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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

Or

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

For the transition period from _____ to _____

Commission file number 001-13619

BROWN & BROWN, INC.

(Exact name of Registrant as specified in its charter)

Florida

(State or other jurisdiction of
incorporation or organization)

**220 South Ridgewood Avenue,
Daytona Beach, FL**

(Address of principal executive offices)



59-0864469

(I.R.S. Employer
Identification Number)

32114
(Zip Code)

Registrant's telephone number, including area code: (386) 252-9601

Registrant's Website: www.bbinsurance.com

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the Registrant's common stock, \$.10 par value, outstanding as of May 3, 2010 was 142,150,278.

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, “we,” “Brown & Brown” or the “Company”), makes “forward-looking statements” within the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “estimate,” “plan” and “continue” or similar words. We have based these statements on our current expectations about future events. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-Q and those reports, statements, information and announcements incorporated by reference are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include the following items, in addition to those matters described in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”:

- Material adverse changes in economic conditions in the markets we serve and in the general economy;
- Future regulatory actions and conditions in the states in which we conduct our business;
- Competition from others in the insurance agency, wholesale brokerage, insurance programs and service business;
- A significant portion of business written by Brown & Brown is for customers located in California, Florida, Indiana, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on our business;
- The integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration; and
- Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (“SEC”) filings.

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

PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS (UNAUDITED)

BROWN & BROWN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share data)	For the three months ended March 31,	
	2010	2009
REVENUES		
Commissions and fees	\$250,674	\$263,964
Investment income	331	310
Other income (loss), net	1,268	(694)
Total revenues	252,273	263,580
EXPENSES		
Employee compensation and benefits	122,183	127,341
Non-cash stock-based compensation	1,955	1,816
Other operating expenses	36,333	35,864
Amortization	12,553	12,385
Depreciation	3,253	3,333
Interest	3,608	3,634
Change in estimated acquisition earn-out payable	(696)	—
Total expenses	179,189	184,373
Income before income taxes	73,084	79,207
Income taxes	28,956	31,195
Net income	<u>\$ 44,128</u>	<u>\$ 48,012</u>
Net income per share:		
Basic	<u>\$ 0.31</u>	<u>\$ 0.34</u>
Diluted	<u>\$ 0.31</u>	<u>\$ 0.34</u>
Weighted average number of shares outstanding:		
Basic	<u>137,623</u>	<u>136,935</u>
Diluted	<u>137,791</u>	<u>137,220</u>
Dividends declared per share	<u>\$ 0.0775</u>	<u>\$ 0.075</u>

See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	March 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 228,805	\$ 197,113
Restricted cash and investments	146,360	155,257
Short-term investments	8,345	8,213
Premiums, commissions and fees receivable	211,897	209,462
Deferred income taxes	—	11,791
Other current assets	30,717	31,863
Total current assets	<u>626,124</u>	<u>613,699</u>
Fixed assets, net	60,325	61,467
Goodwill	1,091,791	1,074,397
Amortizable intangible assets, net	465,290	468,862
Other assets	5,907	5,801
Total assets	<u>\$2,249,437</u>	<u>\$ 2,224,226</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	\$ 327,281	\$ 310,296
Premium deposits and credits due customers	31,314	37,715
Accounts payable	29,353	17,431
Accrued expenses and other liabilities	61,686	96,387
Current portion of long-term debt	6,015	17,124
Total current liabilities	<u>455,649</u>	<u>478,953</u>
Long-term debt	250,030	250,209
Deferred income taxes, net	119,184	115,609
Other liabilities	19,177	9,581
Shareholders' Equity:		
Common stock, par value \$0.10 per share; authorized 280,000 shares; issued and outstanding 142,128 at 2010 and 142,076 at 2009	14,213	14,208
Additional paid-in capital	270,261	267,856
Retained earnings	1,120,918	1,087,805
Accumulated other comprehensive income, net of related income tax effect of \$3 at 2010 and \$3 at 2009	5	5
Total shareholders' equity	<u>1,405,397</u>	<u>1,369,874</u>
Total liabilities and shareholders' equity	<u>\$2,249,437</u>	<u>\$ 2,224,226</u>

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	For the three months ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 44,128	\$ 48,012
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	12,553	12,385
Depreciation	3,253	3,333
Non-cash stock-based compensation	1,955	1,816
Change in acquisition earn-out payable	(696)	—
Deferred income taxes	15,366	17,325
Net (gain) loss on sales of investments, fixed assets, and customer accounts	(635)	1,007
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:		
Restricted cash and investments decrease	8,897	3,910
Premiums, commissions and fees receivable (increase) decrease	(2,435)	15,504
Other assets decrease	1,677	6,029
Premiums payable to insurance companies increase	16,949	9,603
Premium deposits and credits due customers (decrease) increase	(6,401)	1,431
Accounts payable increase	11,912	12,825
Accrued expenses (decrease)	(34,764)	(41,022)
Other liabilities increase	2,032	1,002
Net cash provided by operating activities	73,791	93,160
Cash flows from investing activities:		
Additions to fixed assets	(2,054)	(3,158)
Payments for businesses acquired, net of cash acquired	(17,204)	(27,970)
Proceeds from sales of fixed assets and customer accounts	241	32
Purchases of investments	(509)	(544)
Proceeds from sales of investments	383	562
Net cash used in investing activities	(19,143)	(31,078)
Cash flows from financing activities:		
Payments on long-term debt	(12,396)	(4,078)
Issuances of common stock for employee stock benefit plans	455	496
Cash dividends paid	(11,015)	(10,618)
Net cash used in financing activities	(22,956)	(14,200)
Net increase in cash and cash equivalents	31,692	47,882
Cash and cash equivalents at beginning of period	197,113	78,557
Cash and cash equivalents at end of period	\$228,805	\$126,439

See accompanying notes to condensed consolidated financial statements.

BROWN & BROWN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1· Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries (collectively, “We,” “Brown & Brown,” or the “Company”) is a diversified insurance agency, wholesale brokerage, insurance programs and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown’s business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, professional and individual customers; the National Programs Division, which is composed of two units — Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public and quasi-public entities and market niches; the Wholesale 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 claims administration and comprehensive medical utilization management services in both the workers’ compensation and all-lines liability arenas, as well as Medicare set-aside services.

NOTE 2· Basis of Financial Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto set forth in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

Results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

NOTE 3· Net Income Per Share

Effective in 2009, the Company adopted new Financial Accounting Standards Board (“FASB”) authoritative guidance, which states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share (“EPS”) pursuant to the two-class method. The two-class method determines EPS for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Performance stock shares granted to employees under the Company’s Performance Stock Plan are considered participating securities as they receive non-forfeitable dividend equivalents at the same rate as common stock. This new guidance was adopted via retroactive application for the quarter ended March 31, 2009, resulting in no change in either basic or diluted EPS for periods presented.

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

Basic EPS is computed based on the weighted average number of common shares issued and outstanding during the period. Diluted EPS is computed based on the weighted average common shares issued and outstanding plus equivalent shares assuming exercise of stock options. The dilutive effect of stock options is computed by application of the treasury stock method. For the three months ended March 31, 2010 and 2009, the impact of outstanding options to purchase shares of common stock of 1,457,000 and 0 shares, respectively, were antidilutive and were excluded from the calculation of diluted net income per share. The following is a reconciliation between basic and diluted weighted average shares outstanding for the three months ended March 31:

(in thousands, except per share data)	For the three months ended March 31,	
	2010	2009
Net income	\$ 44,128	\$ 48,012
Net income attributable to unvested awarded performance stock	(1,394)	(1,568)
Net income attributable to common shares	<u>\$ 42,734</u>	<u>\$ 46,444</u>
Weighted average basic number of common shares outstanding	142,112	141,558
Less unvested awarded performance stock included in weighted average basic share outstanding	(4,489)	(4,623)
Weighted average number of common shares outstanding for basic earnings per common share	137,623	136,935
Dilutive effect of stock options	168	285
Weighted average number of shares outstanding	<u>137,791</u>	<u>137,220</u>
Net income per share:		
Basic	<u>\$ 0.31</u>	<u>\$ 0.34</u>
Diluted	<u>\$ 0.31</u>	<u>\$ 0.34</u>

NOTE 4: New Accounting Pronouncements

In June 2009, the FASB issued authoritative guidance establishing two levels of U.S. GAAP — authoritative and nonauthoritative — and making the Accounting Standards Codification (“ASC”) the source of authoritative, nongovernmental U.S. GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (“SEC”). This guidance, which was incorporated into ASC Topic 105 — Generally Accepted Accounting Principles, was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption changed certain disclosure references to U.S. GAAP, but did not have any other impact on the Company’s Consolidated Financial Statements.

Subsequent Events — In May 2009, the FASB issued authoritative guidance establishing general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which was incorporated into ASC Topic 855 — Subsequent Events, was effective on a prospective basis for interim or annual periods ending after June 15, 2009, and was adopted on June 1, 2009.

Subsequent events have been evaluated through the date and time the unaudited condensed consolidated financial statements were issued on May 6, 2010. No material subsequent events have occurred since March 31, 2010 that required recognition or disclosure in our unaudited condensed consolidated financial statements.

International Accounting Standards — International Financial Reporting Standards (“IFRS”) are a set of standards and interpretations adopted by the International Accounting Standards Board. The SEC is currently considering a potential IFRS adoption process in the United States, which could, in the near term, provide domestic issuers with an alternative accounting method and which could ultimately replace U.S. GAAP reporting requirements with IFRS reporting requirements. We are currently investigating the implications should we be required to adopt IFRS in the future.

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

NOTE 5· Business Combinations

Acquisitions in 2010

For the three months ended March 31, 2010, Brown & Brown acquired the assets and assumed certain liabilities of five insurance intermediaries and several books of business (customer accounts). The aggregate purchase price of these acquisitions was \$25,602,000, including \$17,059,000 of net cash payments, the issuance of notes payable of \$175,000, the assumption of \$109,000 of liabilities, and \$8,259,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period, within a minimum and maximum price range. The recorded purchase prices for all acquisitions consummated after January 1, 2009 includes an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

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

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

(in thousands)

Name	Business Segment	2010 Date of Acquisition	Net Cash Paid	Note Payable	Recorded Earn-out Payable	Recorded Purchase Price	Maximum Potential Earn-out Payable
DiMartino Associates, Inc.	Retail	March 1	\$ 7,047	\$ —	\$ 3,402	\$10,449	\$ 5,637
Other	Various	Various	10,012	175	4,857	15,044	9,044
Total			<u>\$17,059</u>	<u>\$ 175</u>	<u>\$ 8,259</u>	<u>\$25,493</u>	<u>\$14,681</u>

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

(in thousands)	DiMartino	Other	Total
Fiduciary cash	\$ —	\$ —	\$ —
Other current assets	—	—	—
Fixed assets	21	92	113
Goodwill	7,027	9,288	16,315
Purchased customer accounts	3,380	5,714	9,094
Noncompete agreements	21	59	80
Other assets	—	—	—
Total assets acquired	<u>10,449</u>	<u>15,153</u>	<u>25,602</u>
Other current liabilities	—	(109)	(109)
Total liabilities assumed	<u>—</u>	<u>(109)</u>	<u>(109)</u>
Net assets acquired	<u>\$ 10,449</u>	<u>\$15,044</u>	<u>\$25,493</u>

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

Goodwill of \$16,315,000, of which \$8,107,000 is expected to be deductible for income tax purposes, was assigned to the Retail and Services Divisions in the amounts of \$10,917,000 and \$5,398,000, respectively.

