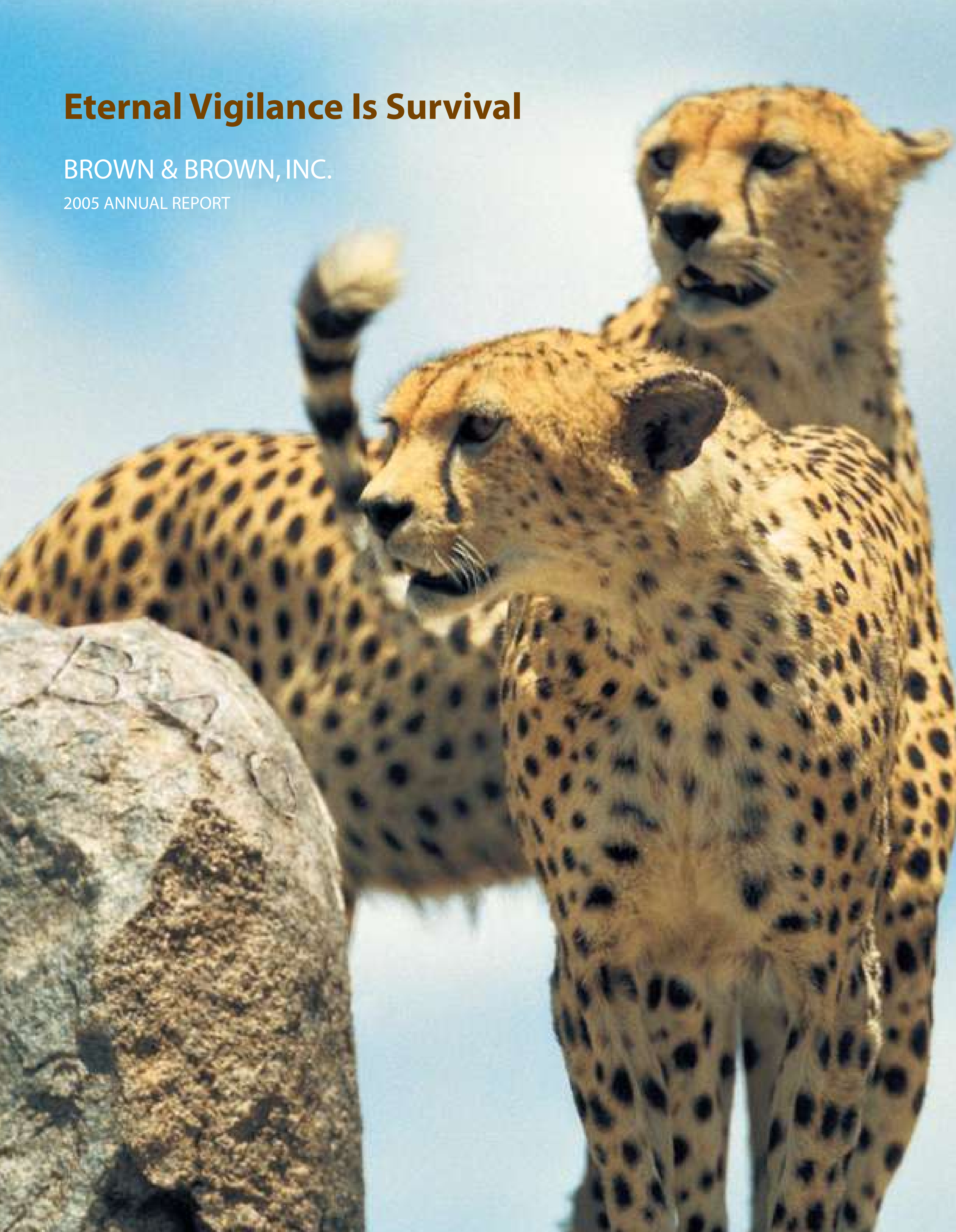

Eternal Vigilance Is Survival

BROWN & BROWN, INC.

2005 ANNUAL REPORT

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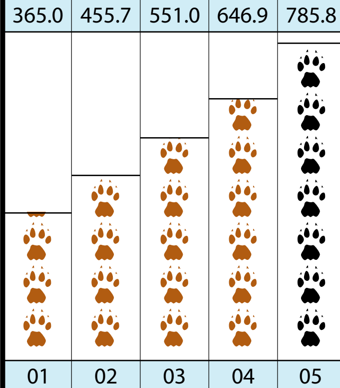
Financial Highlights

			Year ended December 31,			
(in thousands, except per share data and percentages) [1]	2005	Percent Change	2004	2003	2002	2001
Commissions and fees [2]	$ 775,543	21.5	$ 638,267	$ 545,287	$ 452,289	$ 359,697
Total revenues	$ 785,807	21.5	$ 646,934	$ 551,040	$ 455,742	$ 365,029
Total expenses	$ 541,677	23.1	$ 439,985	$ 374,558	$ 321,078	$ 274,551
Income before income taxes and minority interest	$ 244,130	18.0	$ 206,949	$ 176,482	$ 134,664	$ 90,478
Net income	$ 150,551	16.8	$ 128,843	$ 110,322	$ 83,122	$ 53,913
Net income per share (diluted)	$ 1.08	16.1	$ 0.93	$ 0.80	$ 0.61	$ 0.43
Weighted average number of shares outstanding (diluted)	139,776	0.6	138,888	137,794	136,086	126,444
Dividends declared per share	$ 0.1700	17.2	$ 0.1450	$ 0.1213	$ 0.1000	$ 0.0800
Total assets	$1,608,660	28.7	$1,249,517	$ 865,854	$ 754,349	$ 488,737
Long-term debt	$ 214,179	(5.7)	$ 227,063	$ 41,107	$ 57,585	$ 78,195
Shareholders' equity [3]	$ 764,344	22.4	$ 624,325	$ 498,035	$ 391,590	$ 175,285

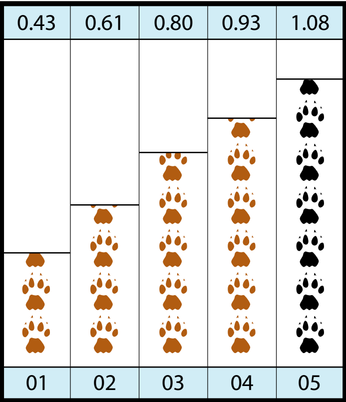
(1) All share and per share information has been restated to give effect to the two-for-one common stock split that became effective November 28, 2005.

(2) See Note 2 to the Consolidated Financial Statements for information regarding business purchase transactions which impact the comparability of this information.

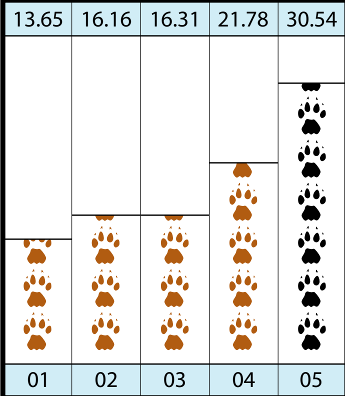
(3) Shareholders' equity as of December 31, 2005, 2004, 2003, 2002 and 2001 included net increases of $4,446,000, $4,467,000, $4,227,000, $2,106,000 and $4,393,000, respectively, as a result of the Company's applications of Statement of Financial Accounting Standards (SFAS) 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS 133, "Accounting for Derivatives Instruments and Hedging Activities."



Total Revenues
(in millions of dollars)



Net Income per Share
(in dollars)



Closing Stock Price per Share
(reflects closing price in dollars at year-end)

Front cover photograph courtesy of Kathy Eddy © 2005

Every morning in Africa
a Gazelle awakes. It knows that
it must run faster than the fastest
Cheetah or it will be killed.

Every morning in Africa
a Cheetah awakes. It knows that
it must run faster than the fastest
Gazelle or it will starve to death.

It doesn't matter whether
you're a Cheetah or a Gazelle:
When the sun comes up,
you had better be running.

Words We Live By

These truths from the African plains speak of the significance of being ready to meet the competition – *every single day.* We heed them well. But Brown & Brown's cheetahs don't stop at mere survival. They are a breed that thrives on the promise of opportunity and the pursuit of a challenge.

1. "Competitors who find they're up against Brown & Brown know they'd better be on their toes," says Andy Meloni, adding, "We usually end up on the winning side." 2. Bond Manager Matt Riedinger had his best year yet in 2005. 3. The Brown & Brown Rochester profit center team has volunteered for or financially contributed to some 50–60 community organizations. 4. "Having a cheetah as the company mascot sends a message about the type of people Brown & Brown desires to attract," says Tony Arias. 5. Tony (left) calls Sales Manager Bob Hollander (right) "The Rock of Gibraltar." 6. Commercial Lines Manager and, according to Tony, "jack-of-all-trades" Nancye Batista (left) meets with Marketing Manager Marcel McSweeney.

Our Culture and Structure Are Born of Eternal Vigilance

01	02	03	04	05
51.4	49.3	48.7	48.6	47.7

Employee Compensation and Benefits Expenses
(as percent of total revenues)

01	02	03	04	05
15.6	14.6	13.5	13.1	13.4

Other Operating Expenses
(as percent of total revenues)

There's a common thread running through every office in the Brown & Brown organization. It's a certain mindset that becomes apparent whether you're talking to a seasoned profit center manager in Tacoma, Washington, or a new producer in Tampa, Florida – one that is persistent, aggressive and high-performing. Beyond this collective attitude, however, is a diverse array of people and personalities. They have common goals, but true to Brown & Brown's independent, entrepreneurial spirit, they won't all reach them by the same route.

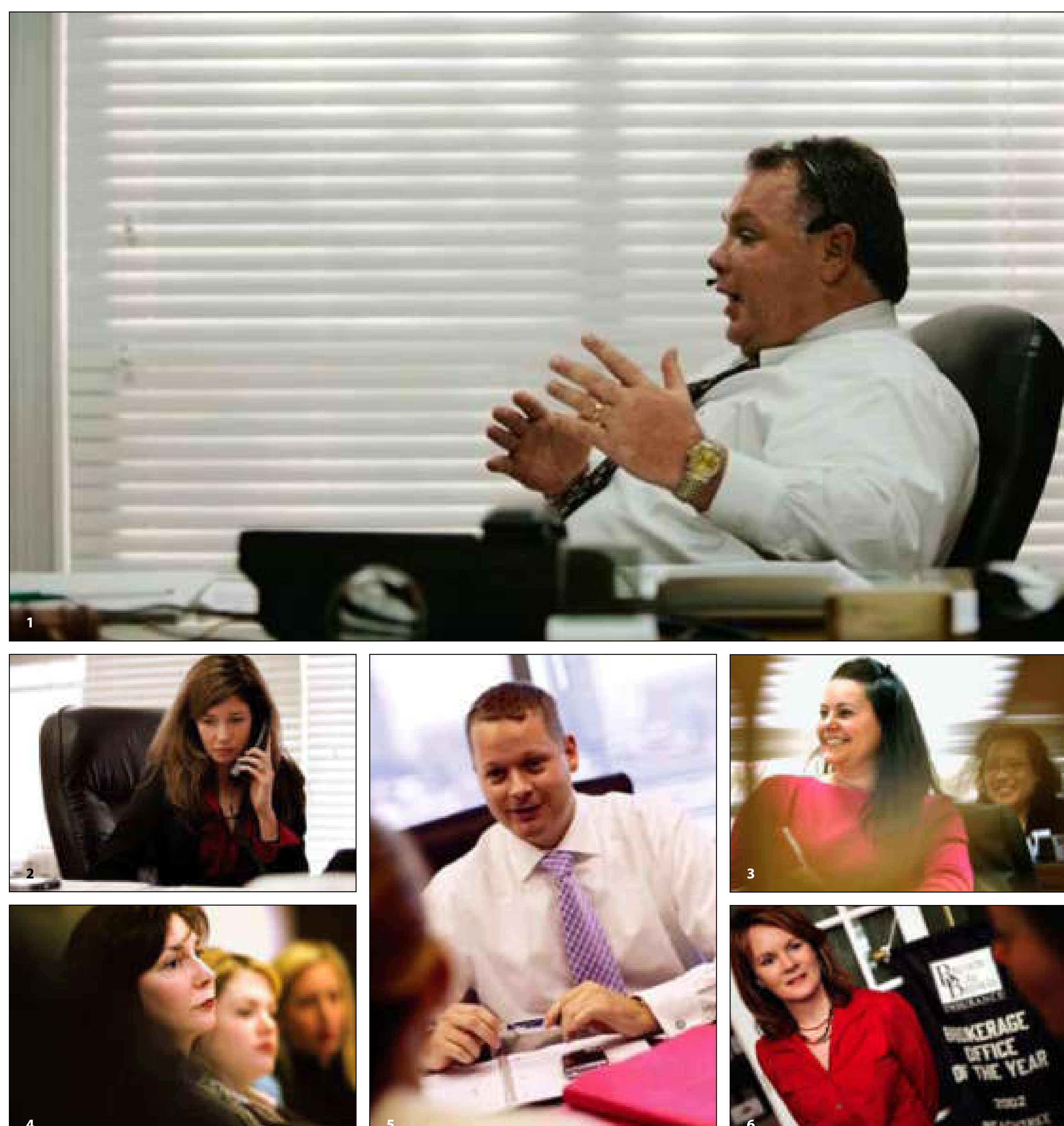
Miami Profit Center Manager Tony Arias says this diversity is what is so attractive about the Brown & Brown opportunity: "Our leadership sees the ability in people and allows them to grow within the organization in their own way." New ideas and challenges are encouraged and supported, provided they're well-planned and true to the Brown & Brown vision.

How are so many different types of people, spread across the country, so much alike when it comes to having a passion to grow their company? Without a doubt, their drives are fueled by Brown & Brown's strong sales culture. But characteristic energy, willingness to take risks and a penchant for hard work, present throughout Brown & Brown, are likely the very things that attracted them to the organization – and vice versa.

Tony Arias calls it "the eye of the tiger – or, better yet: the eye of the cheetah," and knows it when he sees it. He looks for recruits who are confident, energetic and self-assured. "You can tell by the way they walk, the way they speak," he says. He and his team don't solely rely on a profile test – "We go by gut instinct." Their methods are apparently working well; Tony felt confident in setting his team's 2005 goals far enough above the prior year's that Regional President Tom Riley asked several times if he was sure about the number. "I'm very positive," he said to Tom. "I feel it – we can get there." And they did.

Andy Meloni, Profit Center Manager of Brown & Brown's Rochester, New York, office, says strong leadership is critical to achieving team goals. Andy leads by example. "I don't sit back and say, 'Why aren't you going there and why aren't you making this call?' The bottom line is *I'm* doing it." Andy sets the pace for his team, managing one of Brown & Brown's larger offices while personally maintaining a $950,000 book of business.

After winning the President's Cup as Brown & Brown's most outstanding office in 2004, Andy's team members didn't wait until they were hungry to start hunting again. "When you have a great year like we had in '04, there's a tendency to slow down and bask in the glory of your accomplishment; but if you slack off it's hard to catch up," Andy says. "I wanted the momentum to continue. We pumped up our meetings, brought in new prospects, brought carriers into the fold. And – once again – we've had a stellar year."



1. Tony Strianese likes building his organization from within rather than, as he puts it, "hiring others' B teams." 2. Elizabeth White brings in about $2 million in annual revenue for PSR. 3. Broker Tina Adams left an average job for a career with PSR, where she's making strong contributions and reaping the benefits of Brown & Brown's American Meritocracy®. 4. Mary Ellen Deeb and the rest of the PSR team regularly call on one another for help. "Not many deals in this company are the work of just one person," says Tony. 5. Brian Henderson hasn't even been in the business 10 years, but the business he began building at PSR straight out of college brought in $1.3 million last year. 6. Patricia Berry splits her time between running the office and handling sales totaling nearly $1 million in annual revenue.

Our Vision Is Fixed on Discovering New Talent

Long before launching Peachtree Special Risk Brokers (PSR), Tony Strianese worked in an organization where he was one of 2,000 employees, each of whom could expect a small raise at annual review time. "If you were really a star you got 4%," he quips, adding, "It doesn't work that way at Brown & Brown." No kidding. There are no free-lunch guarantees. Instead, recognition replaces anonymity and high performers are well-compensated. For top-notch people, that kind of opportunity is a very powerful recruiting tool.

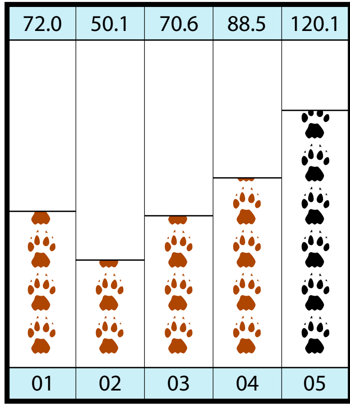
Those who have what it takes to be high performers at Brown & Brown are very bright, very motivated to be successful and take ownership of everything they do. According to Tony, the most important factor is simply having a passion for winning. "Yes, we like the money – but it's deeper than that. As sales people, we are very much driven by the accolades that come with success, and Brown & Brown is very big on that."

Where does Tony find the kind of people that thrive in the Brown & Brown culture? With the exception of a few strategic hires, the PSR team was built from within the Brown & Brown organization. "We've grown this company mostly with energetic, impassioned, talented folks," Tony says. "We have a model and a core group here from which we continuously develop outstanding talent," he explains. When PSR was still in the start-up stages, word went out that the brokerage was looking for aggressive, sales-oriented college graduates for an eight-week internship program. Brian Henderson interviewed and, though he planned to enter a program with another company and pursue a career in institutional sales, he was impressed with PSR's unique culture and decided to take the internship. "After eight weeks," says Brian, "I did not want to leave. I'd learned so much that it would have been a waste of time if I didn't continue to grow the foundation I was building." Five years later, Brian is doing extremely well as a PSR Vice President, managing the Boca Raton, Florida, office. "I guess you could say that it was addictive," he explains.

That same dedication runs throughout PSR. On weekends at home, by Sunday afternoon Tony is ready to "get back in the game," as he puts it, as are many on his team. In fact, it's not uncommon for one of them to call at 10:30 on a Sunday night about something they feel can't wait until Monday morning. This hard-driving, entrepreneurial bunch certainly doesn't require fixed routines or highly structured environments.

Eternal Vigilance

Our Agility Enables Us to Quickly Seize Opportunity



Commissions and Fees from Acquisitions

(in thousands of dollars, excluding pooling-of-interest acquisitions in 2001)

Sally Lewis-Butler and Frank Doyle had each been in the insurance business for more than three decades and owned successful firms that were acquired by Brown & Brown. Why would independent, experienced, entrepreneurial owners of profitable agencies sell out to a bigger company and, what's more, stay on to run the businesses? The answer lies in the fact that, in reality, "selling out" is the last phrase Sally or Frank would use to characterize Brown & Brown's acquisition of their companies.

Sally and her business partner, Harold Kelley, had owned their own agencies for 25 years before merging, and operated their combined agency, Insurance Marketing Group (IMG), for another seven years before joining Brown & Brown. "Harold and I are very independent and very much our own leaders," says Sally. The team expected an adjustment period before they'd be able to adapt to being led by someone else. But, according to Sally, "It was a marriage made in heaven. After a year and a half, we're still amazed."

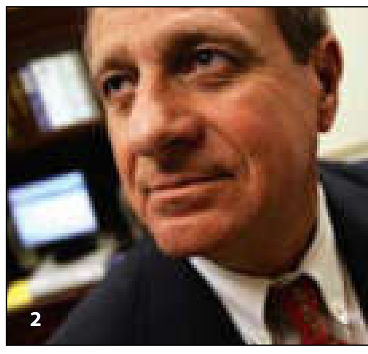
With Brown & Brown, businesses retain a high level of autonomy even after they have been acquired. The Company does set specific performance goals for each office, which are often extremely tough. But each team is given a great deal of latitude in deciding how best to meet its goals, and the payoff for getting there is generous.

