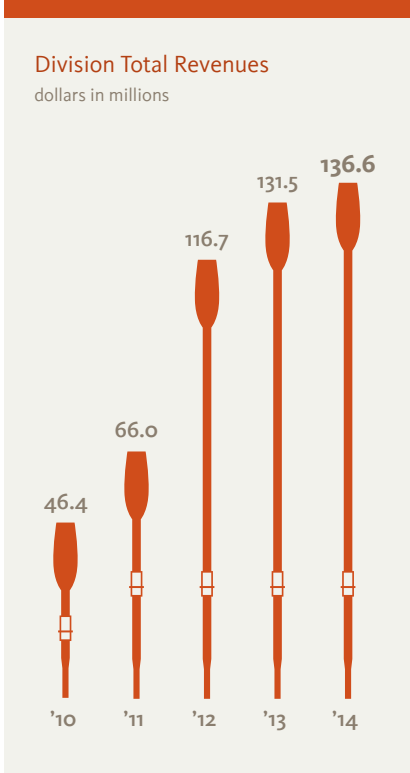
8.7%



Contribution to Total
Adjusted Operating
Profit

5.8%





(1) Please see non-GAAP reconciliation on page 86.

Services Division

- American Claims Management
- USIS
- PGCS
- ICA
- Colonial Claims
- The Advocator Group
- NuQuest/Bridge Pointe
- Protocols



The privilege to be of service.

Giving back to the communities that give so much to us is an important part of the culture at Brown & Brown.

Brown & Brown has a strong culture of giving back to the communities we are honored to serve. Our offices and teammates support charitable organizations and their communities in a way that is most meaningful to them and to the particular cause for which they have dedicated themselves.

Our teammates do everything from volunteering with their local Boy/Girl Scout troops to volunteering at local hospitals – we support hundreds of charitable organizations. Some of our teammates donate money, others organize and participate in fundraising drives for various charities and community causes, and others donate their time or talents. Each year, we as a collective team donate thousands of hours in support of the charities that mean the most to each of us.

While we work with many non-profit organizations to help them further their missions, we also support these organizations by assisting them with their insurance needs. This takes many shapes and forms, from employee benefits and property and casualty, to directors and officers insurance for members of their board of directors.

Our structure of independent, local offices puts Brown & Brown in an excellent position to stay in touch with the changing needs of the communities in which we live and serve. It is our belief that giving back to our communities is an honor and a privilege, and we don't take it for granted.

Leadership Overview



J. Powell Brown, CPCU
President & Chief Executive Officer



R. Andrew Watts
Executive Vice President, Treasurer & Chief Financial Officer



Linda S. Downs, CPCU, AIA
Executive Vice President



Richard A. Freebourn, Sr., CPCU, CIC
Executive Vice President – Internal Operations & People Officer



Robert W. Lloyd, Esq., CIC
Executive Vice President, Corporate Secretary & General Counsel



Charles H. Lydecker, CPCU, CIC, AIM
President – Retail Division



J. Scott Penny, CIC
Chief Acquisitions Officer



Anthony T. Strianese
President – Wholesale Brokerage Division



Chris L. Walker
President – National Programs Division



J. Neal Abernathy
Senior Vice President



Sam R. Boone, Jr.
Senior Vice President



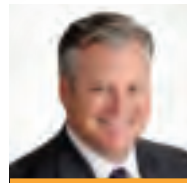
Steve M. Boyd
Senior Vice President



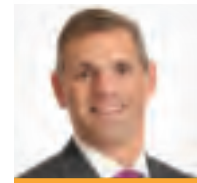
P. Barrett Brown
Senior Vice President



Kathy H. Colangelo, CIC, ASLI
Senior Vice President



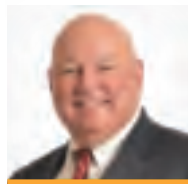
Steve L. Denton
Senior Vice President



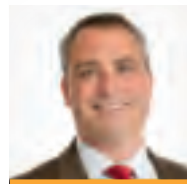
Nicholas J. Dereszynski, CEBS, CIC
Senior Vice President



Anthony M. Grippa
Senior Vice President



Thomas K. Huval, CIC
Senior Vice President



Richard A. Knudson, CIC
Senior Vice President

Board of Directors



Left to right:

Samuel P. Bell, III, Esq.

Of Counsel to the law firm of Buchanan Ingersoll & Rooney PC

Acquisition Committee; Compensation Committee, Chairman

James S. Hunt

Former Executive Vice President and Chief Financial Officer, Walt Disney Parks and Resorts Worldwide

Audit Committee; Compensation Committee

Theodore J. Hoepner

Former Vice Chairman, SunTrust Bank Holding Company

Acquisition Committee; Audit Committee, Chairman; Compensation Committee

Bradley Currey, Jr.

Former Chairman & Chief Executive Officer, Rock-Tenn Company

Acquisition Committee; Nominating/Corporate Governance Committee

Chilton D. Varner

Partner, King & Spalding LLP

Lead Director; Compensation Committee; Nominating/Corporate Governance Committee, Chairman

Wendell S. Reilly

Managing Partner, Grapevine Partners, LLC

Acquisition Committee, Chairman; Nominating/Corporate Governance Committee

J. Hyatt Brown, CPCU, CLU

Chairman, Brown & Brown, Inc.

J. Powell Brown, CPCU

President & Chief Executive Officer, Brown & Brown, Inc.

Toni Jennings

Chairman, Jack Jennings & Sons; Former Lieutenant Governor, State of Florida

Compensation Committee; Nominating/Corporate Governance Committee

H. Palmer Proctor, Jr.

President/Director, Fidelity Bank

Acquisition Committee; Audit Committee

Hugh M. Brown

Founder and former President & Chief Executive Officer, BAMSI, Inc.

Audit Committee; Nominating/Corporate Governance Committee

Timothy R. M. Main

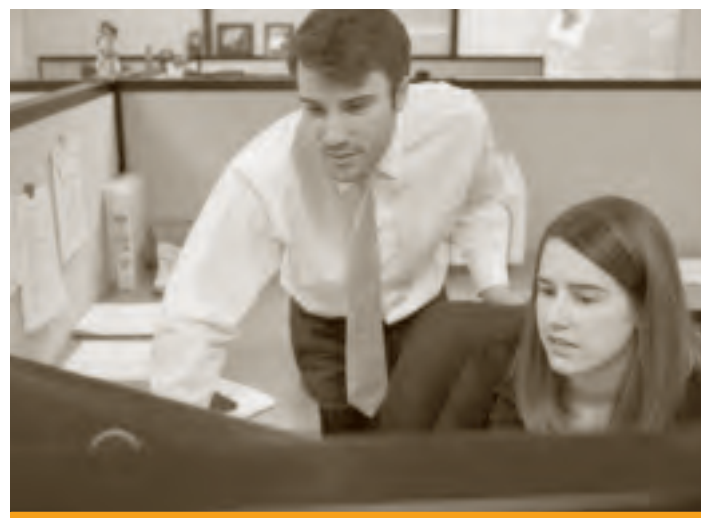
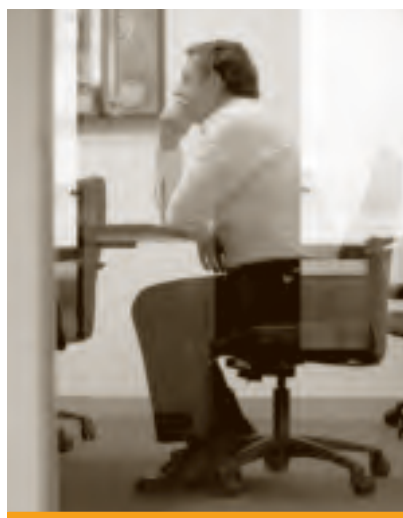
Managing Director, Evercore Group LLC

Acquisition Committee

2014

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Management's Discussion and Analysis

of Financial Condition and Results of Operations

General

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

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

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

We foster a strong, decentralized sales culture with a goal of consistent, sustained growth over the long term.

We increased revenues every year from 1993 to 2014, with the exception of 2009, when our revenues dropped 1.0%. Our revenues grew from \$95.6 million in 1993 to \$1.6 billion in 2014, reflecting a compound annual growth rate of 14.2%. In the same 21 year period, we increased net income from \$8.1 million to \$206.9 million in 2014, a compound annual growth rate of 16.7%.

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

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

This growth trend has continued into 2014 with our consolidated internal revenue growth rate of 2.0%. Additionally, each of our four segments recorded positive internal revenue growth for each quarter in 2014 except for the Services Segment in the first quarter. The decline in the core organic commissions and fees revenues in the first quarter of 2014 for the Services Segment was the result of the significant revenue recorded at our Colonial Claims operation in the first quarter of 2013 attributable to Superstorm Sandy, for which no comparable revenues occurred in the first quarter of 2014. In the first quarter of 2013, Colonial Claims earned claims fees of \$16.2 million as a direct result of the continued significant claims activity from Superstorm Sandy.

We also earn "profit-sharing contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but which may also reflect considerations for volume, growth and/or retention. These commissions

are primarily received in the first and second quarters of each year, based on the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 4.3% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" excludes profit-sharing contingent commissions and guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In contrast, the term "core organic commissions and fees" is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). "Core organic commissions and fees" are reported in this manner in order to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes attributable to (i) net new and lost accounts, (ii) net changes in our customers' exposure units, and (iii) net changes in insurance premium rates.

Certain insurance companies offer guaranteed fixed-base agreements, referred to as "Guaranteed Supplemental Commissions" ("GSCs") in lieu of profit-sharing contingent commissions. Since GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2014, we had \$7.6 million of GSC revenue accrued and had earned \$9.9 million of GSCs during 2014, most of which will be

collected in the first quarter of 2015. For the twelve-month periods ended December 31, 2014, 2013 and 2012, we earned GSCs of \$9.9 million, \$8.3 million and \$9.1 million, respectively.

Fee revenues relate to fees negotiated in lieu of commissions, which are recognized as services are rendered. Fee revenues have historically been generated primarily by: (1) our Services Segment, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services, and (2) our National Programs and Wholesale Brokerage Segments, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies. These services are provided over a period of time, typically one year. However, in conjunction with our July 1, 2013 acquisition of Beecher Carlson, which has a primary focus on large retail customers that generally pay us fees directly, the fee revenues in our Retail Segment for 2014 have increased by \$44.8 million to \$117.8 million. Also, with the acquisition of Wright, which primarily receives income in the form of fees, fee revenue in our National Programs Segment increased \$81.9 million to \$152.8 million. Fee revenues, on a consolidated basis, as a percentage of our total commissions and fees, represented 30.6% in 2014, 26.6% in 2013 and 21.7% in 2012.

Historically, investment income has consisted primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. As a result of the bank liquidity and



Management's Discussion and Analysis of Financial Condition and Results of Operations

solvency issues in the United States in the last quarter of 2008, we moved substantial amounts of our cash into non-interest bearing checking accounts so that they would be fully insured by the Federal Deposit Insurance Corporation ("FDIC") or into money-market investment funds (a portion of which is FDIC insured) of SunTrust and Wells Fargo, two large national banks. Effective January 1, 2013, the FDIC ceased providing insurance guarantees on non-interest bearing checking accounts and since that time we have invested in both interest bearing and non-interest bearing checking accounts. Investment income also includes gains and losses realized from the sale of investments. Other income primarily reflects net gains on sales of customer accounts and fixed assets, but will also include sub-rental income, legal settlements and other miscellaneous income.

Information Regarding Non-GAAP Measures

In the discussion and analysis of our results of operations that follows, in addition to reporting financial results in accordance with GAAP, as noted above, we provide information regarding core commissions and fees, core organic commissions and fees, and our internal growth rate, which is the growth rate of our core organic commissions and fees. These measures are not in accordance with, or an alternative to (including any adjusted internal growth rate), the GAAP information provided in this annual report on Form 10-K. Tabular reconciliations of this supplemental non-GAAP financial information to our most comparable GAAP information is contained in this Form 10-K. We present such non-GAAP supplemental financial information, as we believe such information provides additional meaningful methods

of evaluating certain aspects of our operating performance from period to period on a basis that may not be otherwise apparent on a GAAP basis. This supplemental financial information should be considered in addition to, not in lieu of, our condensed consolidated financial statements.

Current Year Company Overview

2014 was a strong year for revenue growth and continued the positive trends that began in 2012. After the five-year period extending from 2007 to 2011, in which we experienced negative internal growth in our core organic commissions and fees revenue which we believe was a direct result of the general weakness of the economy, we achieved a positive internal revenue growth of 6.7% in 2013, and 2.0% in 2014.

The net growth in core organic commissions and fees in 2014 of \$25.6 million is significantly less than the comparable growth in 2013 of \$75.6 million, similar to the core organic commissions and fees in 2012 of \$24.9 million and significantly better than the net lost revenues of \$21.5 million in 2011. However, it should be noted that of the \$75.6 million growth in the 2013 core organic commissions and fees, \$38.1 million was generated by two new programs at our Arrowhead operation, the automobile aftermarket program and the non-standard auto program, and from our Colonial Claims operation as a result of the significant claims activity attributable to Superstorm Sandy. The growth in the core organic commissions and fees revenue for 2014 is principally attributable to new business and increasing insurance exposure units as a result of a gradually improving U.S. economy.

Income before income taxes in 2014 decreased over 2013 by 5.0%, or \$17.9 million, to \$339.7 million. However, that net decrease includes a \$47.4 million pretax loss on disposal of certain assets of Axiom Re, LP ("Axiom Re"). This office sale was effective December 31, 2014 and represents part of our strategic plan to exit the reinsurance brokerage business. The loss associated with this sale resulted in a \$0.21 reduction to earnings per share. Income before income taxes related to new acquisitions was \$37.5 million, and therefore, income before income taxes from offices that existed in the same time periods of 2014 and 2013 (including the new acquisitions that "folded in" to those offices) decreased by \$55.4 million. The net decrease of \$55.4 million related primarily to net new business off-set by the \$47.4 million loss on the sale of Axiom Re, along with the decrease in revenue associated with claims from Superstorm Sandy received in



2013 with no comparable revenues in 2014, \$27.7 million of higher compensation and benefits costs, increased interest costs of \$12.0 million relating to additional debt used to fund acquisition activity in 2014, and \$7.5 million from the change in estimated earn-out payables.

Acquisitions

Approximately 37,500 independent insurance agencies are estimated to be operating currently in the United States. Part of our continuing business strategy is to attract high-quality insurance intermediaries to join our opera-

tions. From 1993 through 2014, we acquired 459 insurance intermediary operations, excluding acquired books of business (customer accounts).

We continue to acquire insurance operations that we believe are strategic in growing our business segments. In each of the last two years, we completed ten acquisitions in 2014 with estimated revenues of \$159.5 million, and nine acquisitions in 2013 with estimated revenues of \$142.8 million.

A summary of our acquisitions over the last three years is as follows:

(in millions, except for number of acquisitions)	Number of Acquisitions		Estimated Annual Revenues	Net Cash Paid	Notes Issued	Other Payable	Recorded Earn-out Payable	Net Assets Acquired
	Asset	Stock						
2014	9	1	\$ 159.5	\$ 721.9	\$ —	\$ 1.9	\$ 33.2	\$ 757.0
2013	8	1	\$ 142.8	\$ 408.1	\$ —	\$ 0.5	\$ 5.1	\$ 413.7
2012	19	1	\$ 149.6	\$ 483.9	\$ 0.1	\$ 25.4	\$ 21.5	\$ 530.9

On May 1, 2014, we completed the acquisition of Wright which was previously announced January 15, 2014. Wright has estimated annualized revenues of \$120.0 million. The total cash paid for Wright was \$609.2 million. Wright's operations include a national flood insurance program, government-sponsored insurance programs and proprietary national and regional programs.

On July 1, 2013, we completed the acquisition of Beecher Carlson, an insurance and risk management broker with operations that include retail brokerage, program management and captive management. The aggregate purchase price for Beecher Carlson was \$469.3 million, including \$364.3 million of cash payments and the assumption of \$105.0 million of liabilities. Beecher Carlson was acquired primarily to expand Brown & Brown's Retail and National Programs businesses, and to attract and hire high-quality individuals.

On January 9, 2012, we completed the acquisition of Arrowhead General Insurance Agency Superholding Corporation ("Arrowhead") pursuant to a merger agreement dated December 15, 2011 (the "Merger Agreement"). Under the Merger Agreement, the total cash purchase price of \$395.0 million was subject to adjustments for options to purchase shares of Arrowhead's common stock, working capital, sharing of net operating tax losses, Arrowhead's preferred stock units, transaction expenses, and closing

debt. In addition, within 60 days following the third anniversary of the acquisition's closing date, we will pay to certain persons who were Arrowhead equity holders as of the closing date additional earn-out payments equal, collectively, to \$5.0 million, subject to certain adjustments based on the "cumulative EBITDA" of Arrowhead and all of its subsidiaries, as calculated pursuant to the Merger Agreement, during the final year of the three-year period following the acquisition's closing date.

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

Critical Accounting Policies

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

Management's Discussion and Analysis

of Financial Condition and Results of Operations

We believe that of our significant accounting and reporting policies, the more critical policies include our accounting for revenue recognition, business combinations and purchase price allocations, intangible asset impairments and reserves for litigation. In particular, the accounting for these areas requires significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 in the "Notes to Consolidated Financial Statements".

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is processed into our systems, whichever is later. Commission revenues related to installment billings are recognized on the later of the date effective or invoiced, with the exception of our Arrowhead business which follows a policy of recognizing on the later of the date effective or processed into our systems regardless of the billing arrangement. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted in accordance with known circumstances. Subsequent commission adjustments are recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments. Profit-sharing contingent commissions are recognized when determinable, which is when such commissions are received from insurance companies, or when we receive formal notification of the amount of such payments. Fee revenues, and commissions for workers' compensation programs, are recognized as services are rendered.

Business Combinations and Purchase Price Allocations

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

All of our business combinations initiated after June 30, 2001 have been accounted for using the purchase method. In connection with these acquisitions, we record the estimated value of the net tangible assets purchased and the value of the identifiable intangible assets purchased, which typically consist of purchased customer accounts and non-compete agreements. Purchased customer accounts include the physical records and files obtained from acquired businesses that contain information about insurance policies, customers and other matters essential to policy renewals. However, they primarily represent the present value of the underlying cash flows expected to be received over the estimated future renewal periods of the insurance policies comprising those purchased customer accounts. The valuation of purchased customer accounts involves significant estimates and assumptions concerning matters such as cancellation frequency, expenses and discount rates. Any change in these assumptions could affect the carrying value of purchased customer accounts. Non-compete agreements are valued based on their duration and any unique features of particular agreements. Purchased customer accounts and non-compete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and intangible assets is assigned to goodwill and is not amortized.

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

The fair value of earn-out obligations is based on the present value of the expected future payments to be made to the sellers of the acquired businesses in accordance with the provisions contained in the respective purchase agreements. In determining fair value, the acquired business' future performance is estimated using financial projections developed by management for the acquired business' and this estimate reflects market participant assumptions regarding revenue growth and/or profitability. The expected future payments are estimated on the basis of the earn-out



formula and performance targets specified in each purchase agreement compared to the associated financial projections. These estimates are then discounted to present value using a risk-adjusted rate that takes into consideration the likelihood that the forecasted earn-out payments will be made.

Intangible Assets Impairment

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

Management assesses the recoverability of our goodwill on an annual basis, and assesses the recoverability of our amortizable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) significant decline



in our market capitalization. If the recoverability of these assets is unlikely because of the existence of one or more of the above-referenced factors, an impairment analysis is performed. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2014 and determined that the fair value of goodwill exceeded the carrying value of such assets. Additionally, there have been no impairments recorded for amortizable intangible assets for the years ended December 31, 2014, 2013 and 2012.