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

The results of operations for the acquisitions completed during 2010 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through March 31, 2010 included in the Condensed Consolidated Statement of Income for the three months ended March 31, 2010 were \$1,787,000 and \$372,000, respectively. If the acquisitions had occurred as of the beginning of the period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED) (in thousands, except per share data)	For the three months ended March 31,	
	2010	2009
Total revenues	\$ 253,808	\$ 266,227
Income before income taxes	73,572	80,044
Net income	44,423	48,519
Net income per share:		
Basic	\$ 0.31	\$ 0.34
Diluted	\$ 0.31	\$ 0.34
Weighted average number of shares outstanding:		
Basic	137,623	136,935
Diluted	137,791	137,220

Acquisitions in 2009

For the three months ended March 31, 2009, Brown & Brown acquired the assets and assumed certain liabilities of two insurance intermediaries and a book of business (customer accounts). The aggregate purchase price of these acquisitions was \$29,256,000, including \$26,343,000 of net cash payments, the assumption of \$726,000 of liabilities and \$2,187,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase prices for all acquisitions consummated after January 1, 2009 includes an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statements of income when incurred.

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

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

(in thousands)	Business Segment	2009 Date of Acquisition	Net Cash Paid	Note Payable	Recorded Earn-out Payable	Recorded Purchase Price	Maximum Potential Earn-out Payable
Conner Strong Companies — Small Business Unit	Retail	January 2	\$23,621	\$ —	\$ —	\$23,621	\$ —
Other	Various	Various	2,722	—	2,187	4,909	2,187
Total			<u>\$26,343</u>	<u>\$ —</u>	<u>\$ 2,187</u>	<u>\$28,530</u>	<u>\$ 2,187</u>

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

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

(in thousands)	Conner Strong	Other	Total
Fiduciary cash	\$ —	\$ —	\$ —
Other current assets	556	1,271	1,827
Fixed assets	52	10	62
Goodwill	15,192	2,002	17,194
Purchased customer accounts	7,970	2,194	10,164
Noncompete agreements	—	11	11
Other assets	—	(2)	(2)
Total assets acquired	<u>23,770</u>	<u>5,486</u>	<u>29,256</u>
Other current liabilities	(149)	(577)	(726)
Total liabilities assumed	<u>(149)</u>	<u>(577)</u>	<u>(726)</u>
Net assets acquired	<u>\$23,621</u>	<u>\$4,909</u>	<u>\$28,530</u>

The weighted average useful lives for the above acquired amortizable intangible assets are as follows: purchased customer accounts, 14.9 years; and noncompete agreements, 5.0 years.

Goodwill of \$17,194,000, all of which is expected to be deductible for income tax purposes, was assigned to the Retail and Wholesale Brokerage Divisions in the amounts of \$17,101,000 and \$93,000, respectively.

The results of operations for the acquisitions completed during 2009 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from acquisitions completed through March 31, 2009 included in the Condensed Consolidated Statement of Income for the three months ended March 31, 2009 were \$3,005,000 and \$826,000, respectively. If the acquisitions had occurred as of the beginning of each period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED) (in thousands, except per share data)	For the three months ended March 31,	
	2009	2008
Total revenues	\$ 263,814	\$ 259,632
Income before income taxes	\$ 79,294	\$ 85,560
Net income	\$ 48,065	\$ 52,357
Net income per share:		
Basic	\$ 0.34	\$ 0.37
Diluted	\$ 0.34	\$ 0.37
Weighted average number of shares outstanding:		
Basic	136,935	136,018
Diluted	137,220	136,641

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

For acquisitions consummated prior to January 1, 2009, additional consideration paid to sellers as a result of purchase price “earn-out” provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by the Company in 2010 as a result of these adjustments totaled \$1,079,000, all of which was allocated to goodwill. Of the \$1,079,000 net additional consideration paid, \$145,000 was paid in cash and \$934,000 was issued in notes payable. The net additional consideration paid by the Company in 2009 as a result of these adjustments totaled \$3,881,000, of which \$3,851,000 was allocated to goodwill and \$30,000 to noncompete agreements. Of the \$3,881,000 net additional consideration paid, \$1,627,000 was paid in cash and \$2,254,000 was issued in notes payable. As of March 31, 2010, the maximum future contingency payments related to all acquisitions totaled \$155,139,000, of which \$123,134,000 relates to acquisitions consummated prior to January 1, 2009 and \$32,005,000 relates to acquisitions consummated subsequent to January 1, 2009.

For acquisitions consummated after January 1, 2009, \$15,486,000 was initially recorded as the estimated earn-out payable. As of March 31, 2010, the fair value of the estimated earn-out payable was re-evaluated and reduced by \$837,000, which resulted in a credit to the Condensed Consolidated Statement of Income. Additionally, the interest expense accretion to the Condensed Consolidated Statement of Income for the three months ended March 31, 2010 and 2009 was \$140,000 and 0, respectively. As of March 31, 2010, the estimated earn-out payable was \$14,883,000, of which \$1,862,000 is recorded as current liabilities and \$13,021,000 is recorded as non-current liabilities.

NOTE 6· Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. Brown & Brown completed its most recent annual assessment as of November 30, 2009 and identified no impairment as a result of the evaluation.

The changes in goodwill for the three months ended March 31, 2010 are as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2010	\$ 656,108	\$ 152,601	\$ 256,418	\$ 9,270	\$ 1,074,397
Goodwill of acquired businesses	11,996	—	—	5,398	17,394
Goodwill disposed of relating to sales of businesses	—	—	—	—	—
Balance as of March 31, 2010	<u>\$ 668,104</u>	<u>\$ 152,601</u>	<u>\$ 256,418</u>	<u>\$ 14,668</u>	<u>\$ 1,091,791</u>

NOTE 7· Amortizable Intangible Assets

Amortizable intangible assets at March 31, 2010 and December 31, 2009 consisted of the following:

(in thousands)	March 31, 2010				December 31, 2009			
	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	\$ 756,566	\$ (292,781)	\$ 463,785	14.9	\$ 747,717	\$ (280,473)	\$ 467,244	14.9
Noncompete agreements	24,801	(23,296)	1,505	7.3	24,721	(23,103)	1,618	7.3
Total	<u>\$ 781,367</u>	<u>\$ (316,077)</u>	<u>\$ 465,290</u>		<u>\$ 772,438</u>	<u>\$ (303,576)</u>	<u>\$ 468,862</u>	

Amortization expense for other amortizable intangible assets for the years ending December 31, 2010, 2011, 2012, 2013 and 2014 is estimated to be \$50,182,000, \$48,814,000, \$48,171,000, \$47,271,000, and \$46,085,000, respectively.

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

NOTE 8 Long-Term Debt

Long-term debt at March 31, 2010 and December 31, 2009 consisted of the following:

(in thousands)	2010	2009
Unsecured senior notes	\$250,000	\$250,000
Acquisition notes payable	6,011	17,289
Revolving credit facility	—	—
Other notes payable	34	44
Total debt	256,045	267,333
Less current portion	(6,015)	(17,124)
Long-term debt	\$250,030	\$250,209

In July 2004, the Company completed a private placement of \$200.0 million of unsecured senior notes (the “Notes”). The \$200.0 million is divided into two series: (1) Series A, which closed on September 15, 2004, for \$100.0 million due in 2011 and bearing interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for \$100.0 million due in 2014 and bearing interest at 6.08% per year. Brown & Brown has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of March 31, 2010 and December 31, 2009, there was an outstanding balance of \$200.0 million on the Notes.

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the “Master Agreement”) with a national insurance company (the “Purchaser”). The Purchaser also purchased Notes issued by the Company in 2004. The Master Agreement provides for a \$200.0 million private uncommitted “shelf” facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed 10 years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of \$25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, \$25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. As of March 31, 2010 and December 31, 2009, there was an outstanding balance of \$50.0 million under the Master Agreement.

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement (the “Loan Agreement”) with a national banking institution that was dated as of June 3, 2008, amending and restating the existing Revolving Loan Agreement dated September 29, 2003, as amended (the “Revolving Agreement”), in order to increase the lending commitment to \$50.0 million (subject to potential increases up to \$100.0 million) and to extend the maturity date from December 20, 2011 to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of \$75.0 million. After a series of amendments that provided covenant exceptions for the Notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to \$20.0 million. The calculation of interest and fees is generally based on the Company’s quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization, and non-cash stock-based compensation. Interest is charged at a rate equal to 0.50% to 1.00% above the London Interbank Offering Rate (“LIBOR”) or 1.00% below the base rate, each as more fully defined in the Loan Agreement. Fees include an upfront fee, an availability fee of 0.10% to 0.20%, and a letter of credit usage fee of 0.50% to 1.00%. The Loan Agreement contains various covenants, limitations, and events of default customary for similar facilities for similar borrowers. The 90-day LIBOR was 0.29% and 0.25% as of March 31, 2010 and December 31, 2009, respectively. There were no borrowings against this facility at March 31, 2010 or December 31, 2009.

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 March 31, 2010 and December 31, 2009.

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

Acquisition notes payable represent debt incurred to former owners of certain insurance operations that the Company acquired. These notes and future contingent payments are payable in monthly, quarterly and annual installments through April 2011, including interest in the range from 0.0% to 6.0%.

NOTE 9• Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

(in thousands)	For the three months ended March 31,	
	2010	2009
Cash paid during the period for:		
Interest	\$ 6,157	\$ 6,171
Income taxes	\$ 2,993	\$ 5,950

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

(in thousands)	For the three months ended March 31,	
	2010	2009
Unrealized holding loss on available-for-sale securities, net of tax benefit of \$8 for 2009	\$ —	\$ (14)
Notes payable issued or assumed for purchased customer accounts	\$ 1,109	\$ 66
Estimated acquisition earn-out payable and related changes	\$ 8,259	\$ 2,187
Notes receivable on the sale of fixed assets and customer accounts	\$ 637	\$ (1,012)

NOTE 10• Comprehensive Income

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

(in thousands)	For the three months ended March 31,	
	2010	2009
Net income	\$44,128	\$48,012
Net unrealized holding loss on available-for-sale securities	—	(14)
Comprehensive income	\$44,128	\$47,998

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

NOTE 11· Legal and Regulatory Proceedings

Legal Proceedings

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 in some cases 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.

Although the ultimate outcome of such matters 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, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the Company's consolidated financial position. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters.

Governmental Investigations Regarding Compensation Practices

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

Governmental agencies such as departments of insurance and offices of attorneys general, in a number of states have looked or are looking into issues related to compensation practices in the insurance industry, and the Company continues to respond to written and oral requests for information and/or subpoenas seeking information related to this topic. The Company is currently in litigation commenced by the Company against the Attorney General's Office in Connecticut in an effort to protect the confidentiality of information sought by, or produced in response to, a subpoena. In addition, agencies in Arizona, Virginia, Washington and Florida have concluded their respective investigations of subsidiaries of Brown & Brown, Inc. based in those states.

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

For a more complete discussion of the foregoing matters, please see Item 3 of Part I of our Annual Report on Form 10-K filed with the SEC for our fiscal year ended December 31, 2009 and Note 13 to the Consolidated Financial Statements contained in Item 8 of Part II thereof.

BROWN & BROWN, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(UNAUDITED)

NOTE 12· 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, public and quasi-public entities, and to professional and individual customers; the National Programs Division, which is comprised of two units - Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities, and market niches; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers; and the Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers’ compensation and all-lines liability arenas, as well as Medicare set-aside services. Brown & Brown conducts all of its operations within the United States of America, except for one wholesale brokerage operation based in London, England that commenced business in March 2008. This operation earned \$2.6 million and \$1.0 million of total revenues for the three months ended March 31, 2010 and 2009, respectively. Additionally, this operation earned \$6.6 million of total revenues for the year ended December 31, 2009.

Summarized financial information concerning Brown & Brown’s reportable segments for the three months ended March 31, 2010 and 2009 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.