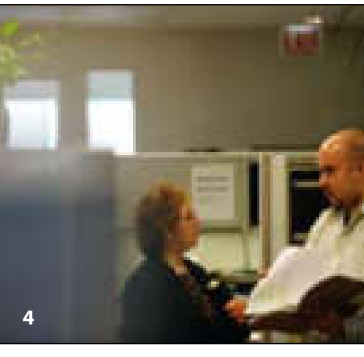
Brown & Brown's business and industry acumen give even high-performing agencies the boost they need to take their operations to the next level. Sally talks about Brown & Brown's internal quality control practices and how they've made IMG's operation neater, smoother-running and more credible. Every month since its acquisition, the IMG team has led the region in operating profit. "It's amazing," she says, "after 35 years of challenging myself, how much more I am challenged now!"

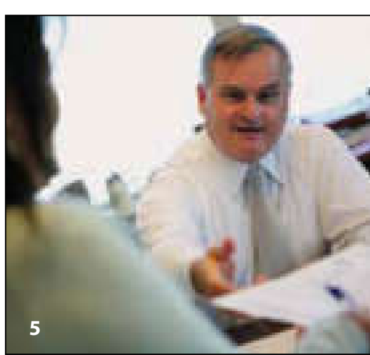
According to Frank, one reason some successful entrepreneurs may be reluctant to sell to a larger company is because they fear they'll miss out on growing their businesses if the new company doesn't perform as well. With Brown & Brown's track record, Frank was fairly certain that the acquisition would produce a win-win outcome for his company, Doyle Consulting Group (DCG), and Brown & Brown. It has, in fact, done just that. Less than two years after being acquired, Doyle Consulting Group has become one of Brown & Brown's top employee benefits groups, with a core operating profit margin of over 40%.

The acquisition opened up new avenues in existing Brown & Brown client relationships where Doyle Consulting Group's employee benefits expertise was needed. What was already a very profitable business now has the opportunity for even greater growth as a part of the Brown & Brown organization.

Acquisitions figure into Brown & Brown's strategic plan because they offer immediate as well as long-term value. The Company continually seeks out prospects from among successful businesses in potentially strong markets, looking for those whose offerings complement or enhance existing products and services, and whose staff includes top-notch, entrepreneurially minded people. IMG and Doyle Consulting Group met all of these criteria, and now play key roles in the growth of Brown & Brown's employee benefits consulting services, an increasingly important area of business.







1. Sally Lewis-Butler is IMG's Profit Center Manager and also the operation's key producer. 2. Sales Manager Harold Kelley is a generalist, with clients ranging from a large chemical plant – IMG's largest account – to smaller manufacturing and contracting firms. 3. Since joining Brown & Brown, IMG pursues new business activity much more aggressively. The Company recognizes and rewards this top-performing team, in turn motivating them to work even harder. 4. Joan Pacella (left), veteran "administrator, receptionist and den mother," according to Frank Doyle, meets with Gaddiel Gonzalez of DCG's wholesale brokerage division. 5. Chief Actuary Sam Kikla is, says Frank, "a tremendously talented actuary." 6. Frank (left) with Senior Consultant Robert Cola.

Our Pursuit of the Best Solutions for Our Clients Is Inexorable

Brown & Brown is known – especially among its competitors – for its aggressive sales culture. It's absolutely true that the Company is focused on continuing the growth of revenue and profit margins and that it has a long track record of success in this area. But if you think for a minute that Brown & Brown's mission is limited to simply writing up sales, you'd better think again.

Well over a dozen years of growth in profits and revenues indicate something more is afoot at Brown & Brown than just selling policies. Bev Losey, Profit Center Manager of Brown & Brown's Tacoma, Washington, office explains that when a new customer first chooses Brown & Brown, it's likely because they were offered the price, coverage and service that met their needs. But once a prospect becomes a Brown & Brown customer, says Bev, "they find in us a knowledgeable, responsive partner who is in the business of long-term satisfaction – not just short-term gain."

Company-wide, Brown & Brown's renewal percentage is consistently in the mid-90s, speaking volumes about how customers value their relationships with the Company and its people.

What's more, Brown & Brown's entrepreneurial, decentralized nature allows each office the flexibility to tailor its services to the needs of its client base. Education, for example, is one of a number of programs instituted in Tacoma – not just for the staff, but for clients, too. Expert speakers are brought in for quarterly client seminars, which are webcast for those who can't attend in person. Staff education is a priority, and Brown & Brown Tacoma facilitates the pursuit of designations such as Accredited Advisor in Insurance (AAI) and Registered Health Underwriter (RHU), along with furnishing numerous other classes, all of which are conducted in-house.

Ultimately, true service means doing the right thing for the customer, time after time. Brown & Brown's people don't cut corners on coverage just to get to a particular price point. Their first concern is finding the appropriate product to protect the customer, and with its long-standing insurance company relationships, Brown & Brown can access virtually any type of coverage a client needs. But equally important, Brown & Brown's people have the technical expertise essential for matching coverage to client.

For Brown & Brown Tacoma, and many other Brown & Brown offices across the country, service also means giving back to the communities in which they live and do business. For the past two years, the Tacoma team won the Association of Washington Business Community Service Award and has been named one of the Top 25 Partners in its county. In 2005 the Tacoma office was the Tacoma-Pierce County United Way Small Business of the Year award winner. Many of the Tacoma staff are on various charitable organization boards, and do more than just attend meetings: they participate in walk-a-thons, put on carnivals and donate from their own pockets. "I really believe," says Bev, "that America was built on businesses doing well, then turning around and helping others. It really is a commitment that makes us feel good, a real win-win."

1. The Tacoma team is committed to a set of principles that define high standards of service to clients as well as their interactions with one another. 2. Administrative Supervisor Michele Wilson (left) and Collette Adams, Commercial Service Manager. 3. "This organization sets the bar higher than others," says Bev Losey, Profit Center Manager. "People who cannot meet that standard in the customer service area won't last here." 4. Account Executive Steve Carver is an expert in Exterior Insulation Finish Systems (EIFS) insurance, a specialty valued by contractors. 5. Tom Moore and Holly Mueller are producers in Tacoma's Employee Benefits Division. Holly began in a support position and now handles a $500,000 book of business. 6. Regional EVP Ken Kirk says of Bev, "She is a great communicator and a great salesperson. We find that leaders who can sell are top performers, as are their people."

Dear Shareholders

We have decided that 13 is not an unlucky number. 2005 marks the 13th straight year that Brown & Brown has attained its goal of growing earnings per share by 15% or more. If one looks inside the numbers, it becomes apparent that the contraction of the amortization period for acquired intangible assets from 20 to 15 years (effective 12/01/04) had the effect of reducing our 2005 GAAP earnings by about $0.03 per share. Yet on an "apples-to-apples" basis, our earnings per share (EPS) were up about 18% over 2004. We are very pleased with these results, which are reflective of the strength and quality of the entire Brown & Brown team.

"B-40," our intermediate goal of achieving one billion dollars of revenue and a 40% operating profit margin (pre-tax income with interest, amortization and non-cash stock grant compensation expense added back), is within sight. Total revenues for 2005 were almost $786 million and our operating profit margin was 37.6%, with the EBITDA (earnings before interest, taxes, depreciation and amortization) margin at 38.8%. The committed Brown & Brown team has been simultaneously growing the top line and increasing profit margins each year since 1993. This is a signal accomplishment which distinguishes our firm among public companies.

Our market capitalization continued to grow handsomely as our share price increased during the 2005 year. Charts on the following pages show the growth of stock price and market capitalization since 1993.

J. Hyatt Brown, CPCU, CLU *(right)*
Chairman & Chief Executive Officer

Jim W. Henderson, CPCU *(left)*
President & Chief Operating Officer

The long-term shareholders of Brown & Brown are "happy campers." The Brown & Brown leadership team is proud of our results and is committed to our continued inexorable march toward annual 15% growth in EPS – *ad infinitum*.

The continuous growth and inculcation of the Brown & Brown culture remains central to our consistent and continued success. We are an American Meritocracy®, where achievement is recognized and rewarded.

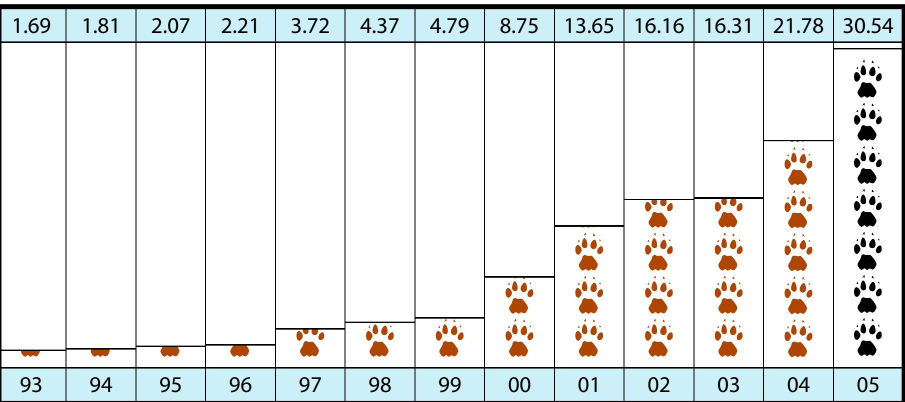
As business organizations grow and expand, there is a human tendency to create fiefdoms. This type of structure is in conflict with Brown & Brown's commitment to meritocratic growth and development.

We have taken steps in 2005 and 2006 to assure that our Company will not inadvertently allow a "fiefdom syndrome" to limit the futures of our employees.

In July 2005, peer reviews among our officers with regional responsibilities (REVPs) were conducted for the first time. Each and every one of our REVPs performed on-site reviews of profit centers for which another REVP is responsible. The result was a detailed review of our entire Company by profit center and by region, which occurred in an open forum of all REVPs. The outcome was very positive. This is the first step toward "flipping" direct reports – a process that is highly desirable in a meritocracy.

In January 2006, we announced the creation of a new, important corporate position – Executive Vice President for Leadership Development.

Linda Downs has been selected to fill this position. She is eminently qualified. Linda started her career with Brown & Brown in 1980 and has since risen through the ranks, as a result of continuous superior performance, to the position of Regional Executive Vice President with responsibility for 21 profit centers. Linda will retain responsibility for Program Division operations in Tampa and St. Louis as she takes on the new duties associated with her promotion to Executive Vice President for Leadership Development. Her



Stock Price at Year End
(in dollars)

biggest challenge will be to expand and improve our recruitment, training, development, mentoring and measurement of leaders. Linda's leadership will enable Brown & Brown to identify recruits who will flourish in our culture and who will expand our "bench strength." Linda is singularly well-suited to lead this new effort within Brown & Brown.

Many people in the business community have been very critical of the imposition of additional accounting responsibilities resulting from the passage of the Sarbanes-Oxley Act of 2002 – it has been expensive for Brown & Brown, too, but the fact is that we are a stronger company as a result of the additional attention to detail at every level of our organization. Our decentralized model has adapted well to these new requirements.

In addition to continuously improving the best margins in the insurance agency business, our leaders must also consistently seek out the best acquisition opportunities for Brown & Brown. We expect all of our leaders to be extraordinary operators, and to have the talents necessary for successful acquisition and integration of new businesses. The agencies and personnel that comprise the "M&A class of 2005" are the products of this leadership skill set and may be the best such group in the history of the Company in terms of depth of talent and operating performance.

We completed the acquisition of 32 insurance businesses in 2005 that represent approximately $123 million in annualized revenues. Hull & Company was the largest single acquisition in our history and represents $63 million of the total acquired revenues in 2005. We are very pleased to report that Dick Hull and his deep bench of leaders have exceeded our expectations.

The economic value of mergers and acquisitions is apparent in our earnings statement. What is not apparent is the number of outstanding leaders that have joined Brown & Brown by virtue of the M&A process.

93	94	95	96	97	98	99	00	01	02	03	04	05
0.17	0.19	0.22	0.23	0.39	0.47	0.53	1.09	1.73	2.20	2.24	3.01	4.26

Brown & Brown's Growth in Shareholder Value / Market Capitalization
(in billions of dollars)

This sourcing of "people talent" through mergers and acquisitions is a key strength of our organization, which has evolved from our people-oriented approach of selecting the very best opportunities. And yes, the pipeline is as encouraging as at any time in our history.

Normally this letter would be more focused on objective number comparisons, against both our own prior performance and that of our competitors – but we thought that a discussion of the continued cultural development of Brown & Brown would be more meaningful and important. The culture of a business organization is the intangible webbing that allows some to rise while others languish.

Our business model remains pretty much the same as when it was conceived in 1982. Our intense focus every day on what some would term mundane business functions has well served our policyholders, our shareholders and our employees.

Thank you for your support – we are optimistic that 2006 will be another good year!!

J. Hyatt Brown, CPCU, CLU
Chairman & Chief Executive Officer

Jim W. Henderson, CPCU
President & Chief Operating Officer

Retail Division

The Retail Division, with 650 licensed insurance professionals in 111 offices in 27 states, provides a broad range of insurance products and services to commercial, public entity, professional, association and individual customers.

Much of the Retail Division's success is a direct result of our people. We have concentrated efforts on "growing" our sales force through our internal "insurance school." Under the direction of Tom Finwall, a 30+ year industry veteran, new members of the Brown & Brown sales force are instructed in not just the basics of insurance, but in practical applications of how to best respond to the needs of clients and prospects; individuals who have graduated from this course of study have generally outperformed their peers who have not attended. The scope of this effort is being expanded.

The success of the insurance school is augmented by our internal reward systems, as evidenced by the fact that year in and year out the number of individuals achieving the upper levels of sales success – that is, membership in our National Sales Leaders Tangle B Club – continues to grow, as new members join the ever-increasing number of agents who achieve this goal every year. How well they succeed in their chosen profession is further demonstrated by the fact that our client retention ratio continues to exceed 94% year-to-year.

HIGHLIGHTS

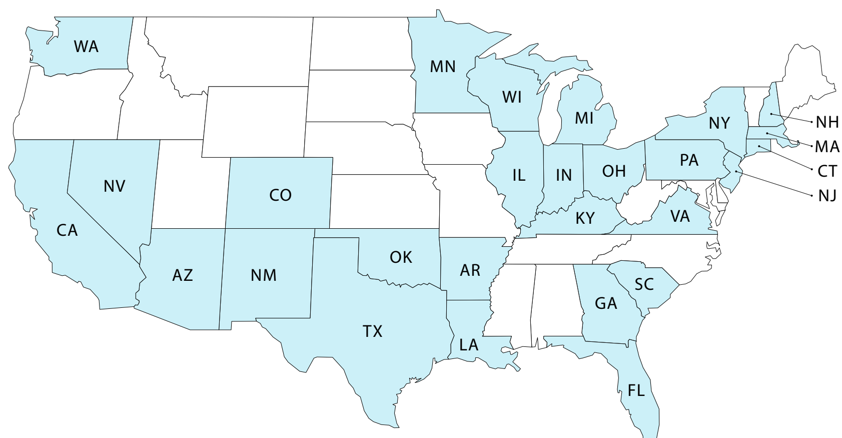
During 2005 we were fortunate to have several new operations join the Brown & Brown Retail team. These new players provide us with expanded opportunities in several geographical locations and also add to our growing talent pool. These acquisitions include:

- **Emerald Benefits – Weston, Florida**
- **Alliance Insurance Services – Canoga Park, California**
- **Nichols & Associates – Philadelphia, Pennsylvania**
- **Sleeping Giant Agency – Steamboat Springs, Colorado**
- **Weible & Cahill – Lisle, Illinois**
- **de Arietta Insurance Agency – Carson City and Elko, Nevada**

The Retail Division's net internal growth rate was

0.6%

in 2005, excluding revenues from new acquisitions and divested business.

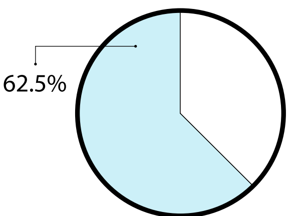


RETAIL OFFICE LOCATIONS

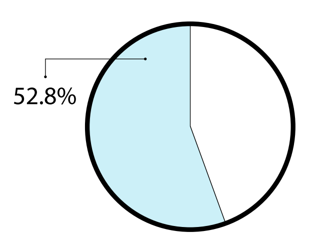
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Florida
- Georgia
- Illinois
- Indiana
- Kentucky
- Louisiana
- Massachusetts
- Michigan
- Minnesota
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- Ohio
- Oklahoma
- Pennsylvania
- South Carolina
- Texas
- Virginia
- Washington
- Wisconsin

As a direct result of the efforts of our agents and their talented internal support teams, the Retail Division's 2005 revenue grew by

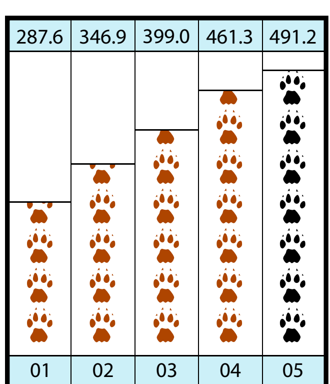
6.5%.



Contribution to Total Revenue



Contribution to Total Income before Income Taxes



Division Total Revenues
(in millions of dollars)

01	02	03	04	05
52.0	78.2	98.4	113.6	128.9

Division Income before Income Taxes
(in millions of dollars)

National Programs Division

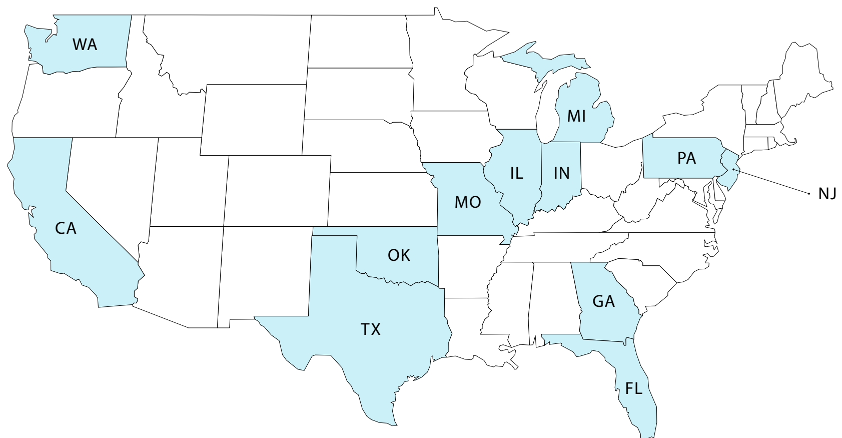
The National Programs Division is comprised of two units: Professional Programs, which provides professional liability and related package products for certain professionals, delivered through nationwide networks of independent agents; and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public entities and market niches.

As in the Retail Division, much of our success in National Programs is the result of our dedicated and knowledgeable insurance professionals. In the National Programs Division, personnel are responsible for the selection, design, administration and marketing of insurance coverage programs for specialty niches. Several of the programs we administer are uniquely oriented toward a particular profession or industry. These include our 37-year-old Professional Protector Plan® for Dentists, the 32-year-old Lawyer's Protector Plan® and the 30-year-old Optometric Protector Plan®, on the Professional Programs side. On the Special Programs side, we have intensified our focus in the governmental and quasi-governmental arena by combining our several public entity specialists into a new Public Entity Services Group. Other Special Programs include professional liability coverage for insurance agents and brokers and a similar program for real estate agents, which are offered through our CalSurance® subsidiary, as well as a condominium owners and association program available through our Florida Intracoastal Underwriters (FIU) subsidiary. Specialized programs for manufacturers and distributors and short line railroads – offered through the Commercial Programs unit – and specialized sports and entertainment programs – offered through American Specialty Companies – represent just a few of the special niches where we have unparalleled expertise.