Non-Cash Stock-Based Compensation

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

Litigation Claims

We are subject to numerous litigation claims that arise in the ordinary course of business. If it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss is estimable, an accrual for the costs to resolve these claims is recorded in accrued expenses in the accompanying Consolidated Balance Sheets. Professional fees related to these claims are included in other operating expenses in the accompanying Consolidated Statements of Income. Management, with the assistance of in-house and outside

Management's Discussion and Analysis

of Financial Condition and Results of Operations

counsel, determines whether it is probable that a liability has been incurred and estimates the amount of loss based upon analysis of individual issues. New developments or changes in settlement strategy in dealing with these matters may significantly affect the required reserves and affect our net income.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08") which changes the criteria for reporting discontinued operations and enhances disclosures in this area. Under the new guidance, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Disposals of equity method investments, or those reported as held-for-sale, must be presented as a discontinued operation if they meet the new definition. The standard is effective prospectively for all disposals of components (or classification of components as held-for-sale) of an entity that occur within interim and annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications of components as held-for-sale) that have not been reported in financial statements previously issued. Brown & Brown has elected to early adopt this pronouncement and has reported the disposal of the Axiom Re business in accordance with this pronouncement.

In May 2014, FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company beginning January 1, 2017 and, at that time the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. Early adoption is not permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's Consolidated Financial Statements.

In August 2014, FASB issued ASU 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern," ("ASU 2014-15"), which addresses management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for fiscal years beginning after December 15, 2016 and for interim periods within those fiscal years, with early adoption permitted. The Company does not expect to early adopt this guidance and it believes the adoption of this guidance will not have a material impact on the Consolidated Financial Statements.

With the Wright acquisition we now have insurance company operations for which we have adopted accounting policies that were consistent with the accounting policies in place at Wright prior to their acquisition by Brown & Brown. These are detailed in Note 1 to the Financial Statements under "Summary of Significant Accounting Policies".



Results of Operations for the Years Ended December 31, 2014, 2013 and 2012

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)	2014	Percent Change	2013	Percent Change	2012
Revenues					
Core commissions and fees	\$ 1,499,903	15.7 %	\$ 1,295,977	14.1 %	\$ 1,136,252
Profit-sharing contingent commissions	57,706	12.6 %	51,251	17.3 %	43,683
Guaranteed supplemental commissions	9,851	19.0 %	8,275	(9.5)%	9,146
Investment income	747	17.1 %	638	(19.9)%	797
Other income, net	7,589	6.3 %	7,138	(29.7)%	10,154
Total revenues	1,575,796	15.6 %	1,363,279	13.6 %	1,200,032
Expenses					
Employee compensation and benefits	791,749	15.9 %	683,000	12.2 %	608,506
Non-cash stock-based compensation	19,363	(14.3)%	22,603	42.5 %	15,865
Other operating expenses	235,328	20.3 %	195,677	12.2 %	174,389
Loss on disposal	47,425	— %	—	— %	—
Amortization	82,941	22.1 %	67,932	6.9 %	63,573
Depreciation	20,895	19.5 %	17,485	13.7 %	15,373
Interest	28,408	72.8 %	16,440	2.1 %	16,097
Change in estimated acquisition earn-out payables	9,938	NMF ⁽¹⁾	2,533	78.6 %	1,418
Total expenses	1,236,047	22.9 %	1,005,670	12.3 %	895,221
Income before income taxes	\$ 339,749	(5.0)%	\$ 357,609	17.3 %	\$ 304,811
Net internal growth rate — core commissions and fees	2.0 %		6.7 %		2.6 %
Employee compensation and benefits ratio	50.2 %		50.1 %		50.7 %
Other operating expenses ratio	14.9 %		14.4 %		14.5 %
Capital expenditures	\$ 24,923		\$ 16,366		\$ 24,028
Total assets at December 31	\$ 4,956,458		\$ 3,649,508		\$ 3,128,058

(1) NMF = Not a meaningful figure

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Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions and GSCs, increased \$212.0 million, or 15.6% in 2014. Profit-sharing contingent commissions and GSCs increased \$8.0 million or 13.5% in 2014 to \$67.6 million, due primarily to \$4.9 million, \$1.4 million, and \$1.7 million increases in profit-sharing contingent commissions and GSCs in our Retail, National Programs and Wholesale Brokerage Segments, respectively. Core commissions and fees revenue in 2014 increased \$203.9 million, of which approximately \$186.8 million represented core commissions and fees from acquisitions that had no comparable revenues in 2013. After taking into account divested business of \$8.5 million, the remaining net increase of \$25.6 million, representing net new business, reflects a 2.0% internal growth rate for core organic commissions and fees.

Commissions and fees, including profit-sharing contingent commissions and GSCs, increased \$166.4 million, or 14.0% in 2013. Profit-sharing contingent commissions and GSCs increased \$6.7 million or 12.7% in 2013 to \$59.5 million, due primarily to \$4.7 million, \$0.6 million, and \$1.3 million increases in profit-sharing contingent commissions and GSCs in our Retail, National Programs and Wholesale Brokerage Divisions, respectively. Core commissions and fees revenue in 2013 increased \$159.7 million, of which approximately \$91.5 million represented core commissions and fees from acquisitions that had no comparable revenues in 2012. After taking into account divested business of \$7.4 million, the remaining net increase of \$75.6 million, representing net new business, reflects a 6.7% internal growth rate for core organic commissions and fees.

Investment Income

Investment income increased to \$0.7 million in 2014, compared with \$0.6 million in 2013 mainly due to higher average daily invested balances in 2014 than in 2013. Investment income of \$0.6 million in 2013 was down \$0.2 million as compared to 2012, mainly due to lower average daily invested balances in 2013 than in 2012.

Other Income, Net

Other income for 2014 reflected income of \$7.6 million, compared with \$7.1 million in 2013 and \$10.2 million in 2012. We recognized gains of \$5.3 million, \$3.1 million and \$4.3 million from sales on books of business (customer accounts) in 2014, 2013 and 2012, respectively. Although we are not in the business of selling books of business, we periodically will sell an office or a book of business because it does not produce reasonable margins or demonstrate a potential for growth, or for other reasons related to the particular assets in question. Other income also included \$1.6 million and \$3.6 million in 2013 and 2012, respectively, paid to us in connection with settlements of litigation against former employees for violations of restrictive covenants contained in their employment agreements with us. For 2014, other income from legal settlement was negligible. Additionally, we recognized non-recurring gains, rental income and sales of software services of \$0.9 million, \$2.4 million and \$2.3 million in 2014, 2013 and 2012, respectively.

Employee Compensation and Benefits

Employee compensation and benefits expense increased, approximately 15.9% or \$108.7 million in 2014. However, that net increase included \$81.0 million of new compensation costs related to new acquisitions that were stand-alone offices. Therefore, employee compensation and benefits from those offices that existed in the same time periods of 2014 and 2013 (including the new acquisitions that "folded in" to those offices) increased by \$27.7 million. The employee compensation and benefit increases from these offices were primarily related to increases in staff and management salaries of \$13.8 million, new salaried producers of \$4.8 million,



profit center and other related bonuses of \$6.7 million, compensation to our commissioned producers of \$0.9 million and health insurance costs of \$4.8 million. These increases were partially offset by net reductions in temporary employees, employer 401K plan matching contributions and accrued vacation expense. Employee compensation and benefits expense as a percentage of total revenues was 50.2% as compared to 50.1% for the twelve months ended December 31, 2013. This slight increase is driven by continued investment in new teammates.

Employee compensation and benefits expense increased, approximately 12.2% or \$74.5 million in 2013. However, that net increase included \$37.6 million of new compensation costs related to new acquisitions that were stand-alone offices. Therefore, employee compensation and benefits from those offices that existed in the same time periods of 2013 and 2012 (including the new acquisitions that “folded in” to those offices) increased by \$36.9 million. The employee compensation and benefit increases from these offices were primarily related to increases in staff and management salaries of \$16.6 million, new salaried producers of \$4.7 million, profit center and other related bonuses of \$3.4 million, compensation to our commissioned producers of \$5.7 million, health insurance costs of \$1.8 million, payroll-related taxes of \$3.7 million, and other net expenses of \$1.0 million.

Non-Cash Stock-Based Compensation

We have an employee stock purchase plan, and grant stock options and non-vested stock awards to our employees. Compensation expense for all share-based awards is recognized in the financial statements based upon the grant-date fair value of those awards. For 2014, 2013 and 2012, the non-cash stock-based compensation expense incorporates the costs related to each of our four stock-based plans as explained in Note 11 of the Notes to the Consolidated Financial Statements.

Non-cash stock-based compensation decreased 14.3%, or \$3.2 million in 2014 over 2013, primarily as a result of forfeitures due to the non-achievement of certain performance criteria, partially offset by an increase associated with new, non-vested stock awards granted on July 1, 2013 under our Stock Incentive Plan (“SIP”).

Non-cash stock-based compensation increased 42.5%, or \$6.7 million in 2013 over 2012, primarily as a result of new non-vested stock awards granted on July 1, 2013 under our SIP. Most of these SIP grants will typically vest in four to seven years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated earnings per share growth at certain levels by us, over three- to five-year measurement periods. Some SIP grants will vest after five years of service.

Other Operating Expenses

As a percentage of total revenues, other operating expenses represented 14.9% in 2014, 14.4% in 2013, and 14.5% in 2012.

Other operating expenses in 2014 increased \$39.7 million over 2013, of which \$39.0 million was related to acquisitions. Therefore, other operating expenses attributable to offices that existed in the same periods in both 2014 and 2013 (including the new acquisitions that “folded in” to those offices) increased by \$0.7 million. Of the \$0.7 million increase, \$2.0 million related to increased data processing and software licensing expense, \$1.2 million related to increased inspection and consulting fees, \$0.8 million related to office rent, and \$0.9 million related to increased employee sales meeting costs. These increased costs were partially offset by decreases of \$3.0 million for legal claims and litigation expenses, \$1.0 million for insurance expenses, and \$0.2 million in other various net cost decreases.

Other operating expenses in 2013 increased \$21.3 million over 2012, of which \$12.5 million was related to acquisitions that joined as stand-alone offices. Therefore, other operating expenses attributable to offices that existed in the same periods in both 2013 and 2012 (including the new acquisitions that “folded in” to those offices) increased by \$8.8 million. Of the \$8.8 million increase, \$2.0 million related to increased data processing and software licensing expense, \$2.0 million related to increased inspection and consulting fees, \$1.6 million related to increased accounting and advisory fees, \$0.9 million related to increased employee sales meeting costs, and \$2.9 million related to other various, net cost increases. These increased costs were partially offset by a decrease of \$0.6 million for legal claims and litigation expenses.

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Loss on Disposal

During 2014 the Company recognized a pretax loss on disposal of \$47.4 million as a result of the sale of Axiom Re (Axiom) effective December 31, 2014. The sale is part of the Company's strategy to exit the reinsurance brokerage business. For the years ended December 31, 2014 and 2013, Axiom recorded a (loss) income before income taxes of (\$587,000) and \$113,000, respectively, which are included in the Wholesale Brokerage segment. The transaction was recorded in accordance to ASU 2014-08. The Company's prior non-significant disposals are recorded in other income, net in the consolidated statements of income.

Amortization

Amortization expense increased \$15.0 million, or 22.1%, in 2014, and \$4.4 million, or 6.9%, in 2013. The increases in 2014 and 2013 were due to the amortization of additional intangible assets as a result of acquisitions completed in those years.

Depreciation

Depreciation increased 19.5% to \$20.9 million in 2014 and 13.7% to \$17.5 million in 2013. The increases in 2014 and 2013 were due primarily to the addition of fixed assets as a result of recent acquisitions.

Interest Expense

Interest expense increased \$12.0 million, or 72.8%, in 2014, and \$0.3 million, or 2.1%, in 2013. The 2014 increase is primarily due to the increased debt borrowings from the JPMorgan Credit Facility term loan of \$550.0 million at adjusted LIBOR rates (as mentioned in Note 8), which helped fund the Wright acquisition, and the \$500.0 million Senior Notes due 2024 at an interest rate of 4.200% which were issued during September 2014. The 2013 increases were due primarily to the additional debt borrowed in connection with our acquisition of Beecher Carlson.

Change in estimated acquisition earn-out payables

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

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

As of December 31, 2014, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820 — *Fair Value Measurement* ("ASC 820"). The resulting net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, 2014, 2013, and 2012 were as follows:

(in thousands)	2014	2013	2012
Change in fair value on estimated acquisition earn-out payables	\$ 7,375	\$ 570	\$ (1,051)
Interest expense accretion	2,563	1,963	2,469
Net change in earnings from estimated acquisition earn-out payables	\$ 9,938	\$ 2,533	\$ 1,418

The fair values of the estimated earn-out payables were increased in 2014 and 2013 since certain acquisitions performed at higher levels than estimated in our original projections. Conversely, the fair values of the estimated earn-out payables were reduced in 2012 since certain acquisitions did not perform at the level estimated based on our original projections. An acquisition is considered to be performing well if its operating profit exceeds the level needed to reach the minimum purchase price. However, a reduction in the estimated acquisition earn-out payable can occur even though the acquisition is performing well, if it is not performing at the level contemplated by our original estimate.

As of December 31, 2014, the estimated acquisition earn-out payables equaled \$75,283,000, of which \$26,018,000 was recorded as accounts payable and \$49,265,000 was recorded as an other non-current liability. As of December 31, 2013, the estimated acquisition earn-out payables equaled \$43,058,000, of which \$6,312,000 was recorded as accounts payable and \$36,746,000 was recorded as an other non-current liability. As of December 31, 2012, the estimated acquisition earn-out payables equaled \$52,987,000, of which \$10,164,000 was recorded as accounts payable and \$42,823,000 was recorded as an other non-current liability.

Income Taxes

The effective tax rate on income from operations was 39.1% in 2014, 39.3% in 2013, and 39.6% in 2012. The lower effective annual tax rates are primarily the result of lower average effective state income tax rates, driven by revenue apportionment.



Results of Operations — Segment Information

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

The term “core commissions and fees” excludes profit-sharing contingent commissions and GSCs, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In contrast, the term “core organic commissions and fees” is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). Core organic commissions and fees attempts to express the current year’s core commissions and fees on a comparable basis with the prior year’s core commissions and fees. The resulting net change reflects the aggregate changes attributable to (i) net new and lost accounts, (ii) net changes in our customers’ exposure units, and (iii) net changes in insurance premium rates. The net changes in each of these three components can be determined for each of our customers.

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The internal growth rates for our core organic commissions and fees for the three years ended December 31, 2014, 2013 and 2012, by Segment, are as follows:

For the Year Ended December 31,							
(in thousands, except percentages)	2014	2013	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
Retail ⁽¹⁾	\$ 779,480	\$ 692,231	\$ 87,249	12.6 %	\$ 73,351	\$ 13,898	2.0 %
National Programs	367,214	268,160	99,054	36.9 %	93,803	5,251	2.0 %
Wholesale Brokerage	216,727	195,626	21,101	10.8 %	4,032	17,069	8.7 %
Services	136,482	131,503	4,979	3.8 %	15,599	(10,620)	(8.1) %
Total core commissions and fees	\$ 1,499,903	\$ 1,287,520	\$ 212,383	16.5 %	\$ 186,785	\$ 25,598	2.0 %
Less Superstorm Sandy	—	(18,275)	18,275	100.0 %	—	18,275	100.0 %
Total core commissions and fees less Superstorm Sandy	\$ 1,499,903	\$ 1,269,245	\$ 230,658	18.2 %	\$ 186,785	\$ 43,873	3.5 %

There would be a 3.5% Internal Net Growth rate when excluding the \$18.3 million related to Superstorm Sandy within the Colonial Claims business for the first half of 2013.

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2014 and 2013 is as follows:

For the Year Ended December 31,		
(in thousands)	2014	2013
Total core commissions and fees	\$ 1,499,903	\$ 1,287,520
Profit-sharing contingent commissions	57,706	51,251
Guaranteed supplemental commissions	9,851	8,275
Divested business	—	8,457
Total commissions and fees	\$ 1,567,460	\$ 1,355,503

For the Year Ended December 31,							
(in thousands, except percentages)	2013	2012	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
Retail ⁽¹⁾	\$ 699,571	\$ 611,156	\$ 88,415	14.5 %	\$ 79,455	\$ 8,960	1.5 %
National Programs	271,772	233,261	38,511	16.5 %	7,099	31,412	13.5 %
Wholesale Brokerage	193,601	168,151	25,450	15.1 %	4,332	21,118	12.6 %
Services	131,033	116,247	14,786	12.7 %	657	14,129	12.2 %
Total core commissions and fees	\$ 1,295,977	\$ 1,128,815	\$ 167,162	14.8 %	\$ 91,543	\$ 75,619	6.7 %

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2013 and 2012 is as follows:

(in thousands)	For the Year Ended December 31,	
	2013	2012
Total core commissions and fees	\$ 1,295,977	\$ 1,128,815
Profit-sharing contingent commissions	51,251	43,683
Guaranteed supplemental commissions	8,275	9,146
Divested business	—	7,437
Total commissions and fees	\$ 1,355,503	\$ 1,189,081

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

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

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

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

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Retail Segment

The Retail Segment provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. Approximately 85.5% of the Retail Segment's commissions and fees revenue is commission-based. Because most of our other operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions, net of related compensation, which we receive will be reflected in our pre-tax income, subject to incremental investments in new producers or other investments to help grow the business.

Financial information relating to Brown & Brown's Retail Segment is as follows:

(in thousands, except percentages)	2014	Percent Change	2013	Percent Change	2012
Revenues					
Core commissions and fees	\$ 780,534	11.4 %	\$ 700,767	13.0 %	\$ 619,975
Profit-sharing contingent commissions	21,616	23.2 %	17,543	36.6 %	12,843
Guaranteed supplemental commissions	7,730	12.9 %	6,849	(0.6)%	6,890
Investment income	67	(18.3)%	82	(24.1)%	108
Other income, net	(181)	NMF ⁽¹⁾	3,083	(33.2)%	4,613
Total revenues	809,766	11.2 %	728,324	13.0 %	644,429
Expenses					
Employee compensation and benefits	408,686	12.5 %	363,332	11.3 %	326,574
Non-cash stock-based compensation	11,732	29.6 %	9,055	59.4 %	5,680
Other operating expenses	130,074	14.9 %	113,159	14.8 %	98,532
Loss on disposal	—	— %	—	— %	—
Amortization	42,270	11.1 %	38,052	9.9 %	34,639
Depreciation	6,410	9.6 %	5,847	12.9 %	5,181
Interest	42,918	24.7 %	34,407	29.2 %	26,641
Change in estimated acquisition earn-out payables	7,147	NMF ⁽¹⁾	(1,844)	NMF ⁽¹⁾	1,968
Total expenses	649,237	15.5 %	562,008	12.6 %	499,215
Income before income taxes	\$ 160,529	(3.5)%	\$ 166,316	14.5 %	\$ 145,214
Net internal growth rate — core organic commissions and fees	2.0 %		1.5 %		1.5 %
Employee compensation and benefits ratio	50.5 %		49.9 %		50.7 %
Other operating expenses ratio	16.1 %		15.5 %		15.3 %
Capital expenditures	\$ 6,844		\$ 6,847		\$ 5,732
Total assets at December 31	\$ 3,190,737		\$ 2,992,087		\$ 2,420,759

(1) NMF = Not a meaningful figure

The Retail Segment's total revenues in 2014 increased 11.2%, or \$81.4 million, over the same period in 2013, to \$809.8 million. Profit-sharing contingent commissions and GSCs in 2014 increased \$5.0 million, or 20.3%, over 2013, to \$29.3 million, primarily due to improved loss ratios resulting in increased profitability for insurance companies in 2013. The \$79.8 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$73.4 million related to core commissions and fees revenue from acquisitions that had no comparable revenues in 2013; (ii) a decrease of \$7.5 million related to commissions and fees revenue from business divested during 2013 and 2014; and (iii) the remaining net increase of \$13.9 million primarily related to net new business. The Retail Segment's internal growth rate for core organic commissions and fees revenue was 2.0% for 2014, and was driven by net new customers, increasing insurable exposure units in certain areas of the United States, and was partially offset by continued pressure on property and casualty rates, especially in coastal areas.

Income before income taxes for 2014 decreased 3.5%, or \$5.8 million, over the same period in 2013, to \$160.5 million. This decrease was primarily due to a higher interest charge of \$8.5 million corresponding to capital utilized for acquisitions in 2014 and \$9.0 million related to the year-on-year changes in the estimated earn-out payable. The underlying increase was driven by net new business, acquired business and increased profit-sharing contingent commissions and GSCs. Non-cash stock-based compensation increased \$2.7 million, or 29.6%, for 2014 over the same period in 2013, as the cost of grants to employees for the purpose of driving performance were realized.