(in thousands)	For the three months ended March 31, 2010					
	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 149,252	\$ 54,999	\$ 38,424	\$ 9,010	\$ 588	\$ 252,273
Investment income	\$ 60	\$ 1	\$ 5	\$ 5	\$ 260	\$ 331
Amortization	\$ 7,535	\$ 2,305	\$ 2,557	\$ 146	\$ 10	\$ 12,553
Depreciation	\$ 1,400	\$ 764	\$ 715	\$ 71	\$ 303	\$ 3,253
Interest	\$ 7,011	\$ 988	\$ 3,002	\$ 214	\$ (7,607)	\$ 3,608
Income before income taxes	\$ 35,477	\$ 24,761	\$ 4,164	\$ 1,466	\$ 7,216	\$ 73,084
Total assets	\$1,802,467	\$635,246	\$632,165	\$56,680	\$(877,121)	\$2,249,437
Capital expenditures	\$ 784	\$ 228	\$ 493	\$ 56	\$ 493	\$ 2,054

(in thousands)	For the three months ended March 31, 2009					
	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 158,050	\$ 57,921	\$ 38,981	\$ 8,091	\$ 537	\$ 263,580
Investment income	\$ 64	\$ 1	\$ 29	\$ 6	\$ 210	\$ 310
Amortization	\$ 7,432	\$ 2,269	\$ 2,559	\$ 115	\$ 10	\$ 12,385
Depreciation	\$ 1,544	\$ 660	\$ 716	\$ 100	\$ 313	\$ 3,333
Interest	\$ 8,523	\$ 1,469	\$ 3,901	\$ 193	\$ (10,452)	\$ 3,634
Income before income taxes	\$ 38,040	\$ 26,394	\$ 2,989	\$ 1,722	\$ 10,062	\$ 79,207
Total assets	\$1,727,803	\$616,140	\$635,991	\$45,526	\$(878,144)	\$2,147,316
Capital expenditures	\$ 1,146	\$ 1,083	\$ 1,044	\$ 7	\$ (122)	\$ 3,158

ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

THE FOLLOWING DISCUSSION UPDATES THE MD&A CONTAINED IN THE COMPANY’S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED IN 2009, AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.

GENERAL

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

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

We foster a strong, decentralized sales culture with a goal of consistent, sustained growth over the long term. In 2009, our senior leadership group included nine executive officers with regional responsibility for oversight of designated operations within the Company. In July 2009, J. Powell Brown, who serves as President of Brown & Brown, Inc., succeeded his father, J. Hyatt Brown, as Chief Executive Officer. Mr. Hyatt Brown continues to serve as Chairman of the Board, and remains actively involved with acquisitions and recruitment. As previously announced, Jim W. Henderson, our Vice Chairman and Chief Operating Officer, will retire from the Company in August 2010.

We increased revenues every year from 1993 to 2008. However, in 2009, our revenues declined from the prior year to \$967.9 million. Our revenue growth from 1993 to 2009 reflects a compound annual growth rate of 15.6%. In the same period, we increased net income from \$8.0 million to \$153.3 million in 2009, a compound annual growth rate of 20.3%.

The past three years have posed significant challenges for us and for our industry in the form of a prevailing decline in insurance premium rates, commonly referred to as a “soft market;” increased significant governmental involvement in the Florida insurance marketplace since 2007, resulting in a substantial loss of revenues for us; and, beginning in the second half of 2008 and throughout 2009, increased pressure on the values of insurable exposure units as the consequence of the general weakening of the economy in the United States.

Beginning in the first quarter of 2007 through the first quarter of 2010, we experienced negative internal revenue growth each quarter. This was due primarily to the “soft market,” and, beginning in the second half of 2008 and through the first quarter of 2010, the decline in insurable exposure units, which further reduced our commissions and fees revenues. Part of the decline in 2007 was the result of the increased governmental involvement in the Florida insurance marketplace, as described below in “Florida Insurance Overview.” One industry segment that was hit especially hard during these years was the home-building industry in southern California and, to a lesser extent in Nevada, Arizona and Florida. We have a wholesale brokerage operation that focuses on placing property and casualty insurance products for that homebuilding segment and a program operation that places errors and omissions professional liability coverages for title agents. These operations’ revenues were negatively affected by these national economic trends primarily in 2007 and 2008, but continuing into 2010.

While insurance premium rates continued to decline for most lines of coverage during 2009 and into 2010, the rate of decline appears to be slowing. Since 2008, continued declining exposure units had a greater negative impact on our commissions and fees revenues than declining insurance premium rates. Even though we do not anticipate significant additional declines in exposure units or pricing in 2010, we currently do not see any indications of improvement in these areas.

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We also earn “profit-sharing contingent commissions,” which are profit-sharing commissions based primarily on underwriting results, but may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 5.9% of the previous year’s total commissions and fees revenue. Profit-sharing contingent commissions are typically included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term “core commissions and fees” excludes profit-sharing contingent commissions and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In recent years, five national insurance companies have replaced the loss-ratio based profit-sharing contingent commission calculation with a guaranteed fixed-based methodology, referred to as “Guaranteed Supplemental Commissions” (“GSCs”). Since these GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2009, we earned \$15.9 million from GSCs during 2009, most of which was collected in the first quarter of 2010. For the three-month periods ended March 31, 2010 and 2009, we earned \$3.0 million and \$4.4 million, respectively, from GSCs.

Fee revenues relate to fees negotiated in lieu of commissions, which are recognized as services are rendered. Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers’ compensation and all-lines liability arenas, as well as Medicare set-aside services, and (2) our National Programs and Wholesale Brokerage Divisions, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies. These services are provided over a period of time, typically one year. Fee revenues, as a percentage of our total commissions and fees, represented 13.3% in 2009 and 13.7% in 2008.

Historically, investment income has consisted primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. As a result of the bank liquidity and solvency issues in the United States in the last quarter of 2008, we moved substantial amounts of our cash into non-interest bearing checking accounts so that they would be fully insured by the Federal Depository Insurance Corporation (“FDIC”) or into money-market investment funds (a portion of which recently became FDIC-insured) of SunTrust Bank and Wells Fargo Bank, two large national banks. Investment income also includes gains and losses realized from the sale of investments.

Florida Insurance Overview

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

In August 2002, the Florida Legislature created “Citizens Property Insurance Corporation” (“Citizens”) to be the “insurer of last resort” in Florida. Initially, Citizens charged insurance rates that were higher than those generally prevailing in the private insurance marketplace. In each of 2004 and 2005, four major hurricanes made landfall in Florida. As a consequence of the resulting significant insurance property losses, Florida property insurance rates increased in 2006. To counter the increased property insurance rates, the State of Florida instructed Citizens to essentially reduce its property insurance rates by one-half beginning in January 2007. By state law, Citizens guaranteed these rates through January 1, 2010. As a result, Citizens became one of the most, if not the most, competitive risk-bearers for a large percentage of Florida’s commercial habitational coastal property exposures, such as condominiums, apartments, and certain assisted living facilities. Additionally, Citizens became the only insurance market for certain homeowner policies throughout Florida. Today, Citizens is one of the largest underwriters of coastal property exposures in Florida. Effective January 1, 2010, Citizens raised its insurance rates, on average, 10% for properties with values of less than \$10 million, and more than 10% for properties with values in excess of \$10 million. As a result, the impact of Citizens should continue to decline in 2010.

In 2007, Citizens became the principal direct competitor of the insurance companies that underwrite the condominium program administered by one of our indirect subsidiaries, Florida Intracoastal Underwriters, Limited Company (“FIU”), and the excess and surplus lines insurers represented by our wholesale brokers such as Hull & Company, Inc., another of our subsidiaries. Consequently, these operations lost significant amounts of revenue to Citizens. During 2008, 2009 and the first quarter of 2010, FIU’s revenues were relatively flat and therefore, Citizens’ impact was not as dramatic as in 2007. Citizens continued to be competitive with the excess and surplus lines insurers, and therefore negatively affected the revenues of our Florida-based wholesale brokerage operations, such as Hull & Company, Inc., from 2007 through the first quarter of 2010. However, with Citizens’ increased insurance rates effective January 1, 2010, certain excess and surplus lines insurers may be more competitive with Citizens.

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Citizens' impact on our Florida Retail Division was less severe than on our National Program and Wholesale Brokerage Divisions, because our retail offices have the ability to place business with Citizens, although at slightly lower commission rates and with greater difficulty in placing coverage.

Company Overview — First Quarter of 2010

For the thirteenth consecutive quarter, we recorded negative internal revenue growth of our commissions and fees revenues as a result of the continuing "soft market," the competitiveness of Citizens' rates, and the general weakness of the economy since the second half of 2008. Our total commissions and fees revenues, excluding the effect of recent acquisitions, profit-sharing contingencies and sales of books of businesses for the three months ended March 31, 2010, had a negative internal growth rate of (8.6)%, which represented \$20.2 million of net lost business. Of the \$20.2 million of net lost business, \$8.3 million related to Proctor Financial, Inc. ("Proctor"), our subsidiary that provides lender-placed insurance for financial institutions that service mortgage loans, which was primarily the result of several of Proctor's clients going out of business. Excluding the impact of Proctor, our negative internal growth rate for the three months ended March 31, 2010 was (5.6)%.

Employee compensation and benefits, and other operating expenses for the first quarter of 2010 decreased, on a net basis, approximately 2.9%, or \$4.7 million, from the same period in 2009. However, within that net decrease were \$1.8 million of new costs related to new acquisitions that were stand-alone offices. Therefore, employee compensation and benefits, and other operating expenses from those offices that existed in the same three-month periods ended March 31, 2010 and 2009 (including the new acquisitions that folded into those offices) decreased by \$6.4 million. The net reductions from these offices were primarily related to a reduction in salaries and bonuses of \$4.6 million, a reduction in our group health insurance cost of \$1.1 million, and broad-based reductions in occupancy costs, supplies, travel and entertainment expenses and bad debt write-offs, but those other operating expense savings were partially offset by a \$2.4 million increase in legal expenses, and errors and omissions reserves.

Acquisitions

Approximately 18,000 independent insurance agencies currently operate in the United States. Part of our continuing business strategy is to attract high-quality insurance agencies to join our operations. Acquisition activity slowed in 2009, in part because potential sellers were dissatisfied with reduced agency valuations that resulted from lower revenues and operating profits due to the continuing "soft market" and decreasing exposure units, and therefore opted to defer the sales of their insurance agencies. However, even though the overall acquisition environment in 2010 has not changed significantly from 2009, and we acquired operations with approximately the same amount of annualized revenues during both the first quarter of 2010 and 2009, we consummated the acquisition of five operations in the first quarter of 2010, compared with two acquisitions consummated in the first quarter of 2009.

A summary of our acquisitions for the three months ended March 31, 2010 and 2009 is as follows (in millions, except for number of acquisitions):

	<u>Number of Acquisitions</u>		<u>Estimated Annual Revenues</u>	<u>Net Cash Paid</u>	<u>Notes Issued</u>	<u>Liabilities Assumed</u>	<u>Recorded Earn-out Payable</u>	<u>Aggregate Purchase Price</u>
	<u>Asset</u>	<u>Stock</u>						
2010	5	—	\$ 11.8	\$ 17.0	\$ 0.2	\$ 0.1	\$ 8.3	\$ 25.6
2009	2	—	\$ 11.4	\$ 26.4	\$ —	\$ 0.7	\$ 2.2	\$ 29.3

Critical Accounting Policies

Our Condensed 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 and reporting policies, the more critical policies include our accounting for revenue recognition, business acquisitions and purchase price allocations, intangible asset impairments and reserves for litigation. In particular, the accounting for these areas requires significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 in the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2009 on file with the Securities and Exchange Commission ("SEC") for details regarding our critical and significant accounting policies.