HIGHLIGHTS

New team members in this Division are:

- **American Specialty Companies – Roanoke, Indiana**
- **Downey Insurance – Kokomo, Indiana**



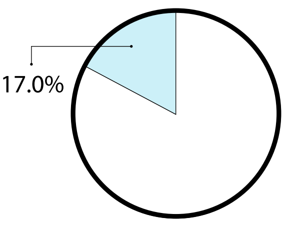
NATIONAL PROGRAMS OFFICE LOCATIONS

California
Florida
Georgia
Illinois
Indiana
Michigan
Missouri
New Jersey
Oklahoma
Pennsylvania
Texas
Washington

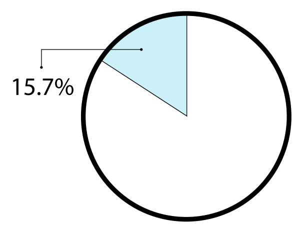
The net internal growth rate for 2005 was

3.9%

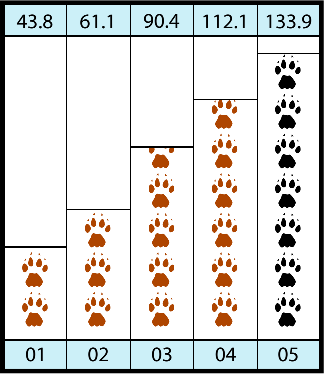
excluding new acquisitions and divested business.



Contribution to Total Revenue



Contribution to Total Income before Income Taxes



Division Total Revenues
(in millions of dollars)

17.9	26.7	31.7	33.9	38.4
01	02	03	04	05

Division Income before Income Taxes
(in millions of dollars)

Brokerage Division

The Brokerage Division markets and sells excess and surplus commercial insurance and reinsurance, primarily through independent agents and brokers.

Over the past several years, Brown & Brown has had several wholesale operations of exceptional quality join our team. As a result, we are able to assist a broad range of independent insurance agents across the entire country in meeting the specialized coverage requirements of their clients. While Brown & Brown Retail agents often take advantage of these services, the majority of the business generated by this division comes from non-affiliated agents.

In 2005, one of the wholesale market's true leaders elected to join our team. In early March, Hull & Company, with 22 locations in 11 states, was acquired by Brown & Brown, taking our position within the excess and surplus brokerage arena to a new level. In January 2006, we expanded our presence in the wholesale reinsurance marketplace with the addition of Axiom Intermediaries, also known as Axiom Re. We have combined our Brown & Brown Re operations with Axiom Re, and all of our reinsurance activities are now under the leadership of the Axiom management team.

A sampling of the very specialized coverages available through the various Brokerage Division operations includes: professional and general liability for the healthcare industry; programs for the construction industry, oilfield and marine contractors and long-haul truckers; restaurant and liquor liability; coverages for the amateur and professional sports industries and the entertainment field in general; social services providers; and condo and residential association and other entities' directors' and officers' liability.

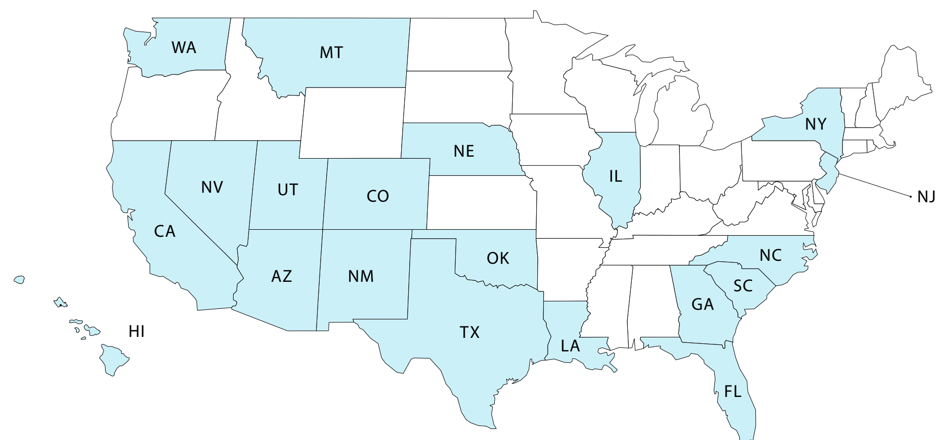
HIGHLIGHTS

Other key acquisitions during 2005 were:

- **ECC Insurance Brokers – Oak Brook, Illinois**
- **Florida Commercial Lines Operations of Braishfield Associates – Orlando, Florida**
- **E & S Brokerage Services – Albuquerque, New Mexico (which became a part of Hull & Company's operations)**

The net internal growth rate for core commissions and fees for the Brokerage Division in 2005 was

24.9%.



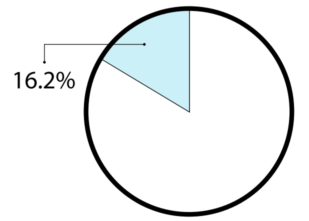
BROKERAGE OFFICE LOCATIONS

- Arizona
- California
- Colorado
- Florida
- Georgia
- Hawaii
- Illinois
- Louisiana
- Montana
- Nebraska
- Nevada
- New Jersey
- New Mexico
- New York
- North Carolina
- Oklahoma
- South Carolina
- Texas
- Utah
- Washington

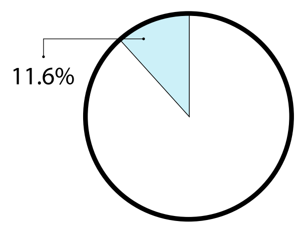
Total revenues for the Brokerage Division in 2005 increased

$85.5

million, a **205.5%** increase over 2004.



Contribution to Total Revenue



Contribution to Total Income before Income Taxes

01	02	03	04	05
12.2	24.0	31.7	41.6	127.1

Division Revenues
(in millions of dollars)

01	02	03	04	05
4.1	7.0	11.1	11.3	28.3

Division Income before Income Taxes
(in millions of dollars)

Services Division

The Services Division, comprised of United Self Insured Services (USIS) and Preferred Governmental Claim Solutions (PGCS), provides clients with third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas. Unlike our other segments, most of the Services Division's revenues are generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

These services are provided for client companies that opt to employ one of the quality self-funded or fully insured programs we offer. As medical insurance costs continue to climb, more and more companies are finding these services to be an effective and more economical way of responding to the benefits needs of their employees. As a result, the Services Division's client base continues to grow.

The net internal growth rate for the Services Division in 2005 was 9.2%. Virtually all of the increase was the result of net new business growth. The Services Division continues to aggressively pursue additional mechanisms to provide further savings for its clients.

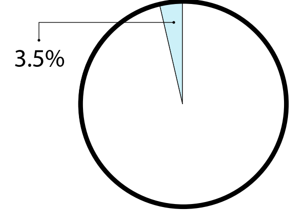
SERVICES OFFICE LOCATIONS

Florida

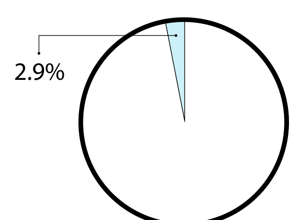
The net internal growth rate for the Services Division in 2005 was

9.2%.

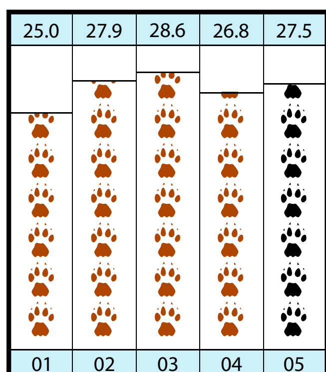
Virtually all of the increase was the result of net new business growth.



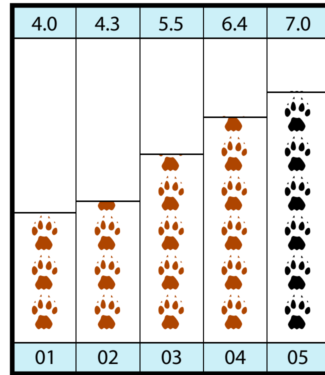
Contribution to Total Revenue



Contribution to Total Income before Income Taxes

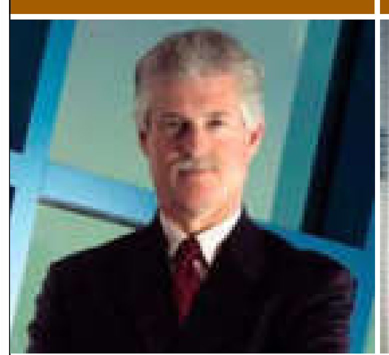


Division Revenues
(in millions of dollars)



Division Income before Income Taxes
(in millions of dollars)

Brown & Brown, Inc. Leadership Overview

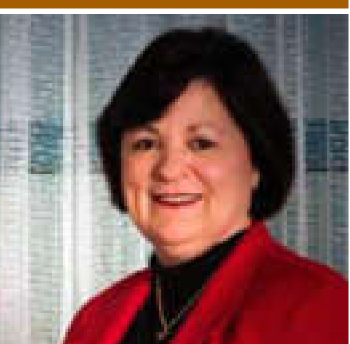


THOMAS E. RILEY,
CPA, CPCU, CMA, CIC
Regional President

Tom is Regional President and is responsible for the Company's operations in the Northeastern United States and certain offices in South Florida. A graduate of the University of Kentucky, he joined Brown & Brown in 1990 as Chief Financial Officer after 10 years with Ernst & Young. Since then, he has served in various executive positions, responsible for an ever-increasing number of offices. Tom was elected a Regional Executive Vice President of the Company in 2001 and Regional President in January 2005.

01	02	03	04	05
62.9	76.8	78.2	115.2	132.3

Regional Revenues
(in millions of dollars)



LINDA S. DOWNS, CPCU, AAI
Executive Vice President

Linda was elevated to Executive Vice President for Leadership Development, from Regional Executive Vice President, in January 2006. In this newly formed position she is responsible for the Company's Benefits & Compensation Department, Quality Control Division, Security Committee and the new Leadership Recruitment, Recognition and Development team. She is also responsible for Program Division operations in Tampa and St. Louis. Linda joined the Company in 1980 and has held increasingly responsible positions since then. She is heavily involved with Habitat for Humanity.

01	02	03	04	05
41.8	44.0	50.2	49.0	48.9

Regional Revenues
(in millions of dollars)

C. ROY BRIDGES, CIC
Regional Executive Vice President

Roy is the Regional Executive Vice President responsible for operations on the west coast of Florida and in Arkansas, Louisiana, Oklahoma and Texas. When Roy sold Osceola Insurance Agency to Brown & Brown, he joined the Company, first heading the Ft. Myers, Florida, office. In 1998, he was promoted to a position of regional responsibility, and in 2001, he was elected a Regional Executive Vice President. Roy serves on the boards of several banks as well as a number of nonprofit organizations.

01	02	03	04	05
57.3	68.4	77.7	82.2	87.5

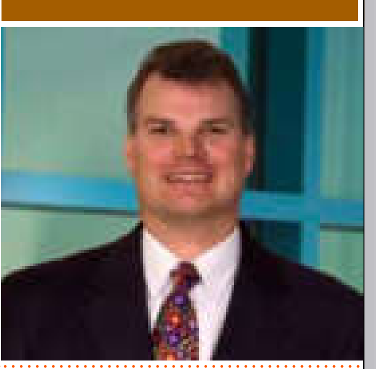
Regional Revenues
(in millions of dollars)

J. POWELL BROWN, CPCU
Regional Executive Vice President

Powell is the Regional Executive Vice President responsible for certain retail and wholesale brokerage operations, as well as United Self-Insured Services within the Services Division. He also has overall responsibility for the Brown & Brown Insurance School. A graduate of the University of Florida, with an MBA from Duke University, he joined the Company in 1995. Powell held various positions before being named to his present position. He serves on several boards of directors.

01	02	03	04	05
42.6	58.2	68.2	73.7	84.2

Regional Revenues
(in millions of dollars)



KENNETH D. KIRK
Regional Executive Vice President

Ken is a Regional Executive Vice President and President of Brown & Brown Insurance of Arizona and other Brown & Brown subsidiaries. He is responsible for the management and development of a substantial part of Brown & Brown's operations west of the Mississippi. A graduate of Arizona State University, in 1989 he acquired Insurance West in Phoenix and became its President. In 1995, Brown & Brown acquired Insurance West and Ken assumed responsibility for operations in Arizona. He was elected a Regional Executive Vice President in 2001.

CHARLES H. LYDECKER, CPCU, CIC, AIM
Regional Executive Vice President

Charlie is the Regional Executive Vice President responsible for several retail offices in Florida, as well as certain retail offices in Georgia and Texas. A graduate of American University, since joining the Company in 1990, he has held progressively more responsible positions. Charlie is a Commissioner on the State of Florida Ethics Commission and serves on the Boards of Directors for Southern Community Bank Corp., Memorial Health Systems and the Florida Self-Insurance Fund Guaranty Association.

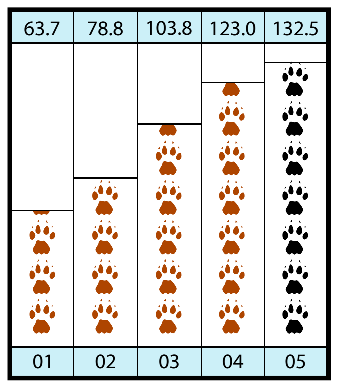
ROBERT F. IOCCO, CPA, CIC
Regional Executive Vice President

Bob is the Regional Executive Vice President responsible for certain retail operations in Connecticut, New Jersey, New York, Pennsylvania, South Carolina and Virginia. A 1987 graduate of the University of Central Florida, he joined Brown & Brown in 1992 as an Internal Auditor after serving as an independent auditor for Ernst & Young. Since then, he has been promoted to positions of increasing responsibility in both financial and executive areas. He was elected a Regional Executive Vice President in January 2005.

(On the table below, revenues prior to 2005 were part of Tom Riley's Region).

J. SCOTT PENNY, CIC
Regional Executive Vice President

Scott is the Regional Executive Vice President responsible for the Company's operations in the upper Midwest. A graduate of Vanderbilt University and the Fireman's Fund Underwriting and Risk Management Agents School, he joined Brown & Brown in 1989 as an Account Executive Trainee and has held progressively more responsible positions since that time. In 1994, Scott garnered Brown & Brown's coveted "Top Gun of the Year" award.



Regional Revenues
(in millions of dollars)

01	02	03	04	05
33.9	37.3	43.6	43.6	48.8

Regional Revenues
(in millions of dollars)

01	02	03	04	05
16.7	27.8	27.0	31.9	32.8

Regional Revenues
(in millions of dollars)

01	02	03	04	05
19.8	20.8	22.9	24.6	32.5

Regional Revenues
(in millions of dollars)

Board of Directors

from left to right *(standing)*:

HUGH M. BROWN
Founder and former President & Chief Executive Officer, BAMSI, Inc.
Audit Committee
Compensation Committee

J. HYATT BROWN, CPCU, CLU
Chairman & Chief Executive Officer
Brown & Brown, Inc.

BRADLEY CURREY, JR.
Former Chairman & Chief Executive Officer, Rock-Tenn Company
Nominating / Corporate Governance Committee, Chairman; Compensation Committee; Audit Committee

JAN E. SMITH
President, Jan Smith & Company
Audit Committee, Chairman; Compensation Committee; Nominating/Corporate Governance Committee

JOHN R. RIEDMAN
Chairman, Riedman Corporation

(seated):

SAMUEL P. BELL, III, ESQ.
Partner, Pennington, Moore, Wilkinson, Bell & Dunbar, P.A.
Compensation Committee, Chairman; Nominating/Corporate Governance Committee

THEODORE J. HOEPNER
Former Vice Chairman,
SunTrust Bank Holding Company

CHILTON D. VARNER
Partner, King & Spalding LLP
Compensation Committee; Nominating/Corporate Governance Committee

DAVID H. HUGHES
Chairman, Hughes Supply, Inc.
Audit Committee; Compensation Committee; Nominating/Corporate Governance Committee

JIM W. HENDERSON, CPCU
President & Chief Operating Officer
Brown & Brown, Inc.

Officers

J. HYATT BROWN, CPCU, CLU
Chairman & Chief Executive Officer

JIM W. HENDERSON, CPCU
President & Chief Operating Officer

THOMAS E. RILEY, CPA, CPCU, CMA, CIC
Regional President

LINDA S. DOWNS, CPCU, AAI
Executive Vice President for Leadership Development

C. ROY BRIDGES, CIC
Regional Executive Vice President

J. POWELL BROWN, CPCU
Regional Executive Vice President

ROBERT F. IOCCO, CPA, CIC
Regional Executive Vice President

KENNETH D. KIRK
Regional Executive Vice President

CHARLES H. LYDECKER, CPCU, CIC, AIM
Regional Executive Vice President

J. SCOTT PENNY, CIC
Regional Executive Vice President

CORY T. WALKER, CPCU, CIC, ARM, CRM
Senior Vice President, Treasurer & Chief Financial Officer

LAUREL L. GRAMMIG, ESQ., CIC
Vice President, Secretary & General Counsel

RICHARD A. FREEBOURN, SR., CPCU, CIC
Vice President, Internal Operations

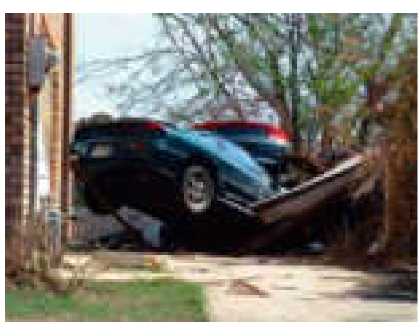
THOMAS M. DONEGAN, JR., ESQ., CIC
Vice President, Assistant Secretary & Assistant General Counsel

Weathering the Storms

The impact of the 2005 Atlantic hurricane season was widespread and devastating. It was the most active hurricane season ever recorded, and the five major hurricanes that made landfall – Dennis, Emily, Katrina, Rita, and Wilma – caused over $100 billion in damages. Some 2,000 people lost their lives to these storms and hundreds of others are still unaccounted for. The Gulf Coast suffered the most catastrophic losses, beginning with the landfall of Dennis near Pensacola, Florida, on July 10; then on August 29, Katrina hit and storm surges subsequently breached New Orleans' levees and flooded the city; and again, less than a month later, on September 24, Rita caused major flooding in Texas and in already devastated Louisiana.

Natural disasters like hurricanes affect everyone in their paths, including Brown & Brown's people. When the storm has passed, they are left to deal with the chaotic aftermath and personal loss just as their neighbors are. Yet once they realize they are alive and well, their next thought is that many others need help, and toward that end they must get to work.

Geoffrey Hughes, Executive Vice President of Energy & Marine Underwriters in New Orleans, said it was truly rewarding to watch as Brown & Brown people on the scene, and those in the corporate office, quickly rolled up their sleeves to help tackle the tough task of digging out of the wreckage – physically and financially. The Company created an assistance fund, many Brown & Brown employees offered shelter to fellow employees, and Geoffrey's office relocated and reopened within 10 days to serve affected clients. Profit Center Manager Madelyn Cohen of Hull & Company's Metairie, Louisiana, office noted, "Despite the difficulty in the housing market, the absence of conveniences and the uncertainty of the insurance industry's long-term response, we can report that our courageous employees have endured and are resilient to face the future with optimism." Like many others in the area, Madelyn lost her home and everything in it to Katrina's fury.



Hurricane Katrina's aftermath left a pile-up in one New Orleans resident's driveway.

Roofs on the parking garages at the Venetian Terrace Condominium Association in Boynton Beach, Florida, were lifted and collapsed by Hurricane Wilma's winds.

One of many employee homes lost in the wrath of Katrina.

De Wildt Cheetah and Wildlife Centre

The mission of the De Wildt Cheetah and Wildlife Trust is to ensure the long-term survival of predators, specifically the cheetah and wild dog, in their natural environment.

Located in Pretoria, South Africa, the De Wildt Cheetah Centre was established in 1971 with the aim of breeding endangered species. Over the years, over 750 cheetah cubs have been born at De Wildt – a dramatic contrast to the days when the cheetah population of South Africa was estimated at a mere 700.

While the cheetah project was the base from which the Centre launched its conservation ethic, it soon widened to include other rare and endangered animals such as the wild dog, brown hyena, serval, suni antelope, blue and red duiker, bontebok, riverine rabbit and vultures – including the very rare Egyptian vulture. Many of these have been successfully bred for later reintroduction into the wild, thus helping to repopulate areas where such species have disappeared or are no longer abundant.