The Retail Segment's total revenues in 2013 increased 13.0%, or \$83.9 million, over the same period in 2012, to \$728.3 million. Profit-sharing contingent commissions and GSCs in 2013 increased \$4.7 million, or 23.6%, over 2012, to \$24.4 million, primarily due to improved loss ratios resulting in increased profitability for insurance companies in 2012. The \$80.8 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$79.5 million related to core commissions and fees revenue from acquisitions that had no comparable

revenues in 2012; (ii) a decrease of \$7.5 million related to commissions and fees revenue recorded in 2012 from business divested during 2013; and (iii) the remaining net increase of \$9.0 million primarily related to net new business. The Retail Segment's internal growth rate for core organic commissions and fees revenue was 1.5% for 2013, and was driven by slightly increasing insurable exposure units in most areas of the United States, and slight increases in general insurance premium rates.

Income before income taxes for 2013 increased 14.5%, or \$21.1 million, over the same period in 2012, to \$166.3 million. This increase was primarily due to net new business, the increase in profit-sharing contingent commissions, and continued improved efficiencies relating to compensation and employee benefits and certain other operating expenses, but which was partially off-set by a \$1.5 million reduction in other income primarily due to gains on the sale of books of businesses in 2012. These increases were also enhanced by changes in estimated acquisition earn-out payables of \$3.8 million, but partially offset by a net increase in the inter-company interest expense allocation of \$7.8 million. The continued improved efficiencies relating to compensation and employee benefits, and certain other operating expenses resulted mainly from such costs increasing at a lower rate than our growth in net new business. However, a portion of the improved ratio of employee compensation and benefits to total revenues was the result of the \$6.8 million of bonus compensation related to a special one-time bonus in 2012 which was not repeated in 2013.



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National Programs Segment

The Wright Insurance Group acquisition was completed effective May 1, 2014. With the Wright acquisition completed, the National Programs Segment manages over 50 programs with 40 well-capitalized carrier partners. In most cases, the insurance carriers that support the programs have delegated underwriting and, in many instances, claims-handling authority to our programs operations. These programs are generally distributed through nationwide networks of independent agents and Brown & Brown retail agents, and offer targeted products and services designed for specific industries, trade groups, professions, public entities and market niches. The National Programs Segment operations can be grouped into five broad categories: Commercial Programs, Professional Programs, Arrowhead Insurance Group Programs, Public Entity-Related Programs, and the National Flood Program. Like the Retail and Wholesale Brokerage Segments, the National Programs Segment's revenue is primarily commission-based.

Financial information relating to our National Programs Segment is as follows:

(in thousands, except percentages)	2014	Percent Change	2013	Percent Change	2012
Revenues					
Core commissions and fees	\$ 367,214	35.1 %	\$ 271,772	16.5 %	\$ 233,261
Profit-sharing contingent commissions	20,623	7.0 %	19,265	4.7 %	18,392
Guaranteed supplemental commissions	21	NMF ⁽¹⁾	(23)	NMF ⁽¹⁾	276
Investment income	164	NMF ⁽¹⁾	19	(5.0)%	20
Other income, net	6,767	NMF ⁽¹⁾	1,097	10.4 %	994
Total revenues	394,789	35.1 %	292,130	15.5 %	252,943
Expenses					
Employee compensation and benefits	163,522	23.0 %	132,948	20.5 %	110,362
Non-cash stock-based compensation	754	(83.6)%	4,604	24.2 %	3,707
Other operating expenses	76,833	45.0 %	53,001	19.8 %	44,248
Loss on disposal	—	— %	—	— %	—
Amortization	24,769	69.7 %	14,593	4.7 %	13,936
Depreciation	7,699	42.6 %	5,399	17.4 %	4,600
Interest	49,663	NMF ⁽¹⁾	24,014	(6.5)%	25,674
Change in estimated acquisition earn-out payables	314	NMF ⁽¹⁾	(808)	(24.8)%	(1,075)
Total expenses	323,554	38.4 %	233,751	16.0 %	201,452
Income before income taxes	\$ 71,235	22.0 %	\$ 58,379	13.4 %	\$ 51,491
Net internal growth rate — core organic commissions and fees	2.0 %		13.5 %		0.8 %
Employee compensation and benefits ratio	41.4 %		45.5 %		43.6 %
Other operating expenses ratio	19.5 %		18.1 %		17.5 %
Capital expenditures	\$ 13,739		\$ 4,473		\$ 9,633
Total assets at December 31	\$ 2,411,839		\$ 1,335,911		\$ 1,183,191

(1) NMF = Not a meaningful figure

The National Programs Segment's total revenues in 2014 increased \$102.7 million to \$394.8 million, a 35.1% increase over 2013. Core commission and fees increased by \$95.4 million due to the following factors: (i) an increase of approximately \$93.8 million related to core commissions and fees revenue from the Wright and Beecher Carlson acquisitions that had no comparable revenues in 2013; (ii) a decrease of approximately \$3.6 million in books of business that were disposed or transferred to other segments; and (iii) the remaining increase of \$5.2 million is primarily related to net new business. Profit-sharing contingent commissions and GSCs in 2014 increased \$1.4 million over 2013, due primarily to a \$0.5 million increase in profit-sharing contingent commissions received by Florida Intracoastal Underwriters, Limited Company ("FIU"), and a \$0.8 million increase in profit-sharing contingent commissions received by Proctor Financial, Inc. ("Proctor"). Other income increased by approximately \$5.7 million primarily due to the gain recognized on the sale of Industry Consulting Group, Inc. ("ICG") of \$6.0 million.

Income before income taxes for 2014 increased 22.0% or \$12.9 million over the same period in 2013, to \$71.2 million. The increase in income before taxes was due to net new business growth noted above, revenues and operating profits derived from Wright, the gain on the sale of ICG, and a non-cash stock-based compensation decrease of \$3.8 million primarily related to partial SIP grant forfeitures associated to Arrowhead. The \$12.9 million increase was partially offset by an increase in the intercompany interest expense charge related to Wright.

The National Programs Segment's total revenues in 2013 increased \$39.2 million to \$292.1 million, a 15.5% increase over 2012. Profit-sharing contingent commissions and GSCs in 2013 increased \$0.6 million over 2012, due primarily to a \$3.7 million increase in profit-sharing contingent commissions received by FIU, which was partially offset by a decrease of \$3.5 million at Proctor. The \$38.5 million net increase in core commissions and fees resulted from the following factors: (i) an increase of approximately \$7.1 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in 2012; and (ii) the remaining net increase of \$31.4 million primarily related to net new business. Therefore, the National Programs Segment's internal growth rate for core organic commissions and fees revenue was 13.5% for 2013. Of the \$31.4 million of net new business, \$27.7 million related to a net increase in commissions and fees revenue from our Arrowhead operations.

Income before income taxes for 2013 increased 13.4% or \$6.9 million, over the same period in 2012, to \$58.4 million. This net increase was primarily due to the new automobile aftermarket and the non-standard auto programs at our Arrowhead subsidiary. Even though these programs increased the total operating profit dollars for the Segment, the increase in the ratios of employee compensation and benefits, and other operating expenses as a percentage of total revenues over the prior year. This was due to the fact that these programs operated at a higher cost factor than the average program operated in 2012.



Management's Discussion and Analysis

of Financial Condition and Results of Operations

Wholesale Brokerage Segment

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

Financial information relating to our Wholesale Brokerage Segment is as follows:

(in thousands, except percentages)	2014	Percent Change	2013	Percent Change	2012
Revenues					
Core commissions and fees	\$ 216,727	11.9 %	\$ 193,601	15.1 %	\$ 168,182
Profit-sharing contingent commissions	15,467	7.1 %	14,443	16.0 %	12,448
Guaranteed supplemental commissions	2,100	44.9 %	1,449	(33.9)%	2,192
Investment income	26	18.2 %	22	— %	22
Other income, net	353	(9.9)%	392	(45.6)%	721
Total revenues	234,673	11.8 %	209,907	14.4 %	183,565
Expenses					
Employee compensation and benefits	109,951	12.0 %	98,144	12.4 %	87,293
Non-cash stock-based compensation	2,775	36.1 %	2,039	53.5 %	1,328
Other operating expenses	38,813	6.1 %	36,589	9.3 %	33,486
Loss on disposal	47,425	— %	—	— %	—
Amortization	11,729	1.5 %	11,550	2.4 %	11,280
Depreciation	2,616	(6.4)%	2,794	2.8 %	2,718
Interest	1,878	(26.8)%	2,565	(35.5)%	3,974
Change in estimated acquisition earn-out payables	2,862	19.1 %	2,404	NMF ⁽¹⁾	131
Total expenses	218,049	39.7 %	156,085	11.3 %	140,210
Income before income taxes	\$ 16,624	(69.1)%	\$ 53,822	24.1 %	\$ 43,355
Net internal growth rate — core organic commissions and fees	8.7 %		12.6 %		6.1 %
Employee compensation and benefits ratio	46.9 %		46.8 %		47.6 %
Other operating expenses ratio	16.5 %		17.4 %		18.2 %
Capital expenditures	\$ 1,949		\$ 1,931		\$ 3,383
Total assets at December 31	\$ 940,461		\$ 927,825		\$ 837,364

(1) NMF = Not a meaningful figure



The Wholesale Brokerage Segment's total revenues for 2014 increased 11.8%, or \$24.8 million, over the same period in 2013, to \$234.7 million. Profit-sharing contingent commissions and GSCs for 2014 increased \$1.7 million over the same period of 2013. The \$23.1 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$4.0 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2013; (ii) an increase of \$2.0 million related to net sold and transferred books of business; and (iii) the remaining net increase of \$17.1 million primarily related to net new business. As such, the Wholesale Brokerage Segment's internal growth rate for core organic commissions and fees revenue was 8.7% for 2014.

Income before income taxes for 2014 decreased 69.1%, or \$37.2 million over the same period in 2013. This decrease includes a \$47.4 million net pretax loss on the disposal of the Axiom Re business. Effective December 31, 2014, the Company sold certain assets of the Axiom Re business as part of the strategic plan to exit the reinsurance brokerage market. Axiom Re had annual revenues of approximately \$6.9 million in 2014. The underlying performance of this segment was driven by new business growth and to a lesser extent an increase in profit sharing contingent commissions.



The Wholesale Brokerage Segment's total revenues for 2013 increased 14.4%, or \$26.3 million, over the same period in 2012, to \$209.9 million. Profit-sharing contingent commissions and GSCs for 2013 increased \$1.3 million over the same period of 2012. The \$25.4 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$4.3 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2012; and (ii) the remaining net increase of \$21.1 million primarily related to net new business and continued increases in premium rates on many lines of insurance, but primarily on coastal property. As such, the Wholesale Brokerage Segment's internal growth rate for core organic commissions and fees revenue was 12.6% for 2013.

Income before income taxes for 2013 increased 24.1%, or \$10.5 million over the same period in 2012 to \$53.8 million, primarily due to net new business, an increase in profit-sharing contingent commissions, and a net reduction in the inter-company interest expense allocation of \$1.4 million, but then partially offset by a \$2.3 million expense in the form of a change in estimated acquisition earn-out payables.

Management's Discussion and Analysis

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Services Segment

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

Unlike our other segments, nearly all of the Services Segment's 2014 commissions and fees revenue was generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Segment is as follows:

(in thousands, except percentages)	2014	Percent Change	2013	Percent Change	2012
Revenues					
Core commissions and fees	\$ 136,482	4.2 %	\$ 131,033	12.7 %	\$ 116,247
Profit-sharing contingent commissions	—	— %	—	— %	—
Guaranteed supplemental commissions	—	— %	—	— %	—
Investment income	3	NMF ⁽¹⁾	1	— %	1
Other income, net	74	(83.7)%	455	(6.8)%	488
Total revenues	136,559	3.9 %	131,489	12.6 %	116,736
Expenses					
Employee compensation and benefits	73,590	17.0 %	62,908	6.2 %	59,235
Non-cash stock-based compensation	(72)	NMF ⁽¹⁾	755	26.5 %	597
Other operating expenses	31,877	14.3 %	27,885	6.5 %	26,180
Loss on disposal	—	— %	—	— %	—
Amortization	4,134	11.8 %	3,698	0.5 %	3,680
Depreciation	2,213	36.4 %	1,623	27.0 %	1,278
Interest	7,678	4.9 %	7,321	(14.9)%	8,602
Change in estimated acquisition earn-out payables	(385)	NMF ⁽¹⁾	2,781	NMF ⁽¹⁾	394
Total expenses	119,035	11.3 %	106,971	7.0 %	99,966
Income before income taxes	\$ 17,524	(28.5)%	\$ 24,518	46.2 %	\$ 16,770
Net internal growth rate — core organic commissions and fees	(8.1)%		12.2 %		8.6 %
Employee compensation and benefits ratio	53.9 %		47.8 %		50.7 %
Other operating expenses ratio	23.3 %		21.2 %		22.4 %
Capital expenditures	\$ 1,210		\$ 1,811		\$ 2,519
Total assets at December 31	\$ 296,034		\$ 277,652		\$ 238,430

(1) NMF = Not a meaningful figure

The Services Segment's total revenues for 2014 increased 3.9%, or \$5.1 million, over 2013, to \$136.6 million. The \$5.4 million net increase in core commissions and fees revenue consisted of the following: (i) an increase of approximately \$15.6 million related to the core commissions and fees revenue from the acquisition of ICA, Inc. business, that had no comparable revenues in the same period of 2013; and (ii) net new business of \$7.7 million, (iii) offset by a reduction of \$18.3 million due to the significant flood claims processed in 2013 resulting from Superstorm Sandy in 2012 with no comparable storm in 2013; and (iv) \$0.4 million of net sold books of business. As such, the Services Segment's internal growth rate for core organic commissions and fees revenue was (8.1%) for 2014 and excluding the impact of Superstorm Sandy internal growth would be 6.8% in 2014.

Income before income taxes in 2014 decreased 28.5%, or \$7.0 million, over 2013, to \$17.5 million, primarily due to the reduction in Superstorm Sandy related revenues and corresponding operating profit partially offset by the increase associated with net new and acquired business.

The Services Segment's total revenues for 2013 increased 12.6%, or \$14.8 million, over 2012, to \$131.5 million. Of the \$14.8 million net increase in core commissions and fees revenue: (i) an increase of approximately \$0.7 million related to the core commissions and fees revenue from the TPA business acquired as part of the Arrowhead acquisition, that had no comparable revenues in the same period of 2012; and (ii) net new business of \$14.1 million, of which \$13.0 million was due to our Colonial Claims operation and the impact of the significant flood claims resulting from the 2012 Superstorm Sandy. As such, the Services Segment's internal growth rate for core organic commissions and fees revenue was 12.2% for 2013.

Income before income taxes in 2013 increased 46.2%, or \$7.7 million, over 2012, to \$24.5 million, primarily due to net new business from our Colonial Claims operation. Additionally, this net increase was enhanced by a \$1.3 million reduction in inter-company interest expense, but partially offset by a \$2.4 million expense from changes in estimated earn-out payables.

Other

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



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Liquidity and Capital Resources

Our cash and cash equivalents of \$470.0 million at December 31, 2014 reflected an increase of \$267.1 million from the \$203.0 million balance at December 31, 2013. During 2014, \$385.0 million of cash was generated from operating activities. During this period, \$696.5 million of cash was used for acquisitions, \$9.5 million was used for acquisition earn-out payments, \$24.9 million was used for additions to fixed assets, \$59.3 million was used for payment of dividends, and \$718.0 million was provided from proceeds received on new net long-term debt.

We hold approximately \$12.4 million in cash outside of the U.S. for which we have no plans to repatriate in the near future.

On May 1, 2014, we completed the acquisition of Wright for a total cash purchase price of \$609.2 million, subject to certain adjustments. We financed the acquisition through various modified and new credit facilities.

Our cash and cash equivalents of \$203.0 million at December 31, 2013 reflected a decrease of \$16.9 million from the \$219.8 million balance at December 31, 2012. During 2013, \$389.4 million of cash was generated from operating activities. During this period, \$367.7 million of cash was used for acquisitions, \$15.5 million was used for acquisition earn-out payments, \$16.4 million was used for additions to fixed assets, \$53.5 million was used for payment of dividends, and \$30.0 million was provided from proceeds received on new long-term debt.

On July 1, 2013, we completed the acquisition of Beecher Carlson for a total cash purchase price of \$364.2 million, subject to certain adjustments. We financed the acquisition through various modified and new credit facilities.

Our cash and cash equivalents of \$219.8 million at December 31, 2012 reflected a decrease of \$66.5 million from the \$286.3 million balance at December 31, 2011. During 2012, \$220.3 million of cash was generated from operating activities. During this period, \$425.1 million of cash was used for acquisitions, \$13.5 million was used for acquisition earn-out payments, \$24.0 million was used for additions to fixed assets, \$49.5 million was used for payment of dividends, and \$200.0 million was provided from proceeds received on new long-term debt.

On January 9, 2012, we completed the acquisition of Arrowhead for a total cash purchase price of \$397.0 million, subject to certain adjustments and potential earn-out payments of up to \$5.0 million in the aggregate following the third anniversary of the acquisition's closing date. We financed the acquisition through various modified and new credit facilities.

Our ratio of current assets to current liabilities (the "current ratio") was 1.24 and 1.02 at December 31, 2014 and 2013, respectively.

Contractual Cash Obligations

As of December 31, 2014, our contractual cash obligations were as follows:

(in thousands)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 1,200,000	\$ 45,625	\$ 128,125	\$ 526,250	\$ 500,000
Other liabilities	50,423	20,471	13,520	2,047	14,385
Operating leases	182,937	38,458	65,949	41,623	36,907
Interest obligations	263,221	37,286	70,994	56,066	98,875
Unrecognized tax benefits	113	—	113	—	—
Maximum future acquisition contingency payments	130,653	57,390	70,801	2,462	—
Total contractual cash obligations	\$ 1,827,347	\$ 199,230	\$ 349,502	\$ 628,448	\$ 650,167

Debt

On April 17, 2014, the Company entered into a credit agreement with JPMorgan Chase Bank, N.A. as administrative agent and certain other banks as co-syndication agents and co-documentation agents (the "Credit Agreement"). The

Credit Agreement in the amount of \$1,350.0 million provides for an unsecured revolving credit facility (the "Credit Facility") in the initial amount of \$800.0 million and unsecured term loans in the initial amount of \$550.0 million, either or both of which may, subject to lenders' discretion, potentially be

increased by up to \$500.0 million. The Credit Facility was funded on May 20, 2014 in conjunction with the closing of the Wright acquisition, with the \$550.0 million term loan being funded as well as a drawdown of \$375.0 million on the revolving loan facility. Use of these proceeds were to retire existing term loan debt including the JPM Term Loan Agreement, SunTrust Term Loan Agreement and Bank of America Term Loan Agreement in total of \$230.0 million (as described above) and to facilitate the closing of the Wright acquisition as well as other acquisitions. The Credit Facility terminates on May 20, 2019, but either or both of the revolving credit facility and the term loans may be extended for two additional one-year periods at the Company's request and at the discretion of the respective lenders. Interest and facility fees in respect to the Credit Facility are based on the better of the Company's net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating. Based on the Company's net debt leverage ratio, the rates of interest charged on the term loan and revolving loan is 1.375% and 1.175% respectively in 2014 and above the adjusted LIBOR rate for outstanding amounts drawn. There are fees included in the facility which include a facility fee based on the revolving credit commitments of the lenders (whether used or unused) at a rate of 0.20% and letter of credit fees based on the amounts of outstanding secured or unsecured letters of credit. The Credit Facility includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers. As of December 31, 2014, there was an outstanding debt balance issued under the provisions of the Credit Facility in total of \$550.0 million with no proceeds outstanding relative to the revolving loan.

In connection with the funding of the Credit Facility on May 20, 2014, the Company retired the JPM term loan of \$100.0 million, the SunTrust term loan of \$100.0 million and the Bank of America, N.A., \$30.0 million term loan, for a total of \$230.0 million. The SunTrust revolver was also terminated.

On July 15, 2014, the Company retired the senior notes Series B of \$100.0 million which were assigned under the original private placement note agreement from July 2004. Proceeds were drawn from the revolving loan of the Credit Facility to facilitate the payoff of the notes. The \$100.0 million proceeds drawn from the revolving Credit Facility used to retire the Series B notes was paid in full in connection with the issuance of the 4.200% senior notes due 2024 on September 18, 2014.