[Table of Contents](#)**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009**

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

Financial information relating to our Consolidated Financial Results for the three-month periods ended March 31, 2010 and 2009 is as follows (in thousands, except percentages):

	For the three months ended March 31,		% Change
	2010	2009	
REVENUES			
Commissions and fees	\$ 218,438	\$ 234,038	(6.7)%
Profit-sharing contingent commissions	32,236	29,926	7.7%
Investment income	331	310	6.8%
Other income (loss), net	1,268	(694)	—
Total revenues	252,273	263,580	(4.3)%
EXPENSES			
Employee compensation and benefits	122,183	127,341	(4.1)%
Non-cash stock-based compensation	1,955	1,816	7.7%
Other operating expenses	36,333	35,864	1.3%
Amortization	12,553	12,385	1.4%
Depreciation	3,253	3,333	(2.4)%
Interest	3,608	3,634	(0.7)%
Change in estimated acquisition earn-out payable	(696)	—	—
Total expenses	179,189	184,373	(2.8)%
Income before income taxes	73,084	79,207	(7.7)%
Income taxes	28,956	31,195	(7.2)%
NET INCOME	\$ 44,128	\$ 48,012	(8.0)%
Net internal growth rate — core commissions and fees	(8.6)%	(2.2)%	
Employee compensation and benefits ratio	48.4%	48.3%	
Other operating expenses ratio	14.4%	13.6%	
Capital expenditures	\$ 2,054	\$ 3,158	
Total assets at March 31, 2010 and 2009	\$2,249,437	\$2,147,316	

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions, for the first quarter of 2010 decreased \$13.3 million, or 5.0%, from the same period in 2009. Profit-sharing contingent commissions for the first quarter of 2010 increased \$2.3 million over the first quarter of 2009, to \$32.2 million due primarily to a \$6.1 million increase in profit-sharing contingent commissions at Proctor as a result of their revenue growth and profitability in 2009 over the 2008 levels. The increased profit-sharing contingent commissions at Proctor was partially offset by a \$4.8 million reduction in profit-sharing contingent commissions in our retail and wholesale brokerage divisions that occurred primarily due to the insurance carriers' lower profitability in 2009 as compared with 2008. Core commissions and fees are our commissions and fees, less (i) profit-sharing contingent commissions and (ii) divested business (commissions and fees generated from offices, books of business or niches sold or terminated). Core commissions and fees revenue for the first quarter of 2010 decreased \$15.3 million on a net basis, of which approximately \$4.9 million represented core commissions and fees from agencies acquired since the first quarter of 2009. After divested business of \$0.3 million, the remaining net decrease of \$20.2 million represented net lost business, which reflects a (8.6%) internal growth rate for core commissions and fees. Excluding the decline in the core commissions and fees at Proctor, our internal revenue growth rate for the first quarter of 2010 is (5.6)%, an improvement from the (8.3)% internal growth rate in the fourth quarter of 2009.

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Investment Income

Investment income for the three months ended March 31, 2010 was essentially flat as compared with the same period in 2009 as a result of lower investment yields on higher average invested balances.

Other Income (Loss), net

Other income (loss) for the three months ended March 31, 2010 reflected income of \$1.3 million, compared with a loss of \$0.7 million in the same period in 2009. Other income consists primarily of gains and losses from the sale and disposition of assets. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth.

Employee Compensation and Benefits

Employee compensation and benefits for the first quarter of 2010 decreased, on a net basis, approximately 4.1%, or \$5.2 million, from the same period in 2009. However, within that net decrease were \$1.5 million of new compensation costs related to new acquisitions that were stand-alone offices. Therefore, employee compensation and benefits from those offices that existed in the same three-month periods ended March 31, 2010 and 2009 (including the new acquisitions that folded into those offices) decreased by \$6.6 million. The employee compensation and benefit reductions from these offices were primarily related to a reduction in salaries and bonuses of \$4.6 million and a reduction in our group health insurance cost of \$1.1 million. Employee compensation and benefits as a percentage of total revenue increased slightly to 48.4% for the first quarter of 2010, from 48.3% for the first quarter of 2009.

Non-Cash Stock-Based Compensation

The Company grants stock options and non-vested stock awards to its employees. Compensation expense for all share-based awards is recognized in the financial statements based upon the grant-date fair value of those awards. Non-cash stock-based compensation for the three months ended March 31, 2010 increased approximately \$0.1 million, or 7.7%, over the same period in 2009. For the entire year of 2010, we expect the total non-cash stock-based compensation expense to be approximately \$7.8 million, as compared with the total cost of \$7.4 million for the year 2009. The increased annual estimated cost primarily relates to new grants of performance stock (PSP).

Other Operating Expenses

Other operating expenses for the first quarter of 2010 increased \$0.5 million, or 1.3%, over the same period in 2009, of which \$0.3 million related to acquisitions that joined as stand-alone offices since April 1, 2009. The remaining net \$0.2 million increase from the offices in existence in both the three-month periods ended March 31, 2010 and 2009, including the new acquisitions that "folded into" those existing offices, related primarily to a \$2.4 million increase in legal expenses, and errors and omissions reserves, but was partially offset by broad-based reductions in occupancy costs, supplies, travel and entertainment expenses and bad debt write-offs.

Amortization

Amortization expense for the first quarter of 2010 increased \$0.2 million, or 1.4%, over the first quarter of 2009. This increase is primarily due to the amortization of additional intangible assets as the result of acquisitions completed since April 1, 2009.

Depreciation

Depreciation expense for the first quarter of 2010 decreased \$0.1 million, or 2.4%, from the first quarter of 2009. This decrease is due primarily to lower acquisition activity during 2009.

Interest Expense

Interest expense for the first quarter of 2010 decreased less than \$0.1 million, or 0.7%, from the same period in 2009 as a result of a slight reduction in debt outstanding.

Change in estimated acquisition earn-out payable

For acquisitions consummated after January 1, 2009, \$15.9 million was initially recorded as estimated acquisition earn-out payable. As of March 31, 2010, the fair value of the estimated acquisition earn-out payable was re-evaluated and reduced by \$0.8 million, which resulted in a credit to the Condensed Consolidated Statement of Income. Additionally, the interest expense accretion to the Condensed Consolidated Statement of Income for the three months ended March 31, 2010 and 2009 was \$0.1 million and 0, respectively.

RESULTS OF OPERATIONS — SEGMENT INFORMATION

As discussed in Note 12 of the Notes to Condensed Consolidated Financial Statements, we operate four reportable segments or divisions: the Retail, National Programs, Wholesale Brokerage, and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses result from completed acquisitions within a given division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. As such, in evaluating the operational efficiency of a division, management places emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of total employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

Total core commissions and fees are our total commissions and fees, less (i) profit-sharing contingent commissions (revenue derived from special revenue-sharing commissions from insurance companies based upon the volume and the growth and/or profitability of the business placed with such companies during the prior year), and (ii) divested business (commissions and fees generated from offices, books of business or niches sold by the Company or terminated).

The internal growth rates for our core commissions and fees for the three months ended March 31, 2010 and 2009, by divisional units are as follows (in thousands, except percentages):

2010	For the three months ended March 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2010	2009					
Florida Retail	\$ 37,376	\$ 40,079	\$ (2,703)	(6.7)%	\$ 14	\$ (2,717)	(6.8)%
National Retail	77,905	77,474	431	0.6%	2,140	(1,709)	(2.2)%
Western Retail	21,960	25,068	(3,108)	(12.4)%	926	(4,034)	(16.1)%
Total Retail⁽¹⁾	137,241	142,621	(5,380)	(3.8)%	3,080	(8,460)	(5.9)%
Professional Programs	9,826	10,729	(903)	(8.4)%	—	(903)	(8.4)%
Special Programs	28,573	37,811	(9,238)	(24.4)%	552	(9,790)	(25.9)%
Total National Programs	38,399	48,540	(10,141)	(20.9)%	552	(10,693)	(22.0)%
Wholesale Brokerage	33,802	34,462	(660)	(1.9)%	419	(1,079)	(3.1)%
Services	8,996	8,085	911	11.3%	886	25	0.3%
Total Core Commissions and Fees	\$218,438	\$233,708	\$(15,270)	(6.5)%	\$ 4,937	\$(20,207)	(8.6)%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended March 31, 2010 and 2009 is as follows (in thousands, except percentages):

	For the three months ended March 31,	
	2010	2009
Total core commissions and fees	\$ 218,438	\$ 233,708
Profit-sharing contingent commissions	32,236	29,926
Divested business	—	330
Total commission & fees	\$ 250,674	\$ 263,964

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 12 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.

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2009	For the three months ended March 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2009	2008					
Florida Retail	\$ 40,131	\$ 41,227	\$ (1,096)	(2.7)%	\$ 3,667	\$ (4,763)	(11.6)%
National Retail	77,527	70,156	7,371	10.5%	11,443	(4,072)	(5.8)%
Western Retail	25,293	21,087	4,206	19.9%	7,566	(3,360)	(15.9)%
Total Retail⁽¹⁾	<u>142,951</u>	<u>132,470</u>	<u>10,481</u>	7.9%	<u>22,676</u>	<u>(12,195)</u>	(9.2)%
Professional Programs	10,572	10,245	327	3.2%	—	327	3.2%
Special Programs	37,968	27,800	10,168	36.6%	—	10,168	36.6%
Total National Programs	<u>48,540</u>	<u>38,045</u>	<u>10,495</u>	27.6%	<u>—</u>	<u>10,495</u>	27.6%
Wholesale Brokerage	34,462	36,878	(2,416)	(6.6)%	718	(3,134)	(8.5)%
Services	8,085	7,933	152	1.9%	—	152	1.9%
Total Core Commissions and Fees	<u>\$234,038</u>	<u>\$215,326</u>	<u>\$18,712</u>	8.7%	<u>\$ 23,394</u>	<u>\$ (4,682)</u>	(2.2)%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended March 31, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended March 31,	
	2009	2008
Total core commissions and fees	\$ 234,038	\$ 215,326
Profit-sharing contingent commissions	29,926	36,347
Divested business	—	1,855
Total commission & fees	<u>\$ 263,964</u>	<u>\$ 253,528</u>

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 12 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.

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Retail Division

The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. More than 96.0% of the Retail Division's commissions and fees revenues 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, net of related compensation that we receive will be reflected in our pre-tax income.

Financial information relating to Brown & Brown's Retail Division for the three-month periods ended March 31, 2010 and 2009 is as follows (in thousands, except percentages):

	For the three months ended March 31,		
	2010	2009	% Change
REVENUES			
Commissions and fees	\$ 137,072	\$ 142,681	(3.9)%
Profit-sharing contingent commissions	11,322	16,170	(30.0)%
Investment income	60	64	(6.3)%
Other income (loss), net	798	(865)	—
Total revenues	149,252	158,050	(5.6)%
EXPENSES			
Employee compensation and benefits	73,657	76,580	(3.8)%
Non-cash stock-based compensation	888	1,190	(25.4)%
Other operating expenses	24,026	24,741	(2.9)%
Amortization	7,535	7,432	1.4%
Depreciation	1,400	1,544	(9.3)%
Interest	7,011	8,523	(17.7)%
Change in estimated acquisition earn-out payable	(742)	—	—
Total expenses	113,775	120,010	(5.2)%
Income before income taxes	\$ 35,477	\$ 38,040	(6.7)%
Net internal growth rate — core commissions and fees	(5.9)%	(9.2)%	
Employee compensation and benefits ratio	49.4%	48.5%	
Other operating expenses ratio	16.1%	15.7%	
Capital expenditures	\$ 784	\$ 1,146	
Total assets at March 31, 2010 and 2009	\$1,802,467	\$1,727,803	

The Retail Division's total revenues during the three months ended March 31, 2010 decreased 5.6%, or \$8.8 million, from the same period in 2009, to \$149.3 million. Profit-sharing contingent commissions for the first quarter of 2010 decreased \$4.9 million, or 30.0%, from the first quarter of 2009, primarily due to increased loss ratios resulting in lower profitability for insurance companies in 2009. The \$5.6 million net decrease in commissions and fees resulted from the following factors: (i) an increase of approximately \$3.1 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2009, (ii) a decrease of \$0.3 million related to commissions and fees recorded in the first quarter of 2009 from business divested during 2010, and (iii) the remaining net decrease of \$8.5 million is primarily related to net lost business. The Retail Division's internal growth rate for core commissions and fees was (5.9)% for the first quarter of 2010, and was driven by lower insurance property rates and reduced insurable exposure units in most areas of the United States.