To achieve its mission, the De Wildt Cheetah and Wildlife Trust has an extensive community outreach and education program and a strategic breeding plan. The Trust conducts research on wildlife disease and nutrition, and in South Africa it has implemented a national plan for the conservation of free-roaming cheetah.

To make a donation, please contact De Wildt at cheetah@dewildt.org.za. Or mail a tax-deductible donation to the Foundation in the USA at: Carson Springs Wildlife Foundation, 23561 North Overhill Drive Lake, Zurich, Illinois 60047.

Brown & Brown is proud to be a benefactor of the De Wildt Cheetah and Wildlife Centre.

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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. All share and per share information has been restated to give effect to a two-for-one common stock split that become effective November 28, 2005.

We are a diversified insurance agency, brokerage and services organization headquartered in Daytona Beach and Tampa, Florida. Since 1993, our stated corporate objective has been to increase our net income per share by at least 15% every year. We have increased revenues from $95.6 million in 1993 (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to $785.8 million in 2005, a compound annual growth rate of 19.2%. In the same period, we increased net income from $8.0 million (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to $150.6 million in 2005, a compound annual growth rate of 27.7%. We have also increased net income per share 15.0% or more for 13 consecutive years, excluding the effect of a one-time investment gain of $1.3 million in 1994 and favorable adjustments to our income tax reserves of $0.7 million in 1994 and $0.5 million in 1995, respectively. Since 1993, excluding the historical impact of poolings, our pre-tax margins (income before income taxes and minority interest divided by total revenues) improved in all but one year, and in that year, the pre-tax margin was essentially flat. These improvements have resulted primarily from net new business growth (new business production offset by lost business), revenues generated by acquisitions and continued operating efficiencies. Our revenue growth in 2005 was driven by: (i) net new business growth; and (ii) the acquisition of 32 agency entities and several books of business (customer accounts), generating total annualized revenues of approximately $125.9 million.

Our commissions and fees revenue are comprised of commissions paid by insurance companies and fees paid directly by customers. Commission revenues generally represent a percentage of the premium paid by the insured and are materially affected by fluctuations in both premium rate levels charged by insurance companies and the insureds' underlying "insurable exposure units," which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, sales and payroll levels) so as to determine what premium to charge the insured. These premium rates are established by insurance companies based upon many factors, including reinsurance rates, none of which we control. Beginning in 1986 and continuing through 1999, commission revenues were adversely influenced by a consistent decline in premium rates resulting from intense competition among property and casualty insurance companies for market share. Among other factors, this condition of a prevailing decline in premium rates, commonly referred to as a "soft market," generally resulted in flat to reduced commissions on renewal business. The effect of this softness in rates on our commission revenues was somewhat offset by our acquisitions and net new business production. As a result of increasing "loss ratios" (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2003, the increases in premium rates began to moderate, and in certain lines of insurance, premium rates decreased. In 2004, as general premium rates continued to moderate, the insurance industry experienced the worst hurricane season since 1992 when Hurricane Andrew hit south Florida. The insured losses from the 2004 hurricane season were absorbed relatively easily by the insurance industry and the general insurance premium rates continued to soften during 2005. During the third quarter of 2005, the insurance industry experienced the worst hurricane season ever recorded. Primarily as a result of these hurricanes, including Hurricanes Katrina, Rita and Wilma, the total insured losses are estimated to be in excess of $50 billion. The full impact that the 2005 insured losses will have on the insurance premium rates charged by insurance companies for 2006 is unknown, however, there appears to be a general consensus that there will be upward pressure on at least the insurance premium rates on coastal property, primarily in the southeastern part of the United States.

The volume of business from new and existing insured customers, fluctuations in insurable exposure units and changes in general economic and competitive conditions

further impact our revenues. For example, the increasing costs of litigation settlements and awards have caused some customers to seek higher levels of insurance coverage. Conversely, level rates of inflation and the general decline of economic activity in recent years have limited the increases in the values of insurable exposure units. Still, our revenues continue to grow as a result of an intense focus on net new business growth and acquisitions. We anticipate that results of operations will continue to be influenced by these competitive and economic conditions in 2006.

We also earn "contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on underwriting results and other aforementioned considerations for the prior year(s), and, over the last three years, have averaged approximately 6.0% of the previous year's total commissions and fees revenue. 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 contingent commissions and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered.

Fee revenues are generated primarily by our Services Division, which provides insurance-related services, including third-party administration and consulting for the self-funded workers' compensation markets. In each of the past three years, fee revenues generated by the Services Division have declined as a percentage of our total commissions and fees, from 5.1% in 2003 to 3.4% in 2005. This declining trend is anticipated to continue as the revenues from our other reportable segments grow at a faster pace.

Investment income consists primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. Investment income also includes gains and losses realized from the sale of investments.

Acquisitions

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

During 2004, we acquired the assets and assumed certain liabilities of 29 insurance intermediary operations, several books of business (customer accounts) and the outstanding stock of three general insurance agencies. The aggregate purchase price was $199.3 million, including $190.6 million of net cash payments, the issuance of $1.4 million in notes payable and the assumption of $7.3 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $104.1 million.

During 2003, we acquired the assets and assumed certain liabilities of 23 insurance intermediary operations, as well as the remaining 25% minority interest in Florida Intracoastal Underwriters, and several books of business (customer accounts). The aggregate purchase price was $86.2 million including $84.5 million of net cash payments, the issuance of $1.5 million in notes payable and the assumption of $0.2 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $45.8 million.

Critical Accounting Policies

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

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

REVENUE RECOGNITION

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

BUSINESS ACQUISITIONS AND PURCHASE PRICE ALLOCATIONS

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

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

INTANGIBLE ASSETS IMPAIRMENT

Effective January 1, 2002, we adopted SFAS No. 142, which requires that goodwill be subject to at least an annual assessment for impairment by applying a fair-value based test. Amortizable intangible assets are amortized over their useful lives and are subject to lower-of-cost-or-market impairment testing. SFAS No. 142 requires us to compare the fair value of each reporting unit with its carrying value to determine if there is potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of revenues, earnings before interest, income taxes, depreciation and amortization (EBITDA), and pre-tax income.

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

must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2005 and identified no impairment as a result of the evaluation.

RESERVES FOR LITIGATION

We are subject to numerous litigation claims that arise in the ordinary course of business. In accordance with SFAS No. 5, "Accounting for Contingencies," if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss is estimable, an accrual for the costs to resolve these claims is recorded in accrued expenses in the accompanying 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 outside counsel, determines whether it is probable that a liability has been incurred and estimates the amount of loss based upon analysis of individual issues. New developments or changes in settlement strategy in dealing with these matters may significantly affect the required reserves and impact our net income.

DERIVATIVE INSTRUMENTS

In 2002, we entered into one derivative financial instrument—an interest rate exchange agreement, or "swap"—to manage the exposure to fluctuations in interest rates on our $90 million variable rate debt. As of December 31, 2005, we maintained this swap agreement, whereby we pay a fixed rate on the notional amount to a bank and the bank pays us a variable rate on the notional amount equal to a base London InterBank Offering Rate (LIBOR). We have assessed this derivative as a highly effective cash flow hedge, and accordingly, changes in the fair market value of the swap are reflected in other comprehensive income. The fair market value of this instrument is determined by quotes obtained from the related counter-parties in combination with a valuation model utilizing discounted cash flows. The valuation of this derivative instrument is a significant estimate that is largely affected by changes in interest rates. If interest rates increase or decrease, the value of this instrument will change accordingly.

NEW ACCOUNTING PRONOUNCEMENTS

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

Results of Operations for the Years Ended December 31, 2005, 2004 and 2003

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):

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	**$ 740,567**	**21.9%**	$ 607,615	18.5%	$512,753
Contingent commissions	**34,976**	**14.1%**	30,652	(5.8)%	32,534
Investment income	**6,578**	**142.3%**	2,715	90.1%	1,428
Other income, net	**3,686**	**(38.1)%**	5,952	37.6%	4,325
Total revenues	**785,807**	**21.5%**	646,934	17.4%	551,040
EXPENSES					
Employee compensation and benefits	**374,943**	**19.3%**	314,221	17.1%	268,372
Non-cash stock grant compensation	**3,337**	**27.1%**	2,625	15.5%	2,272
Other operating expenses	**105,622**	**24.4%**	84,927	13.8%	74,617
Amortization	**33,245**	**50.1%**	22,146	26.8%	17,470
Depreciation	**10,061**	**12.9%**	8,910	8.6%	8,203
Interest	**14,469**	**102.2%**	7,156	97.5%	3,624
Total expenses	**541,677**	**23.1%**	439,985	17.5%	374,558
Income before income taxes	**$ 244,130**	**18.0%**	$ 206,949	17.3%	$176,482
Net internal growth rate – core commissions and fees	**3.1%**		4.3%		5.9%
Employee compensation and benefits ratio	**47.7%**		48.6%		48.7%
Other operating expenses ratio	**13.4%**		13.1%		13.5%
Capital expenditures	**$ 13,426**		$ 10,152		$ 15,946
Total assets at December 31	**$1,608,660**		$1,249,517		$865,854

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

COMMISSIONS AND FEES

Commissions and fees revenue, including contingent commissions, increased 21.5% in 2005, 17.1% in 2004 and 20.6% in 2003. Core commissions and fees revenue increased 3.1% in 2005, 4.3% in 2004 and 5.9% in 2003, when excluding commissions and fees revenue generated from acquired operations and also from divested operations. The 2005 results reflect the continued moderation of the premium rate growth that began in 2004 compared with the slightly higher premium growth rates that occurred in 2003.

INVESTMENT INCOME

Investment income increased to $6.6 million in 2005, compared with $2.7 million in 2004 and $1.4 million in 2003. The increases in 2005 over 2004, and 2004 over 2003 were primarily the result of higher investment yields earned each sequential year along with higher average available cash balances for each successive year.

OTHER INCOME, NET

Other income consists primarily of gains and losses from the sale and disposition of assets. In 2005, gains of $2.7 million were recognized from the sale of customer accounts as compared with $4.8 million and $4.0 million in 2004 and 2003, respectively. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth. For these reasons, in 2004, we sold all four of our retail offices in North Dakota and our sole remaining operation in the medical third-party administration services business.

EMPLOYEE COMPENSATION AND BENEFITS

Employee compensation and benefits increased approximately 19.3% in 2005, 17.1% in 2004 and 19.4% in 2003, primarily as a result of acquisitions and an increase in commissions paid on net new business. Employee compensation and benefits as a percentage of total revenues were 47.7% in 2005, 48.6% in 2004 and 48.7% in 2003, reflecting a gradual improvement in personnel efficiencies as revenues grow. We had 4,540 full-time equivalent employees at December 31, 2005, compared with 3,960 at December 31, 2004 and 3,517 at December 31, 2003.

NON-CASH STOCK GRANT COMPENSATION

Non-cash stock grant compensation expense represents the expense required to be recorded under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," relating to our stock performance plan, which is more fully described in Note 11 of the Notes to Consolidated Financial Statements.

The annual cost of this stock performance plan increases only when our average stock price over a 20-trading-day period increases by increments of 20% or more from the price at the time of the original grant, or when additional shares are granted and the average stock price increases.

Since the first vesting condition for performance stock grants issued in 2001 was satisfied in 2002, when a 20-trading-day average stock price of $17.50 was reached, we issued another significant set of performance stock grants in January 2003 at a grant price per share of $17.50. There will be no expense relating to this set of performance stock grants until the 20-trading-day average stock price exceeds the $17.50 performance stock grant price by an increment of 20%. Additionally, other grants are periodically issued to new and existing employees.

During 2004, the average stock price exceeded the $21.00 average price for a 20-trading-day period required for the first 20% of the shares granted in January 2003 to be awarded, and therefore we began the annual expensing of such shares. As a result, the 2004 expense increased to $2.6 million from $2.3 million in 2003. During 2005, the average stock price exceeded the $28.00 average price for a 20-trading-day period required for the second and third 20% increments of the shares granted in January 2003 to be awarded, and as a result, the 2005 expense increased to $3.3 million from $2.6 million in 2004.

During 2003, since the average price of our stock never exceeded any of the 20% thresholds of the grants priced at $17.50 per share, the only expense related to our stock performance plan was the annual expense of grants issued prior to 2003, which was then partially offset by expense credits from forfeitures. As a result, the 2003 expense decreased to $2.3 million from $3.8 million in 2002.

OTHER OPERATING EXPENSES

As a percentage of total revenues, other operating expenses increased to 13.4% in 2005 from 13.1% in 2004, which in turn was a decrease from 13.5% in 2003. Legal

and professional fee expenses increased $4.4 million in 2005 over the amount expended in 2004, which in turn was $1.2 million greater than what was expended in 2003. The increase in legal and professional fee expenses was primarily the result of the various ongoing investigations and litigation relating to agent and broker compensation, including contingent commissions, by state regulators and, to a lesser extent, by the requirements of compliance with the Sarbanes-Oxley Act of 2002. Offsetting these expenses in 2004 was approximately $1.0 million in reductions to our litigation and claims reserve. Excluding the impact of these increased legal and professional fee expenses, other operating expenses declined as a percentage of total revenues each year from 2003 to 2005, which is attributable to the effective cost containment measures brought about by our initiative designed to identify areas of excess expense. This decrease is also due to the fact that, in a net internal revenue growth environment, certain significant other operating expenses such as office rent, office supplies, data processing, and telephone costs, increase at a slower rate than commissions and fees revenue increase during the same period.

AMORTIZATION

Amortization expense increased $11.1 million, or 50.1% in 2005, increased $4.7 million, or 26.8% in 2004, and increased $3.4 million, or 24.4% in 2003. As part of our annual impairment assessment as of November 30, 2004, management determined that the maximum amortization period for the intangible asset, purchased customer accounts, should be reduced from 20 years to 15 years. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in the 2005 and 2004 amortization expense of $6.4 million, and $0.5 million, a decrease in net income of $3.9 million and $0.3 million, and a decrease of $0.03 and nil ($0) earnings per share, respectively. The remaining increases in 2005 and 2004 were due to the amortization of additional intangible assets as a result of new acquisitions.

DEPRECIATION

Depreciation increased 12.9% in 2005, 8.6% in 2004 and 13.2% in 2003. These increases were primarily due to the purchase of new computers, related equipment and software, and the depreciation associated with new acquisitions.

INTEREST EXPENSE

Interest expense increased $7.3 million, or 102.2%, in 2005 and $3.5 million or 97.5% in 2004 as a result of the funding of $200 million of unsecured senior notes in the third quarter of 2004.

INCOME TAXES

The effective tax rate on income from operations was 38.3% in 2005, 37.7% in 2004 and 37.5% in 2003. The higher effective tax rate in 2005, compared with 2004 and 2003, was primarily the result of increased amounts of business conducted in states having higher state tax rates.

Results of Operations—Segment Information

As discussed in Note 16 of the Notes to Consolidated Financial Statements, we operate in four reportable segments: the Retail, National Programs, Brokerage and Service Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses are the result of new acquisitions within that division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. Additionally, increases in non-cash stock grant compensation is more dependent on increases in the Company's 20 trading-day average stock price than on the divisional results. As such, in evaluating the operational efficiency of a division, management places greater emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

RETAIL DIVISION

The Retail Division provides a broad range of insurance products and services to commercial, public entity, professional and individual insured customers. More than 96% of the Retail Division's commissions and fees revenue are commission-based. Since the majority of our operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions that we receive will be reflected in our pre-tax income. The Retail Division's commissions and fees revenue accounted for 72.5% of our total consolidated commissions and fees

revenue in 2003 but declined to 63.1% in 2005, mainly due to continued acquisitions in the National Programs and Brokerage Divisions.

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

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	**$ 461,236**	**6.8%**	$431,767	16.4%	$371,004
Contingent commissions	**28,330**	**8.3%**	26,169	7.3%	24,381
Investment income	**159**	**(72.0)%**	567	930.9%	55
Other income, net	**1,477**	**(48.1)%**	2,845	(20.3)%	3,570
Total revenues	**491,202**	**6.5%**	461,348	15.6%	399,010
EXPENSES					
Employee compensation and benefits	**233,124**	**3.4%**	225,438	15.4%	195,323
Non-cash stock grant compensation	**2,198**	**37.5%**	1,599	(12.9)%	1,835
Other operating expenses	**81,063**	**4.2%**	77,780	15.3%	67,487
Amortization	**19,368**	**26.5%**	15,314	22.7%	12,476
Depreciation	**5,641**	**(1.6)%**	5,734	(0.6)%	5,771
Interest	**20,927**	**(4.2)%**	21,846	23.2%	17,732
Total expenses	**362,321**	**4.2%**	347,711	15.7%	300,624
Income before income taxes	**$ 128,881**	**13.4%**	$113,637	15.5%	$ 98,386
Net internal growth rate—core commissions and fees	**0.6%**		2.7%		4.0%
Employee compensation and benefits ratio	**47.5%**		48.9%		49.0%
Other operating expenses ratio	**16.5%**		16.9%		16.9%
Capital expenditures	**$ 6,186**		$ 5,568		$ 5,904
Total assets at December 31	**$1,002,781**		$843,823		$623,648

The Retail Division's total revenues in 2005 increased $29.9 million to $491.2 million, a 6.5% increase over 2004. Of this increase, approximately $28.9 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2004. The remaining increase was primarily due to net new business growth. The Retail Division's net internal growth rate in core commissions and fees revenue was 0.6% in 2005, excluding revenues recognized in 2005 from new acquisitions and the 2004 commissions and fees revenue from divested business. The net internal growth rate of core commissions and fees revenue for the Retail Division in 2004 and 2003 was 2.7% and 4.0%, respectively. The decline in the net internal growth rate from core commissions and fees revenue from 2003 to 2005 primarily reflects the softening of insurance premium rates during that period.

Income before income taxes in 2005 increased $15.2 million to $128.9 million, a 13.4% increase over 2004. This increase was due to revenues from acquisitions, a positive net internal growth rate and the continued focus on holding our general expense growth rate to a lower percentage than our revenue growth rate.

The Retail Division's total revenues in 2004 increased $62.3 million to $461.3 million, a 15.6% increase over 2003. Of this increase, approximately $59.9 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2003. The remaining increase was primarily due to net new business growth. During 2004, we sold our four retail offices in North Dakota and other books of businesses in various offices. With respect to these assets sold during 2004, $6.7 million of core commissions and fees revenue were earned in 2003 for which there were no revenues recognized in the comparable 2004 period. Therefore, the Retail Division's net internal growth rate in core commissions and fees revenue was 2.7% in 2004, excluding revenues recognized in 2004 from new acquisitions and the 2003 core commissions and fees revenue from divested business.

Income before income taxes in 2004 increased $15.3 million to $113.6 million, a 15.5% increase over 2003. This increase was due to revenues from acquisitions, a positive net internal growth rate and the continued focus on holding our general expense growth rate to a lower percentage than our revenue growth rate.

NATIONAL PROGRAMS DIVISION

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

Division, the National Programs Division's revenues are primarily commission-based.

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

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	**$131,149**	**18.1%**	$111,080	28.0%	$ 86,787
Contingent commissions	**1,998**	**141.6%**	827	(77.0)%	3,598
Investment income	**367**	**164.0%**	139	(2.8)%	143
Other income (loss), net	**416**	**804.3%**	46	(154.8)%	(84)
Total revenues	**133,930**	**19.5%**	112,092	23.9%	90,444
EXPENSES					
Employee compensation and benefits	**54,238**	**19.8%**	45,278	37.4%	32,951
Non-cash stock grant compensation	**359**	**52.8%**	235	36.6%	172
Other operating expenses	**20,414**	**23.1%**	16,581	26.5%	13,110
Amortization	**8,103**	**37.8%**	5,882	31.1%	4,488
Depreciation	**1,998**	**26.2%**	1,583	31.0%	1,208
Interest	**10,433**	**21.3%**	8,603	26.3%	6,810
Total expenses	**95,545**	**22.2%**	78,162	33.1%	58,739
Income before income taxes	**$ 38,385**	**13.1%**	$ 33,930	7.0%	$ 31,705
Net internal growth rate—core commissions and fees	**3.9%**		4.5%		11.2%
Employee compensation and benefits ratio	**40.5%**		40.4%		36.4%
Other operating expenses ratio	**15.2%**		14.8%		14.5%
Capital expenditures	**$ 3,067**		$ 2,693		$ 2,874
Total assets at December 31	**$445,146**		$359,551		$273,363

Total revenues in 2005 increased $21.8 million to $133.9 million, a 19.5% increase over 2004. Of this increase, approximately $17.9 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2004. The National Program Division's net internal growth rate for core commissions and fees revenue was 3.9%, excluding core commissions and fees revenue recognized in 2005 from new acquisitions. The majority of the internally generated growth in the 2005 core commissions and fees revenue was primarily related to increasing insurance premium rates in our condominium program at our Florida Intracoastal Underwriters (FIU) profit center that occurred as a result of the 2005 and 2004 hurricane seasons.