On September 18, 2014, the Company issued \$500.0 million of 4.200% unsecured senior notes due in 2024. The senior notes were assigned investment grade ratings of BBB-/Baa3 with a stable outlook. The notes are subject to certain covenant restrictions and regulations which are customary for credit rated obligations. At the time of funding, the proceeds were offered at a discount of the original note amount which also excluded an underwriting fee discount. The net proceeds received from the issuance were used to repay the outstanding balance of \$475.0 million on the revolving Credit Facility and other general corporate purposes.

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

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with our available funding under our various debt facilities, will be sufficient to satisfy our liquidity needs through at least the end of 2015 including the required principal payments on our long-term debt.

For further discussion of our cash management and risk management policies, see "Quantitative and Qualitative Disclosures About Market Risk."

Quantitative and Qualitative Disclosures About Market Risk

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

Our invested assets are held as cash and cash equivalents, restricted cash and investments, available-for-sale equity securities, equity securities and certificates of deposit. These investments are subject to interest rate risk and equity price risk. The fair values of our cash and cash equivalents, restricted cash and investments, and certificates of deposit at December 31, 2014 and 2013 approximated their respective carrying values due to their short-term duration and, therefore, such market risk is not considered to be material.

We do not actively invest or trade in equity securities.

Consolidated Statements of Income

Year Ended December 31,

(in thousands, except per share data)	2014	2013	2012
Revenues			
Commissions and fees	\$ 1,567,460	\$ 1,355,503	\$ 1,189,081
Investment income	747	638	797
Other income, net	7,589	7,138	10,154
Total revenues	1,575,796	1,363,279	1,200,032
Expenses			
Employee compensation and benefits	791,749	683,000	608,506
Non-cash stock-based compensation	19,363	22,603	15,865
Other operating expenses	235,328	195,677	174,389
Loss on disposal	47,425	—	—
Amortization	82,941	67,932	63,573
Depreciation	20,895	17,485	15,373
Interest	28,408	16,440	16,097
Change in estimated acquisition earn-out payables	9,938	2,533	1,418
Total expenses	1,236,047	1,005,670	895,221
Income before income taxes	339,749	357,609	304,811
Income taxes	132,853	140,497	120,766
Net income	\$ 206,896	\$ 217,112	\$ 184,045
Net income per share:			
Basic	\$ 1.43	\$ 1.50	\$ 1.28
Diluted	\$ 1.41	\$ 1.48	\$ 1.26
Weighted average number of shares outstanding:			
Basic	140,944	141,033	139,364
Diluted	142,891	142,624	142,010
Dividends declared per share	\$ 0.41	\$ 0.37	\$ 0.35

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	At December 31,	
(in thousands, except per share data)	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 470,048	\$ 202,952
Restricted cash and investments	259,769	250,009
Short-term investments	11,157	10,624
Premiums, commissions and fees receivable	424,547	395,915
Reinsurance recoverable	13,028	—
Prepaid reinsurance premiums	320,586	—
Deferred income taxes	25,431	29,276
Other current assets	45,542	39,260
Total current assets	1,570,108	928,036
Fixed assets, net	84,668	74,733
Goodwill	2,460,611	2,006,173
Amortizable intangible assets, net	784,642	618,888
Investments	19,862	16
Other assets	36,567	21,662
Total assets	\$ 4,956,458	\$ 3,649,508
Liabilities and Shareholders' Equity		
Current Liabilities:		
Premiums payable to insurance companies	\$ 568,184	\$ 534,360
Losses and loss adjustment reserve	13,028	—
Unearned premiums	320,586	—
Premium deposits and credits due customers	83,313	80,959
Accounts payable	57,261	34,158
Accrued expenses and other liabilities	181,156	157,400
Current portion of long-term debt	45,625	100,000
Total current liabilities	1,269,153	906,877
Long-term debt	1,152,846	380,000
Deferred income taxes, net	341,497	291,704
Other liabilities	79,217	63,786
Commitments and contingencies (Note 13)		
Shareholders' Equity:		
Common stock, par value \$0.10 per share; authorized 280,000 shares; issued 145,871 and outstanding 143,486 at 2014; and issued and outstanding 145,419 at 2013	14,587	14,542
Additional paid-in capital	405,982	371,960
Treasury stock, at cost 2,385 and 0 shares at 2014 and 2013, respectively	(75,025)	—
Retained earnings	1,768,201	1,620,639
Total shareholders' equity	2,113,745	2,007,141
Total liabilities and shareholders' equity	\$ 4,956,458	\$ 3,649,508

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands, except per share data)	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par Value					
Balance at January 1, 2012	143,352	\$ 14,335	\$ 307,059	\$ —	\$ 1,322,562	\$ 7	\$1,643,963
Net income and comprehensive income					184,045		184,045
Net unrealized holding gain on available-for-sale securities						(7)	(7)
Common stock issued for employee stock benefit plans	501	50	19,549				19,599
Income tax benefit from exercise of stock benefit plans			8,659				8,659
Common stock issued to directors	25	3	605				608
Cash dividends paid (\$0.35 per share)					(49,534)		(49,534)
Balance at December 31, 2012	143,878	14,388	335,872	—	1,457,073	—	1,807,333
Net income					217,112		217,112
Common stock issued for employee stock benefit plans	1,541	154	33,730				33,884
Income tax benefit from exercise of stock benefit plans			2,358				2,358
Cash dividends paid (\$0.37 per share)					(53,546)		(53,546)
Balance at December 31, 2013	145,419	14,542	371,960	—	1,620,639	—	2,007,141
Net income					206,896		206,896
Common stock issued for employee stock benefit plans	442	44	30,405				30,449
Purchase of treasury stock				(75,025)			(75,025)
Income tax benefit from exercise of stock benefit plans			3,298				3,298
Common stock issued to directors	10	1	319				320
Cash dividends paid (\$0.41 per share)					(59,334)		(59,334)
Balance at December 31, 2014	145,871	\$ 14,587	\$ 405,982	\$ (75,025)	\$ 1,768,201	\$ —	\$2,113,745

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,

(in thousands)	2014	2013	2012
Cash flows from operating activities:			
Net income	\$ 206,896	\$ 217,112	\$ 184,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	82,941	67,932	63,573
Depreciation	20,895	17,485	15,373
Non-cash stock-based compensation	19,363	22,603	15,865
Change in estimated acquisition earn-out payables	9,938	2,533	1,418
Deferred income taxes	7,369	32,247	32,723
Amortization of debt discount	46	—	—
Income tax benefit from exercise of shares from the stock benefit plans	(3,298)	(2,358)	(8,659)
Loss (gain) on sales of investments, fixed assets and customer accounts	42,465	(2,806)	(4,105)
Payments on acquisition earn-outs in excess of original estimated payables	(2,539)	(2,788)	(4,086)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:			
Restricted cash and investments (increase)	(9,760)	(85,445)	(34,029)
Premiums, commissions and fees receivable (increase)	(11,160)	(40,729)	(11,312)
Reinsurance recoverable decrease	12,210	—	—
Prepaid reinsurance premiums (increase)	(31,573)	—	—
Other assets (increase) decrease	(12,564)	(2,583)	2,145
Premiums payable to insurance companies increase (decrease)	8,164	61,624	(4,651)
Premium deposits and credits due customers increase	2,323	41,049	2,506
Losses and loss adjustment reserve (decrease)	(12,210)	—	—
Unearned premiums increase	31,573	—	—
Accounts payable increase	36,949	5,180	36,505
Accrued expenses and other liabilities increase (decrease)	11,718	70,872	(43,059)
Other liabilities (decrease)	(24,727)	(12,554)	(23,937)
Net cash provided by operating activities	385,019	389,374	220,315
Cash flows from investing activities:			
Additions to fixed assets	(24,923)	(16,366)	(24,028)
Payments for businesses acquired, net of cash acquired	(696,486)	(367,712)	(425,054)
Proceeds from sales of fixed assets and customer accounts	13,631	5,886	14,095
Purchases of investments	(17,813)	(18,102)	(11,167)
Proceeds from sales of investments	18,278	15,662	10,654
Net cash used in investing activities	(707,313)	(380,632)	(435,500)
Cash flows from financing activities:			
Payments on acquisition earn-outs	(9,530)	(15,491)	(13,539)
Proceeds from long-term debt	1,048,425	30,000	200,000
Payments on long-term debt	(330,000)	(93)	(1,227)
Borrowings on revolving credit facilities	475,000	31,863	100,000
Payments on revolving credit facilities	(475,000)	(31,863)	(100,000)
Income tax benefit from exercise of shares from the stock benefit plans	3,298	2,358	8,659
Issuances of common stock for employee stock benefit plans	14,808	12,445	13,305
Repurchase of stock benefit plan shares for employees to fund tax withholdings	(3,252)	(1,284)	(8,963)
Purchase of treasury stock	(75,025)	—	—
Cash dividends paid	(59,334)	(53,546)	(49,534)
Net cash provided by (used in) financing activities	589,390	(25,611)	148,701
Net increase (decrease) in cash and cash equivalents	267,096	(16,869)	(66,484)
Cash and cash equivalents at beginning of year	202,952	219,821	286,305
Cash and cash equivalents at end of year	\$ 470,048	\$ 202,952	\$ 219,821

See accompanying notes to consolidated financial statements.

Notes

to Consolidated Financial Statements

NOTE 1 Summary of Significant Accounting Policies

Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries (collectively, “Brown & Brown” or the “Company”) is a diversified insurance agency, wholesale brokerage, insurance programs and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown’s business is divided into four reportable segments: the Retail Segment, which provides a broad range of insurance products and services to commercial, public entity, professional and individual customers; the National Programs Segment, acting as a managing general agent (“MGA”), provides professional liability and related package products for certain professionals, flood coverage, targeted products and services designated for specific industries, trade groups, governmental entities and market niches all of which are delivered through nationwide networks of independent agents, and markets; the Wholesale Brokerage Segment, which markets and sells excess and surplus commercial insurance, primarily through independent agents and brokers; and the Services Segment, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers’ compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services. In addition, as the result of our acquisition of the stock of The Wright Insurance Group, LLC (“Wright”), in May 2014, we own a flood insurance carrier, Wright National Flood Insurance Company (“WNFIC”), that is a Wright subsidiary. This carrier’s business consists of policies written pursuant to the National Flood Insurance Program (“NFIP”), the program administered by the Federal Emergency Management Agency (“FEMA”) and several excess flood insurance policies which are fully reinsured.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08 “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”) which changes the criteria for reporting discontinued operations and enhances disclosures in this area. Under the new guidance, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. Disposals of equity method investments, or those reported as held-for-sale, must be presented as a discontinued operation if they meet the new definition. The standard is effective prospectively for all disposals of components (or classification of components as held-for-sale) of an entity that occur within interim and annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications of components as held-for-sale) that have not been reported in financial statements previously issued. Brown & Brown has elected to early adopt this pronouncement and has reported a loss on disposal of \$47.4 as a result of the sale of Axiom Re, effective December 31, 2014, in accordance with this pronouncement.

In May 2014, FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company beginning January 1, 2017 and, at that time the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. Early adoption is not permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company’s Consolidated Financial Statements.

In August 2014, FASB issued ASU 2014-15, “Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern,” (“ASU 2014-15”), which addresses management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for fiscal years beginning after December 15, 2016 and for interim periods within those fiscal years, with early adoption permitted. The Company does not expect to early adopt this guidance and it believes the adoption of this guidance will not have a material impact on the Consolidated Financial Statements.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of Brown & Brown, Inc. and its subsidiaries. All significant intercompany account balances and transactions have been eliminated in the Consolidated Financial Statements.

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is processed into our systems, whichever is later. Commission revenues related to installment billings are recognized on the later of effective or invoiced, with the exception of our Arrowhead business which follows a policy of recognizing on the later of effective or processed into our systems regardless of the billing arrangement. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted in accordance with known circumstances. Subsequent commission adjustments are recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments. Profit-sharing contingent commissions are recognized when determinable, which is when such commissions are received from insurance companies, or when we receive formal notification of the amount of such payments. Fee revenues and commissions for workers’ compensation programs are recognized as services are rendered.

Use of Estimates

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities, at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents principally consist of demand deposits with financial institutions and highly liquid investments with quoted market prices having maturities of three months or less when purchased.

Restricted Cash and Investments, and Premiums, Commissions and Fees Receivable

In its capacity as an insurance agent or broker, Brown & Brown typically collects premiums from insureds and, after deducting its authorized commissions, remits the net premiums to the appropriate insurance company or companies. Accordingly, as reported in the Consolidated Balance Sheets, “premiums” are receivable from insureds. Unremitted net insurance premiums are held in a fiduciary capacity until Brown & Brown disburses them. Brown & Brown invests these unremitted funds only in cash, money market accounts, tax-free variable-rate demand bonds and commercial paper held for a short term. In certain states in which Brown & Brown operates, the use and investment alternatives for these funds are regulated and restricted by various state laws and agencies. These restricted funds are reported as restricted cash and investments on the Consolidated Balance Sheets. The interest income earned on these unremitted funds, where allowed by state law, is reported as investment income in the Consolidated Statements of Income.

In other circumstances, the insurance companies collect the premiums directly from the insureds and remit the applicable commissions to Brown & Brown. Accordingly, as reported in the Consolidated Balance Sheets, “commissions” are receivables from insurance companies. “Fees” are primarily receivables due from customers.

Notes

to Consolidated Financial Statements

Investments

Certificates of deposit, and other securities, having maturities of more than three months when purchased are reported at cost and are adjusted for other-than-temporary market value declines. During 2014 additional investments were included with the acquisition of Wright. These investments include U.S. Government, Municipal, domestic corporate and foreign corporate bonds as well as short-duration fixed income funds. Investments within the portfolio or funds are held as available for sale and are carried at their fair value. Any gain/loss applicable from the fair value change is recorded as other comprehensive income under the equity section of the consolidated balance sheet. Gains or losses recognized in earnings from the investments are included in investment income in the consolidated statements of income.

Fixed Assets

Fixed assets, including leasehold improvements, are carried at cost, less accumulated depreciation and amortization. Expenditures for improvements are capitalized, and expenditures for maintenance and repairs are expensed to operations as incurred. Upon sale or retirement, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in other income. Depreciation has been determined using the straight-line method over the estimated useful lives of the related assets, which range from three to 15 years. Leasehold improvements are amortized on the straight-line method over the shorter of the useful life of the improvement or the term of the related lease.

Goodwill and Amortizable Intangible Assets

All of our business combinations initiated after June 30, 2001 are accounted for using the purchase method. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase prices for all acquisitions consummated after January 1, 2009 include an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations are recorded in the Consolidated Statement of Income when incurred.

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

Amortizable intangible assets are stated at cost, less accumulated amortization, and consist of purchased customer accounts and non-compete agreements. Purchased customer accounts and non-compete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. Purchased customer accounts primarily consist of records and files that contain information about insurance policies and the related insured parties that are essential to policy renewals.

The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and amortizable intangible assets is assigned to goodwill. While goodwill is not amortizable, it is subject to assessment at least annually, and more frequently in the presence of certain circumstances, for impairment by application of a fair value-based test. The Company compares the fair value of each reporting unit with its carrying amount to determine if there is potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of earnings before interest, income taxes, depreciation, amortization and change in estimated acquisition earn-out payables ("EBITDAC"), or on a discounted cash flow basis. Brown & Brown completed its most recent annual assessment as of November 30, 2014 and determined that the fair value of goodwill exceeded the carrying value of such assets. In addition, as of December 31, 2014, there are no accumulated impairment losses.

The carrying value of amortizable intangible assets attributable to each business or asset group comprising Brown & Brown is periodically reviewed by management to determine if there are events or changes in circumstances that would indicate that its carrying amount may not be recoverable. Accordingly, if there are any such changes in circumstances during the year, Brown & Brown assesses the carrying value of its amortizable intangible assets by considering the estimated future undiscounted cash flows generated by the corresponding business or asset group. Any impairment identified through this assessment may require that the carrying value of related amortizable intangible assets be adjusted. There were no impairments recorded for the years ended December 31, 2014, 2013 and 2012.

Income Taxes

Brown & Brown records income tax expense using the asset-and-liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying values and the income tax bases of Brown & Brown's assets and liabilities.

Brown & Brown files a consolidated federal income tax return and has elected to file consolidated returns in certain states. Deferred income taxes are provided for in the Consolidated Financial Statements and relate principally to expenses charged to income for financial reporting purposes in one period and deducted for income tax purposes in other periods.

Net Income Per Share

Effective in 2009, the Company adopted the FASB authoritative guidance that states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share ("EPS") pursuant to the two-class method. The two-class method determines EPS for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Performance stock shares granted to employees under the Company's Performance Stock Plan and under the Company's Stock Incentive Plan are considered participating securities as they receive non-forfeitable dividend equivalents at the same rate as common stock.

Basic EPS is computed based on the weighted average number of common shares (including participating securities) issued and outstanding during the period. Diluted EPS is computed based on the weighted average number of common shares issued and outstanding plus equivalent shares, assuming the exercise of stock options. The dilutive effect of stock options is computed by application of the treasury-stock method. The following is a reconciliation between basic and diluted weighted average shares outstanding for the years ended December 31:

(in thousands, except per share data)	2014	2013	2012
Net income	\$ 206,896	\$ 217,112	\$ 184,045
Net income attributable to unvested awarded performance stock	(5,186)	(5,446)	(5,313)
Net income attributable to common shares	\$ 201,710	\$ 211,666	\$ 178,732
Weighted average basic number of common shares outstanding	144,568	144,662	143,507
Less unvested awarded performance stock included in weighted average basic share outstanding	(3,624)	(3,629)	(4,143)
Weighted average number of common shares outstanding for basic earnings per common share	140,944	141,033	139,364
Dilutive effect of stock options	1,947	1,591	2,646
Weighted average number of shares outstanding	142,891	142,624	142,010
Net income per share:			
Basic	\$ 1.43	\$ 1.50	\$ 1.28
Diluted	\$ 1.41	\$ 1.48	\$ 1.26

Notes

to Consolidated Financial Statements

Fair Value of Financial Instruments

The carrying amounts of Brown & Brown's financial assets and liabilities, including cash and cash equivalents; restricted cash and short-term investments; investments; premiums, commissions and fees receivable; reinsurance recoverable; prepaid reinsurance premiums; premiums payable to insurance companies; losses and loss adjustment reserve; unearned premium; premium deposits and credits due customers and accounts payable, at December 31, 2014 and 2013, approximate fair value because of the short-term maturity of these instruments. The carrying amount of Brown & Brown's long-term debt approximates fair value at December 31, 2014 and 2013 as our fixed-rate borrowings of \$650.0 million approximate their values using market quotes of notes with the similar terms as ours, which we deem a close approximation of current market rates. Of the \$650.0 million, \$25.0 million is related to short-term notes which approximates its carrying value due to its proximity to maturity. The estimated fair value of the \$550.0 million term loan under our J.P. Morgan Credit Facility approximates the carrying value due to the variable interest rate based on adjusted LIBOR. See note 2 to our consolidated financial statements for the fair values related to the establishment of intangible assets and the establishment and adjustment of earn-out payables. See note 5 for information on the fair value of investments and note 8 for information on the fair value of long-term debt.

Stock-Based Compensation

The Company granted stock options and grants non-vested stock awards to its employees, officers and directors. The Company uses the modified-prospective method to account for share-based payments. Under the modified-prospective method, compensation cost is recognized for all share-based payments granted on or after January 1, 2006 and for all awards granted to employees prior to January 1, 2006 that remained unvested on that date. The Company uses the alternative-transition method to account for the income tax effects of payments made related to stock-based compensation.

The Company uses the Black-Scholes valuation model for valuing all stock options and shares purchased under the Employee Stock Purchase Plan (the "ESPP"). Compensation for non-vested stock awards is measured at fair value on the grant date based upon the number of shares expected to vest. Compensation cost for all awards is recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period.