Income before income taxes for the three months ended March 31, 2010 decreased 6.7%, or \$2.6 million, from the same period in 2009, to \$35.5 million. This decrease is primarily due to net lost business and less profit-sharing contingent commissions, but partially offset by net gains on the sales of a few books of businesses.

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National Programs Division

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

Financial information relating to our National Programs Division for the three-month periods ended March 31, 2010 and 2009 is as follows (in thousands, except percentages):

	For the three months ended March 31,		
	2010	2009	% Change
REVENUES			
Commissions and fees	\$ 38,399	\$ 48,540	(20.9)%
Profit-sharing contingent commissions	16,595	9,386	76.8%
Investment income	1	1	—
Other income (loss), net	4	(6)	—
Total revenues	54,999	57,921	(5.0)%
EXPENSES			
Employee compensation and benefits	19,093	19,622	(2.7)%
Non-cash stock-based compensation	202	253	(20.2)%
Other operating expenses	6,881	7,254	(5.1)%
Amortization	2,305	2,269	1.6%
Depreciation	764	660	15.8%
Interest	988	1,469	(32.7)%
Change in acquisition earn-out payable	5	—	—
Total expenses	30,238	31,527	(4.1)%
Income before income taxes	\$ 24,761	\$ 26,394	(6.2)%
Net internal growth rate — core commissions and fees	(22.0)%	27.6%	
Employee compensation and benefits ratio	34.7%	33.9%	
Other operating expenses ratio	12.5%	12.5%	
Capital expenditures	\$ 228	\$ 1,083	
Total assets at March 31, 2010 and 2009	\$635,246	\$616,140	

Total revenues for National Programs for the three months ended March 31, 2010 decreased 5.0%, or \$2.9 million, from the same period in 2009, to \$55.0 million. Profit-sharing contingent commissions for the first quarter of 2010 increased \$7.2 million over the first quarter of 2009, of which \$6.1 million of that increase related to Proctor. Proctor's increased profit-sharing contingent commissions were the direct result of the substantial premium growth generated by Proctor in 2009. Of the \$10.1 million net decrease in commissions and fees for National Programs: (i) an increase of approximately \$0.6 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2009, and (ii) the remaining net decrease of \$10.7 million is primarily related to net lost business. Therefore, the National Programs Division's internal growth rate for core commissions and fees was (22.0)% for the three months ended March 31, 2010. Of the \$10.7 million of net lost business, \$8.3 million related to Proctor, which was primarily the result of several of Proctor's clients going out of business, and \$1.2 million related to our public entity business. It is expected that Proctor's commissions and fees for the second quarter of 2010 will be down \$6.0 million to \$8.0 million from the second quarter of 2009.

Income before income taxes for the three months ended March 31, 2010 decreased 6.2%, or \$1.6 million, from the same period in 2009, to \$24.8 million. This decrease is primarily due to a net decrease in income before income taxes at Proctor.

[Table of Contents](#)**Wholesale Brokerage Division**

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

Financial information relating to our Wholesale Brokerage Division for the three-month periods ended March 31, 2010 and 2009 is as follows (in thousands, except percentages):

	For the three months ended March 31,		
	2010	2009	% Change
REVENUES			
Commissions and fees	\$ 33,802	\$ 34,462	(1.9)%
Profit-sharing contingent commissions	4,319	4,370	(1.2)%
Investment income	5	29	(82.8)%
Other income, net	298	120	148.3%
Total revenues	38,424	38,981	(1.4)%
EXPENSES			
Employee compensation and benefits	19,956	20,507	(2.7)%
Non-cash stock-based compensation	173	253	(31.6)%
Other operating expenses	7,843	8,056	(2.6)%
Amortization	2,557	2,559	(0.1)%
Depreciation	715	716	(0.1)%
Interest	3,002	3,901	(23.0)%
Change in acquisition earn-out payable	14	—	—
Total expenses	34,260	35,992	(4.8)%
Income before income taxes	\$ 4,164	\$ 2,989	39.3%
Net internal growth rate — core commissions and fees	(3.1)%	(8.5)%	
Employee compensation and benefits ratio	51.9%	52.6%	
Other operating expenses ratio	20.4%	20.7%	
Capital expenditures	\$ 493	\$ 1,044	
Total assets at March 31, 2010 and 2009	\$632,165	\$635,991	

The Wholesale Brokerage Division's total revenues for the three months ended March 31, 2010 decreased 1.4%, or \$0.6 million, from the same period in 2009, to \$38.4 million. Profit-sharing contingent commissions for the first quarter of 2010 decreased \$0.1 million from the same quarter of 2009. Of the \$0.7 million net decrease in commissions and fees: (i) an increase of approximately \$0.4 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2009, and (ii) the remaining net decrease of \$1.1 million is primarily due to net lost business. As such, the Wholesale Brokerage Division's internal growth rate for core commissions and fees was (3.1)% for the first quarter of 2010. The bulk of the net lost business was due to lower insurance rates and reduced exposure units in most areas of the United States.

Income before income taxes for the three months ended March 31, 2010 increased 39.3%, or \$1.2 million, over the same period in 2009, to \$4.2 million, primarily due to a net reduction in the inter-company interest expense allocation of \$0.9 million and continued improved efficiencies relating to employee compensation costs.

[Table of Contents](#)**Services Division**

The Services Division provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services. Unlike our other segments, approximately 98.9% of the Services Division's 2009 commissions and fees revenues are generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division for the three-month periods ended March 31, 2010 and 2009 is as follows (in thousands, except percentages):

	For the three months ended March 31,		
	2010	2009	% Change
REVENUES			
Commissions and fees	\$ 8,996	\$ 8,085	11.3%
Profit-sharing contingent commissions	—	—	—
Investment income	5	6	(16.7)%
Other income, net	9	—	—
Total revenues	9,010	8,091	11.4%
EXPENSES			
Employee compensation and benefits	5,397	4,767	13.2%
Non-cash stock-based compensation	22	41	(46.3)%
Other operating expenses	1,667	1,153	44.6%
Amortization	146	115	27.0%
Depreciation	71	100	(29.0)%
Interest	214	193	10.9%
Change in acquisition earn-out payable	27	—	—
Total expenses	7,544	6,369	18.4%
Income before income taxes	\$ 1,466	\$ 1,722	(14.9)%
Net internal growth rate — core commissions and fees	0.3%	1.9%	
Employee compensation and benefits ratio	59.9%	58.9%	
Other operating expenses ratio	18.5%	14.3%	
Capital expenditures	\$ 56	\$ 7	
Total assets at March 31, 2010 and 2009	\$56,680	\$45,526	

The Services Division's total revenues for the three months ended March 31, 2010 increased 11.4%, or \$0.9 million, over the same period in 2009, to \$9.0 million, which was almost exclusively due to an acquisition that had no comparable revenues in the same period of 2009. Core commissions and fees reflect an internal growth rate of 0.3% for the first quarter of 2010, primarily due to net new business at our Medicare set-aside services business, which was partially offset by reduced revenues in our comprehensive medical utilization management services.

Income before income taxes for the three months ended March 31, 2010 decreased 14.9%, or \$0.3 million, from the same period in 2009 to \$1.5 million, primarily due to \$0.1 million of additional salaries relating to increased staffing on a new contract and \$0.2 million in increased legal fees.

Other

As discussed in Note 12 of the Notes to Condensed 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 charges to reporting segments.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents of \$228.8 million at March 31, 2010 reflected an increase of \$31.7 million over the \$197.1 million balance at December 31, 2009. For the three-month period ended March 31, 2010, \$73.8 million of cash was provided from operating activities. Also during this period, \$17.2 million of cash was used for acquisitions, \$2.1 million was used for additions to fixed assets, \$12.4 million was used for payments on long-term debt and \$11.0 million was used for payment of dividends.

Our ratio of current assets to current liabilities (the “current ratio”) was 1.37 and 1.28 at March 31, 2010 and December 31, 2009, respectively.

Contractual Cash Obligations

As of March 31, 2010, our contractual cash obligations were as follows:

(in thousands)	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 256,045	\$ 6,015	\$ 100,030	\$ 100,000	\$ 50,000
Other long-term liabilities	27,294	8,730	12,552	4,875	1,137
Operating leases	98,966	24,301	37,178	21,457	16,030
Interest obligations	50,182	14,423	20,228	13,089	2,442
Unrecognized tax benefits	694	—	694	—	—
Maximum future acquisition earn-out payments	138,518	60,090	78,428	—	—
Total contractual cash obligations	\$ 571,699	\$ 113,559	\$ 249,110	\$ 139,421	\$ 69,609

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. We have used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of March 31, 2010 and December 31, 2009, there was an outstanding balance of \$200.0 million on the Notes.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the “Master Agreement”) with a national insurance company (the “Purchaser”). The Purchaser also purchased Notes issued by us in 2004. The Master Agreement provides for a \$200.0 million private uncommitted “shelf” facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of \$25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per annum. On February 1, 2008, \$25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per annum were issued. As of March 31, 2010 and December 31, 2009 there was an outstanding balance of \$50.0 million under the Master Agreement.

On June 12, 2008, we entered into an Amended and Restated Revolving Loan Agreement (the “Loan Agreement”) with a national banking institution that was dated as of June 3, 2008, amending and restating the existing Revolving Loan Agreement dated September 29, 2003, as amended (the “Revolving Agreement”), in order to increase the lending commitment to \$50.0 million (subject to potential increases up to \$100.0 million) and to extend the maturity date from December 20, 2011 to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of \$75.0 million. After a series of amendments that provided covenant exceptions for the Notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to \$20.0 million. The calculation of interest and fees is generally based on our quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization, and non-cash stock-based compensation. Interest is charged at a rate equal to 0.50% to 1.00% above the London Interbank Offering Rate (“LIBOR”) or 1.00% below the base rate, each as more fully defined in the Loan Agreement. Fees include an upfront fee, an availability fee of 0.10% to 0.20%, and a letter of credit usage fee of 0.50% to 1.00%. The Loan Agreement contains various covenants, limitations, and events of default customary for similar facilities for similar borrowers. The 90-day LIBOR was 0.29% and 0.25% as of March 31, 2010 and December 31, 2009, respectively. There were no borrowings against this facility at March 31, 2010 or December 31, 2009.

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All three of these credit agreements require us to maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of March 31, 2010 and December 31, 2009.

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

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with our Master Agreement and the Loan Agreement described above, will be sufficient to satisfy our normal liquidity needs through at least the end of 2010. 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 be able to raise additional capital through either the private or public debt markets.

In addition, we currently have a shelf registration statement with the SEC registering the potential sale of an indeterminate amount of debt and equity securities in the future, from time to time, to augment our liquidity and capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our invested assets are held as cash and cash equivalents, restricted cash and investments, available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit. These investments are subject to interest rate risk and equity price risk. The fair values of our cash and cash equivalents, restricted cash and investments, and certificates of deposit at March 31, 2010 and December 31, 2009 approximated their respective carrying values due to their short-term duration and therefore such market risk is not considered to be material.