Income before income taxes in 2005 increased $4.5 million to $38.4 million, a 13.1% increase over 2004, of which the majority related to the revenues derived from acquisitions completed in 2005 and the increased earnings at FIU.

Total revenues in 2004 increased $21.6 million to $112.1 million, a 23.9% increase over 2003. Of this increase, approximately $21.6 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2003. During 2004, we discontinued several programs, including our professional medical program, which generated approximately $1.2 million in revenues in 2003 but for which there were no comparable revenues in 2004. Therefore, the National Program Division's net internal growth rate for core commissions and fees revenue in 2004 was 4.5%, excluding core commissions and fees revenue recognized in 2004 from new acquisitions and the 2003 core commissions and fees revenue from divested business. The net internal growth rate for core commissions and fees revenue for the National Programs Division in 2003 was 11.2%. The decline in the net internal growth rates from core commissions and fees revenue from 2003 to 2004 was primarily related to declining insurance premium rates in our condominium program with our FIU profit center.

Income before income taxes in 2004 increased $2.2 million to $33.9 million, a 7.0% increase over 2003, of which the majority related to the revenues derived from acquisitions completed in 2004, but offset primarily by lower earnings at FIU. The ratio of employee compensation and benefits to total revenues and the ratio of other operating expenses to total revenue were higher in 2004 than 2003, primarily due to two reasons: (1) 2004 total revenues reflected $2.8 million less profit-sharing contingency commissions income than in 2003 due primarily to the impact of the 2004 hurricanes in Florida, and (2) the 2003 and 2004 acquisitions reporting in this Division accounted for 27% of the Division's total revenues, but operated at a lower aggregate operating profit margin of approximately 38.0%, thereby diluting the historical aggregate operating profit margin of this Division.

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

BROKERAGE DIVISION

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

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

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	**$120,889**	**218.7%**	$ 37,929	39.5%	$27,183
Contingent commissions	**4,648**	**27.1%**	3,656	(19.7)%	4,555
Investment income	**1,599**	**—**	—	—	—
Other (loss) income, net	**(23)**	**(227.8)%**	18	800.0%	2
Total revenues	**127,113**	**205.5%**	41,603	31.1%	31,740
EXPENSES					
Employee compensation and benefits	**59,432**	**200.4%**	19,782	47.3%	13,426
Non-cash stock grant compensation	**164**	**64.0%**	100	(39.0)%	164
Other operating expenses	**19,808**	**153.9%**	7,800	38.9%	5,614
Amortization	**5,672**	**649.3%**	757	142.6%	312
Depreciation	**1,285**	**153.0%**	508	53.5%	331
Interest	**12,446**	**843.6%**	1,319	72.4%	765
Total expenses	**98,807**	**226.5%**	30,266	46.8%	20,612
Income before income taxes	**$ 28,306**	**149.7%**	$ 11,337	1.9%	$11,128
Net internal growth rate—core commissions and fees	**24.9%**		14.1%		19.7%
Employee compensation and benefits ratio	**46.8%**		47.5%		42.3%
Other operating expenses ratio	**15.6%**		18.7%		17.7%
Capital expenditures	**$ 1,969**		$ 694		$ 824
Total assets at December 31	**$476,653**		$128,699		$74,390

Total revenues in 2005 increased $85.5 million to $127.1 million, a 205.5% increase over 2004. Of this increase, approximately $73.3 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2004. The majority of this acquired revenue was from the March 1, 2005 acquisition of Hull & Company, which represented the largest acquisition in our history. Commissions and fees revenue of Hull & Company for the twelve months preceding March 1, 2005 was approximately $63.0 million. The Brokerage Division's net internal growth rate for core commissions and fees revenue in 2005 was 24.9%, excluding core commissions and fees revenue recognized in 2005 from new acquisitions. The strong net internal growth rate was generated primarily from two of our operations, one of which focuses on property accounts in the southeastern United States, and the other which focuses on construction accounts in the western part of the United States. In addition to the increase in net new business, both of these markets experienced increases in insurance premium rates during 2005.

As a result of the Brokerage Division's significant acquisitions in 2005 and late 2004, as well as the net new business growth from existing operations, income before income taxes in 2005 increased $17.0 million to $28.3 million, a 149.7% increase over 2004. The ratio of employee compensation and benefits to total revenues and the ratio of other operating expenses to total revenue improved in 2005 over 2004, primarily due to two reasons: (1) the majority of the operations acquired in 2005 and 2004 operated at higher operating profit margins than the Brokerage Division's 2004 combined margins, and (2) during 2005, one of our largest brokerage profit center's branch improved their operating profit margins by over 9%.

Total revenues in 2004 increased $9.9 million to $41.6 million, a 31.1% increase over 2003. Of this increase, approximately $7.0 million related to core commissions and fees revenues from acquisitions for which there were no comparable revenues in 2003. The Brokerage Division's net internal growth rate for core commissions and fees revenues in 2004 was 14.1%, excluding core commissions and fees revenues recognized in 2004 from new acquisitions. The net internal growth rate for core commissions and fees revenues for the Brokerage Division in 2003 was 19.7%. The decline in the net internal growth rates from core commissions and fees revenues in 2004 from 2003 was primarily related to the decline in the net new business generated by our reinsurance brokerage unit and the gradual softening of insurance premium rates.

As a result of the Brokerage Division's net new business growth, income before income taxes in 2004 increased $0.2 million to $11.3 million, a 1.9% increase over 2003. The ratio of employee compensation and benefits to total revenues and the ratio of other operating expenses to total revenue were higher in 2004 than 2003, primarily due to two reasons: (1) 2004 total revenues reflected $0.9 million less profit-sharing contingency commissions than in 2003, and (2) during 2004, we started several new profit center branches and the start-up salaries and operational costs diluted the Division's normal operating profit margins.

SERVICES DIVISION

The Services Division provides insurance-related services, including third-party administration, consulting for the workers' compensation and employee benefit self-insurance markets, and managed healthcare services. Unlike our other segments, approximately 98.0% of the Services Division's 2005 commissions and fees revenue is generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

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

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	**$26,565**	**2.9%**	$25,807	(7.6)%	$27,920
Contingent commissions	**—**	**—**	—	—	—
Investment income	**—**	**—**	—	—	—
Other income, net	**952**	**(5.0)%**	1,002	49.3%	671
Total revenues	**27,517**	**2.6%**	26,809	(6.2)%	28,591
EXPENSES					
Employee compensation and benefits	**15,582**	**4.2%**	14,961	(5.8)%	15,876
Non-cash stock grant compensation	**122**	**13.0%**	108	(32.9)%	161
Other operating expenses	**4,339**	**(11.0)%**	4,873	(23.9)%	6,407
Amortization	**43**	**19.4%**	36	(2.7)%	37
Depreciation	**435**	**12.4%**	387	(8.5)%	423
Interest	**4**	**(94.2)%**	69	(57.4)%	162
Total expenses	**20,525**	**0.4%**	20,434	(11.4)%	23,066
Income before income taxes	**$ 6,992**	**9.7%**	$ 6,375	15.4%	$ 5,525
Net internal growth rate—core commissions and fees	**9.2%**		16.6%		7.9%
Employee compensation and benefits ratio	**56.6%**		55.8%		55.5%
Other operating expenses ratio	**15.8%**		18.2%		22.4%
Capital expenditures	**$ 350**		$ 788		$ 234
Total assets at December 31	**$18,766**		$13,760		$13,267

Total revenues in 2005 increased $0.7 million net to $27.5 million, a 2.6% increase over 2004. The Services Division's net internal growth rate for core commissions and fees revenue was 9.2% in 2005, excluding the 2004 core commissions and fees revenue from divested business. The positive net internal growth rates from core commissions and fees revenue primarily reflect the strong net new business growth from our workers' compensation and public entity third-party administration (TPA) businesses.

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

Income before income taxes in 2005 increased $0.6 million to $7.0 million, a 9.7% increase over 2004, primarily due to strong net new business growth.

Total revenues in 2004 decreased $1.8 million to $26.8 million, a 6.2% decrease from 2003. Of this decrease, approximately $6.6 million related to core commissions and fees revenue from medical TPA business units sold in 2004 and 2003. These operations were sold because their respective operating profit margins were not expected to exceed the 10%–12% range, which were not acceptable returns to us in our culture. The Services Division's net internal growth rate for core commissions and fees revenue was 16.6% in 2004, excluding the 2003 core commissions and fees revenue from divested business. The net internal growth rate for core commissions and fees revenue for the Services Division in 2003 was 7.9%. The positive net internal growth rates from core commissions and fees revenue for 2003 and 2004 primarily reflect the strong net new business growth from our workers' compensation and public entity TPA businesses.

Income before income taxes in 2004 increased $0.9 million to $6.4 million, a 15.4% increase over 2003, primarily due to strong net new business growth and the elimination of the lower margin medical TPA businesses sold in 2003 and 2004.

OTHER

As discussed in Note 16 of the Notes to Consolidated Financial Statements, the "Other" column in the Segment Information table includes any income and expenses not allocated to reportable segments, and corporate-related items, including the inter-company interest expense charge to the reporting segment.

Quarterly Operating Results

The following table sets forth our quarterly results for 2005 and 2004.

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Total revenues	**$202,374**	**$195,931**	**$190,645**	**$196,857**
Income before income taxes	**$ 70,513**	**$ 60,468**	**$ 55,689**	**$ 57,460**
Net income	**$ 43,018**	**$ 37,033**	**$ 34,783**	**$ 35,717**
Net income per share:				
Basic	**$ 0.31**	**$ 0.27**	**$ 0.25**	**$ 0.26**
Diluted	**$ 0.31**	**$ 0.27**	**$ 0.25**	**$ 0.25**
2004				
Total revenues	$ 165,565	$ 157,942	$ 160,381	$ 163,046
Income before income taxes	$ 59,360	$ 52,529	$ 48,256	$ 46,804
Net income	$ 36,348	$ 32,153	$ 30,086	$ 30,256
Net income per share:				
Basic	$ 0.26	$ 0.23	$ 0.22	$ 0.22
Diluted	$ 0.26	$ 0.23	$ 0.22	$ 0.22

Liquidity and Capital Resources

Our cash and cash equivalents of $100.6 million at December 31, 2005 reflected a decrease of $87.5 million from the $188.1 million balance at December 31, 2004. During 2005, $215.1 million of cash was provided from operating activities. Also during this period, $262.2 million of cash was used for acquisitions, $13.4 million was used for additions to fixed assets, $16.1 million was used for payments on long-term debt and $23.6 million was used for payment of dividends.

Our cash and cash equivalents of $188.1 million at December 31, 2004 reflected an increase of $131.2 million over the $56.9 million balance at December 31, 2003. During 2004, $170.2 million of cash was provided from operating activities, and $200.0 million was provided from the issuance of new privately-placed, unsecured senior notes. Also during this period, $202.7 million of cash was used for acquisitions, $10.2 million was used for additions to fixed assets, $18.6 million was used for payments on long-term debt and $20.0 million was used for payment of dividends.

Our cash and cash equivalents of $56.9 million at December 31, 2003 reflected a decrease of $11.1 million from our December 31, 2002 balance of $68.0 million. During 2003, $142.7 million of cash was provided from operating activities. Also during the period, $100.3 million of cash was used for acquisitions, $15.9 million was used for additions to fixed assets, $28.0 million was used for payments on long-term debt and $16.6 million was used for payments of dividends.

Our ratio of current assets to current liabilities (the "current ratio") was 1.06 and 1.48 at December 31, 2005 and 2004, respectively.

As of December 31, 2005, our contractual cash obligations were as follows:

CONTRACTUAL CASH OBLIGATIONS

(in thousands)	Total	Less Than 1 Year	1–3 Years	4–5 Years	After 5 Years
Long-term debt	$269,792	$ 55,623	$ 13,806	$ 304	$200,059
Capital lease obligations	17	7	10	—	—
Other long-term liabilities	11,830	9,174	946	653	1,057
Operating leases	85,821	20,731	32,373	21,075	11,642
Interest obligations	85,709	13,129	23,775	23,326	25,479
Maximum future acquisition contingency payments	189,611	107,277	82,325	9	—
Total contractual cash obligations	$642,780	$205,941	$153,235	$45,367	$238,237

In July 2004, we completed a private placement of $200.0 million of unsecured senior notes (the "Notes"). The $200.0 million is divided into two series: Series A, for $100.0 million due in 2011 and bearing interest at 5.57% per year; and Series B, for $100.0 million due in 2014 and bearing interest at 6.08% per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. We have used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of December 31, 2005, there was an outstanding balance of $200.0 million on the Notes.

In September 2003, we established an unsecured revolving credit facility with a national banking institution that provided for available borrowings of up to $75.0 million, with a maturity date of October 2008, bearing an interest rate based upon the 30-, 60- or 90-day LIBOR plus 0.625% to 1.625%, depending upon our quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. A commitment fee of 0.175% to 0.375% per annum was assessed on the unused balance. The 90-day LIBOR was 4.53% as of December 31, 2005. There were no borrowings against this facility at December 31, 2005.

In January 2001, we entered into a $90.0 million, unsecured seven-year term loan agreement with a national banking institution. Borrowings under this facility bear interest based upon the 30-, 60- or 90-day LIBOR plus a credit risk spread ranging from 0.50% to 1.00%, depending upon our quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. The 90-day LIBOR was 4.53% as of December 31, 2005. The loan was fully funded on January 3, 2001, and a balance of $25.7 million remained outstanding as of December 31, 2005. This loan is to be repaid in equal quarterly principal installments of $3.2 million through December 2007. Effective January 2, 2002, we entered into an interest rate swap agreement with a national banking institution to lock in an effective fixed interest rate of 4.53% for the remaining six years of the term loan, excluding our credit risk spread of between 0.50% and 1.00%.

In 1991, we entered into a long-term unsecured credit agreement with a major insurance company that provided for borrowings at an interest rate equal to the prime rate (9.25% at December 31, 2002) plus 1.00%. In accordance with an August 1, 1998 amendment to this credit agreement, the outstanding balance was repaid in August 2003, thus ending the credit agreement.

All of our credit agreements require us to maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of December 31, 2005 and 2004.

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

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with our unsecured revolving credit

facility described above, will be sufficient to satisfy our normal liquidity needs through at least the end of 2006. Additionally, we believe that funds generated from future operations will be sufficient to satisfy our normal liquidity needs, including the required annual principal payments on our long-term debt.

Historically, much of our cash has been used for acquisitions. If additional acquisition opportunities should become available that exceed our current cash flow, we believe that given our relatively low debt-to-total capitalization ratio, we would have the ability to raise additional capital through either the private or public debt markets.

In December 2001, a universal "shelf" registration statement that we filed with the Securities and Exchange Commission (SEC) covering the public offering and sale, from time to time, of an aggregate of up to $250 million of debt and/or equity securities, was declared effective. The net proceeds from the sale of such securities could be used to fund acquisitions and for general corporate purposes, including capital expenditures, and to meet working capital needs. A common stock follow-on offering of 5,000,000 shares in March 2002 was made pursuant to this "shelf" registration statement. As of December 31, 2005, approximately $90.0 million of the universal "shelf" registration remains available. If we needed to publicly raise additional funds, we may need to register additional securities with the SEC.

Consolidated Statements of Income

	Year Ended December 31,		
(in thousands, except per share data)	2005	2004	2003
REVENUES			
Commissions and fees	**$775,543**	$638,267	$545,287
Investment income	**6,578**	2,715	1,428
Other income, net	**3,686**	5,952	4,325
Total revenues	**785,807**	646,934	551,040
EXPENSES			
Employee compensation and benefits	**374,943**	314,221	268,372
Non-cash stock grant compensation	**3,337**	2,625	2,272
Other operating expenses	**105,622**	84,927	74,617
Amortization	**33,245**	22,146	17,470
Depreciation	**10,061**	8,910	8,203
Interest	**14,469**	7,156	3,624
Total expenses	**541,677**	439,985	374,558
Income before income taxes	**244,130**	206,949	176,482
Income taxes	**93,579**	78,106	66,160
Net income	**$150,551**	$128,843	$110,322
Net income per share:			
Basic	**$ 1.09**	$ 0.93	$ 0.81
Diluted	**$ 1.08**	$ 0.93	$ 0.80
Weighted average number of shares outstanding:			
Basic	**138,563**	137,818	136,654
Diluted	**139,776**	138,888	137,794
Dividends declared per share	**$ 0.17**	$ 0.1450	$ 0.1213

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(in thousands, except per share data)	At December 31, 2005	2004
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 100,580**	$ 188,106
Restricted cash and investments	**229,872**	147,483
Short-term investments	**2,748**	3,163
Premiums, commissions and fees receivable	**257,930**	172,395
Other current assets	**28,637**	28,819
Total current assets	**619,767**	539,966
Fixed assets, net	**39,398**	33,438
Goodwill	**549,040**	360,843
Amortizable intangible assets, net	**377,907**	293,009
Investments	**8,421**	9,328
Other assets	**14,127**	12,933
Total assets	**$1,608,660**	$1,249,517
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	**$ 397,466**	$ 242,414
Premium deposits and credits due customers	**34,027**	32,273
Accounts payable	**21,161**	16,257
Accrued expenses	**74,534**	58,031
Current portion of long-term debt	**55,630**	16,135
Total current liabilities	**582,818**	365,110
Long-term debt	**214,179**	227,063
Deferred income taxes, net	**35,489**	24,859
Other liabilities	**11,830**	8,160
Commitments and contingencies (Note 13)		
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued and outstanding 139,383 at 2005 and 138,318 at 2004	**13,938**	13,832
Additional paid-in capital	**193,313**	180,364
Retained earnings	**552,647**	425,662
Accumulated other comprehensive income, net of related income tax effect of $2,606 at 2005 and $2,617 at 2004	**4,446**	4,467
Total shareholders' equity	**764,344**	624,325
Total liabilities and shareholders' equity	**$1,608,660**	$1,249,517