Financial Reporting Related to Insurance Company Operations

Reinsurance

The Company protects itself from claims related losses by reinsuring all claims related risk exposure. The only line of insurance the Company underwrites is flood insurance associated with Wright. However, all exposure is reinsured with FEMA for basic admitted policies conforming to the National Flood Insurance Program. For excess flood insurance policies, all exposure is reinsured with a reinsurance carrier with an AM Best Company rating of "A" or better. Reinsurance does not legally discharge the ceding insurer from the primary liability for the full amount due under the reinsured policies. Reinsurance premiums, commissions, expense reimbursement and related reserves related to ceded business are accounted for on a basis consistent with the accounting for the original policies issued and the terms of reinsurance contracts. Premiums earned and losses and loss adjustment expenses incurred are reported net of reinsurance amounts. Other underwriting expenses are shown net of earned ceding commission income. The liabilities for unpaid losses and loss adjustment expenses and unearned premiums are reported gross of ceded reinsurance recoverable.

Balances due from reinsurers on unpaid losses and loss adjustment expenses, including an estimate of such recoverables related to reserves for incurred but not reported ("IBNR") losses, are reported as assets and are included in reinsurance recoverable even though amounts due on unpaid loss and loss adjustment expense are not recoverable from the reinsurer until such losses are paid. The Company does not believe it is exposed to any material credit risk through its reinsurance as the reinsurer is FEMA for basic admitted flood policies and a national reinsurance carrier for excess flood policies, which has an AM Best Company rating of "A" or better. Historically, no amounts due from reinsurance carriers have been written off as uncollectible.

Unpaid Losses and Loss Adjustment Reserve

Unpaid losses and loss adjustment reserve include amounts determined on individual claims and other estimates based on the past experience of WNFIC and the policyholders for IBNR claims, less anticipated salvage and subrogation recoverable. The methods of making such estimates and for establishing the resulting reserves are continually reviewed and updated, and any adjustments resulting therefrom are reflected in operations currently.

WNFIC engages the services of outside actuarial consulting firms (the “Actuaries”) to assist on an annual basis to render an opinion on the sufficiency of the Company’s estimates for unpaid losses and related loss adjustment reserve. The Actuaries utilize both industry experience and the Company’s own experience to develop estimates of those amounts as of year-end. These estimated liabilities are subject to the impact of future changes in claim severity, frequency and other factors. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and related loss adjustment reserve is adequate.

Premiums

Premiums are recognized as income over the coverage period of the related policies. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of the policies in force and are determined on a daily pro rata basis. The income is recorded to the commissions and fees line of the income statement.

NOTE 2 Business Combinations

Acquisitions in 2014

During the year ended December 31, 2014, Brown & Brown acquired the assets and assumed certain liabilities of nine insurance intermediaries, all of the stock of one insurance intermediary that owns an insurance carrier and several books of business (customer accounts). Additionally, miscellaneous adjustments were recorded to the purchase price allocation of certain prior acquisitions completed within the last twelve months as permitted by ASC Topic 805 — *Business Combinations* (“ASC 805”). All of these acquisitions were acquired primarily to expand Brown & Brown’s core business and to attract and hire high-quality individuals. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the Consolidated Statement of Income when incurred.

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

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company’s Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period, as defined in ASC 805. For the year ended December 31, 2014, several adjustments were made within the permitted measurement period that resulted in a decrease in the aggregate purchase price of the affected acquisitions of \$26,000 relating to the assumption of certain liabilities.

Cash paid for acquisitions were \$721.9 million and \$408.1 million in the year ended December 31, 2014 and 2013, respectively. We completed 10 acquisitions (excluding book of business purchases) in the year ended December 31, 2014, with the largest being Wright, which was effective May 1, 2014 and cash paid totaled \$609.2 million. We completed 9 acquisitions (excluding book of business purchases) in the twelve-month period ended December 31, 2013, with the largest being Beecher Carlson Holdings, Inc. which was effective July 1, 2013 and cash paid totaled to \$364.2 million.

Notes

to Consolidated Financial Statements

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

(in thousands)							
Name	Business Segment	2014 Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-out Payable	Net Assets Acquired	Maximum Potential Earn-out Payable
The Wright Insurance Group, LLC	National Programs	May 1	\$ 609,183	\$ 1,471	\$ —	\$ 610,654	\$ —
Pacific Resources Benefits Advisors, LLC ("PacRes")	Retail	May 1	90,000	—	27,452	117,452	35,000
Axia Strategies, Inc. ("Axia")	Wholesale Brokerage	May 1	9,870	—	1,824	11,694	5,200
Other	Various	Various	12,798	433	3,953	17,184	9,262
Total			\$ 721,851	\$ 1,904	\$ 33,229	\$ 756,984	\$ 49,462

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

(in thousands)	Wright	PacRes	Axia	Other	Total
Cash	\$ 25,365	\$ —	\$ —	\$ —	\$ 25,365
Other current assets	16,474	3,647	101	742	20,964
Fixed assets	7,172	53	24	1,724	8,973
Reinsurance recoverable	25,238	—	—	—	25,238
Prepaid reinsurance premiums	289,013	—	—	—	289,013
Goodwill	420,209	76,023	7,276	10,417	513,925
Purchased customer accounts	213,677	38,111	4,252	4,384	260,424
Non-compete agreements	966	21	41	166	1,194
Other assets	20,045	—	—	—	20,045
Total assets acquired	1,018,159	117,855	11,694	17,433	1,165,141
Other current liabilities	(14,322)	(403)	—	(249)	(14,974)
Losses and loss adjustment reserve	(25,238)	—	—	—	(25,238)
Unearned premiums	(289,013)	—	—	—	(289,013)
Deferred income taxes, net	(46,566)	—	—	—	(46,566)
Other liabilities	(32,366)	—	—	—	(32,366)
Total liabilities assumed	(407,505)	(403)	—	(249)	(408,157)
Net assets acquired	\$ 610,654	\$ 117,452	\$ 11,694	\$ 17,184	\$ 756,984

The weighted average useful lives for the acquired amortizable intangible assets are as follows: purchased customer accounts, 15.0 years; and non-compete agreements, 3.4 years.

Goodwill of \$513,925,000 was allocated to the Retail, National Programs, Wholesale Brokerage and Services Segments in the amounts of \$86,454,000, \$420,037,000, \$7,673,000 and (\$239,000), respectively. Of the total goodwill of \$513,925,000, \$141,887,000 is currently deductible for income tax purposes and \$338,809,000 is non-deductible. The remaining \$33,229,000 relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2014 have been combined with those of the Company since the acquisition date. The total revenues and loss before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through December 31, 2014, included in the Consolidated Statement of Income for the year ended December 31, 2014, were \$112,247,000 and (\$1,307,000), respectively. If the acquisitions had occurred as of the beginning of the respective periods, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	For the Year Ended December 31,	
(in thousands, except per share data)	2014	2013
Total revenues	\$ 1,630,162	\$ 1,520,858
Income before income taxes	\$ 358,229	\$ 409,522
Net income	\$ 218,150	\$ 248,628
Net income per share:		
Basic	\$ 1.51	\$ 1.72
Diluted	\$ 1.49	\$ 1.70
Weighted average number of shares outstanding:		
Basic	140,944	141,033
Diluted	142,891	142,624

Acquisitions in 2013

During 2013, Brown & Brown acquired the assets and assumed certain liabilities of eight insurance intermediaries, all of the stock of one insurance intermediary and a book of business (customer accounts). The aggregate purchase price of these acquisitions was \$519,794,000, including \$408,072,000 of cash payments, the issuance of \$552,000 in other payables, the assumption of \$106,079,000 of liabilities and \$5,091,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract high-quality personnel. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one-to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the Consolidated Statement of Income when incurred.

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

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company's Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period, as defined in ASC 805.

Notes

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For 2013, several adjustments were made within the permitted measurement period that resulted in a reduction to the aggregate purchase price of the applicable acquisition of \$504,000, including \$18,000 of cash payments, an increase of \$117,000 in other payables, the assumption of \$82,000 of liabilities and the reduction of \$721,000 in recorded earn-out payables.

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

(in thousands)							
Name	Business Segment	2013 Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-out Payable	Net Assets Acquired	Maximum Potential Earn-out Payable
The Rollins Agency, Inc.	Retail	June 1	\$ 13,792	\$ 50	\$ 2,321	\$ 16,163	\$ 4,300
Beecher Carlson Holdings, Inc.	Retail; National Programs	July 1	364,256	—	—	364,256	—
ICA, Inc.	Services	December 31	19,770	—	727	20,497	5,000
Other	Various	Various	10,254	502	2,043	12,799	7,468
Total			\$ 408,072	\$ 552	\$ 5,091	\$ 413,715	\$ 16,768

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

(in thousands)						
	Rollins	Beecher	ICA	Other	Total	
Cash	\$ —	\$ 40,360	\$ —	\$ —	\$ 40,360	
Other current assets	393	57,632	—	1,573	59,598	
Fixed assets	30	1,786	75	24	1,915	
Goodwill	12,697	265,174	12,377	5,696	295,944	
Purchased customer accounts	3,878	101,565	7,917	5,623	118,983	
Non-compete agreements	31	2,758	21	76	2,886	
Other assets	—	—	107	1	108	
Total assets acquired	17,029	469,275	20,497	12,993	519,794	
Other current liabilities	(866)	(80,090)	—	(194)	(81,150)	
Deferred income taxes, net	—	(22,764)	—	—	(22,764)	
Other liabilities	—	(2,165)	—	—	(2,165)	
Total liabilities assumed	(866)	(105,019)	—	(194)	(106,079)	
Net assets acquired	\$ 16,163	\$ 364,256	\$ 20,497	\$ 12,799	\$ 413,715	

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

Goodwill of \$295,944,000 was allocated to the Retail, National Programs, Wholesale Brokerage and Services Segments in the amounts of \$257,196,000, \$27,091,000, (\$812,000) and \$12,469,000, respectively. Of the total goodwill of \$295,944,000, \$41,663,000 is currently deductible for income tax purposes and \$249,190,000 is non-deductible. The remaining \$5,091,000 relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2013 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through December 31, 2013, included in the Consolidated Statement of Income for the year ended December 31, 2013, were \$63,797,000 and \$872,000, respectively. If the acquisitions had occurred as of the beginning of the period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	For the Year Ended December 31,	
(in thousands, except per share data)	2013	2012
Total revenues	\$ 1,439,918	\$ 1,329,262
Income before income taxes	\$ 373,175	\$ 329,291
Net income	\$ 226,562	\$ 198,826
Net income per share:		
Basic	\$ 1.57	\$ 1.39
Diluted	\$ 1.55	\$ 1.36
Weighted average number of shares outstanding:		
Basic	141,033	139,634
Diluted	142,624	142,010

Acquisitions in 2012

During 2012, Brown & Brown acquired the assets and assumed certain liabilities of 19 insurance intermediaries, all of the stock of one insurance intermediary and a book of business (customer accounts). The aggregate purchase price of these acquisitions was \$667,586,000, including \$483,933,000 of cash payments, the issuance of notes payable of \$59,000, the issuance of \$25,439,000 in other payables, the assumption of \$136,676,000 of liabilities and \$21,479,000 of recorded earn-out payables. The 'other payables' amount includes \$22,061,000 that the Company is obligated to pay all shareholders of Arrowhead on a pro rata basis for certain pre-merger corporate tax refunds and certain estimated potential future income tax credits that were created by net operating loss carryforwards originating from transaction-related tax benefit items. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract high-quality personnel. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the Consolidated Statement of Income when incurred.

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

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The acquisitions made in 2012 have been accounted for as business combinations and are as follows:

(in thousands)								
Name	Business Segment	2012 Date of Acquisition	Cash Paid	Note Payable	Other Payable	Recorded Earn-out Payable	Net Assets Acquired	Maximum Potential Earn-out Payable
Arrowhead General Insurance Agency Superholding Corporation	National Programs; Services	January 9	\$ 396,952	\$ —	\$ 22,061	\$ 3,290	\$ 422,303	\$ 5,000
Insurcorp & GGM Investments LLC (d/b/a Maalouf Benefit Resources)	Retail	May 1	15,500	—	900	4,944	21,344	17,000
Richard W. Endlar Insurance Agency, Inc.	Retail	May 1	10,825	—	—	2,598	13,423	5,500
Texas Security General Insurance Agency, Inc.	Wholesale Brokerage	September 1	14,506	—	2,182	2,124	18,812	7,200
Behnke & Associates, Inc.	Retail	December 1	9,213	—	—	1,126	10,339	3,321
Rowlands & Barranca Agency, Inc.	Retail	December 1	8,745	—	—	2,401	11,146	4,000
Other	Various	Various	28,192	59	296	4,996	33,543	14,149
Total			\$ 483,933	\$ 59	\$ 25,439	\$ 21,479	\$ 530,910	\$ 56,170

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

(in thousands)	Arrowhead	Insurcorp	Endlar	Texas Security	Behnke	Rowlands	Other	Total
Cash	\$ 61,786	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 61,786
Other current assets	69,051	180	305	1,866	—	—	422	71,824
Fixed assets	4,629	25	25	45	25	30	158	4,937
Goodwill	321,128	14,745	8,044	10,845	6,430	8,363	21,085	390,640
Purchased customer accounts	99,675	6,490	5,230	6,229	3,843	3,367	13,112	137,946
Non-compete agreements	100	22	11	14	41	21	243	452
Other assets	1	—	—	—	—	—	—	1
Total assets acquired	556,370	21,462	13,615	18,999	10,339	11,781	35,020	667,586
Other current liabilities	(107,579)	(118)	(192)	(187)	—	(635)	(1,477)	(110,188)
Deferred income taxes, net	(26,488)	—	—	—	—	—	—	(26,488)
Total liabilities assumed	(134,067)	(118)	(192)	(187)	—	(635)	(1,477)	(136,676)
Net assets acquired	\$ 422,303	\$ 21,344	\$ 13,423	\$ 18,812	\$ 10,339	\$ 11,146	\$ 33,543	\$ 530,910

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

Goodwill of \$390,640,000, was allocated to the Retail, National Programs, Wholesale Brokerage and Services Segments in the amounts of \$57,856,000, \$289,378,000, \$11,656,000 and \$31,750,000, respectively. Of the total goodwill of \$390,640,000, \$52,730,000 is currently deductible for income tax purposes and \$316,431,000 is non-deductible. The remaining \$21,479,000 relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2012 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through December 31, 2012, included in the Consolidated Statement of Income for the year ended December 31, 2012, were \$129,472,000 and \$898,000, respectively. If the acquisitions had occurred as of the beginning of the period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	For the Year Ended December 31,	
(in thousands, except per share data)	2012	2011
Total revenues	\$ 1,230,408	\$ 1,163,341
Income before income taxes	\$ 315,051	\$ 313,706
Net income	\$ 190,228	\$ 190,174
Net income per share:		
Basic	\$ 1.33	\$ 1.33
Diluted	\$ 1.30	\$ 1.31
Weighted average number of shares outstanding:		
Basic	139,364	138,582
Diluted	142,010	140,264

For acquisitions consummated prior to January 1, 2009, additional consideration paid to sellers as a result of the purchase price earn-out provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by the Company in 2014 as a result of those adjustments totaled \$26,000, all of which was allocated to goodwill. Of the \$26,000 net additional consideration paid, \$26,000 was recorded in other payables. The net additional consideration paid by the Company in 2013 as a result of these adjustments totaled \$873,000, all of which was allocated to goodwill. Of the \$873,000 net additional consideration paid, \$873,000 was issued in other payables.

As of December 31, 2014, the maximum future contingency payments related to all acquisitions totaled \$130,654,000, all of which relates to acquisitions consummated subsequent to January 1, 2009.

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

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As of December 31, 2014, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820. The resulting additions, payments, and net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, were as follows:

(in thousands)	For the Year Ended December 31,		
	2014	2013	2012
Balance as of the beginning of the period	\$ 43,058	\$ 52,987	\$ 47,715
Additions to estimated acquisition earn-out payables	34,356	5,816	21,479
Payments for estimated acquisition earn-out payables	(12,069)	(18,278)	(17,625)
Subtotal	65,345	40,525	51,569
Net change in earnings from estimated acquisition earn-out payables:			
Change in fair value on estimated acquisition earn-out payables	7,375	570	(1,051)
Interest expense accretion	2,563	1,963	2,469
Net change in earnings from estimated acquisition earn-out payables	9,938	2,533	1,418
Balance as of December 31	\$ 75,283	\$ 43,058	\$ 52,987

Of the \$75,283,000 estimated acquisition earn-out payables as of December 31, 2014, \$26,018,000 was recorded as accounts payable and \$49,265,000 was recorded as an other non-current liability. Of the \$43,058,000 estimated acquisition earn-out payables as of December 31, 2013, \$6,312,000 was recorded as accounts payable and \$36,746,000 was recorded as an other non-current liability. As of December 31, 2012, the estimated acquisition earn-out payables equaled \$52,987,000, of which \$10,164,000 was recorded as accounts payable and \$42,823,000 was recorded as an other non-current liability.

NOTE 3 Goodwill

The changes in the carrying value of goodwill by reportable segment for the years ended December 31, are as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Service	Total
Balance as of January 1, 2013	\$ 876,219	\$ 439,180	\$ 288,054	\$ 108,061	\$ 1,711,514
Goodwill of acquired businesses	257,196	27,964	(812)	12,469	296,817
Goodwill disposed of relating to sales of businesses	(2,158)	—	—	—	(2,158)
Balance as of December 31, 2013	1,131,257	467,144	287,242	120,530	2,006,173
Goodwill of acquired businesses	86,454	420,063	7,673	(239)	513,951
Goodwill disposed of relating to sales of businesses	(3,696)	(9,564)	(46,253)	—	(59,513)
Balance as of December 31, 2014	\$ 1,214,015	\$ 877,643	\$ 248,662	\$ 120,291	\$ 2,460,611

During 2014 we disposed of Axiom Re (“Axiom”) effective December 31, 2014 as part of our strategy to exit the reinsurance brokerage business. For the years ended December 31, 2014 and 2013, Axiom recorded (loss)/income before income taxes of (\$587,000) and \$113,000, respectively, which is included in the Wholesale Brokerage segment.

NOTE 4 Amortizable Intangible Assets

Amortizable intangible assets at December 31 consisted of the following:

(in thousands)	2014				2013			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Life (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Life (in years)
Purchased customer accounts	\$ 1,355,550	\$ (574,285)	\$ 781,265	14.9	\$ 1,120,719	\$ (505,137)	\$ 615,582	14.9
Non-compete agreements	29,139	(25,762)	3,377	6.8	28,115	(24,809)	3,306	7.0
Total	\$ 1,384,689	\$ (600,047)	\$ 784,642		\$ 1,148,834	\$ (529,946)	\$ 618,888	

Amortization expense recorded for amortizable intangible assets for the years ended December 31, 2014, 2013 and 2012 was \$82,941,000, \$67,932,000 and \$63,573,000, respectively.

Amortization expense for amortizable intangible assets for the years ending December 31, 2015, 2016, 2017, 2018 and 2019 is estimated to be \$86,029,000, \$81,547,000, \$78,640,000, \$73,262,000, and \$68,722,000, respectively.

NOTE 5 Investments

At December 31, 2014, the Company's amortized cost and fair values of fixed maturity securities are summarized as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities, obligations of U.S. Government agencies and Municipals	\$ 10,774	\$ 7	\$ (1)	\$ 10,780
Foreign government	50	—	—	50
Corporate debt	5,854	9	(11)	5,852
Short duration fixed income fund	3,143	37	—	3,180
Total	\$ 19,821	\$ 53	\$ (12)	\$ 19,862

The following table shows the investments' gross unrealized loss and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2014.

(in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities, obligations of U.S. Government agencies and Municipals	\$ 3,994	\$ 1	\$ —	\$ —	\$ 3,994	\$ 1
Foreign Government	50	—	—	—	50	—
Corporate debt	4,439	11	—	—	4,439	11
Total	\$ 8,483	\$ 12	\$ —	\$ —	\$ 8,483	\$ 12

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The unrealized losses in the Company's investments in U.S. Treasury Securities and obligations of U.S. Government Agencies and bonds from corporate issuers were caused by interest rate increases. At December 31, 2014, the Company had 38 securities in an unrealized loss position. The contractual cash flows of the U.S. Treasury Securities and obligations of the U.S. Government agencies investments are either guaranteed by the U.S. Government or an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. The corporate securities are highly rated securities with no indicators of potential impairment. Based on the ability and intent of the Company to hold these investments until recovery of fair value, which may be maturity, the bonds were not considered to be other-than-temporarily impaired at December 31, 2014.