We do not actively invest or trade in equity securities. In addition, we generally dispose of any significant equity securities received in conjunction with an acquisition shortly after the acquisition date.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation (the "Evaluation") required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 and 15d-15 under the Exchange Act ("Disclosure Controls") as of March 31, 2010. Based on the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our senior management, including our CEO and CFO, to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There has not been any change in our internal control over financial reporting identified in connection with the Evaluation that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Control Over Financial Reporting

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

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

CEO and CFO Certifications

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

PART II

ITEM 1. LEGAL PROCEEDINGS

In Item 3 of Part I of the Company's Annual Report on Form 10-K for its fiscal year ending December 31, 2009, certain information concerning certain legal proceedings and other matters was disclosed. Such information was current as of the date of filing. During the Company's fiscal quarter ending March 31, 2010, no new legal proceedings, or material developments with respect to existing legal proceedings, occurred which require disclosure in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There were no material changes in the risk factors previously disclosed in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 6. EXHIBITS

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

- 3.1 Articles of Amendment to Articles of Incorporation (adopted April 24, 2003) (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 2003), and Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 1999).
- 3.2 Bylaws (incorporated by reference to Exhibit 3b to Form 10-K for the year ended December 31, 2002).
- 10.1 Registrant's 2010 Stock Incentive Plan.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
- 32.1 Section 1350 Certification by the Chief Executive Officer of the Registrant.
- 32.2 Section 1350 Certification by the Chief Financial Officer of the Registrant.

SIGNATURE

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

BROWN & BROWN, INC.

/s/ CORY T. WALKER

Cory T. Walker
Sr. Vice President, Chief Financial Officer and Treasurer
(duly authorized officer, principal financial officer and principal accounting officer)

Date: May 6, 2010

BROWN & BROWN, INC.
2010 STOCK INCENTIVE PLAN

1. Establishment, Purpose and Term of Plan.

1.1 **Establishment.** Brown & Brown, Inc. 2010 Stock Incentive Plan (the "Plan") is hereby established effective as of March 9, 2010 (the "Effective Date").

1.2 **Purpose.** The purpose of the Plan is to promote the success of the Corporation and its stockholders by attracting and retaining Employees and Directors by supplementing their cash compensation and providing a means for them to increase their holdings of Stock of the Corporation. The opportunity so provided and the receipt of Awards as compensation are intended to foster in participants a strong incentive to put forth maximum effort for the continued success and growth of the Corporation for the benefit of customers and stockholders, to aid in retaining individuals who put forth such efforts, and to assist in attracting the best available individuals in the future. Awards granted under the Plan may be Incentive Stock Options, Nonqualified Stock Options, Stock Grants, and Stock Appreciation Rights. Such Awards will be granted to certain Employees and Directors to recognize and reward outstanding individual performance.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued. However, all Awards shall be granted, if at all, within ten (10) years from the Effective Date. Notwithstanding the foregoing, if the maximum number of shares of Stock issuable pursuant to the Plan as provided in Section 4.1 has been increased at any time, all Awards shall be granted, if at all, within ten (10) years from the date such amendment was adopted by the Board.

2. Definitions and Constructions; Sub-Plans.

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "**Award**" means an Option, Stock Appreciation Right or Stock Grant.

(b) "**Award Agreement**" means a written or electronic agreement between the Corporation and a Grantee setting forth the terms, conditions and restrictions of an Award granted to the Grantee.

(c) "**Board**" means the Board of Directors of the Corporation.

(d) "**Code**" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(e) “**Committee**” means the Compensation Committee of the Board or such other committee of the Board duly appointed to administer the Plan, and being composed and having such powers as are specified in the Plan or by the Board as generally provided for in the Plan.

(f) “**Corporation**” means Brown & Brown, Inc., a Florida corporation, or any successor corporation thereto.

(g) “**Director**” means a member of the Board.

(h) “**Disability**” means, with respect to a particular Grantee, that he or she is entitled to receive benefits under the long-term disability plan of the Corporation or a Subsidiary, as applicable, or, in the absence of such a plan, the complete and permanent inability by reason of illness or accident to perform the duties of the person’s occupation at the time when such disability commenced, or, if the Grantee was retired when such disability commenced, the inability to engage in any substantial gainful activity, in either case as determined by the Committee based upon medical evidence acceptable to it.

(i) “**Employee**” means any person treated as an employee (including an officer or a Director who is also treated as an employee) in the records of the Corporation or its Subsidiaries.

(j) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(k) “**Fair Market Value**” means, as of any date, the closing price of the Stock on the New York Stock Exchange, Inc. (as published by *The Wall Street Journal*, if published) on such date, or if the Stock was not traded on such day, on the next preceding day on which the Stock was traded.

(l) “**Grantee**” means a person who has been granted one or more Awards under this Plan.

(m) “**Incentive Stock Option**” means an Option so denominated in the Award Agreement and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(n) “**Nonqualified Stock Option**” means an Option so denominated or which does not qualify as an Incentive Stock Option.

(o) “**Option**” means a right to purchase Stock (subject to adjustment as provided in Section 4.2) pursuant to the terms and conditions of the Plan. An Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

(p) “**Ownership Change Event**” shall mean the occurrence of any of the following with respect to the Corporation:

(i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Corporation of more than fifty percent (50%) of the voting stock or beneficial ownership of the Corporation;

(ii) a merger or consolidation in which the Corporation is a party; or

(iii) the sale, exchange, or transfer of all or substantially all of the assets of the Corporation.

(q) “**Rule 16b-3**” means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(r) “**Stock**” means the Corporation’s common stock, \$.10 par value, as adjusted from time to time in accordance with Section 4.2.

(s) “**Stock Appreciation Right**” or “**SAR**” has the meaning set forth in Section 7 of the Plan.

(t) “**Stock Grant**” means shares of Stock that are awarded to a Grantee pursuant to Section 8 of the Plan.

(u) “**Subsidiary**” means any present or future “subsidiary corporation” of the Corporation, as defined in Section 424(f) of the Code.

(v) “**Ten Percent Owner Grantee**” means a Grantee who, at the time an Option is granted to the Grantee, owns stock constituting more than ten percent (10%) of the total combined voting power of all classes of stock of Corporation within the meaning of Section 422(b)(6) of the Code. For the purpose of determining under any provision of this Plan whether a Grantee owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Corporation, attribution rules contained in Section 424(d) of the Code shall apply.

(w) “**Transfer of Control**” shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the “**Transaction**”) wherein the stockholders of the Corporation immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Corporation’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Corporation or the corporation or corporations to which the assets of the Corporation were transferred (the “**Transferee Corporation(s)**”), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporation which, as a result of the Transaction, own the Corporation or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Committee shall have the right to determine whether multiple sales or exchanges of the voting stock of the Corporation or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural, the plural shall include the singular, and the term “or” shall include the conjunctive as well as the disjunctive.

2.3 **Sub-Plans for Foreign Subsidiaries.** The Board may adopt sub-plans applicable to particular foreign Subsidiaries. All Awards granted under such sub-plans shall be treated as grants under the Plan. The rules of such sub-plans may take precedence over other provisions of the Plan, with the exception of Section 4, but unless otherwise superseded by the terms of such sub-plan, the provisions of the Plan shall govern the operation of such sub-plan.

3. Administration.

3.1 **Administration.** The Plan shall be administered by the Committee which shall be duly appointed by the Board. All questions of interpretation of the Plan or of any Award shall be determined by the Committee, and such determination shall be final and binding upon all persons having an interest in the Plan or such Award. The composition of the Committee shall at all times comply with the requirements of Rule 16b-3 under the Exchange Act and with the requirements of Section 162(m) of the Code, and all members of the Committee shall be “non-employee directors” as defined by Rule 16b-3 and “outside directors” as referred to in Section 162(m).

3.2 **Powers of the Committee.** The Committee shall have full power and authority with respect to the Plan, except those specifically reserved to the Board, and subject at all times to the terms of the Plan and any applicable limitations imposed by law. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its sole discretion:

(a) to grant Awards in the forms of Options, Stock Appreciation Rights and Stock Grants, and to determine the persons to whom, and the time or times at which, Awards shall be granted and the types and amounts of such Award, which determination need not be uniform among persons similarly situated and may be made selectively among Employees and Directors;

(b) to designate Options as Incentive Stock Options or Nonqualified Stock Options;

(c) to determine the terms, conditions and restrictions applicable (which need not be identical) to each Award, including, without limitation, (i) the exercise price of an Option or SAR, (ii) the method of payment for shares purchased upon the exercise of an Option, (iii) the method for satisfaction of any tax withholding obligations arising in connection with an Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability of Options and SARs, (v) the time of the expiration of an Award, (vi) the effect of the Grantee’s termination of employment or service with Corporation on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to an Award or such shares not inconsistent with the terms of the Plan;

(d) to approve one or more forms of Award Agreement;

(e) to amend the exercisability of any Option or SAR, including with respect to the period following a Grantee's termination of employment or service with the Corporation;

(f) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Awards;

(g) to correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent consistent with the Plan and applicable law;

(h) to establish performance goals on which the vesting of the Awards are based;

(i) to certify in writing that such performance goals referred to in subsection (h) above have been met; and

(j) to modify or amend each Award, provided however that the Committee may not modify or amend any outstanding Option or SAR so as to specify a lower exercise price, or accept the surrender of an outstanding Option or SAR and authorize the granting of a new Option or SAR with a lower exercise price in substitution for such surrendered Option or SAR, or buy out, for a payment in cash or shares of Stock, an outstanding Option or SAR.

4. Shares Subject to Plan.

4.1 **Shares Issuable.** Subject to adjustment as provided in Section 4.2, any shares of Stock that are authorized to be issued under the Brown & Brown, Inc. Performance Stock Plan (the "Performance Stock Plan") and that are not subject to awards granted under the Performance Stock Plan and outstanding as of the Effective Date shall be available for Awards under the Plan. Therefore, based on the number of shares of Stock that are authorized to be issued under the Performance Stock Plan and that are not subject to awards granted under the Performance Stock Plan and outstanding as of as of the Effective Date, the number of shares of Stock that are authorized to be issued under the Plan is 5,953,543. If any portion of an outstanding Award for any reason expires or is terminated or canceled or forfeited, the shares of Stock allocable to the expired, terminated, canceled, or forfeited portion of such Award shall again be available for issuance under the Plan. In addition, if any portion of an outstanding award that was granted prior to the Effective Date under the Performance Stock Plan for any reason expires or is terminated or canceled or forfeited on or after the Effective

Date, the shares of Stock allocable to the expired, terminated, canceled, or forfeited portion of such Performance Stock Plan award shall be available for issuance under the Plan. Awards made in connection with the assumption of, or substitution for, outstanding awards previously granted to individuals who become Employees of the Corporation or a Subsidiary as a result of any merger, consolidation, acquisition of property or stock, or reorganization, shall not count against the limitations set forth in this Section 4. All of the shares of Stock available for Awards under the Plan shall be available for issuance pursuant to the exercise of Incentive Stock Options granted under the Plan. With respect to Stock Appreciation Rights, if the payment upon exercise of a SAR is in the form of shares of Stock, the shares of Stock subject to the SAR shall be counted against the available shares as one share for every share subject to the SAR, regardless of the number of Shares used to settle the SAR upon exercise.

4.2 Adjustments for Changes in Capital Structure. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar event or change in the capital structure of the Corporation, appropriate adjustments shall be made in the number and class of shares available for issuance under the Plan as set forth in Section 4.1, and in the number and class of shares of any outstanding Awards, and in the annual limits set forth in Sections 6, 7, and 8. If a majority of the shares which are of the same class as the shares that are subject to outstanding Awards are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the “**New Shares**”), the Committee shall amend the outstanding Options and SARs to provide that such Options and SARs are exercisable for or with respect to New Shares. In the event of any such amendment, the number of shares subject to, and any exercise price per share of, the outstanding Awards shall be adjusted in a fair and equitable manner as determined by the Committee, in its sole discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, as determined by the Committee, and in no event may the exercise price be decreased to any amount less than the par value, if any, of the stock subject to an Option or SAR. The adjustments determined by the Committee pursuant to this Section 4.2 shall be final, binding and conclusive.