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands, except per share data)	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2003	136,356	$ 13,636	$ 152,746	$ 223,102	$ 2,106	$ 391,590
Net income				110,322		110,322
Net unrealized holding gains on available-for-sale securities					1,395	1,395
Net gain on cash-flow hedging derivative					726	726
Comprehensive income						112,443
Common stock purchased for employee stock benefit plans	(162)	(16)	(2,318)			(2,334)
Common stock issued for employee stock benefit plans	920	92	9,203			9,295
Income tax benefit from exercise of stock options			3,530			3,530
Common stock issued to directors	8		113			113
Cash dividends paid ($0.1213 per share)				(16,602)		(16,602)
Balance at December 31, 2003	137,122	13,712	163,274	316,822	4,227	498,035
Net income				128,843		128,843
Net unrealized holding loss on available-for-sale securities					(649)	(649)
Net gain on cash-flow hedging derivative					889	889
Comprehensive income						129,083
Common stock issued for acquisitions	400	40	6,204			6,244
Common stock issued for employee stock benefit plans	790	80	10,525			10,605
Income tax benefit from exercise of stock options			234			234
Common stock issued to directors	6	—	127			127
Cash dividends paid ($0.1450 per share)				(20,003)		(20,003)
Balance at December 31, 2004	138,318	13,832	180,364	425,662	4,467	624,325
Net income				**150,551**		**150,551**
Net unrealized holding loss on available-for-sale securities					**(512)**	**(512)**
Net gain on cash-flow hedging derivative					**491**	**491**
Comprehensive income						**150,530**
Common stock issued for employee stock benefit plans	**1,057**	**105**	**12,769**			**12,874**
Common stock issued to directors	**8**	**1**	**180**			**181**
Cash dividends paid ($0.17 per share)				**(23,566)**		**(23,566)**
Balance at December 31, 2005	**139,383**	**$13,938**	**$193,313**	**$552,647**	**$4,446**	**$764,344**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net income	**$ 150,551**	$ 128,843	$ 110,322
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	**33,245**	22,146	17,470
Depreciation	**10,061**	8,910	8,203
Non-cash stock grant compensation	**3,337**	2,625	2,272
Deferred income taxes	**10,642**	8,840	8,370
Income tax benefit from exercise of stock options	**—**	234	3,530
Net gain on sales of investments, fixed assets and customer accounts	**(2,478)**	(5,999)	(3,836)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:			
Restricted cash and investments (increase)	**(82,389)**	(30,940)	(13,550)
Premiums, commissions and fees receivable (increase)	**(84,058)**	(22,907)	(2,553)
Other assets decrease (increase)	**1,072**	(3,953)	(4,605)
Premiums payable to insurance companies increase	**153,032**	41,473	7,946
Premium deposits and credits due customers increase	**1,754**	9,997	5,500
Accounts payable increase (decrease)	**4,377**	3,608	(1,732)
Accrued expenses increase	**14,854**	7,140	5,551
Other liabilities increase (decrease)	**1,088**	186	(163)
Net cash provided by operating activities	**215,088**	170,203	142,725
Cash flows from investing activities:			
Additions to fixed assets	**(13,426)**	(10,152)	(15,946)
Payments for businesses acquired, net of cash acquired	**(262,181)**	(202,664)	(100,270)
Proceeds from sales of fixed assets and customer accounts	**2,362**	6,330	4,975
Purchases of investments	**(299)**	(3,142)	—
Proceeds from sales of investments	**896**	1,107	106
Net cash used in investing activities	**(272,648)**	(208,521)	(111,135)
Cash flows from financing activities:			
Proceeds from long-term debt	**—**	200,000	—
Payments on long-term debt	**(16,117)**	(18,606)	(28,024)
Borrowings on revolving credit facility	**50,000**	50,000	—
Payments on revolving credit facility	**(50,000)**	(50,000)	—
Issuances of common stock for employee stock benefit plans	**9,717**	8,107	7,136
Purchase of common stock for employee stock benefit plan	**—**	—	(2,334)
Cash dividends paid	**(23,566)**	(20,003)	(16,602)
Cash distribution to minority interest shareholders	**—**	—	(2,890)
Net cash (used in) provided by financing activities	**(29,966)**	169,498	(42,714)
Net (decrease) increase in cash and cash equivalents	**(87,526)**	131,180	(11,124)
Cash and cash equivalents at beginning of year	**188,106**	56,926	68,050
Cash and cash equivalents at end of year	**$ 100,580**	$ 188,106	$ 56,926

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, brokerage, and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public entity, professional and individual customers; the National Programs Division, which is comprised of two units—Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designated for specific industries, trade groups, governmental entities and market niches; the Brokerage Division, which markets and sells excess and surplus commercial insurance and reinsurance, primarily through independent agents and brokers; and the Services Division, which provides insurance-related services, including third-party administration, consulting for the workers' compensation and employee benefit self-insurance markets, and managed healthcare services.

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. Any outside or third-party interests in Brown & Brown's net income and net assets are reflected as minority interest in the accompanying Consolidated Financial Statements.

REVENUE RECOGNITION

Commission revenue is recognized as of the effective date of the insurance policy or the date the policy premium is billed to the customer, whichever is later. At that date, the earnings process has been completed and Brown & Brown can reliably estimate the impact of policy cancellations for refunds and establish reserves accordingly. The reserve for policy cancellations is based upon historical cancellation experience adjusted by known circumstances. The policy cancellation reserve was $5,019,000 and $3,771,000 at December 31, 2005 and 2004, respectively, and is periodically evaluated and adjusted as necessary. Subsequent commission adjustments are recognized upon notification from the insurance companies. Commission revenues are reported net of commissions paid to sub-brokers or co-brokers. Profit-sharing contingent commissions from insurance companies are recognized when determinable, which is when such commissions are received. Fee income is 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 (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 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 companies. Accordingly, as reported in the Consolidated Balance Sheets, "premiums" are receivable from insureds. Unremitted net insurance premiums

Notes to Consolidated Financial Statements

are held in a fiduciary capacity until disbursed by Brown & Brown. Brown & Brown invests these unremitted funds only in cash, money market accounts, commercial paper and debt securities held for a short term, and reports such amounts as restricted cash on the Consolidated Balance Sheets. Debt securities held for a short term consisted of nil ($0) and $62,675,000 of "Auction Rate Securities" ("ARS") as of December 31, 2005 and 2004, respectively. In certain states where Brown & Brown operates, the use and investment alternatives for these funds are regulated by various state agencies. The interest income earned on these unremitted funds 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 receivable from insurance companies. "Fees" are primarily receivable from customers of Brown & Brown's Services Division.

INVESTMENTS

Marketable debt securities held by Brown & Brown consist of ARS. These ARS are purchased for their investment yields for short periods of time, generally 15 to 35 days, between specified "auction dates." However, since these securities have underlying stated maturity dates of 20 to 30 years, they are classified as "trading" and are reported at their fair value. These ARS are purchased for their short-term interest earnings, and there is generally no gain or loss on the sale or "maturity" of these trading securities.

Marketable equity securities held by Brown & Brown have been classified as "available-for-sale" and are reported at estimated fair value, with the accumulated other comprehensive income (unrealized gains and losses), net of related income tax effect, reported as a separate component of shareholders' equity. Realized gains and losses and declines in value below cost that are judged to be other-than-temporary on available-for-sale securities are reflected in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income in the Consolidated Statements of Income.

As of December 31, 2005 and 2004, Brown & Brown's marketable equity securities principally represented a long-term investment of 559,970 shares of common stock in Rock-Tenn Company. Brown & Brown's Chief Executive Officer serves on the board of directors of Rock-Tenn Company. Brown & Brown has no current intention of adding to or selling these shares.

Non-marketable equity securities and certificates of deposit having maturities of more than three months when purchased are reported at cost and are adjusted for other-than-temporary market value declines.

Net unrealized holding gains on available-for-sale securities included in accumulated other comprehensive income reported in shareholders' equity was $4,410,000 at December 31, 2005 and $4,922,000 at December 31, 2004, net of deferred income taxes of $2,584,000 and $2,884,000, respectively.

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 10 years. Leasehold improvements are amortized on the straight-line method over the term of the related lease.

GOODWILL AND AMORTIZABLE INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" (SFAS No. 141), which requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from such business combinations. 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.

Effective January 1, 2002, Brown & Brown adopted SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), which provides for the non-amortization of goodwill. Goodwill is now subject to at least an annual assessment for impair-

ment by applying a fair-value based test. Amortizable intangible assets are amortized over their economic lives and are subject to lower-of-cost-or-market impairment testing. SFAS No. 142 requires Brown & Brown to compare 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 would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of revenues, earnings before interest, income taxes, depreciation and amortization (EBITDA) and pre-tax income. Brown & Brown completed its most recent annual assessment as of November 30, 2005 and identified no impairment as a result of the evaluation.

Amortizable intangible assets are stated at cost, less accumulated amortization, and consist of purchased customer accounts and noncompete agreements. Purchased customer accounts and noncompete agreements are being 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.

As part of Brown & Brown's annual impairment assessment completed as of November 30, 2004, management determined that the maximum amortization period for the intangible asset, purchased customer accounts, should be reduced from 20 years to 15 years. A change in accounting estimate was recognized to reflect this decision resulting in an increase in the 2005 and 2004 amortization expense of $6.4 million and $0.5 million, a corresponding decrease in net income of $3.9 million and $0.3 million, and $0.03 and nil ($0) impact on earnings per share, respectively.

The carrying value of intangibles attributable to each division comprising Brown & Brown is periodically reviewed by management to determine if the facts and circumstances suggest that they may be impaired. In the insurance agency and brokerage industry, it is common for agencies or customer accounts to be acquired at a price determined as a multiple of either their corresponding revenues or EBITDA. Accordingly, Brown & Brown assesses the carrying value of its intangible assets by comparison of a reasonable multiple applied to either corresponding revenues or EBITDA, as well as considering the estimated future cash flows generated by the corresponding division. Any impairment identified through this assessment may require that the carrying value of related intangible assets be adjusted; however, no impairments have been recorded for the years ended December 31, 2005, 2004 and 2003.

DERIVATIVES

Brown & Brown utilizes a derivative financial instrument to reduce interest rate risk. Brown & Brown does not hold or issue derivative financial instruments for trading purposes. In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which was subsequently amended by SFAS Nos. 137, 138 and 149. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities. These standards require that an entity recognize all derivatives as either assets or liabilities in its balance sheet and measure those instruments at fair value. Changes in the fair value of those instruments will be reported in earnings or other comprehensive income, depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative, and the resulting effect on the consolidated financial statements, will depend on the derivative's hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of cash flows as compared to changes in the fair value of the liability being hedged.

STOCK-BASED COMPENSATION AND INCENTIVE PLANS

Brown & Brown has elected to account for its stock-based compensation and incentive plans under the intrinsic value-based method, with pro forma disclosures of net earnings and earnings per share as if the fair value-based method of accounting defined in SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), had been applied. Under the intrinsic value-based method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Under the fair value-based method, compensation cost is measured at the grant date based on the fair value of the award and is recog-

Notes to Consolidated Financial Statements

nized over the service period, which is usually the vesting period. In December 2002, Brown & Brown adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which requires presentation of pro forma net income and earnings per share information under SFAS No. 123.

Pursuant to the above disclosure requirements, the following table provides an expanded reconciliation for all periods presented that adds back to reported net income the recorded expense under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," net of related income tax effects, deducts the total fair value expense under SFAS No. 123, net of related income tax effects, and shows the reported and pro forma earnings per share amounts:

	Year Ended December 31,		
(in thousands, except per share data)	2005	2004	2003
Net income as reported	**$150,551**	$128,843	$110,322
Total stock-based employee compensation cost included in the determination of net income, net of related income tax effects	**2,061**	1,638	1,412
Total stock-based employee compensation cost determined under fair value method for all awards, net of related income tax effects	**(5,069)**	(3,436)	(2,868)
Pro forma net income	**$147,543**	$127,045	$108,866
Net income per share:			
Basic, as reported	**$ 1.09**	$ 0.93	$ 0.81
Basic, pro forma	**$ 1.06**	$ 0.92	$ 0.80
Diluted, as reported	**$ 1.08**	$ 0.93	$ 0.80
Diluted, pro forma	**$ 1.06**	$ 0.91	$ 0.79

INCOME TAXES

Brown & Brown records income tax expense using the asset and liability method of accounting for deferred income taxes. Under such 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

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

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

	Year Ended December 31,		
(in thousands, except per share data)	2005	2004	2003
Net income	**$150,551**	$128,843	$110,322
Weighted average number of common shares outstanding	**138,563**	137,818	136,654
Dilutive effect of stock options using the treasury stock method	**1,213**	1,070	1,140
Weighted average number of shares outstanding	**139,776**	138,888	137,794
Net income per share:			
Basic	**$ 1.09**	$ 0.93	$ 0.81
Diluted	**$ 1.08**	$ 0.93	$ 0.80

All share and per share amounts in the consolidated financial statements have been restated to give effect to the two-for-one common stock split effected by Brown & Brown on November 28, 2005. The stock split was effected as a stock dividend.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of Brown & Brown's financial assets and liabilities, including cash and cash equivalents, investments, premiums, commissions and fees receivable, premiums payable to insurance companies, premium deposits and credits due customers and accounts payable, at December 31, 2005 and 2004, 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, 2005 and 2004 since the debt is at floating rates. Brown & Brown's one interest rate swap agreement is reported at its fair value as of December 31, 2005 and 2004.

NEW ACCOUNTING PRONOUNCEMENT

In December 2004, the FASB issued revised SFAS No. 123, "Share-Based Payment," which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This revised statement, which requires that the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective and requires entities to apply a fair value-based measurement method in accounting for share-based payment transactions. The revised statement applies to all awards granted, modified, repurchased or cancelled after July 1, 2005.

Revised SFAS No. 123 permits public companies to account for the adoption of this revised standard using one of two methods: the modified-prospective method or the modified-retrospective method. The modified-prospective method requires a company to recognize compensation cost based upon fair value for only those share-based awards granted or modified with an effective date subsequent to the company's date of adoption and share-based awards issued in prior periods that remain unvested at the date of adoption. The modified-retrospective method allows a company to restate, based upon pro forma amounts previously disclosed under the requirements of Revised SFAS No. 123, for either all prior periods presented or prior interim periods included in the year of adoption.

Effective January 1, 2006, the company adopted Revised SFAS No. 123 and accounted for the adoption using the modified-prospective method. For fair value purposes, the company will use a Black-Scholes option-pricing model to estimate the fair value of stock option awards.

Brown & Brown's assessment of the estimated future compensation expense is affected by the stock price as well as assumptions regarding a number of complex variables and the related tax impact. Although the adoption of Revised SFAS No. 123 is not expected to have a material effect on Brown & Brown's results of operations, future changes to various assumptions used to determine the fair-value of awards issued or the amount and type of equity awards granted create uncertainty as to whether future compensation expense will be similar to the historical SFAS No. 123 pro forma expense.

Notes to Consolidated Financial Statements

Note 2 Business Combinations

ACQUISITIONS IN 2005

During 2005, Brown & Brown acquired the assets and assumed certain liabilities of 32 insurance intermediary operations and several books of business (customer accounts). The aggregate purchase price was $288,623,000, including $244,006,000 of net cash payments, the issuance of $38,072,000 in notes payable and the assumption of $6,545,000 of other liabilities. All of these acquisitions operate in the insurance intermediary business and were acquired primarily to expand Brown & Brown's core businesses and to attract high-quality individuals to the Company. Acquisition purchase prices are typically based on a multiple of average annual operating profit (core commissions and fees revenue over expenses) earned over a one- to three-year period after the acquisition effective date, within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price and any subsequent "earn-out" payment is allocated to Goodwill.

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

(in thousands) Name of Acquisitions	Business Segment	2005 Date of Acquisition	Net Cash Paid	Notes Payable	Recorded Purchase Price
American Specialty Companies, Inc., et al.	National Programs	January 1	$ 23,782	$ —	$ 23,782
Braishfield Associates, Inc.	Brokerage	January 1	10,215	—	10,215
Hull & Company, Inc., et al.	Brokerage	March 1	140,169	35,000	175,169
Weible & Cahill, LLC	Retail	October 1	17,971	—	17,971
Timothy R. Downey Insurance, Inc.	National Programs	November 1	14,302	1,374	15,676
Other	Various	Various	37,567	1,698	39,265
Total			$244,006	$38,072	$282,078

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

(in thousands)	American Specialty	Braishfield	Hull	Weible & Cahill	Downey	Other	Total
Other current assets	$ 112	$ 50	$ 173	$ 266	$ —	$ 1,117	$ 1,718
Fixed assets	370	25	2,500	111	89	180	3,275
Purchased customer accounts	7,410	4,835	68,000	10,825	9,042	17,633	117,745
Noncompete agreements	38	50	95	11	55	887	1,136
Goodwill	18,247	5,408	105,463	7,092	8,382	20,157	164,749
Total assets acquired	26,177	10,368	176,231	18,305	17,568	39,974	288,623
Other current liabilities	(59)	(153)	(1,062)	(100)	(1,892)	(709)	(3,975)
Other liabilities	(2,336)	—	—	(234)	—	—	(2,570)
Total liabilities assumed	(2,395)	(153)	(1,062)	(334)	(1,892)	(709)	(6,545)
Net assets acquired	$23,782	$10,215	$175,169	$17,971	$15,676	$39,265	$282,078

The weighted average useful lives for the above acquired amortizable intangible assets are as follows: purchased customer accounts, 15.0 years; and noncompete agreements, 4.1 years.

Goodwill of $164,749,000, all of which is expected to be deductible for income tax purposes, was assigned to the Retail, National Programs and Brokerage Divisions in the amounts of $19,773,000, $27,144,000 and $117,832,000, respectively.

The results of operations for the acquisitions completed during 2005 have been combined with those of Brown & Brown since their respective acquisition dates. If the acquisitions had occurred as of January 1, 2004, Brown & Brown'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.

	Year Ended December 31,	
(in thousands, except per share data)	2005	2004
(UNAUDITED)		
Total revenues	**$818,783**	$769,815
Income before income taxes	**$255,268**	$246,978
Net income	**$157,420**	$153,765
Net income per share:		
Basic	**$ 1.14**	$ 1.12
Diluted	**$ 1.13**	$ 1.11
Weighted average number of shares outstanding:		
Basic	**138,563**	137,818
Diluted	**139,776**	138,888

Additional consideration paid to sellers, or consideration returned to Brown & Brown by sellers, as a result of purchase price "earn-out" provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by Brown & Brown as a result of these adjustments totaled $22,832,000 in 2005 and $965,000 in 2004, of which $23,797,000 was allocated to goodwill. Of the $22,832,000 net additional consideration paid in 2005, $18,175,000 was paid in cash and the issuance of $4,657,000 in notes payable. Of the $965,000 net additional consideration paid in 2004, $814,000 was paid in cash and the assumption of $151,000 of other liabilities. As of December 31, 2005, the maximum future contingency payments related to acquisitions totaled $189,611,000.

ACQUISITIONS IN 2004

During 2004, Brown & Brown acquired the assets and assumed certain liabilities of 29 insurance intermediary operations, several books of business (customer accounts), and the outstanding stock of three general insurance agencies. The aggregate purchase price was $199,281,000 including $190,544,000 of net cash payments, the issuance of $1,430,000 in notes payable and the assumption of $7,307,000 of other liabilities. All of these acquisitions operate in the insurance intermediary business and were acquired primarily to expand Brown & Brown's core businesses and to attract high-quality individuals to the Company. Acquisition purchase prices are typically based on a multiple of operating profit earned over a one- to three-year period after the acquisition effective date, within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price and any subsequent "earn-out" payment is allocated to Goodwill.

Notes to Consolidated Financial Statements

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

(in thousands) Name of Acquisition	Business Segment	2004 Date of Acquisition	Net Cash Paid	Notes Payable	Recorded Purchase Price
Doyle Consulting Group, Inc., et al.	Retail	February 1	$ 10,707	$ —	$ 10,707
Statfeld Vantage Insurance Group, LLC et al.	Retail	March 1	26,619	—	26,619
Waldor Agency, Inc.	Retail	March 1	30,412	—	30,412
Proctor Financial, Inc.	National Programs	May 1	31,060	—	31,060
The McDuffee Insurance Agency, Inc.	Retail	July 1	19,020	—	19,020
International E&S Insurance Brokers, Inc., et al.	Brokerage	September 1	18,387	—	18,387
Others	Various	Various	54,339	1,430	55,769
Total			$190,544	$1,430	$191,974

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

(in thousands)	Doyle	Statfeld	Waldor	Proctor	McDuffee	Int'l. E&S	Others	Total
Other current assets	$ 568	$ 876	$ —	$ 786	$ 424	$ —	$ 1,589	$ 4,243
Fixed assets	100	50	50	200	100	23	451	974
Purchases customer accounts	4,451	8,384	10,807	16,013	6,876	11,123	27,244	84,898
Noncompete agreements	151	11	31	—	11	92	477	773
Goodwill	5,494	17,495	19,524	16,935	11,655	7,271	30,019	108,393
Total assets acquired	10,764	26,816	30,412	33,934	19,066	18,509	59,780	199,281
Other current liabilities	(57)	(197)	—	(2,874)	(46)	(122)	(3,105)	(6,401)
Deferred taxes	—	—	—	—	—	—	(906)	(906)
Total liabilities assumed	(57)	(197)	—	(2,874)	(46)	(122)	(4,011)	(7,307)
Net assets acquired	$10,707	$26,619	$30,412	$31,060	$19,020	$18,387	$55,769	$191,974

The weighted average useful lives for the above acquired amortizable intangible assets are as follows: purchased customer accounts, 14.8 years; and noncompete agreements, five years.