The amortized cost and estimated fair value of the fixed maturity securities at December 31, 2014 by contractual maturity are set forth below:

(in thousands)	Amortized Cost	Fair Value
Years to maturity:		
Due in one year or less	\$ 5,628	\$ 5,628
Due after one year through five years	13,863	13,897
Due after five years through ten years	330	337
Total	\$ 19,821	\$ 19,862

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without penalty.

Proceeds from sales of the Company's investment in fixed maturity securities were \$0.2 million including maturities from the year ended December 31, 2014. There were no gains and losses realized on those sales for the year ended December 31, 2014.

Realized gains and losses are reported on the consolidated statements of income, with the cost of securities sold determined on a specific identification basis.

NOTE 6 Fixed Assets

Fixed assets at December 31 consisted of the following:

(in thousands)	2014	2013
Furniture, fixtures and equipment	\$ 161,539	\$ 149,170
Leasehold improvements	30,030	21,231
Land, buildings and improvements	3,739	3,815
Total cost	195,308	174,216
Less accumulated depreciation and amortization	(110,640)	(99,483)
Total	\$ 84,668	\$ 74,733

Depreciation and amortization expense for fixed assets amounted to \$20,895,000 in 2014, \$17,485,000 in 2013, and \$15,373,000 in 2012.

NOTE 7 Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at December 31 consisted of the following:

(in thousands)	2014	2013
Accrued bonuses	\$ 76,891	\$ 70,272
Accrued compensation and benefits	36,241	35,145
Accrued rent and vendor expenses	29,039	19,235
Reserve for policy cancellations	9,074	8,010
Accrued interest	6,527	3,324
Other	23,384	21,414
Total	\$ 181,156	\$ 157,400

NOTE 8 Long-Term Debt

Long-term debt at December 31 consisted of the following:

(in thousands)	2014	2013
Current portion of long-term debt:		
Current portion of 5-year term loan facility expires 2019	\$ 20,625	\$ —
6.080% senior notes, Series B, semi-annual interest payments, balloon due 2014	—	100,000
5.370% senior notes, Series D, quarterly interest payments, balloon due 2015	25,000	—
Total current portion of long-term debt	\$ 45,625	\$ 100,000
Long-term debt:		
Note agreements:		
5.370% senior notes, Series D, quarterly interest payments, balloon due 2015	\$ —	\$ 25,000
5.660% senior notes, Series C, semi-annual interest payments, balloon due 2016	25,000	25,000
4.500% senior notes, Series E, quarterly interest payments, balloon due 2018	100,000	100,000
4.200% senior notes, semi-annual interest payments, balloon due 2024	498,471	—
Total notes	\$ 623,471	\$ 150,000
Credit agreements:		
Periodic payments of interest, LIBOR plus 1.00%, expires December 31, 2016	\$ —	\$ 100,000
Quarterly payments of interest, LIBOR plus 1.00%, expires December 31, 2016	—	100,000
Periodic payments of interest, LIBOR plus 1.00%, expires December 31, 2016	—	30,000
5-year term-loan facility, periodic interest and principal payments, currently LIBOR plus 1.375%, expires May 20, 2019	529,375	—
5-year revolving-loan facility, periodic interest payments, currently LIBOR plus 1.175%, plus commitment fees of 0.20%, expires May 20, 2019	—	—
Revolving credit loan, quarterly interest payments, LIBOR plus up to 1.40% and availability fee up to 0.25%, expires December 31, 2016	—	—
Total credit agreements	\$ 529,375	\$ 230,000
Total long-term debt	\$ 1,152,846	\$ 380,000
Current portion of long-term debt	\$ 45,625	\$ 100,000
Total debt	\$ 1,198,471	\$ 480,000

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In July 2004, the Company completed a private placement of \$200.0 million of unsecured senior notes (the “Notes”). The \$200.0 million was divided into two series: (1) Series A, which closed on September 15, 2004, for \$100.0 million due in 2011 and bore interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for \$100.0 million due in 2014 and bore interest at 6.08% per year. On September 15, 2011, the \$100.0 million of Series A Notes were redeemed on their normal maturity date through use of funds from the Master Agreement (defined below). As of July 15, 2014 the Series B Notes were redeemed at maturity using proceeds from the Credit Facility (defined below).

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the “Master Agreement”) with a national insurance company (the “Purchaser”). The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of \$25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, \$25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. On September 15, 2011, and pursuant to a Confirmation of Acceptance (the “Confirmation”), dated January 21, 2011, in connection with the Master Agreement, \$100.0 million in Series E Senior Notes were issued and are due September 15, 2018, with a fixed interest rate of 4.50% per year. The Series E Senior Notes were issued for the sole purpose of retiring the Series A Senior Notes. As of December 31, 2014 and 2013, there was an outstanding debt balance issued under the provisions of the Master Agreement of \$150.0 million. On January 15, 2015 the Series D Notes were redeemed at maturity using cash proceeds to pay off the principal of \$25.0 million plus any remaining accrued interest.

On January 9, 2012, the Company entered into: (1) an amended and restated revolving and term loan credit agreement (the “SunTrust Agreement”) with SunTrust Bank (“SunTrust”) that provided for (a) a \$100.0 million term loan (the “SunTrust Term Loan”) and (b) a \$50.0 million revolving line of credit (the “SunTrust Revolver”) and (2) a \$50.0 million promissory note. The maturity date for the SunTrust Term Loan and the SunTrust Revolver was December 31, 2016, at which time all outstanding principal and unpaid interest would have been due. On May 20, 2014, in connection with closing the Wright acquisition and funding of the Credit Facility (as defined below), the SunTrust Term Loan was paid in full using proceeds from the Credit Facility and the SunTrust Revolver was also terminated at that time.

On January 26, 2012, the Company entered into a term loan agreement (the “JPM Agreement”) with JPMorgan that provided for a \$100.0 million term loan (the “JPM Term Loan”). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver’s amount outstanding was reduced to zero. The maturity date for the JPM Term Loan was December 31, 2016, at which time all outstanding principal and unpaid interest would have been due. On May 20, 2014, in connection with closing the Wright acquisition and funding of the Credit Facility (as defined below), the JPM Term Loan was paid in full and terminated using proceeds from the Credit Facility.

On July 1, 2013, in conjunction with the acquisition of Beecher Carlson Holdings, Inc., the Company entered into: (1) a revolving loan agreement (the “Wells Fargo Agreement”) with Wells Fargo Bank, N.A. that provided for a \$50.0 million revolving line of credit (the “Wells Fargo Revolver”) and (2) a term loan agreement (the “Bank of America Agreement”) with Bank of America, N.A. (“Bank of America”) that provided for a \$30.0 million term loan (the “Bank of America Term Loan”).

The maturity date for the Wells Fargo Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. The Wells Fargo Revolver may be increased by up to \$50.0 million (bringing the total amount available to \$100.0 million). The calculation of interest and fees for the Wells Fargo Agreement is generally based on the Company’s funded debt-to-EBITDA ratio. Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the Wells Fargo Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the Wells Fargo Revolver are unsecured and the Wells Fargo Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers. As of April 16, 2014, in connection with the signing of the Credit Facility (as defined below) an amendment to the agreement was established to reduce the total revolving loan commitment from \$50.0 million to \$25.0 million. There were no borrowings against the Wells Fargo Revolver as of December 31, 2014 and 2013.

The maturity date for the Bank of America Term Loan was December 31, 2016, at which time all outstanding principal and unpaid interest would have been due. The Bank of America Term Loan was funded in the amount of \$30.0 million on July 1, 2013. On May 20, 2014, in connection with closing the Wright acquisition and funding of the Credit Facility, the term loan was paid in full using proceeds from the Credit Facility (as defined below).

The 30-day Adjusted LIBOR Rate as of December 31, 2014 was 0.19%.

On April 17, 2014, the Company entered into a credit agreement with JPMorgan Chase Bank, N.A. as administrative agent and certain other banks as co-syndication agents and co-documentation agents (the "Credit Agreement"). The Credit Agreement in the amount of \$1,350.0 million provides for an unsecured revolving credit facility (the "Credit Facility") in the initial amount of \$800.0 million and unsecured term loans in the initial amount of \$550.0 million, either or both of which may, subject to lenders' discretion, potentially be increased by up to \$500.0 million. The Credit Facility was funded on May 20, 2014 in conjunction with the closing of the Wright acquisition, with the \$550.0 million term loan being funded as well as a drawdown of \$375.0 million on the revolving loan facility. Use of these proceeds were to retire existing term loan debt including the JPM Term Loan Agreement, SunTrust Term Loan Agreement and Bank of America Term Loan Agreement in total of \$230.0 million (as described above) and to facilitate the closing of the Wright acquisition as well as other acquisitions. The Credit Facility terminates on May 20, 2019, but either or both of the revolving credit facility and the term loans may be extended for two additional one-year periods at the Company's request and at the discretion of the respective lenders. Interest and facility fees in respect to the Credit Facility are based on the better of the Company's net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating. Based on the Company's net debt leverage ratio, the rates of interest charged on the term loan and revolving loan is 1.375% and 1.175% respectively in 2014 and above the adjusted LIBOR rate for outstanding amounts drawn. There are fees included in the facility which include a facility fee based on the revolving credit commitments of the lenders (whether used or unused) at a rate of 0.20% and letter of credit fees based on the amounts of outstanding secured or unsecured letters of credit. The Credit Facility includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers. As of December 31, 2014, there was an outstanding debt balance issued under the provisions of the Credit Facility in total of \$550.0 million with no proceeds outstanding relative to the revolving loan.

On September 18, 2014 the Company issued \$500.0 million of 4.200% unsecured senior notes due in 2024. The senior notes were given investment grade ratings of BBB-/Baa3 with a stable outlook. The notes are subject to certain covenant restrictions and regulations which are customary for credit rated obligations. At the time of funding, the proceeds were offered at a discount of the original note amount which also excluded an underwriting fee discount. The net proceeds received from the issuance were used to repay the outstanding balance of \$475.0 million on the revolving Credit Facility and for other general corporate purposes.

The Notes, the Master Agreement and the Credit Agreement all require the Company to maintain certain financial ratios and comply with certain other covenants. The Company was in compliance with all such covenants as of December 31, 2014 and December 31, 2013.

Interest paid in 2014, 2013 and 2012 was \$25,115,000, \$16,501,000 and \$16,090,000, respectively.

At December 31, 2014, maturities of long-term debt were \$45,625,000 in 2015, \$73,125,000 in 2016, \$55,000,000 in 2017, \$155,000,000 in 2018, \$371,250,000 in 2019 and \$500,000,000 in 2024.

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NOTE 9 Income Taxes

Significant components of the provision for income taxes for the years ended December 31 are as follows:

(in thousands)	2014	2013	2012
Current:			
Federal	\$ 109,893	\$ 94,007	\$ 75,522
State	15,482	13,438	11,852
Foreign	109	805	669
Total current provision	125,484	108,250	88,043
Deferred:			
Federal	5,987	28,469	27,348
State	1,440	3,723	5,375
Foreign	(58)	55	—
Total deferred provision	7,369	32,247	32,723
Total tax provision	\$ 132,853	\$ 140,497	\$ 120,766

A reconciliation of the differences between the effective tax rate and the federal statutory tax rate for the years ended December 31 is as follows:

	2014	2013	2012
Federal statutory tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	3.3	3.5	4.3
Non-deductible employee stock purchase plan expense	0.3	0.3	0.3
Non-deductible meals and entertainment	0.4	0.3	0.3
Other, net	0.1	0.2	(0.3)
Effective tax rate	39.1 %	39.3 %	39.6 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for income tax reporting purposes.

Significant components of Brown & Brown's current deferred tax assets as of December 31 are as follows:

(in thousands)	2014	2013
Current deferred tax assets:		
Deferred profit-sharing contingent commissions	\$ 10,335	\$ 9,713
Net operating loss carryforwards	951	8,408
Accruals and reserves	14,145	11,155
Total current deferred tax assets	\$ 25,431	\$ 29,276

Significant components of Brown & Brown's non-current deferred tax liabilities and assets as of December 31 are as follows:

(in thousands)	2014	2013
Non-current deferred tax liabilities:		
Fixed assets	\$ 10,368	\$ 11,651
Net unrealized holding gain on available-for-sale securities	56	—
Intangible assets	364,938	306,009
Total non-current deferred tax liabilities	375,362	317,660
Non-current deferred tax assets:		
Deferred compensation	31,580	22,598
Net operating loss carryforwards	2,796	3,843
Valuation allowance for deferred tax assets	(511)	(485)
Total non-current deferred tax assets	33,865	25,956
Net non-current deferred tax liability	\$ 341,497	\$ 291,704

Income taxes paid in 2014, 2013 and 2012 were \$118,290,000, \$110,191,000, and \$80,622,000, respectively.

At December 31, 2014, Brown & Brown had net operating loss carryforwards of \$212,000 and \$78,870,000 for federal and state income tax reporting purposes, respectively, portions of which expire in the years 2015 through 2034. The federal carryforward is derived from insurance operations acquired by Brown & Brown in 2001. The state carryforward amount is derived from the operating results of certain subsidiaries and from the 2012 and 2013 stock acquisitions of Arrowhead General Insurance Agency Superholding Corp and Beecher Carlson Holdings, Inc.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in thousands)	2014	2013	2012
Unrecognized tax benefits balance at January 1	\$ 391	\$ 294	\$ 806
Gross increases for tax positions of prior years	—	232	222
Gross decreases for tax positions of prior years	(21)	—	(409)
Settlements	(257)	(135)	(325)
Unrecognized tax benefits balance at December 31	\$ 113	\$ 391	\$ 294

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2014 and 2013, the Company had approximately \$66,000 and \$121,000 of accrued interest and penalties related to uncertain tax positions, respectively.

The total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized was \$113,000 as of December 31, 2014 and \$391,000 as of December 31, 2013. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

As a result of a 2006 Internal Revenue Service ("IRS") audit, the Company agreed 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. 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 which will reverse by the following March 31 when the related profit-sharing contingent commissions are recognized for financial accounting purposes.

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The Company is subject to taxation in the United States and various state jurisdictions. The Company is also subject to taxation in the United Kingdom. In the United States, federal returns for fiscal years 2011 through 2014 remain open and subject to examination by the IRS. The Company files and remits state income taxes in various states where the Company has determined it is required to file state income taxes. The Company's filings with those states remain open for audit for the fiscal years 2009 through 2014. In the United Kingdom, the Company's filings remain open for audit for the fiscal years 2013 and 2014.

Subsequent to December 31, 2014, the Internal Revenue Service has notified Beecher Carlson Holdings, Inc. of a federal corporate income tax audit for the short period January 1, 2013 through June 30, 2013. The short period filing is a pre-acquisition tax filing for which Brown & Brown, Inc. is indemnified by the sellers of Beecher Carlson Holdings, Inc. We are currently not aware of any potential adjustments for the audit period.

The Company's 2009 through 2012 State of Oregon tax returns are currently under audit. The audit has been substantially completed as of December 31, 2014 and is awaiting final settlement payment with the State of Oregon. Amounts estimated to be due to the State of Oregon as a result of the audit have been reserved by the Company. There are no other federal or state income tax audits as of December 31, 2014.

NOTE 10 Employee Savings Plan

The Company has an Employee Savings Plan (401(k)) in which substantially all employees with more than 30 days of service are eligible to participate. Under this plan, Brown & Brown makes matching contributions of up to 4.0% of each participant's annual compensation. Prior to 2014, the Company's matching contribution was up to 2.5% of each participant's annual compensation with a discretionary profit-sharing contribution each year, which equaled 1.5% of each eligible employee's compensation. The Company's contributions to the plan totaled \$15,752,000 in 2014, \$14,819,000 in 2013, and \$14,266,000 in 2012.

NOTE 11 Stock-Based Compensation

Performance Stock Plan

In 1996, Brown & Brown adopted and the shareholders approved a performance stock plan, under which until the suspension of the plan in 2010, up to 14,400,000 Performance Stock Plan ("PSP") shares could be granted to key employees contingent on the employees' future years of service with Brown & Brown and other performance-based criteria established by the Compensation Committee of the Company's Board of Directors. Before participants may take full title to Performance Stock, two vesting conditions must be met. Of the grants currently outstanding, specified portions will satisfy the first condition for vesting based on 20% incremental increases in the 20-trading-day average stock price of Brown & Brown's common stock from the price on the business day prior to date of grant. Performance Stock that has satisfied the first vesting condition is considered "awarded shares." Awarded shares are included as issued and outstanding common stock shares and are included in the calculation of basic and diluted EPS. Dividends are paid on awarded shares and participants may exercise voting privileges on such shares. Awarded shares satisfy the second condition for vesting on the earlier of a participant's: (i) 15 years of continuous employment with Brown & Brown from the date shares are granted to the participants (or, in the case of the July 2009 grant to Powell Brown, 20 years); (ii) attainment of age 64 (on a prorated basis corresponding to the number of years since the date of grant); or (iii) death or disability. On April 28, 2010, the PSP was suspended and any remaining authorized, but unissued shares, as well as any shares forfeited in the future, will be reserved for issuance under the 2010 Stock Incentive Plan (the "SIP").

At December 31, 2014, 5,549,882 shares had been granted under the PSP. As of December 31, 2014, 25,418 shares had not met the first condition for vesting, 1,903,213 shares had met the first condition of vesting and had been awarded, and 3,455,604 shares had satisfied both conditions of vesting and had been distributed to participants. Of the shares that have not vested as of December 31, 2014, the initial stock prices ranged from \$4.25 to \$25.68.

The Company uses a path-dependent lattice model to estimate the fair value of PSP grants on the grant date.

A summary of PSP activity for the years ended December 31, 2014, 2013 and 2012 is as follows:

	Weighted-Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2012	\$ 8.08	4,931,812	3,345,269	1,586,543
Granted	\$ —	—	—	—
Awarded	\$ 8.09	—	7,743	(7,743)
Vested	\$ 3.29	(877,224)	(877,224)	—
Forfeited	\$ 13.06	(363,566)	(81,283)	(282,283)
Outstanding at December 31, 2012	\$ 8.72	3,691,022	2,394,505	1,296,517
Granted	\$ —	—	—	—
Awarded	\$ 10.25	—	122,021	(122,021)
Vested	\$ 4.01	(119,364)	(119,364)	—
Forfeited	\$ 8.73	(1,200,371)	(101,310)	(1,099,061)
Outstanding at December 31, 2013	\$ 8.62	2,371,287	2,295,852	75,435
Granted	\$ —	—	—	—
Awarded	\$ —	—	—	—
Vested	\$ 16.76	(277,009)	(277,009)	—
Forfeited	\$ 9.75	(165,647)	(115,630)	(50,017)
Outstanding at December 31, 2014	\$ 8.71	1,928,631	1,903,213	25,418

The total fair value of PSP grants that vested during each of the years ended December 31, 2014, 2013 and 2012 was \$8,362,000, \$3,729,000 and \$23,034,000, respectively.

Stock Incentive Plan

On April 28, 2010, the shareholders of Brown & Brown, Inc. approved the Stock Incentive Plan (“SIP”) that provides for the granting of stock options, stock and/or stock appreciation rights to employees and directors contingent on criteria established by the Compensation Committee of the Company’s Board of Directors. The principal purpose of the SIP is to attract, incentivize and retain key employees by offering those persons an opportunity to acquire or increase a direct proprietary interest in the Company’s operations and future success. The SIP includes a sub-plan applicable to Decus Insurance Brokers Limited (“Decus”) which, is a subsidiary of Decus Holdings (U.K.) Limited. The shares of stock reserved for issuance under the SIP are any shares that are authorized for issuance under the PSP and not already subject to grants under the PSP, and that were outstanding as of April 28, 2010, the date of suspension of the PSP, together with PSP shares and SIP shares forfeited after that date. As of April 28, 2010, 6,046,768 shares were available for issuance under the PSP, which were then transferred to the SIP. To date, a substantial majority of stock grants to employees under the SIP vest in four-to-ten years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated EPS growth at certain levels by the Company, over three-to-five-year measurement periods.