5. Eligibility and Limitations.

5.1 Persons Eligible for Awards. Awards may be granted only to Employees and Directors, as designated by the Committee in its sole discretion. Only Employees shall be eligible to receive grants of Incentive Stock Options. The Committee’s designation of a person as a participant in any year does not require the Committee to designate that person to receive an Award under this Plan in any other year or, if so designated, to receive the same Award as any other participant in any year. The Committee may consider such factors as it deems pertinent in selecting participants and in determining the amount of their respective Awards, including, but without being limited to: (a) the financial condition of the Corporation or a Subsidiary; (b) expected profits for the current or future years; (c) the contributions of a prospective participant to the profitability and success of the Corporation or a Subsidiary; and (d) the adequacy of the prospective participant’s other compensation. The Committee, in its discretion, may grant Awards to a participant under this Plan, even though stock, stock options, stock appreciation rights and other benefits previously were granted to him or her under this or another plan of the Corporation or a Subsidiary, whether or not the previously granted benefits have been exercised, but the participant may hold such Awards only on the terms and subject to the restrictions hereafter set forth. A person who has participated in another benefit plan of the Corporation or a Subsidiary may also participate in this Plan.

5.2 Fair Market Value Limitation. To the extent that the aggregate Fair Market Value of stock with respect to which Options designated as Incentive Stock Options are exercisable by a Grantee for the first time during any calendar year (under all stock option plans of the Corporation, including this Plan) exceeds One Hundred Thousand Dollars (\$100,000), that portion of such Options which exceeds such amount shall be treated as Nonqualified Stock Options. For purposes of this Section 5.2, Options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of Stock shall be determined as of the time the Option with respect to such Stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 5.2, such different limitation shall be deemed incorporated herein, effective as of the date of and with respect to such Options as required or permitted by, such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonqualified Stock Option in part by reason of the limitation set forth in this Section 5.2, the Grantee may designate which portion of such Option the Grantee is exercising and may request that separate stock certificates representing each such portion be issued upon the exercise of the Option. In the absence of such designation, the Grantee shall be deemed to have exercised the Incentive Stock Option portion of the Option first.

5.3 No Right of Grant or Employment. No Employee or Director shall have any claim or right to be granted an Award under the Plan, or, having been selected for the grant of an Award, to be selected for a grant of any other Award. Neither the Plan nor any action taken hereunder shall be construed as giving any Grantee any right to be retained in the employ or service of the Corporation or a Subsidiary, or interfere in any way with the right of the Corporation or its Subsidiaries to terminate such Grantee's employment or service at any time.

6. Terms and Conditions of Options. Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. No Employee or Director shall be granted in any calendar year Options to purchase more than five hundred thousand (500,000) shares of Stock. The limitation described in this Section 6 shall be adjusted proportionately in connection with any change in the Corporation's capitalization as described in Section 4.2 of the Plan. If an Option is canceled in the same calendar year in which it was granted, the canceled Option will be counted against the limitation described in this Section 6. Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions.

6.1 Exercise Price. The exercise price for each Option shall be established in the sole discretion of the Committee and, except as otherwise provided in this Section 6.1 or a sub-plan applicable to a particular foreign Subsidiary, shall be no less than the Fair Market Value of a share of Stock on the effective date of grant of the Option; provided, however, that an Incentive Stock Option granted to a Ten Percent Owner Grantee shall have an exercise price per share that is no less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of such Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonqualified Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 **Exercise Period.** An Option shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria, and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option; and (b) no Incentive Stock Option granted to a Ten Percent Owner Grantee shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option.

6.3 **Payment of Option Exercise Price.**

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to the exercise of any Option shall be made (i) in cash, by check, or by cash equivalent, (ii) subject to the approval of the Committee, by tender to the Corporation of shares of Stock owned by the Grantee having a Fair Market Value (as determined by the Corporation without regard to any restrictions on transferability applicable to such Stock by reason of federal or state securities laws or agreements with an underwriter for the Corporation) not less than the exercise price, (iii) subject to the approval of the Committee, by directing the Corporation to retain all or a portion of the shares of Stock otherwise issuable to the Grantee under the Plan pursuant to such exercise having a Fair Market Value equal to the aggregate exercise price, (iv) by the assignment of the proceeds of a sale or loan with respect to some or all of the shares of stock being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a “**Cashless Exercise**”), (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Committee may at any time or from time to time, by adoption of or by amendment to the standard forms of Award Agreement described in Section 6.5 hereof, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of considerations.

(b) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Corporation of shares of Stock to the extent such tender would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Corporation’s Stock.

(c) **Cashless Exercise.** The Corporation reserves, at any and all times, the right, in the Corporation’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

6.4 Tax Withholding. The Corporation shall have the right, but not the obligation, to deduct from the shares of Stock issuable upon the exercise of an Option, a number of whole shares of Stock having a Fair Market Value, as determined by the Corporation, equal to all or any part of the federal, state, local and foreign taxes, if any, required by law to be withheld by the Corporation with respect to such Option. Alternatively, or in addition, in its sole discretion, the Corporation shall have the right to require the Grantee, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Corporation arising in connection with the exercise. The Corporation shall have no obligation to deliver shares of Stock or cash, or to release shares of Stock from an escrow established pursuant to the Award Agreement, until the Corporation's tax withholding obligations have been satisfied by the Grantee.

6.5 Standard Forms of Award Agreement.

(a) **Incentive Stock Options.** Unless otherwise provided by the Committee at the time the Option is granted, an Option designated as an "Incentive Stock Option" shall comply with and be subject to the terms and conditions set forth in the appropriate form of Incentive Stock Option Award Agreement as adopted by the Committee and as amended from time to time.

(b) **Nonqualified Stock Options.** Unless otherwise provided by the Committee at the time the Option is granted, an Option designated as a "Nonqualified Stock Option" shall comply with and be subject to the terms and conditions set forth in the appropriate form of Nonqualified Stock Option Award Agreement as adopted by the Committee and as amended from time to time.

(c) **Standard Term of Options.** Except as otherwise provided by the Committee in the grant of an Option, any Option granted hereunder shall have a term of ten (10) years from the effective date of grant of the Option.

(d) **Standard Vesting Provisions.** Except as otherwise provided by the Committee in the grant of an Option, any Option granted hereunder shall become vested based upon the attainment of certain performance levels as described in the Award Agreement executed in connection with such Option.

(e) **Authority to Vary Terms.** The Committee shall have the authority from time to time to vary the terms of any of the standard forms of Award Agreement described in this Section 6.5 either in connection with the grant or amendment of any individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement shall be in accordance with the terms of the Plan. The Committee, may in its discretion, provide for the extension of the exercise period of an Option, accelerate the vesting of an Option, eliminate or make less restrictive any restrictions contained in an Award Agreement, or waive any restriction or provision of this Plan or an Award Agreement in any manner that is either (i) not adverse to the Grantee or (ii) consented to by the Grantee.

6.6 Nontransferability of Options. During the lifetime of the Grantee, an Option shall be exercisable only by the Grantee or the Grantee's guardian or legal representative. No Option shall be assignable or transferable by the Grantee, except by will or by the laws of descent and distribution. Following a Grantee's death, the Option shall be exercisable to the extent provided in Section 6.7 below.

6.7 Effect of Termination of Service on Option Exercisability.

(a) **Time of Service.** No Option granted under this Plan may be exercised before the Grantee's completion of such period of service as may be specified by the Committee in the Award Agreement. Thereafter, or if no such period is specified, subject to the provisions of subsections (b), (c), (d), (e) and (f) of this Section 6.7, the Grantee may exercise the Option in full or in part at any time until expiration of the Option.

(b) **Continued Employment.** A Grantee cannot exercise an Option granted under this Plan unless, at the time of exercise, he has been continuously employed by the Corporation since the date such Option was granted. The Committee may decide in each case to what extent bona fide leaves of absence for illness, temporary disability, government or military service, or other reasons will not be deemed to interrupt continuous employment.

(c) **Termination of Service.** If a Grantee ceases to be an Employee or Director, except as provided in subsections (d), (e), (f) and (g) of this Section 6.7, the Option, to the extent unexercised and exercisable on the date of his or termination of employment or service, may be exercised by the Grantee within such period of time as is determined by the Committee and specified in the Award Agreement (but no later than the stated expiration date of the Option).

(d) **Retirement.** Except as otherwise provided by the Committee in the grant of an Option, if a Grantee ceases to be an Employee or Director as a result of retirement, the Option, to the extent unexercised and exercisable on the date of his or her retirement, may be exercised by the Grantee at any time prior to the expiration of three (3) months after the date on which he or she ceases to be an Employee or Director (but no later than the stated expiration date of the Option). An Employee or Director shall be regarded as retired if he terminates employment or service after his or her sixty-fifth (65th) birthday.

(e) **Disability.** Except as otherwise provided by the Committee in the grant of an Option, if the Grantee's employment or service with the Corporation is terminated because of the Disability of the Grantee, the Option, to the extent unexercised and exercisable on the date on which the Grantee's employment or service terminated, may be exercised by the Grantee (or the Grantee's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Grantee's service terminated, but in any event not later than the stated expiration date of the Option.

(f) **Death.** Except as otherwise provided by the Committee in the grant of an Option, if the Grantee's employment or service with the Corporation is terminated because of the death of the Grantee, the Option, to the extent unexercised and exercisable on the date on which the Grantee's employment or service terminated, may be exercised by the Grantee's legal representative or other person who acquired the right to exercise the Option by reason of the Grantee's death at any time prior to the expiration of twelve (12) months after the date on which the Grantee's employment or service terminated, but in any event no later than the stated expiration date of the Option.

(g) **Termination After Transfer of Control.** Except as otherwise provided by the Committee in the grant of an Option, if the Grantee's employment or service with the Corporation terminates by reason of Termination After Transfer of Control (as defined in Section 6.8 hereof), (i) the Option may be exercised by the Grantee at any time prior to the expiration of three (3) months from the date on which the Grantee's employment or service terminated, but in any event no later than the stated expiration date of the Option, and (ii) notwithstanding any other provision of the Award Agreement or this Plan to the contrary, the Grantee shall be deemed to have vested one hundred percent (100%) as of the date of such Termination After Transfer of Control.

6.8 *Termination After Transfer of Control.*

(a) "**Termination After Transfer of Control**" shall mean either of the following events occurring after a Transfer of Control:

(i) termination by the Corporation of the Grantee's employment or service with Corporation, within twelve (12) months following a Transfer of Control, for any reason other than Termination for Cause (as defined below); or

(ii) upon Grantee's Constructive Termination (as defined below), the Grantee's resignation from employment or service with the Corporation within twelve (12) months following the Transfer of Control.

Notwithstanding any provision herein to the contrary, Termination After Transfer of Control shall not include any termination of the Grantee's employment or service with the Corporation which: (i) is a Termination for Cause (as defined below); (ii) is a result of the Grantee's death or Disability; (iii) is a result of the Grantee's voluntary termination of employment or service other than upon Constructive Termination (as defined below); or (iv) occurs prior to the effectiveness of a Transfer of Control.

(b) "**Termination for Cause**" shall mean termination by the Corporation of the Grantee's employment or service with the Corporation for any of the following reasons: (i) theft, dishonesty, or falsification of any employment or Corporation records; (ii) improper use or disclosure of the Corporation's confidential or proprietary information; (iii) the Grantee's failure or inability to perform any reasonable assigned duties after written notice from the Corporation of, and a reasonable opportunity to cure, such continued failure or inability; (iv) any material breach by the Grantee of any employment agreement between the Grantee and Corporation, which breach is not

cured pursuant to the terms of such agreement; or (v) the Grantee's conviction of any criminal act which, in the Corporation's sole discretion, impairs Grantee's ability to perform his or her duties with Corporation. Termination for Cause pursuant to the foregoing shall be determined in the sole but reasonably exercised discretion of the Corporation.