Goodwill of $108,393,000 was assigned to the Retail, National Programs and Brokerage Divisions in the amounts of $80,793,000, $20,329,000 and $7,271,000, respectively. Of that total amount, $105,024,000 is expected to be deductible for income tax purposes.

Additional consideration paid to sellers, or consideration returned to Brown & Brown by sellers, as a result of purchase price "earn-out" provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by Brown & Brown in 2004 as a result of these adjustments totaled $17,349,000, of which $17,168,000 was allocated to goodwill. Of the $17,349,000 net additional consideration paid, $12,120,000 was paid in cash, $6,244,000 was issued in common stock, and $1,015,000 was taken back as a forgiveness of a note payable obligation. As of December 31, 2004, the maximum future contingency payments related to acquisitions totaled $107,137,000.

Note 3 Goodwill

Effective January 1, 2002, Brown & Brown adopted SFAS No. 142, which provides for the non-amortization of goodwill. Goodwill is now subject to at least an annual assessment for impairment by applying a fair value-based test. Brown & Brown completed its most recent annual assessment as of November 30, 2005 and identified no impairment as a result of the evaluation.

The changes in goodwill, net of accumulated amortization, for the years ended December 31, are as follows:

(in thousands)	Retail	National Programs	Brokerage	Service	Total
Balance as of January 1, 2004	$ 168,135	$ 60,694	$ 8,868	$ 56	$ 237,753
Goodwill of acquired businesses	93,626	24,043	7,892	—	125,561
Goodwill disposed of relating to sales of businesses	(2,471)	—	—	—	(2,471)
Balance as of December 31, 2004	259,290	84,737	16,760	56	360,843
Goodwill of acquired businesses	33,243	34,313	120,990	—	188,546
Goodwill disposed of relating to sales of businesses	(321)	(28)	—	—	(349)
Balance as of December 31, 2005	**$292,212**	**$119,022**	**$137,750**	**$56**	**$549,040**

Note 4 Amortizable Intangible Assets

Amortizable intangible assets at December 31 consisted of the following:

	2005				2004			
(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (years)
Purchased customer accounts	**$498,580**	**$(126,161)**	**$372,419**	**14.9**	$381,744	$ (96,342)	$285,402	14.8
Noncompete agreements	**34,154**	**(28,666)**	**5,488**	**7.0**	32,996	(25,389)	7,607	7.1
Total	**$532,734**	**$ 154,827**	**$377,907**		$414,740	$(121,731)	$293,009	

Amortization expense recorded for other amortizable intangible assets for the years ended December 31, 2005, 2004 and 2003 was $33,245,000, $22,146,000 and $17,470,000, respectively.

Amortization expense for other amortizable intangible assets for the years ending December 31, 2006, 2007, 2008, 2009 and 2010 is estimated to be $34,398,000, $33,783,000, $32,897,000, $32,431,000, and $31,797,000 respectively.

Notes to Consolidated Financial Statements

Note 5 Investments

Investments at December 31 consisted of the following:

	2005 Carrying Value		2004 Carrying Value	
(in thousands)	Current	Non-Current	Current	Non-Current
Available-for-sale marketable equity securities	**$ 216**	**$ 7,644**	$ 204	$ 8,489
Non-marketable equity securities and certificates of deposit	**2,532**	**777**	2,959	839
Total investments	**$ 2,748**	**$ 8,421**	$ 3,163	$ 9,328

The following table summarizes available-for-sale securities at December 31:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable equity securities:				
2005	**$550**	**$7,312**	**$(2)**	**$7,860**
2004	$549	$8,147	$ (3)	$8,693

The following table summarizes the proceeds and realized gains/(losses) on non-marketable equity securities and certificates of deposit for the years ended December 31:

(in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses
2005	**$ 896**	**$ 87**	**$ —**
2004	$1,107	$526	$(118)
2003	$ 106	$ —	$ —

Note 6 Fixed Assets

Fixed assets at December 31 consisted of the following:

(in thousands)	2005	2004
Furniture, fixtures and equipment	**$ 83,275**	$ 74,358
Leasehold improvements	**6,993**	5,222
Land, buildings and improvements	**487**	655
Gross fixed assets	**90,755**	80,235
Less accumulated depreciation and amortization	**(51,357)**	(46,797)
Total	**$ 39,398**	$ 33,438

Depreciation and amortization expense amounted to $10,061,000 in 2005, $8,910,000 in 2004 and $8,203,000 in 2003.

Note 7 Accrued Expenses

Accrued expenses at December 31 consisted of the following:

(in thousands)	2005	2004
Accrued bonuses	**$35,613**	$25,314
Accrued compensation and benefits	**15,179**	12,596
Accrued rent and vendor expenses	**6,504**	4,195
Accrued interest	**5,302**	4,560
Reserve for policy cancellations	**5,019**	3,771
Other	**6,917**	7,595
Total	**$74,534**	$58,031

Note 8 Long-Term Debt

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

(in thousands)	2005	2004
Unsecured Senior Notes	**$200,000**	$200,000
Acquisition notes payable	**43,889**	4,385
Term loan agreements	**25,714**	38,571
Revolving credit facility	**—**	—
Other notes payable	**206**	242
Total debt	**269,809**	243,198
Less current portion	**(55,630)**	(16,135)
Long-term debt	**$214,179**	$227,063

In July 2004, Brown & Brown completed a private placement of $200.0 million of unsecured senior notes (the Notes). The $200.0 million is divided into two series: Series A, for $100.0 million due in 2011 and bearing interest at 5.57% per year; and Series B, for $100.0 million due in 2014 and bearing interest at 6.08% per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. Brown & Brown has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of December 31, 2005 and 2004 there was an outstanding balance of $200.0 million on the Notes.

In September 2003, Brown & Brown established an unsecured revolving credit facility with a national banking institution that provided for available borrowings of up to $75.0 million, with a maturity date of October 2008, bearing an interest rate based upon the 30-, 60- or 90-day LIBOR plus 0.625% to 1.625%, depending upon the Company's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. A commitment fee of 0.175% to 0.375% per annum is assessed on the unused balance. The 90-day LIBOR was 4.53% and 2.56% as of December 31, 2005 and 2004, respectively. There were no borrowings against this facility at December 31, 2005 or 2004.

In January 2001, Brown & Brown entered into a $90.0 million unsecured seven-year term loan agreement with a national banking institution, bearing an interest rate based upon the 30-, 60- or 90-day LIBOR plus 0.50% to 1.00%, depending upon Brown & Brown's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. The 90-day LIBOR was 4.53% and 2.56% as of December 31, 2005 and 2004, respectively. The loan

Notes to Consolidated Financial Statements

was fully funded on January 3, 2001 and as of December 31, 2005 had an outstanding balance of $25,714,000. This loan is to be repaid in equal quarterly installments of $3,200,000 through December 2007.

All three of these credit agreements require Brown & Brown to maintain certain financial ratios and comply with certain other covenants. Brown & Brown was in compliance with all such covenants as of December 31, 2005 and 2004.

To hedge the risk of increasing interest rates from January 2, 2002 through the remaining six years of its seven-year $90 million term loan, Brown & Brown entered into an interest rate swap agreement that effectively converted the floating rate LIBOR-based interest payments to fixed interest rate payments at 4.53%. This agreement did not affect the required 0.50% to 1.00% credit risk spread portion of the term loan. In accordance with SFAS No. 133, as amended, the fair value of the interest rate swap of approximately $36,000, net of related income taxes of approximately $22,000, was recorded in other assets as of December 31, 2005, and $455,000, net of related income taxes of approximately $267,000, was recorded in other liabilities as of December 31, 2004; with the related change in fair value reflected as other comprehensive income. Brown & Brown has designated and assessed the derivative as a highly effective cash flow hedge.

Acquisition notes payable represent debt incurred to former owners of certain insurance operations acquired by Brown & Brown. These notes and future contingent payments are payable in monthly, quarterly and annual installments through February 2014, including interest in the range from 3.0% to 8.05%.

Interest paid in 2005, 2004 and 2003 was $13,726,000, $2,773,000 and $3,646,000, respectively.

At December 31, 2005, maturities of long-term debt were $55,630,000 in 2006, $13,677,000 in 2007, $139,000 in 2008, $147,000 in 2009, $157,000 in 2010 and $200,059,000 in 2011 and beyond.

Note 9 Income Taxes

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

(in thousands)	2005	2004	2003
Current:			
Federal	**$72,550**	$59,478	$51,954
State	**10,387**	9,788	5,836
Total current provision	**82,937**	69,266	57,790
Deferred:			
Federal	**8,547**	6,967	8,691
State	**2,095**	1,873	(321)
Total deferred provision	**10,642**	8,840	8,370
Total tax provision	**$93,579**	$78,106	$66,160

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:

	2005	2004	2003
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal income tax benefit	**3.3**	3.7	2.8
State income tax credits	**—**	(0.5)	(0.6)
Interest exempt from taxation and dividend exclusion	**(0.2)**	(0.2)	(0.1)
Other, net	**0.2**	(0.3)	0.4
Effective tax rate	**38.3%**	37.7%	37.5%

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 deferred tax liabilities and assets as of December 31 are as follows:

(in thousands)	2005	2004
Deferred tax liabilities:		
Fixed assets	**$ 3,454**	$ 4,416
Net unrealized holding gain of available-for-sale securities	**2,584**	2,884
Prepaid insurance and pension	**2,219**	2,107
Net gain on cash-flow hedging derivative	**22**	—
Intangible assets	**37,379**	24,609
Total deferred tax liabilities	**45,658**	34,016
Deferred tax assets:		
Deferred compensation	**4,984**	4,257
Accruals and reserves	**4,973**	4,470
Net operating loss carryforwards	**537**	485
Net loss on cash-flow hedging derivative	**—**	266
Other	**—**	(89)
Valuation allowance for deferred tax assets	**(325)**	(232)
Total deferred tax assets	**10,169**	9,157
Net deferred tax liability	**$35,489**	$24,859

Income taxes paid in 2005, 2004 and 2003 were $77,143,000, $72,904,000, and $60,818,000, respectively.

At December 31, 2005, Brown & Brown had a net operating loss carryforward of $8,551,000 for income tax reporting purposes, portions of which expire in the years 2012 through 2023. This carryforward was derived from insurance operations acquired by Brown & Brown in 2001 and 1998, and the operating results of certain profit centers for state income tax purposes.

Note 10 Employee Savings Plan

Brown & Brown has an Employee Savings Plan (401(k)) under which substantially all employees with more than 30 days of service are eligible to participate. Under this plan, Brown & Brown makes matching contributions, subject to a maximum of 2.5% of each participant's salary. Further, Brown & Brown provides for a discretionary profit-sharing contribution for all eligible employees. Brown & Brown's contributions to the plan totaled $7,762,000 in 2005, $6,569,000 in 2004 and $6,398,000 in 2003.

Note 11 Stock-Based Compensation and Incentive Plans

STOCK PERFORMANCE PLAN

Brown & Brown has adopted and the shareholders have approved a stock performance plan, under which up to 14,400,000 shares of Brown & Brown's stock (Performance Stock, also referred to as PSP) may be granted to key employees contingent on the employees' future years of service with Brown & Brown and other criteria established by the Compensation Committee of Brown & Brown's Board of Directors. Before participants 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 increases in the 20-trading-day average stock price of Brown & Brown's common stock from the initial grant price specified by Brown & Brown. Performance Stock that has satisfied the first vesting condition is considered to be "awarded shares." Awarded shares are included as issued and outstanding common stock shares and are included in the calculation of basic and diluted earnings per share. 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: (i) 15 years of continuous employment with Brown & Brown from the date shares are granted to the participants; (ii) attainment of age 64; or (iii) death or disability of the participant. At December 31, 2005, 6,349,298 shares had been granted under the plan at initial stock prices ranging from $1.90 to $25.68. As of December 31, 2005, 5,125,304 shares had met the first condition for vesting and had been awarded, and 497,616 shares had satisfied both conditions for vesting and had been distributed to the participants.

The compensation expense for the Performance Stock is equal to the fair market value of the shares at the date the first vesting condition is satisfied and is expensed over the remainder of the estimated vesting period. Compensation expense related to this Plan totaled $3,337,000 in 2005, $2,625,000 in 2004 and $2,272,000 in 2003.

EMPLOYEE STOCK PURCHASE PLAN

Brown & Brown has adopted and the shareholders have approved an employee stock purchase plan (ESPP), which allows for substantially all employees to subscribe to purchase shares of Brown & Brown's stock at 85% of the lesser of the market value of such shares at the beginning or end of each annual subscription period. Eligible employees may contribute up to 10% of their annual compensation, up to a maximum of $25,000, towards the purchase of Brown & Brown common stock. Brown & Brown issued 521,948 and 546,344 shares of common stock under the ESPP in August 2005 and 2004, respectively. These shares were issued at an aggregate purchase price of $9,208,000 or $17.64 per share in 2005, and of $7,256,000 or $13.28 per share in 2004. Of the 12,000,000 shares of common stock authorized for issuance under the ESPP as of December 31, 2005, 5,598,784 shares remained available and reserved for future issuance. As described in Note 1, under the APB No. 25, there has been no expense relating to the common stock issued under the ESPP.

INCENTIVE STOCK OPTION PLAN

On April 21, 2000, Brown & Brown adopted and the shareholders have approved a qualified incentive stock option plan that provides for the granting of stock options to certain key employees for up to 4,800,000 shares of common stock. The objective of this plan is to provide additional performance incentives to grow Brown & Brown's pre-tax income in excess of 15% annually. The options are granted at the most recent trading days' closing market price, and vest over a one-to-10-year

period, with a potential acceleration of the vesting period to three to six years based on achievement of certain performance goals. All of the options expire 10 years after the grant date.

On October 31, 2001, an additional 10,000 option shares were granted at the most recent trading day's closing market price of $14.20. These option shares vest in 2,000-share increments through 2006, if certain performance goals are met. The option shares are expensed at the price differential of the closing market price at the date of vesting and the option price, times the number of shares vesting. As of December 31, 2005 and 2004, 2,000 of these option shares became vested and were exercisable, and thus a corresponding $5,000 was expensed in each year.

Stock option activity under the plan was as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2003	2,146,536	$ 4.88
Granted	1,080,004	$15.78
Exercised	(959,264)	$ 4.85
Forfeited	(40,000)	$ 4.84
Outstanding at December 31, 2003	2,227,276	$10.18
Granted	—	—
Exercised	(154,248)	$ 4.96
Forfeited	—	—
Outstanding at December 31, 2004	2,073,028	$10.56
Granted	12,000	$22.06
Exercised	(68,040)	$ 4.84
Forfeited	—	—
Outstanding at December 31, 2005	2,016,988	$10.83
Exercisable at December 31, 2005	783,672	$ 4.88
Exercisable at December 31, 2004	698,312	$ 4.86
Exercisable at December 31, 2003	635,840	$ 4.86

The following table summarizes information about stock options outstanding at December 31, 2005:

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.84	918,984	4.3	$ 4.84	779,672	$ 4.84
$14.20	6,000	0.8	$14.20	4,000	$14.20
$15.78	1,080,004	7.2	$15.78	—	—
$22.06	12,000	2.0	$22.06	—	—
	2,016,988	5.9	$10.69	783,672	$ 4.88

There were 1,537,996 option shares available for future grant under this plan as of December 31, 2005 and 2004.

Notes to Consolidated Financial Statements

No compensation expense related to these options is recognized in operations for 2005, 2004 or 2003, except for the 10,000 option shares granted on October 31, 2001 as described above. As disclosed in Note 1, Brown & Brown accounts for its stock options using the intrinsic value method prescribed in APB No. 25. Brown & Brown also disclosed in Note 1 the effect on net income and net income per share if Brown & Brown had applied the fair value recognition provisions of revised SFAS No. 123 to its granted stock options.

The weighted average fair value of the incentive stock options granted during 2000 estimated on the date of grant, using the Black-Scholes option-pricing model, was $2.37 per share. The fair value of these options granted was estimated on the date of grant using the following assumptions: dividend yield of 0.86%; expected volatility of 29.6%; risk-free interest rate of 6.3%; and an expected life of 10 years. The weighted average fair value of the incentive stock options granted during 2003 estimated on the date of grant, using the Black-Scholes option-pricing model, was $5.63 per share. The fair value of these options granted was estimated on the date of grant using the following assumptions: dividend yield of 0.63%; expected volatility of 37.0%; risk-free interest rate of 1.5%; and an expected life of six 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)	2005	2004	2003
Unrealized holding (loss) gain on available-for-sale securities, net of tax benefit of $300 for 2005; net of tax benefit of $530 for 2004; and net of tax effect of $857 for 2003	**$ (512)**	$ (649)	$1,395
Net gain on cash-flow hedging derivative, net of tax effect of $289 for 2005, net of tax effect of $557 for 2004; and net of tax effect of $445 for 2003	**$ 491**	$ 889	$ 726
Notes payable issued or assumed for purchased customer accounts	**$42,843**	$1,976	$3,323
Notes received on the sale of fixed assets and customer accounts	**$ 1,855**	$6,024	$4,584
Common stock issued for acquisitions accounted for under the purchase method of accounting	**$ —**	$6,244	$ —

Note 13 Commitments and Contingencies

OPERATING LEASES

Brown & Brown leases facilities and certain items of office equipment under noncancelable operating lease arrangements expiring on various dates through 2017. The facility leases generally contain renewal options and escalation clauses based on 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, 2005, the aggregate future minimum lease payments under all noncancelable lease agreements were as follows:

(in thousands)	
2006	$20,731
2007	17,217
2008	15,156
2009	12,156
2010	8,919
Thereafter	11,642
Total minimum future lease payments	$85,821

Rental expense in 2005, 2004 and 2003 for operating leases totaled $28,926,000, $24,595,000 and $21,844,000, respectively.

ANTITRUST ACTIONS AND RELATED MATTERS

As previously disclosed, Brown & Brown, Inc. is one of more than ten insurance intermediaries named together with a number of insurance companies as defendants in putative class action lawsuits purporting to be brought on behalf of policyholders. Brown & Brown, Inc. initially became a defendant in certain of those actions in October and December of 2004. In February 2005, the Judicial Panel on Multi-District Litigation consolidated these cases, together with other putative class action lawsuits in which Brown & Brown, Inc. was not named as a party, to a single jurisdiction, the United States District Court, District of New Jersey, for pre-trial purposes. One of the consolidated actions, *In Re: Employee-Benefits Insurance Antitrust Litigation,* concerns employee benefits insurance and the other, styled *In Re: Insurance Brokerage Antitrust Litigation*, involves other lines of insurance. These two consolidated actions are collectively referred to in this report as the "Antitrust Actions." The complaints refer to an action, since settled, that was filed against Marsh & McLennan Companies, Inc. ("Marsh & McLennan"), the largest insurance broker in the world, by the New York State Attorney General in October 2004, and allege various improprieties and unlawful acts by the various defendants in the pricing and placement of insurance, including alleged manipulation of the insurance market by, among other things: "bid rigging" and "steering" clients to particular insurers based on considerations other than the clients' interests; alleged entry into unlawful tying arrangements pursuant to which the placement of primary insurance contracts was conditioned upon commitments to place reinsurance through a particular broker; and alleged failure to disclose contingent commission and other allegedly improper compensation and fee arrangements. The plaintiffs in the Antitrust Actions assert a number of causes of action, including violations of the federal antitrust laws, multiple state antitrust and unfair and deceptive practices statutes, and the federal anti-racketeering (RICO) statute, as well as breach of fiduciary duty, misrepresentation, conspiracy, aiding and abetting, and unjust enrichment, and seek injunctive and declaratory relief as well as unspecified damages, including treble and punitive damages, and attorneys' fees and costs. Brown & Brown, Inc. disputes the allegations and is vigorously defending itself in the Antitrust Actions.