In 2010, 187,040 shares were granted under the SIP. This grant was conditioned upon the surrender of 187,040 shares previously granted under the PSP in 2009, which were accordingly treated as forfeited PSP shares. The vesting conditions of this grant were identical to those provided for in connection with the 2009 PSP grant; thus the target stock prices and the periods associated with satisfaction of the first and second conditions of vesting were unchanged. Additionally, grants totaling 5,205 shares were made in 2010 to Decus employees under the SIP sub-plan applicable to Decus.

In 2011, 2,375,892 shares were granted under the SIP. Of this total, 24,670 shares were granted to Decus employees under the SIP sub-plan applicable to Decus.

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In 2012, 814,545 shares were granted under the SIP, primarily related to the Arrowhead acquisition.

In 2013, 3,719,974 shares were granted under the SIP. Of the shares granted in 2013, 891,399 shares will vest upon the grantees' completion of between three and seven years of service with the Company, and because grantees have the right to vote the shares and receive dividends immediately after the date of grant these shares are considered awarded and outstanding under the two-class method.

In 2014, 422,572 shares were granted under the SIP. Of the shares granted in 2014, 113,088 shares will vest upon the grantees' completion of between three and six years of service with the Company, and because grantees have the right to vote the shares and receive dividends immediately after the date of grant these shares are considered awarded and outstanding under the two-class method. As of December 31, 2014, no shares had met the first condition for vesting.

Additionally, non-employee members of the Board of Directors received shares annually issued pursuant to the SIP as part of their annual compensation. A total of 36,919 SIP shares were issued to these directors in 2011 and 2012, of which 11,682 were issued in January 2011, 12,627 in January 2012, and 12,610 in December 2012. The shares issued in December 2012 were issued at that earlier time rather than in January 2013 pursuant to action of the Board of Directors. No additional shares were granted or issued to the non-employee members of the Board of Directors in 2013. A total of 9,870 shares were issued to these directors in January 2014.

At December 31, 2014, 2,309,929 shares were available for future grants.

The Company uses the closing stock price on the day prior to the grant date to determine the fair value of SIP grants and then applies an estimated forfeiture factor to estimate the annual expense. Additionally, the Company uses the path-dependent lattice model to estimate the fair value of grants with PSP-type vesting conditions as of the grant date. SIP shares that satisfied the first vesting condition for PSP-like grants or the established performance criteria are considered awarded shares. Awarded shares are included as issued and outstanding common stock shares and are included in the calculation of basic and diluted EPS.

A summary of SIP activity for the years ended December 31, 2014, 2013 and 2012 is as follows:

	Weighted-Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2012	\$ 23.06	2,478,057	37,408	2,440,649
Granted	\$ 22.59	814,545	—	814,545
Awarded	\$ —	—	—	—
Vested	\$ —	—	—	—
Forfeited	\$ 23.62	(135,291)	—	(135,291)
Outstanding at December 31, 2012	\$ 22.91	3,157,311	37,408	3,119,903
Granted	\$ 31.95	3,719,974	—	3,719,974
Awarded	\$ 30.71	—	966,215	(966,215)
Vested	\$ —	—	—	—
Forfeited	\$ 23.88	(271,184)	(7,906)	(263,278)
Outstanding at December 31, 2013	\$ 27.96	6,606,101	995,717	5,610,384
Granted	\$ 31.02	422,572	113,088	309,484
Awarded	\$ —	—	—	—
Vested	\$ —	—	—	—
Forfeited	\$ 27.41	(369,626)	(47,915)	(321,711)
Outstanding at December 31, 2014	\$ 28.19	6,659,047	1,060,890	5,598,157

Employee Stock Purchase Plan

The Company has a shareholder-approved Employee Stock Purchase Plan (“ESPP”) with a total of 12,000,000 authorized shares of which 734,317 were available for future subscriptions as of December 31, 2014. Employees of the Company who regularly work more than 20 hours per week are eligible to participate in the ESPP. Participants, through payroll deductions, may allot up to 10% of their compensation, up to a maximum of \$25,000, to purchase Company stock between August 1st of each year and the following July 31st (the “Subscription Period”) at a cost of 85% of the lower of the stock price as of the beginning or end of the Subscription Period.

The Company estimates the fair value of an ESPP share option as of the beginning of the Subscription Period as the sum of: (1) 15% of the quoted market price of the Company’s stock on the day prior to the beginning of the Subscription Period, and (2) 85% of the value of a one-year stock option on the Company stock using the Black-Scholes option-pricing model. The estimated fair value of an ESPP share option as of the Subscription Period beginning in August 2014 was \$6.39. The fair values of an ESPP share option as of the Subscription Periods beginning in August 2013 and 2012, were \$8.36 and \$5.84, respectively.

For the ESPP plan years ended July 31, 2014, 2013 and 2012, the Company issued 512,521, 487,672, and 562,748 shares of common stock, respectively. These shares were issued at an aggregate purchase price of \$13,408,000, or \$26.16 per share, in 2014, \$10,456,000, or \$21.44 per share, in 2013, and \$9,302,000, or \$16.53 per share, in 2012.

For the five months ended December 31, 2014, 2013 and 2012 (portions of the 2014-2015, 2013-2014 and 2012-2013 plan years), 235,794, 222,526, and 246,164 shares of common stock (from authorized but unissued shares), respectively, were subscribed to by ESPP participants for proceeds of approximately \$6,277,000, \$5,937,000 and \$5,278,000, respectively.

Incentive Stock Option Plan

On April 21, 2000, Brown & Brown adopted, and the shareholders approved, a qualified incentive stock option plan (the “ISOP”) that provides for the granting of stock options to certain key employees for up to 4,800,000 shares of common stock. On December 31, 2008, the ISOP expired. The objective of the ISOP was to provide additional performance incentives to grow Brown & Brown’s pre-tax income in excess of 15% annually. The options were granted at the most recent trading day’s closing market price and vest over a one-to-ten-year period, with a potential acceleration of the vesting period to three-to-six years based upon achievement of certain performance goals. All of the options expire 10 years after the grant date.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options on the grant date. The risk-free interest rate is based upon the U.S. Treasury yield curve on the date of grant with a remaining term approximating the expected term of the option granted. The expected term of the options granted is derived from historical data; grantees are divided into two groups based upon expected exercise behavior and are considered separately for valuation purposes. The expected volatility is based upon the historical volatility of the Company’s common stock over the period of time equivalent to the expected term of the options granted. The dividend yield is based upon the Company’s best estimate of future dividend yield.

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A summary of stock option activity for the years ended December 31, 2014, 2013 and 2012 is as follows:

Stock Options	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2012	1,384,537	\$ 17.58	4.4	\$ 14,587
Granted	—	\$ —		
Exercised	(645,745)	\$ 16.64		
Forfeited	—	\$ —		
Expired	—	\$ —		
Outstanding at December 31, 2012	738,792	\$ 18.39	4.9	\$ 8,891
Granted	—	\$ —		
Exercised	(115,847)	\$ 17.56		
Forfeited	—	\$ —		
Expired	—	\$ —		
Outstanding at December 31, 2013	622,945	\$ 18.55	4.1	\$ 7,289
Granted	—	\$ —		
Exercised	(106,589)	\$ 18.48		
Forfeited	(46,000)	\$ 18.48		
Expired	—	\$ —		
Outstanding at December 31, 2014	470,356	\$ 18.57	3.1	\$ 5,087
Ending vested and expected to vest at December 31, 2014	470,356	\$ 18.57	3.1	\$ 5,087
Exercisable at December 31, 2014	316,356	\$ 18.48	3.2	\$ 4,565
Exercisable at December 31, 2013	422,945	\$ 18.48	4.2	\$ 5,460
Exercisable at December 31, 2012	162,792	\$ 17.82	4.0	\$ 1,243

The following table summarizes information about stock options outstanding at December 31, 2014:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 22.06	12,000	0.0	\$ 22.06	—	\$ 22.06
\$ 18.48	458,356	3.2	\$ 18.48	316,356	\$ 18.48
Totals	470,356	3.1	\$ 18.57	316,356	\$ 18.48

The total intrinsic value of options exercised, determined as of the date of exercise, during the years ended December 31, 2014, 2013 and 2012 was \$1,288,000, \$1,558,000 and \$5,780,000, respectively. The total intrinsic value is calculated as the difference between the exercise price of all underlying awards and the quoted market price of the Company's stock for all in-the-money stock options at December 31, 2014, 2013 and 2012, respectively.

There are no option shares available for future grant under the ISOP since this plan expired as of December 31, 2008.

Summary of Non-Cash Stock-Based Compensation Expense

The non-cash stock-based compensation expense for the years ended December 31 is as follows:

(in thousands)	2014	2013	2012
Stock Incentive Plan	\$ 14,447	\$ 15,934	\$ 9,288
Employee Stock Purchase Plan	2,425	3,538	2,856
Performance Stock Plan	2,354	2,310	2,612
Incentive Stock Option Plan	137	821	1,109
Total	\$ 19,363	\$ 22,603	\$ 15,865

Summary of Unrecognized Compensation Expense

As of December 31, 2014, there was approximately \$115.8 million of unrecognized compensation expense related to all non-vested share-based compensation arrangements granted under the Company's stock-based compensation plans. That expense is expected to be recognized over a weighted-average period of 6.1 years.

NOTE 12 Supplemental Disclosures of Cash Flow Information

Brown & Brown's significant non-cash investing and financing activities for the years ended December 31 are summarized as follows:

(in thousands)	2014	2013	2012
Other payable issued for purchased customer accounts	\$ 1,930	\$ 1,425	\$ 25,439
Notes payable issued or assumed for purchased customer accounts	\$ —	\$ —	\$ 59
Estimated acquisition earn-out payables and related charges	\$ 33,229	\$ 5,091	\$ 21,479
Notes received on the sale of fixed assets and customer accounts	\$ 6,340	\$ 1,108	\$ 967

NOTE 13 Commitments and Contingencies

Operating Leases

Brown & Brown leases facilities and certain items of office equipment under non-cancelable operating lease arrangements expiring on various dates through 2042. The facility leases generally contain renewal options and escalation clauses based upon increases in the lessors' operating expenses and other charges. Brown & Brown anticipates that most of these leases will be renewed or replaced upon expiration. At December 31, 2014, the aggregate future minimum lease payments under all non-cancelable lease agreements were as follows:

(in thousands)	
2015	\$ 38,458
2016	36,083
2017	29,867
2018	23,376
2019	18,247
Thereafter	36,906
Total minimum future lease payments	\$ 182,937

Rental expense in 2014, 2013 and 2012 for operating leases totaled \$48,964,000, \$42,992,000, and \$39,810,000, respectively.

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Legal Proceedings

The Company records losses for claims in excess of the limits of, or outside the coverage of, applicable insurance at the time and to the extent they are probable and estimable. In accordance with ASC Topic 450 — *Contingencies*, the Company accrues anticipated costs of settlement, damages, losses for liability claims and, under certain conditions, costs of defense, based on historical experience or to the extent specific losses are probable and estimable. Otherwise, the Company expenses these costs as incurred. If the best estimate of a probable loss is a range rather than a specific amount, the Company accrues the amount at the lower end of the range.

The Company's accruals for legal matters that were probable and estimable were not material at December 31, 2014 and 2013. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could adversely impact the Company's operating results, cash flows and overall liquidity. The Company maintains third-party insurance policies to provide coverage for certain legal claims, in an effort to mitigate its overall exposure to unanticipated claims or adverse decisions. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters. Based on the AM Best Company ratings of these third-party insurers, management does not believe there is a substantial risk of an insurer's material nonperformance related to any current insured claims.

On the basis of current information, the availability of insurance and legal advice, in management's opinion, the Company is not currently involved in any legal proceedings which, individually or in the aggregate, would have a material adverse effect on its financial condition, operations and/or cash flows.

NOTE 14 Quarterly Operating Results (Unaudited)

Quarterly operating results for 2014 and 2013 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter ⁽¹⁾
2014				
Total revenues	\$ 363,594	\$ 397,764	\$ 421,418	\$ 393,020
Total expenses	\$ 276,757	\$ 295,983	\$ 308,733	\$ 354,574
Income before income taxes	\$ 86,837	\$ 101,781	\$ 112,685	\$ 38,446
Net income	\$ 52,415	\$ 61,755	\$ 68,331	\$ 24,395
Net income per share:				
Basic	\$ 0.36	\$ 0.43	\$ 0.47	\$ 0.17
Diluted	\$ 0.36	\$ 0.42	\$ 0.47	\$ 0.17
2013				
Total revenues	\$ 335,012	\$ 325,792	\$ 359,310	\$ 343,165
Total expenses	\$ 235,521	\$ 239,571	\$ 263,855	\$ 266,723
Income before income taxes	\$ 99,491	\$ 86,221	\$ 95,455	\$ 76,442
Net income	\$ 60,131	\$ 52,007	\$ 57,749	\$ 47,225
Net income per share:				
Basic	\$ 0.42	\$ 0.36	\$ 0.40	\$ 0.32
Diluted	\$ 0.41	\$ 0.36	\$ 0.39	\$ 0.32

(1) Represents the Company recognizing a pretax loss on disposal of \$47.4 million as a result of the sale of Axiom effective December 31, 2014. The sale is part of the Company's strategy to exit the reinsurance brokerage business.

Quarterly financial results are affected by seasonal variations. The timing of the Company's receipt of profit-sharing contingent commissions, policy renewals and acquisitions may cause revenues, expenses and net income to vary significantly between quarters.

NOTE 15 Segment Information

Brown & Brown's business is divided into four reportable segments: (1) the Retail Segment, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers; (2) the National Programs Segment, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents and Brown & Brown retail agents, and markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities, market niches and provides flood coverage; (3) the Wholesale Brokerage Segment, which markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers; and (4) the Services Segment, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services and catastrophe claims adjusting services.

Brown & Brown conducts all of its operations within the United States of America, except for one wholesale brokerage operation based in London, England, and retail operations in Bermuda and the Cayman Islands. These operations earned \$13.3 million, \$12.2 million and \$9.7 million of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. Long-lived assets held outside of the United States during each of these three years were not material.

The accounting policies of the reportable segments are the same as those described in Note 1. Brown & Brown evaluates the performance of its segments based upon revenues and income before income taxes. Inter-segment revenues are eliminated.

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

For the Year Ended December 31, 2014

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 809,766	\$ 394,789	\$ 234,673	\$ 136,559	\$ 9	\$ 1,575,796
Investment income	\$ 67	\$ 164	\$ 26	\$ 3	\$ 487	\$ 747
Amortization	\$ 42,270	\$ 24,769	\$ 11,729	\$ 4,134	\$ 39	\$ 82,941
Depreciation	\$ 6,410	\$ 7,699	\$ 2,616	\$ 2,213	\$ 1,957	\$ 20,895
Interest expense	\$ 42,918	\$ 49,663	\$ 1,878	\$ 7,678	\$ (73,729)	\$ 28,408
Income before income taxes	\$ 160,529	\$ 71,235	\$ 16,624	\$ 17,524	\$ 73,837	\$ 339,749
Total assets	\$ 3,190,737	\$ 2,411,839	\$ 940,461	\$ 296,034	\$ (1,882,613)	\$ 4,956,458
Capital expenditures	\$ 6,844	\$ 13,739	\$ 1,949	\$ 1,210	\$ 1,181	\$ 24,923

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For the Year Ended December 31, 2013

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 728,324	\$ 292,130	\$ 209,907	\$ 131,489	\$ 1,429	\$ 1,363,279
Investment income	\$ 82	\$ 19	\$ 22	\$ 1	\$ 514	\$ 638
Amortization	\$ 38,052	\$ 14,593	\$ 11,550	\$ 3,698	\$ 39	\$ 67,932
Depreciation	\$ 5,847	\$ 5,399	\$ 2,794	\$ 1,623	\$ 1,822	\$ 17,485
Interest expense	\$ 34,407	\$ 24,014	\$ 2,565	\$ 7,321	\$ (51,867)	\$ 16,440
Income before income taxes	\$ 166,316	\$ 58,379	\$ 53,822	\$ 24,518	\$ 54,574	\$ 357,609
Total assets	\$ 2,992,087	\$ 1,335,911	\$ 927,825	\$ 277,652	\$ (1,883,967)	\$ 3,649,508
Capital expenditures	\$ 6,847	\$ 4,743	\$ 1,931	\$ 1,811	\$ 1,034	\$ 16,366

For the Year Ended December 31, 2012

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 644,429	\$ 252,943	\$ 183,565	\$ 116,736	\$ 2,359	\$ 1,200,032
Investment income	\$ 108	\$ 20	\$ 22	\$ 1	\$ 646	\$ 797
Amortization	\$ 34,639	\$ 13,936	\$ 11,280	\$ 3,680	\$ 38	\$ 63,573
Depreciation	\$ 5,181	\$ 4,600	\$ 2,718	\$ 1,278	\$ 1,596	\$ 15,373
Interest expense	\$ 26,641	\$ 25,674	\$ 3,974	\$ 8,602	\$ (48,794)	\$ 16,097
Income before income taxes	\$ 145,214	\$ 51,491	\$ 43,355	\$ 16,770	\$ 47,981	\$ 304,811
Total assets	\$ 2,420,759	\$ 1,183,191	\$ 837,364	\$ 238,430	\$ (1,551,686)	\$ 3,128,058
Capital expenditures	\$ 5,732	\$ 9,633	\$ 3,383	\$ 2,519	\$ 2,761	\$ 24,028

NOTE 16 Losses and Loss Adjustment Reserve

The Company is exposed to the risk of losses from claims in the insurance company operations of Wright. To mitigate this risk we reinsure 100% percent of the underwriting claims exposure with FEMA for basic admitted flood policies and with reinsurance carriers with an AM Best Company rating of "A" or better for all other claims exposure. Although the reinsurers are liable to the Company for amounts reinsured, the Company remains primarily liable to its policyholders for the full amount of the policies written whether or not the reinsurers meet their obligations to the Company when they become due. The effects of reinsurance on premiums written and earned are as follows:

(in thousands)	Period from May 1, 2014 to December 31, 2014	
	Written	Earned
Direct premiums	\$ 439,828	\$ 408,056
Assumed premiums	(1)	199
Ceded premiums	439,819	408,247
Net premiums	\$ 8	\$ 8

All premiums written by WNFIC under the National Flood Insurance Program are 100% ceded to FEMA, for which the Company received a 30.7% expense allowance from May 1, 2014 through September 30, 2014 and received a 30.8% expense allowance from October 1, 2014 through December 31, 2014. For the period from May 1, 2014 through December 31, 2014, the Company ceded \$439.0 million of written premiums.

Effective April 1, 2014, WNFIC is also a party to a quota share agreement whereby it cedes 100% of its gross excess flood premiums which excludes fees to Arch Reinsurance Company and receives a 30.5% commission. WNFIC ceded \$0.8 million for the period from May 1 through December 31, 2014. No loss data exists on this agreement.

The Company also ceded 100% of the Homeowners and Private Passenger Auto Liability to Stillwater Insurance Company formerly known as Fidelity National Insurance Company. This business is in runoff. Therefore, only loss data still exists on this business. As of December 31, 2014, ceded unpaid losses and loss adjustment expenses for Homeowners and Private Passenger Auto Liability was \$8,698 and \$61,634, respectively. The incurred but not reported was \$102 for Homeowners and \$39,424 for Private Passenger Auto Liability. The reinsurance recoverable balance as of December 31, 2014 was \$333.6 million that is comprised of recoverables on unpaid losses and loss expenses of \$13.0 million and prepaid reinsurance premiums of \$320.6 million.

There was no net activity in the reserve for losses and loss adjustment expense during the period May 1, 2014 through December 31, 2014, as the Company's direct premiums written were 100% ceded to three reinsurers. The balance of the reserve for losses and loss adjustment expense, excluding related reinsurance recoverable, as of December 31, 2014 was \$13.0 million.

NOTE 17 Statutory Financial Information

WNFIC is required to maintain minimum amounts of statutory capital and surplus of \$7.5 million as required by regulatory authorities. WNFIC's statutory capital and surplus exceeded their respective minimum statutory requirements. The statutory capital and surplus of WNFIC was \$10.9 million at December 31, 2014. For the period from January 1, 2014 through December 31, 2014, WNFIC generated statutory net income of \$2.3 million.