RELATED REGULATORY PROCEEDINGS

Since the New York State Attorney General filed the lawsuit referenced above against Marsh & McLennan in October 2004, governmental agencies in a number of states have looked or are looking into issues related to compensation practices

in the insurance industry, and the Company continues to actively receive and respond to written and oral requests for information and/or subpoenas seeking information related to this topic. To date, requests for information and/or subpoenas have been received from governmental agencies such as attorneys general or departments of insurance in the following states: Arkansas (Department of Insurance), Arizona (Department of Insurance), California (Department of Insurance), Connecticut (Office of Attorney General), Florida (Office of Attorney General, Department of Financial Services, and Office of Insurance Regulation), Nevada (Department of Business & Industry, Division of Insurance), New Hampshire (Department of Insurance), New Jersey (Department of Banking and Insurance), New York (Office of Attorney General), North Carolina (Department of Insurance and Department of Justice), Oklahoma (Department of Insurance), Pennsylvania (Department of Insurance), South Carolina (Department of Insurance), Texas (Department of Insurance), Vermont (Department of Banking, Insurance, Securities & Healthcare Administration), Virginia (State Corporation Commission, Bureau of Insurance, Agent Regulation & Administration Division), Washington (Office of Insurance Commissioner) and West Virginia (Office of Attorney General). None of these governmental agencies has charged or alleged any wrongdoing or violation of law by the Company. Agencies in Arizona and Washington have concluded their respective investigations of subsidiaries of Brown & Brown, Inc. based in those states with no further action as to these entities.

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

As previously disclosed, a committee comprised of independent members of the Board of Directors of Brown & Brown, Inc. (the “Special Review Committee”) determined that maintenance of a derivative suit was not in the best interests of the Company, following an investigation in response to a December 2004 demand letter from counsel purporting to represent a current shareholder of Brown & Brown, Inc. (the “Demand Letter”). The Demand Letter sought the commencement of a derivative suit by Brown & Brown, Inc. against the Board of Directors and current and former officers and directors of Brown & Brown, Inc. for alleged breaches of fiduciary duty related to the Company’s participation in contingent commission agreements. The Special Review Committee’s conclusions were communicated to the purported shareholder’s counsel and there has been limited communication since then. There can be no assurance that the purported shareholder will not further pursue his allegations or that any pursuit of any such allegations would not have a material adverse effect on the Company.

In response to the foregoing events, the Company also, on its own volition, engaged outside counsel to conduct a limited internal inquiry into certain sales and marketing practices of the Company, with special emphasis on the effects of contingent commission agreements on the placement of insurance products by the Company for its clients. The internal inquiry resulted in several recommendations being made in January 2006 regarding disclosure of compensation, premium finance charges, the retail-wholesale interface, fee-based compensation and direct incentives from insurance companies, and the Company has been evaluating such recommendations and has adopted or is in the process of adopting these recommendations. As a result of that inquiry, and in the process of preparing responses to some of the governmental agency inquiries referenced above, management of the Company became aware of a limited number of specific, unrelated instances of questionable conduct. These matters have been addressed and resolved, or are in the process of being addressed and resolved, on a case-by-case basis, and thus far the amounts involved in resolving such matters have not been, either individually or in the aggregate, material. However, there can be no assurance that the ultimate cost and ramifications of resolving these matters will not have a material adverse effect on the Company.

Some of the other insurance intermediaries and insurance companies that have been subject to governmental investigations and/or lawsuits arising out of these matters have chosen to settle some such matters. Such settlements have involved the payment of substantial sums, as well as agreements to change business practices, including agreeing to no longer pay or accept contingent commissions. Marsh & McLennan, Aon Corporation, Arthur J. Gallagher & Co., Hilb, Rogal & Hobbs Company ("HRH"), and Willis Group Holdings Ltd. have each entered into agreements with governmental agencies, which collectively involve payments by these intermediaries to agencies and to certain of their clients totaling nearly $1 billion. With the exception of the settlement entered into by HRH, which included an agreement that HRH would discontinue acceptance of certain types of contingency compensation, these agreements provided that these insurance intermediaries would discontinue acceptance of any contingency compensation.

On March 14, 2006, the Florida Attorney General and the Florida Department of Financial Services, which, as mentioned, have also been seeking information from the Company, filed a complaint against Marsh & McLennan on behalf of various Florida governmental entities, businesses and residents alleging that Marsh & McLennan violated Florida's RICO and antitrust laws. The complaint alleges that Marsh & McLennan conspired with various insurance companies to rig quotes for commercial insurance, manipulate the commercial insurance markets, inflate insurance premiums, and receive undisclosed, additional compensation, all of which are alleged to have caused damage to the State of Florida, governmental entities and Florida businesses and residents. While the above Florida governmental agencies have not made demands upon the Company, which is headquartered in Florida, or filed suit against it, there can be no assurance that their inquiries, or any of those of the other various governmental authorities referenced above, will not result in demands upon the Company or suits filed against it, or that any such demands or suits or any resolution thereof would not have a material adverse effect on the Company.

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

OTHER

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

Among the above-referenced claims, and as previously described in the Company's public filings, there are several threatened and pending legal claims and lawsuits against Brown & Brown, Inc. and Brown & Brown Insurance Services of Texas, Inc. (BBTX), a subsidiary of Brown & Brown, Inc., arising out of BBTX's involvement with the procurement and placement of workers' compensation insurance coverage for entities including several professional employer organizations. One such action, styled *Great American Insurance Company, et al. v. The Contractor's Advantage, Inc., et al.*, Cause No. 2002-33960, pending in the 189th Judicial District Court in Harris County, Texas, asserts numerous causes of action, including fraud, civil conspiracy, federal Lanham Act and RICO violations, breach of fiduciary duty, breach of contract, negligence and violations of the Texas Insurance Code against BBTX, Brown & Brown, Inc. and other defendants, and seeks recovery of punitive or extraordinary damages (such as treble damages) and attorneys' fees. Although the ultimate outcome of the matters referenced in this section titled "Other" cannot be ascertained and liabilities in indeterminate amounts may be imposed on Brown & Brown, Inc. or its subsidiaries, on the basis of present information, availability of insurance and legal advice received, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the Company's consolidated financial position. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made

Notes to Consolidated Financial Statements

to resolve claims and lawsuits, applicable insurance policy limits are eroded, and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters.

Note 14 Business Concentrations

A significant portion of business written by Brown & Brown is for customers located in California, Florida, Georgia, New Jersey, New York, Pennsylvania and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on Brown & Brown's business, although no such conditions have been encountered in the past.

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

Note 15 Quarterly Operating Results (Unaudited)

Quarterly operating results for 2005 and 2004 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Total revenues	**$202,374**	**$195,931**	**$190,645**	**$196,857**
Total expenses	**$131,861**	**$135,463**	**$134,956**	**$139,397**
Income before income taxes	**$ 70,513**	**$ 60,468**	**$ 55,689**	**$ 57,460**
Net income	**$ 43,018**	**$ 37,033**	**$ 34,783**	**$ 35,717**
Net income per share:				
Basic	**$ 0.31**	**$ 0.27**	**$ 0.25**	**$ 0.26**
Diluted	**$ 0.31**	**$ 0.27**	**$ 0.25**	**$ 0.25**
2004				
Total revenues	$ 165,565	$ 157,942	$ 160,381	$ 163,046
Total expenses	$ 106,205	$ 105,413	$ 112,125	$ 116,242
Income before income taxes	$ 59,360	$ 52,529	$ 48,256	$ 46,804
Net income	$ 36,348	$ 32,153	$ 30,086	$ 30,256
Net income per share:				
Basic	$ 0.26	$ 0.23	$ 0.22	$ 0.22
Diluted	$ 0.26	$ 0.23	$ 0.22	$ 0.22

Quarterly financial information is affected by seasonal variations. The timing of contingent commissions, policy renewals and acquisitions may cause revenues, expenses and net income to vary significantly between quarters.

Note 16 Segment Information

Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, governmental, professional and individual customers; the National Programs Division, which is comprised of two units—Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designated for specific industries, trade groups, governmental entities, and market niches; the Services Division, which provides insurance-related services, including third-party administration, consulting for the workers' compensation and employee benefit self-insurance markets, and managed healthcare services; and the Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers. Brown & Brown conducts all of its operations within the United States of America.

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 and minority interest. 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.

	Year Ended December 31, 2005					
(in thousands)	Retail	National Programs	Brokerage	Services	Other	Total
Total revenues	**$ 491,202**	**$133,930**	**$127,113**	**$27,517**	**$ 6,045**	**$ 785,807**
Investment income	**159**	**367**	**1,599**	**—**	**4,453**	**6,578**
Amortization	**19,368**	**8,103**	**5,672**	**43**	**59**	**33,245**
Depreciation	**5,641**	**1,998**	**1,285**	**435**	**702**	**10,061**
Interest expense	**20,927**	**10,433**	**12,446**	**4**	**(29,341)**	**14,469**
Income before income taxes	**128,881**	**38,385**	**28,306**	**6,992**	**41,566**	**244,130**
Total assets	**1,002,781**	**445,146**	**476,653**	**18,766**	**(334,686)**	**1,608,660**
Capital expenditures	**6,186**	**3,067**	**1,969**	**350**	**1,854**	**13,426**

	Year Ended December 31, 2004					
(in thousands)	Retail	National Programs	Brokerage	Services	Other	Total
Total revenues	$461,348	$112,092	$ 41,603	$26,809	$ 5,082	$ 646,934
Investment income	567	139	—	—	2,009	2,715
Amortization	15,314	5,882	757	36	157	22,146
Depreciation	5,734	1,583	508	387	698	8,910
Interest expense	21,846	8,603	1,319	69	(24,681)	7,156
Income before income taxes	113,637	33,930	11,337	6,375	41,670	206,949
Total assets	843,823	359,551	128,699	13,760	(96,316)	1,249,517
Capital expenditures	5,568	2,693	694	788	409	10,152

Notes to Consolidated Financial Statements

(in thousands)	Retail	National Programs	Brokerage	Services	Other	Total
	Year Ended December 31, 2003					
Total revenues	$399,010	$ 90,444	$31,740	$28,591	$ 1,255	$551,040
Investment income	55	143	—	—	1,230	1,428
Amortization	12,476	4,488	312	37	157	17,470
Depreciation	5,771	1,208	331	423	470	8,203
Interest expense	17,732	6,810	765	162	(21,845)	3,624
Income before income taxes	98,386	31,705	11,128	5,525	29,738	176,482
Total assets	623,648	273,363	74,390	13,267	(118,814)	865,854
Capital expenditures	5,904	2,874	824	234	6,110	15,946

Note 17 Subsequent Events

From January 1, 2006 through March 14, 2006, Brown & Brown acquired the assets and assumed certain liabilities of three insurance intermediaries. The aggregate purchase price of these acquisitions was $71,852,000, including $61,972,000 of net cash payments, the issuance of $82,000 in notes payable and the assumption of $9,798,000 of liabilities. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and obtain high-quality individuals. Acquisition purchase prices are based primarily on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to goodwill.

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

(in thousands) Name of Acquisitions	Business Segment	2006 Date of Acquisition	Net Cash Paid	Notes Payable	Recorded Purchase Price
Axiom Intermediaries, LLC	Brokerage	January 1	$60,293	$—	$60,293
Other	Various	Various	1,679	82	1,761
Total			$61,972	$82	$62,054

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

(in thousands)	Axiom	Other	Total
Fiduciary Cash	$ 9,598	$ —	$ 9,598
Other current assets	372	—	372
Fixed assets	435	25	460
Purchased customer accounts	17,405	835	18,240
Noncompete agreements	31	43	74
Goodwill	42,177	858	43,035
Other assets	73	—	73
Total assets acquired	70,091	1,761	71,852
Other current liabilities	(9,798)	—	(9,798)
Total liabilities assumed	(9,798)	—	(9,798)
Net assets acquired	$60,293	$1,761	$62,054

Brown & Brown's 2005 Consolidated Statement of Income does not include any results of these operations since the acquisitions were not effective until January 1, 2006 or later. The following unaudited pro forma results of operations of Brown & Brown give effect to these acquisitions for the year ended December 31, as though the transactions had occurred on January 1, 2005.

(in thousands, except per share data)	2005
(Unaudited)	
Total revenues	**$800,444**
Income before income taxes	**$248,070**
Net income	**$152,981**
Net income per share:	
Basic	**$ 1.10**
Diluted	**$ 1.09**
Weighted average number of shares outstanding:	
Basic	**138,563**
Diluted	**139,776**

Additional consideration was also paid to sellers as a result of purchase price "earn-out" adjustments. The net additional consideration paid by Brown & Brown as a result of these adjustments for acquisitions consummated prior to December 31, 2005 totaled $6,861,000, all of which was paid in cash.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders 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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005 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 effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Certified Public Accountants
Jacksonville, Florida
March 14, 2006

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* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In conducting Brown & Brown's evaluation of this effectiveness of its internal control over financial reporting, Brown & Brown has excluded the following acquisitions completed by Brown & Brown during 2005: American Specialty Companies, Inc. et al., Dana R. Hando (sole proprietor), ECC Insurance Brokers, LLC, Emerald Benefits, Inc., et al., Braishfield Associates, Inc., Hull & Company, Inc., et al., Nichols & Associates, Alliance Insurance Services, Weible & Cahill, LLC, Timothy R. Downey Insurance Inc, and de Arrieta Insurance Agency, Inc. et al. Collectively, these acquisitions represented 26.1% of total assets as of December 31, 2005, 11.2% of total revenue and 4.1% of net income for the year ended. 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*, management concluded that internal control over financial reporting was effective as of December 31, 2005. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 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
March 14, 2006

J. Hyatt Brown
Chief Executive Officer

Cory T. Walker
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting that Brown & Brown, Inc. and its subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* 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 their assessment the internal control over financial reporting at American Specialty Companies, Inc., et al., Dana R. Hando (sole proprietor), ECC Insurance Brokers, LLC, Emerald Benefits, Inc., et al., Braishfield Associates, Inc., Hull & Company, Inc., et al., Nichols & Associates, Alliance Insurance Services, Weible & Cahill, LLC, Timothy R. Downey Insurance Inc., and de Arrieta Insurance Agency, Inc. et al. (collectively the "2005 Excluded Acquisitions"), which were acquired during 2005 and whose financial statements constitute 26.1% of total assets, 11.2% of revenues and 4.1% of net income of the related consolidated financial statement amounts as of and for the year ended December 31, 2005. Accordingly, our audit did not include the internal control over financial reporting at the 2005 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* 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, 2005 of the Company and our report dated March 14, 2006, expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Certified Public Accountants
Jacksonville, Florida
March 14, 2006

EIGHT-YEAR STATISTICAL SUMMARY

	Year Ended December 31,							
(in thousands, except per share data and percentages)	2005	2004	2003	2002	2001	2000	1999	1998
REVENUES								
Commissions & fees	**$ 775,543**	$ 638,267	$545,287	$452,289	$359,697	$258,309	$231,437	$211,722
Investment income	**6,578**	2,715	1,428	2,945	3,686	4,887	3,535	4,350
Other income	**3,686**	5,952	4,325	508	1,646	2,209	2,551	718
Total revenues	**785,807**	646,934	551,040	455,742	365,029	265,405	237,523	216,790
EXPENSES								
Employee compensation and benefits	**374,943**	314,221	268,372	224,755	187,653	149,836	131,270	119,879
Non-cash stock grant compensation	**3,337**	2,625	2,272	3,823	1,984	483	1,263	732
Other operating expenses	**105,622**	84,927	74,617	66,554	56,815	44,372	41,893	41,228
Amortization	**33,245**	22,146	17,470	14,042	15,860	9,226	8,343	6,329
Depreciation	**10,061**	8,910	8,203	7,245	6,536	6,158	5,892	5,216
Interest	**14,469**	7,156	3,624	4,659	5,703	1,266	1,360	1,233
Total expenses	**541,677**	439,985	374,558	321,078	274,551	211,341	190,021	174,617
Income before income taxes and minority interest	**244,130**	206,949	176,482	134,664	90,478	54,064	47,502	42,173
Income taxes	**93,579**	78,106	66,160	49,271	34,834	20,146	18,331	16,179
Minority interest, net of tax	**—**	—	—	2,271	1,731	1,125	900	848
Net income	**$ 150,551**	$ 128,843	$110,322	$ 83,122	$ 53,913	$ 32,793	$ 28,271	$ 25,146
EARNINGS PER SHARE INFORMATION								
Net income per share—diluted	**$ 1.08**	$ 0.93	$ 0.80	$ 0.61	$ 0.43	$ 0.26	$ 0.23	$ 0.20
Weighted average number of shares outstanding—diluted	**139,776**	138,888	137,794	136,086	126,444	124,182	123,310	123,048
Dividends declared per share	**$ 0.1700**	$ 0.1450	$ 0.1213	$ 0.1000	$ 0.0800	$ 0.0675	$ 0.0575	$ 0.0513
YEAR-END FINANCIAL POSITION								
Total assets	**$1,608,660**	$1,249,517	$865,854	$754,349	$488,737	$324,677	$286,416	$285,028
Long-term debt	**$ 214,179**	$ 227,063	$ 41,107	$ 57,585	$ 78,195	$ 10,660	$ 10,905	$ 24,522
Shareholders' equity	**$ 764,344**	$ 624,325	$498,035	$391,590	$175,285	$118,372	$100,355	$ 82,073
Total shares outstanding	**139,383**	138,318	137,122	136,356	126,388	124,328	123,178	123,582
OTHER INFORMATION								
Number of full-time equivalent employees	**4,540**	3,960	3,517	3,384	2,921	2,143	2,016	2,063
Revenue per average number of employees	**$ 184,896**	$ 173,046	$159,699	$144,565	$144,166	$127,629	$116,461	$110,270
Book value per share	**$ 5.48**	$ 4.51	$ 3.63	$ 2.87	$ 1.39	$ 0.95	$ 0.81	$ 0.66
Stock price at year-end	**$ 30.54**	$ 21.78	$ 16.31	$ 16.16	$ 13.65	$ 8.75	$ 4.79	$ 4.37
Stock price earnings multiple at year-end	**28.35**	23.41	20.38	26.49	32.12	33.02	20.83	21.30
Return on beginning shareholders' equity	**24%**	26%	28%	47%	46%	33%	34%	35%

Shareholder Information

CORPORATE OFFICES

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

3101 West Martin Luther King, Jr. Boulevard
Suite 400
Tampa, Florida 33607
(813) 222-4100

OUTSIDE COUNSEL

Cobb & Cole
150 Magnolia Avenue
Daytona Beach, Florida 32114

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

CORPORATE INFORMATION AND SHAREHOLDER SERVICES

The Company has included, as Exhibits 31 and 32 to its Annual Report on Form 10-K for the fiscal year 2005 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 2005 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.
3101 West Martin Luther King, Jr. Boulevard, Suite 400
Tampa, Florida 33607

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 10, 2006
9:00 a.m. (ET)
The Shores Resort
2637 South Atlantic Avenue
Daytona Beach, Florida 32118

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
(866) 668-6550
www.amstock.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
One Independent Drive
Suite 2801
Jacksonville, Florida 32202

STOCK LISTING

The New York Stock Exchange Symbol: BRO

Approximate number of shareholders of record as of March 10, 2006 was 1,238. Closing price per share on that date was $32.63.

MARKET PRICE OF COMMON STOCK

	Stock Price Range		Cash Dividends Declared per Share
	High	Low	
2005			
1st Quarter	$ 24.27	$ 21.13	$ 0.0400
2nd Quarter	23.75	21.00	0.0400
3rd Quarter	25.39	21.31	0.0400
4th Quarter	31.90	23.85	0.0500
2004			
1st Quarter	$ 19.72	$ 16.01	$ 0.0350
2nd Quarter	21.84	18.47	0.0350
3rd Quarter	23.08	20.18	0.0350
4th Quarter	23.38	19.30	0.0400

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.

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On the plains
of hesitation

Bleach the bones of
countless millions

Who at the dawn
of victory

Sat down to wait

And waiting died.

– unknown

www.bbinsurance.com