After the May 19, 2014 distribution of WNFIC to WRM America Intermediate Holding Company, Inc. but prior to the consummation of the Brown and Brown purchase of Wright and its subsidiaries, WNFIC issued and paid an extraordinary dividend of \$7.0 million to its parent. That dividend was issued and paid with the prior approval of the Texas Department of Insurance.

NOTE 18 Subsidiary Dividend Restrictions

Under the insurance regulations of Texas, the maximum amount of ordinary dividends that WNFIC can pay to shareholders in a rolling twelve month period is limited to the greater of 10% of statutory adjusted capital and surplus as shown on WNFIC's last annual statement on file with the superintendent or 100% of adjusted net income. As an extraordinary dividend of \$7.0 million was paid on May 20, 2014, no ordinary dividend may be paid until May 21, 2015. Thereafter, the maximum dividend payout that may be made in 2015 without prior approval is \$2.3 million.

NOTE 19 Shareholders' Equity

On July 21, 2014, the Company's Board of Directors authorized the repurchase of up to \$200.0 million of its shares of common stock. This is in addition to the \$25.0 million that was authorized in the first quarter and executed in the second quarter of 2014. On September 2, 2014, the Company entered into an accelerated share repurchase agreement ("ASR") with an investment bank to repurchase an aggregate \$50.0 million of the Company's common stock. As part of the ASR, the Company received an initial delivery of 1,293,760 shares of the Company's common stock with a fair market value of approximately \$42.5 million. The initial delivery of 1,293,760 shares reduced the outstanding shares used to determine the Company's weighted average shares outstanding for purposes of calculating basic and diluted earnings per share. The remaining \$7.5 million of the aggregate repurchase amount was received on October 8, 2014, as 246,000 shares of the Company's common stock were delivered to conclude the \$50.0 million ASR. The total number of shares repurchased under the ASR of 1,539,760 was determined upon settlement of the final delivery and was based on the Company's volume weighted average price per its common share over the ASR period less a discount. As of December 31, 2014, a total of 2,384,760 shares have been repurchased during the 2014 fiscal year.

GAAP Reconciliation – Income Before Income Taxes to Operating Profit and Adjusted Operating Profit

(in thousands, except per share data)	2014	2013	2012	2011	2010
Retail					
Total revenues	\$ 809,766	\$ 728,324	\$ 644,429	\$ 607,199	\$ 575,061
Income before income taxes	160,529	166,316	145,214	137,807	128,026
Amortization	42,270	38,052	34,639	33,373	30,725
Depreciation	6,410	5,847	5,181	5,046	5,349
Interest	42,918	34,407	26,641	27,688	27,037
Change in estimated acquisition earn-out payables	7,147	(1,844)	1,968	(5,415)	(1,731)
Operating Profit	\$ 259,274	\$ 242,778	\$ 213,643	\$ 198,499	\$ 189,406
Operating Profit Margin	32.0%	33.3%	33.2%	32.7%	32.9%
National Programs					
Total revenues	\$ 394,789	\$ 292,130	\$ 252,943	\$ 164,427	\$ 176,051
Income before income taxes	71,235	58,379	51,491	60,465	70,264
Amortization	24,769	14,593	13,936	7,770	8,427
Depreciation	7,699	5,399	4,600	2,937	3,004
Interest	49,663	24,014	25,674	1,381	2,670
Change in estimated acquisition earn-out payables	314	(808)	(1,075)	(508)	21
Operating Profit	\$ 153,680	\$ 101,577	\$ 94,626	\$ 72,045	\$ 84,386
Operating Profit Margin	38.9%	34.8%	37.4%	43.8%	47.9%
Less Non-cash stock-based compensation adjustment	(3,700)	—	—	—	—
Adjusted Operating Profit	\$ 149,980	\$ 101,577	\$ 94,626	\$ 72,045	\$ 84,386
Adjusted Operating Profit Margin	38.0%	34.8%	37.4%	43.8%	47.9%
Wholesale					
Total revenues	\$ 234,673	\$ 209,907	\$ 183,565	\$ 174,158	\$ 171,813
Income before income taxes	16,624	53,822	43,355	36,511	29,911
Amortization	11,729	11,550	11,280	11,032	10,987
Depreciation	2,616	2,794	2,718	2,594	2,740
Interest	1,878	2,565	3,974	7,495	11,342
Change in estimated acquisition earn-out payables	2,862	2,404	131	691	(246)
Operating Profit	\$ 35,709	\$ 73,135	\$ 61,458	\$ 58,323	\$ 54,734
Operating Profit Margin	15.2%	34.8%	33.5%	33.5%	31.9%
Less loss on disposal	47,425	—	—	—	—
Adjusted Operating Profit	\$ 83,134	\$ 73,135	\$ 61,458	\$ 58,323	\$ 54,734
Adjusted Operating Profit Margin	35.4%	34.8%	33.5%	33.5%	31.9%
Services					
Total revenues	\$ 136,559	\$ 131,489	\$ 116,736	\$ 65,972	\$ 46,447
Income before income taxes	17,524	24,518	16,770	7,729	7,693
Amortization	4,134	3,698	3,680	2,541	1,264
Depreciation	2,213	1,623	1,278	590	352
Interest	7,678	7,321	8,602	5,746	2,592
Change in estimated acquisition earn-out payables	(385)	2,781	394	3,026	282
Operating Profit	\$ 31,164	\$ 39,941	\$ 30,724	\$ 19,632	\$ 12,183
Operating Profit Margin	22.8%	30.4%	26.3%	29.8%	26.2%
Less Non-cash stock-based compensation adjustment	(821)	—	—	—	—
Adjusted Operating Profit	\$ 30,343	\$ 39,941	\$ 30,724	\$ 19,632	\$ 12,183
Adjusted Operating Profit Margin	22.2%	30.4%	26.3%	29.8%	26.2%

GAAP Earnings Per Share Reconciliation to Earnings Per Share – Adjusted

	2014	2013	\$ Change	% Change
GAAP earnings per share – as reported	\$ 1.41	\$ 1.48	\$ (0.07)	(4.7%)
Loss on disposal	0.21	—	0.21	
Non-cash stock based compensation adjustment	(0.03)	—	(0.03)	
Colonial Claims (Superstorm Sandy effect)	—	(0.06)	0.06	
Change in estimated acquisition earn-out payables	0.04	0.01	0.03	
Earnings per share – adjusted	\$ 1.63⁽¹⁾	\$ 1.43	\$ 0.20	14.0%⁽¹⁾

(1) Value referenced in Letter to Shareholders on page 2.

Report

of Independent Registered Public Accounting Firm


To the Board of Directors and Shareholders of
Brown & Brown, Inc.
Daytona Beach, Florida

We have audited the accompanying consolidated balance sheets of Brown & Brown, Inc. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of income, shareholders’ equity, and cash flows for Company’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brown & Brown, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.



Certified Public Accountants
Miami, Florida
February 27, 2015

Report

of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Brown & Brown, Inc.
Daytona Beach, Florida

We have audited the internal control over financial reporting of Brown & Brown, Inc. and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at The Wright Insurance Group, LLC and Pacific Resources Benefits Advisors, LLC (collectively the “2014 Excluded Acquisitions”), which were acquired during 2014 and whose financial statements constitute 23.5% of total assets, 6.8% of revenues, and (1.8%) of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Accordingly, our audit did not include the internal control over financial reporting of the 2014 Excluded Acquisitions. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 27, 2015 expressed an unqualified opinion on those financial statements.



Certified Public Accountants
Miami, Florida
February 27, 2015

Management's Report

on Internal Control Over Financial Reporting

The management of Brown & Brown, Inc. and its subsidiaries ("Brown & Brown") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including Brown & Brown's principal executive officer and principal financial officer, Brown & Brown conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

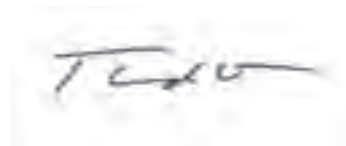
In conducting Brown & Brown's evaluation of the effectiveness of its internal control over financial reporting, Brown & Brown has excluded the following acquisitions completed during 2014: Pacific Resources Benefits Advisors, LLC, and The Wright Insurance Group, LLC (collectively the "2014 Excluded Acquisitions"), which were acquired during 2014 and whose financial statements constitute 23.5% of total assets, 6.8% of revenues, and (1.8%) of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Refer to Note 2 to the Consolidated Financial Statements for further discussion of these acquisitions and their impact on Brown & Brown's Consolidated Financial Statements.

Based on Brown & Brown's evaluation under the framework in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that internal control over financial reporting was effective as of December 31, 2014. Management's internal control over financial reporting as of December 31, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Brown & Brown, Inc.
Daytona Beach, Florida
February 27, 2015



J. Powell Brown
Chief Executive Officer



R. Andrew Watts
Executive Vice President,
Chief Financial Officer and Treasurer

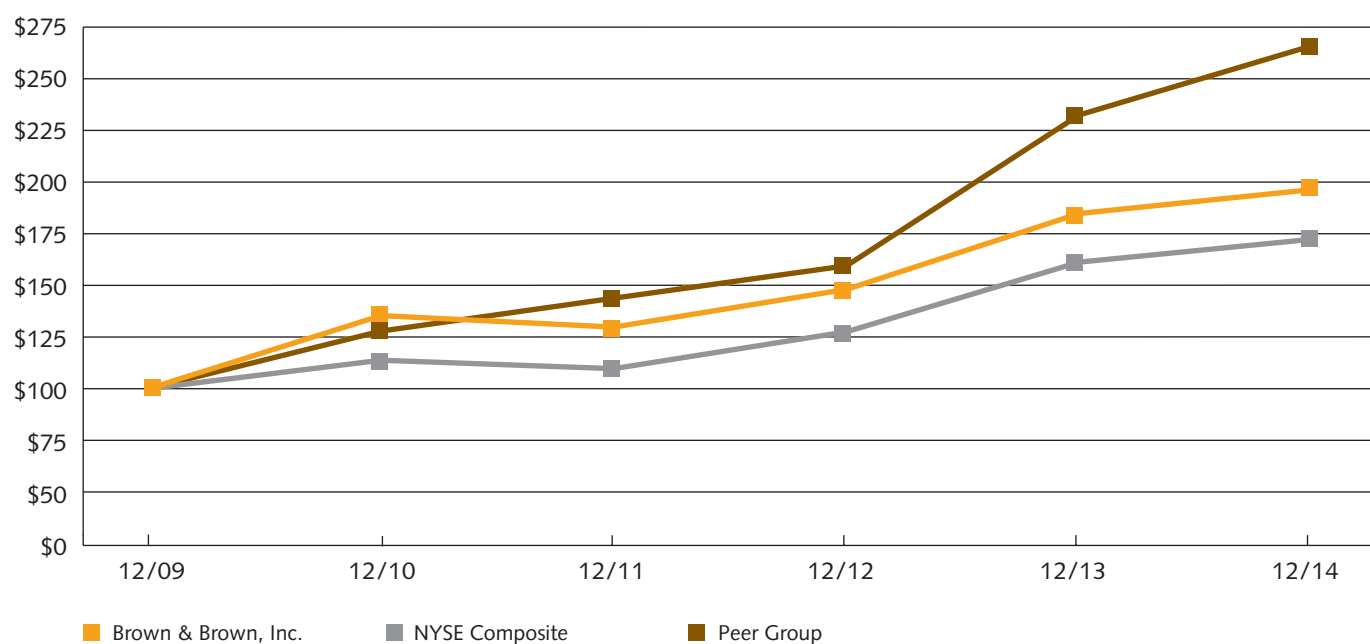
Performance

Graph

The following graph is a comparison of five-year cumulative total stockholder returns for our common stock as compared with the cumulative total stockholder return for the NYSE Composite Index, and a group of peer insurance broker and agency companies (Aon plc, Arthur J. Gallagher & Co, Marsh & McLennan Companies, and Willis Group Holdings plc). The returns of each company have been weighted according to such companies' respective stock market capitalizations as of December 31, 2009 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed \$100 investment on December 31, 2009, with all dividends reinvested.

Comparison of 5 Year Cumulative Total Return

Among Brown & Brown, Inc., the NYSE Composite Index, and a Peer Group



Company/Index/Market	Year Ending					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Brown & Brown, Inc.	100.00	135.33	129.79	148.04	184.72	196.27
NYSE Composite	100.00	113.76	109.70	127.54	161.21	172.27
Peer Group	100.00	127.85	143.75	159.43	232.33	265.77

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

Ten-Year Financial Summary

Year Ended December 31,

(in thousands, except per share data and other information)	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
Commissions and fees	\$ 1,567,460	\$ 1,355,503	\$ 1,189,081	\$ 1,005,962	\$ 966,917	\$ 964,863	\$ 965,983	\$ 914,650	\$ 864,663	\$ 775,543
Investment income	747	638	797	1,267	1,326	1,161	6,079	30,494 ⁽¹⁾	11,479	6,578
Other income, net	7,589	7,138	10,154	6,313	5,249	1,853	5,492	14,523	1,862	3,686
Total revenues	1,575,796	1,363,279	1,200,032	1,013,542	973,492	967,877	977,554	959,667	878,004	785,807
Expenses										
Employee compensation and benefits	791,749	683,000	608,506	508,675	487,820	484,680	485,783	444,101	404,891	374,943
Non-cash stock-based compensation	19,363	22,603	15,865	11,194	6,845	7,358	7,314	5,667	5,416	3,337
Other operating expenses	235,328	195,677	174,389	144,079	135,851	143,389	137,352	131,371	126,492	105,622
Loss on disposal	47,425	—	—	—	—	—	—	—	—	—
Amortization	82,941	67,932	63,573	54,755	51,442	49,857	46,631	40,436	36,498	33,245
Depreciation	20,895	17,485	15,373	12,392	12,639	13,240	13,286	12,763	11,309	10,061
Interest	28,408	16,440	16,097	14,132	14,471	14,599	14,690	13,802	13,357	14,469
Change in estimated acquisition earn-out payables	9,938	2,533	1,418	(2,206)	(1,674)	—	—	—	—	—
Total expenses	1,236,047	1,005,670	895,221	743,021	707,394	713,123	705,056	648,140	597,963	541,677
Income before income taxes	339,749	357,609	304,811	270,521	266,098	254,754	272,498	311,527	280,041	244,130
Income taxes	132,853	140,497	120,766	106,526	104,346	101,460	106,374	120,568	107,691	93,579
Net income	\$ 206,896	\$ 217,112	\$ 184,045	\$ 163,995	\$ 161,752	\$ 153,294	\$ 166,124	\$ 190,959	\$ 172,350	\$ 150,551
Employee compensation and benefits as % of total revenue	50.2%	50.1%	50.7%	50.2%	50.1%	50.1%	49.7%	46.3%	46.1%	47.7%
Other operating expenses as % of total revenue	14.9%	14.4%	14.5%	14.2%	14.0%	14.8%	14.1%	13.7%	14.4%	13.4%
Earnings per Share Information										
Net income per share – diluted	\$ 1.41	\$ 1.48	\$ 1.26	\$ 1.13	\$ 1.12	\$ 1.08	\$ 1.17	\$ 1.35	\$ 1.22	\$ 1.08
Weighted-average number of shares outstanding – diluted	142,891	142,624	142,010	140,264	139,318	137,507	136,884	136,357	135,886	135,033
Dividends paid per share	\$ 0.41	\$ 0.37	\$ 0.35	\$ 0.33	\$ 0.31	\$ 0.30	\$ 0.29	\$ 0.25	\$ 0.21	\$ 0.17
Year-End Financial Position										
Total assets	\$ 4,956,458	\$ 3,649,508	\$ 3,128,058	\$ 2,607,011	\$ 2,400,814	\$ 2,224,226	\$ 2,119,580	\$ 1,960,659	\$ 1,807,952	\$ 1,608,660
Long-term debt	\$ 1,152,846 ⁽²⁾	\$ 380,000	\$ 450,000	\$ 250,033	\$ 250,067	\$ 250,209	\$ 253,616	\$ 227,707	\$ 226,252	\$ 214,179
Total shareholders' equity	\$ 2,113,745	\$ 2,007,141	\$ 1,807,333	\$ 1,643,963	\$ 1,506,344	\$ 1,369,874	\$ 1,241,741	\$ 1,097,458	\$ 929,345	\$ 764,344
Total shares outstanding	143,486	145,419	143,878	143,352	142,795	142,076	141,544	140,673	140,016	139,383
Other Information										
Number of full-time equivalent employees at year-end	7,591	6,992	6,438	5,557	5,286	5,206	5,398	5,047	4,733	4,540
Total revenues per average number of employees ⁽³⁾	\$ 216,114	\$ 203,020	\$ 191,729 ⁽⁴⁾	\$ 186,949	\$ 185,568	\$ 182,549	\$ 187,181	\$ 196,251	\$ 189,368	\$ 184,896
Stock price at year-end	\$ 32.91	\$ 31.39	\$ 25.46	\$ 22.63	\$ 23.94	\$ 17.97	\$ 20.90	\$ 23.50	\$ 28.21	\$ 30.54
Stock price earnings multiple at year-end ⁽⁵⁾	23.3	21.2	20.2	20.0	21.4	16.6	17.9	17.4	23.1	28.3
Return on beginning shareholders' equity ⁽⁶⁾	10%	12%	11%	11%	12%	12%	15%	21%	23%	24%

(1) Includes an \$18,664 gain on the sale of our investment in Rock-Tenn Company.

(2) Represents the incremental new debt associated with the acquisition of Wright and evolution of our capital structure. Please refer to Part I, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 "Long-Term Debt" for more details.

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

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

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

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

All share and per-share information has been adjusted to give effect to the 2-for-1 common stock split which became effective November 29, 2005.

Weighted average number of shares outstanding-diluted has been adjusted to give effect for the two-class method of calculating earnings per share as described in Note 1 to the Consolidated Financial Statements.

Shareholder Information

Corporate Offices

220 South Ridgewood Avenue
Daytona Beach, Florida 32114
(386) 252-9601

Outside Counsel

Holland & Knight LLP
100 North Tampa Street
Suite 4100
Tampa, Florida 33602

Corporate Information and Shareholder Services

The Company has included, as Exhibits 31.1 and 31.2, and 32.1 and 32.2 to its Annual Report on Form 10-K for the fiscal year 2014 filed with the Securities and Exchange Commission, certificates of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the Company's public disclosure. The Company has also submitted to the New York Stock Exchange a certificate from its Chief Executive Officer certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

A copy of the Company's 2014 Annual Report on Form 10-K will be furnished without charge to any shareholder who directs a request in writing to:

Corporate Secretary
Brown & Brown, Inc.
220 South Ridgewood Avenue
Daytona Beach, Florida 32114

A reasonable charge will be made for copies of the exhibits to the Form 10-K.

Annual Meeting

The Annual Meeting of Shareholders of Brown & Brown, Inc. will be held:

May 6, 2015
9:00 a.m. (EDT)
The Shores Resort
2637 South Atlantic Avenue
Daytona Beach, Florida 32118

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Ave.
Brooklyn, New York 11219
(800) 937-5449
email: info@amstock.com
www.amstock.com

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
333 SE 2nd Avenue
Suite 3600
Miami, Florida 33131

Stock Listing

The New York Stock Exchange Symbol: BRO

On February 19, 2015, there were 143,520,097 shares of our common stock outstanding, held by approximately 1,178 shareholders of record.

Market Price of Common Stock

2014	Stock Price Range		Cash Dividends per Common Share
	High	Low	
First Quarter	\$ 32.88	\$ 27.77	\$ 0.10
Second Quarter	\$ 31.29	\$ 28.27	\$ 0.10
Third Quarter	\$ 33.46	\$ 30.02	\$ 0.10
Fourth Quarter	\$ 33.40	\$ 30.96	\$ 0.11
2013			
First Quarter	\$ 32.08	\$ 25.31	\$ 0.09
Second Quarter	\$ 33.24	\$ 30.00	\$ 0.09
Third Quarter	\$ 35.13	\$ 30.55	\$ 0.09
Fourth Quarter	\$ 33.69	\$ 27.76	\$ 0.10

Additional Information

Information concerning the services of Brown & Brown, Inc., as well as access to current financial releases, is available on the Internet. Brown & Brown's address is www.bbinsurance.com.



220 South Ridgewood Avenue
Daytona Beach, Florida 32114
(386) 252-9601

bbinsurance.com

If you're not in the lead,

you're in our wake.