(c) "**Constructive Termination**" shall mean any one or more of the following:

(i) without the Grantee's express written consent, the assignment to the Grantee of any duties, or any limitation of the Grantee's responsibilities, substantially inconsistent with the Grantee's positions, duties, responsibilities and status with the Corporation immediately prior to the date of a Transfer of Control;

(ii) without the Grantee's express written consent, the relocation of the principal place of the Grantee's employment to a location that is more than fifty (50) miles from the Grantee's principal place of employment immediately prior to the date of a Transfer of Control, or the imposition of travel requirements substantially more demanding of the Grantee than such travel requirements existing immediately prior to the date of a Transfer of Control;

(iii) any failure by the Corporation to pay, or any material reduction by the Corporation of, (A) the Grantee's base salary in effect immediately prior to the date of the Transfer of Control (unless reductions comparable in amount and duration are concurrently made for all other employees of the Corporation with responsibilities, organizational level and title comparable to the Grantee's), or (B) the Grantee's bonus compensation, if any, in effect immediately prior to the date of the Transfer of Control (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Grantee); or

(iv) any failure by the Corporation to (A) continue to provide the Grantee with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with Corporation then held by the Grantee, in any benefit or compensation plans and programs, including, but not limited to, the Corporation's life, disability, health, dental, medical, savings, profit sharing, stock purchase and retirement plans, if any, in which the Grantee was participating immediately prior to the date of the Transfer of Control, or their equivalent, or (B) provide the Grantee with all other fringe benefits (or their equivalent) from time to time in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with the Corporation then held by the Grantee.

7. Stock Appreciation Rights (SARs).

7.1 **General.** SARs shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. No Employee or Director shall be granted in any calendar year SARs covering more than five hundred thousand (500,000) shares of Stock. The limitation described in this Section 7 shall be adjusted proportionately in connection with any change in the Corporation's capitalization as described in Section 4.2 of the Plan. If a SAR is canceled in the same calendar year in which it was granted, the canceled SAR will be counted against the limitation described in this Section 7. Award Agreements may incorporate all or any of the terms of the Plan by reference, and shall include such terms and conditions as shall be determined by the Committee in its sole discretion, including, without limitation, provisions relating to exercise price, vesting and exercisability. Upon exercise of a SAR, the Grantee shall be entitled to receive payment from the Corporation in an amount determined by multiplying:

- (a) the excess of the Fair Market Value of a share of Stock on the date of exercise over the SAR exercise price; by
- (b) the number of shares of Stock with respect to which the SAR is exercised;

provided, that the Committee may provide in the Award Agreement that the benefit payable on exercise of an SAR shall not exceed such percentage of the Fair Market Value of a Share on the effective date of grant of such SAR as the Committee shall specify. As determined by the Committee, the payment upon exercise of an SAR may be in cash, in shares of Stock that have an aggregate Fair Market Value (as of the date of exercise of the SAR) equal to the amount of the payment, or in some combination thereof, as set forth in the Award Agreement.

7.2 Effect of Termination of Service on SAR Exercisability.

(a) **Time of Service.** No SAR granted under this Plan may be exercised before the Grantee's completion of such period of service as may be specified by the Committee in the Award Agreement. Thereafter, or if no such period is specified, subject to the provisions of subsections (b), (c), (d), (e) and (f) of this Section 7.2, the Grantee may exercise the SAR in full or in part at any time until expiration of the SAR.

(b) **Continued Employment.** A Grantee cannot exercise a SAR granted under this Plan unless, at the time of exercise, he has been continuously employed by the Corporation since the date such SAR was granted. The Committee may decide in each case to what extent bona fide leaves of absence for illness, temporary disability, government or military service, or other reasons will not be deemed to interrupt continuous employment.

(c) **Termination of Service.** If a Grantee ceases to be an Employee or Director, except as provided in subsections (d), (e), (f) and (g) of this Section 7.2, the SAR, to the extent unexercised and exercisable on the date of his or termination of employment or service, may be exercised by the Grantee within such period of time as is determined by the Committee and specified in the Award Agreement (but no later than the stated expiration date of the SAR).

(d) **Retirement.** Except as otherwise provided by the Committee in the grant of a SAR, if a Grantee ceases to be an Employee or Director as a result of retirement, the SAR, to the extent unexercised and exercisable on the date of his or her retirement, may be exercised by the Grantee at any time prior to the expiration of three (3) months after the date on which he or she ceases to be an Employee or Director (but no later than the stated expiration date of the SAR). An Employee or Director shall be regarded as retired if he terminates employment or service after his or her sixty-fifth (65th) birthday.

(e) **Disability.** Except as otherwise provided by the Committee in the grant of a SAR, if the Grantee's employment or service with the Corporation is terminated because of the Disability of the Grantee, the SAR, to the extent unexercised and exercisable on the date on which the Grantee's employment or service terminated, may be exercised by the Grantee (or the Grantee's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Grantee's service terminated, but in any event not later than the stated expiration date of the SAR.

(f) **Death.** Except as otherwise provided by the Committee in the grant of a SAR, if the Grantee's employment or service with the Corporation is terminated because of the death of the Grantee, the SAR, to the extent unexercised and exercisable on the date on which the Grantee's employment or service terminated, may be exercised by the Grantee's legal representative or other person who acquired the right to exercise the SAR by reason of the Grantee's death at any time prior to the expiration of twelve (12) months after the date on which the Grantee's employment or service terminated, but in any event no later than the stated expiration date of the SAR.

(g) **Termination After Transfer of Control.** Except as otherwise provided by the Committee in the grant of a SAR, if the Grantee's employment or service with the Corporation terminates by reason of Termination After Transfer of Control (as defined in Section 6.8 hereof), (i) the SAR may be exercised by the Grantee at any time prior to the expiration of three (3) months from the date on which the Grantee's employment or service terminated, but in any event no later than the stated expiration date of the SAR, and (ii) notwithstanding any other provision of the Award Agreement or this Plan to the contrary, the Grantee shall be deemed to have vested one hundred percent (100%) as of the date of such Termination After Transfer of Control.

8. Stock Grants. Each Stock Grant granted to an Employee or Director shall be evidenced by an Award Agreement that shall set forth, as determined by the Committee in its sole discretion, the conditions, if any, which will need to be timely satisfied before the grant will be effective and the conditions, if any, under which the Grantee's interest in the related shares of Stock will be forfeited. If the Grantee's employment or service with the Corporation terminates by reason of Termination After Transfer of Control (as defined in Section 6.8 hereof), the Stock Grant shall be deemed to have vested one hundred percent (100%) as of the date of such Transfer After Termination of Control.

(8.1) **Authorization to Grant Stock Grants.** Subject to the terms and conditions of the Plan, the Committee may grant Stock Grants to Employees or Directors

from time to time. Each Stock Grant shall be evidenced by an Award Agreement that shall set forth the conditions, if any, which will need to be timely satisfied before the Stock Grant will be effective and the conditions, if any, under which the Grantee's interest in the related shares of Stock will be forfeited. No more than five hundred thousand (500,000) shares of Stock may be granted pursuant to Stock Grants to an individual Grantee in any calendar year.

(8.2) Code Section 162(m) Provisions.

(a) Notwithstanding any other provision of the Plan, if the Compensation Committee of the Board (the - "Compensation Committee") determines at the time a Stock Grant is granted to a Grantee that such Grantee is, or may be as of the end of the tax year for which the Company would claim a tax deduction in connection with such Stock Grant, a "covered employee" within the meaning of Section 162(m)(3) of the Code, and to the extent the Compensation Committee considers it desirable for compensation delivered pursuant to such Stock Grant to be eligible to qualify for an exemption from the limit on tax deductibility of compensation under Section 162(m) of the Code, then the Compensation Committee may provide that this Section 8(b) is applicable to such Stock Grant under such terms as the Compensation Committee shall determine.

(b) If a Stock Grant is subject to this Section 8(b), then the lapsing of restrictions thereon and the distribution of shares of Stock pursuant thereto, as applicable, shall be subject to satisfaction of one, or more than one, objective performance targets. The Compensation Committee shall determine the performance targets that will be applied with respect to each Stock Grant subject to this Section 8(b) at the time of grant, but in no event later than ninety (90) days after the commencement of the period of service to which the performance target(s) relate. Performance targets may be described in terms of Corporation-wide objectives or objectives that are related to the performance of the individual Grantee or the Subsidiary, division, department or function within the Corporation or Subsidiary in which the Grantee is employed. Performance may be measured on an absolute or relative basis. The performance criteria applicable to Stock Grants subject to this Section 8(b) will be one or more of the following criteria: (A) stock price; (B) market share; (C) sales; (D) earnings per share, core earnings per share or variations thereof; (E) return on equity; (F) costs; (G) revenue; (H) cash to cash cycle; (I) days payables outstanding; (J) days of supply; (K) days sales outstanding; (L) cash flow; (M) operating income; (N) profit after tax; (O) profit before tax; (P) return on assets; (Q) return on sales; (R) inventory turns; (S) invested capital; (T) net operating profit after tax; (U) return on invested capital; (V) total shareholder return; (W) earnings; (X) return on equity or average shareowners' equity; (Y) total shareowner return; (Z) return on capital; (AA) return on investment; (BB) income or net income; (CC) operating income or net operating income; (DD) operating profit or net operating profit; (EE) operating margin; (FF) return on operating revenue; (GG) contract awards or backlog; (HH) overhead or other expense reduction; (II) growth in shareowner value relative to the moving average of the S&P 500 Index or a peer group index; (JJ) credit rating; (KK) strategic plan development and implementation; (LL) net cash provided by operating activities; (MM) gross margin; (NN) economic value added; (OO) customer satisfaction; (PP) financial return ratios; and/or (QQ) market performance.

(c) Notwithstanding any contrary provision of the Plan, the Compensation Committee may not increase the number of shares granted pursuant to any

Stock Grant subject to this Section 8(b), nor may it waive the achievement of any performance target established pursuant to this Section 8(b). The Compensation Committee may adjust performance targets and the related level of achievement if, in the sole judgment of the Compensation Committee, extraordinary events or transactions have occurred after the date of grant that are unrelated to the performance of the Grantee and result in distortion of the performance targets or the related level of achievement.

(d) Prior to the payment of any Stock Grant subject to this Section 8(b), the Compensation Committee shall certify in writing that the performance target(s) applicable to such Stock Grant was met.

(e) The Compensation Committee shall have the power to impose such other restrictions on Stock Grants subject to this Section 8(b) as it may deem necessary or appropriate to ensure that such Stock Grants satisfy all requirements for “performance-based compensation” within the meaning of Code section 162(m)(4)(C) of the Code, the regulations promulgated thereunder, and any successors thereto.

9. Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or a committee thereof or as officers or employees of the Corporation, members of the Board, the Committee and any officers or employees of the Corporation to whom authority to act for the Board or Committee is delegated shall be indemnified by the Corporation against all reasonable expenses, including attorneys’ fees, incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be party by reason of any action taken or failure to act under or in connection with the Plan, Award, or any right granted hereunder, and against all amounts in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Corporation) or paid in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Corporation, in writing, the opportunity at its own expense to handle and defend the same. Without limiting the generality of the foregoing, the Corporation shall pay the expenses (including reasonable attorneys’ fees) of defending any such claim, action, suit or proceeds in advance of its final disposition, upon receipt of such person’s written agreement to repay all amounts advanced if it should ultimately be determined that such person is not entitled to be indemnified under this Section 9.

10. Termination or Amendment of Plan. The Committee, without further approval of the stockholders of the Corporation, may terminate or amend this Plan at any time in any respect as the Committee deems advisable, subject to any required shareholder or regulatory approval and to any conditions established by the terms of such amendment. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Award or any unexercised portion thereof without the consent of the Grantee, unless such termination or amendment is required to enable an Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law or government regulation.

11. Dissolution of Corporation. Upon the dissolution of the Corporation, the Plan shall terminate and any and all Awards previously granted hereunder shall lapse on the date of such dissolution.

12. Rights as Stockholders. No Grantee, nor any beneficiary or other person claiming through an Grantee, shall have any interest in any shares of Stock allocated for the purposes of the Plan or that are subject to an Award until such shares of Stock shall have been issued to the Grantee or such beneficiary or other person. Furthermore, the existence of the Awards shall not affect the right or power of the Corporation or its stockholders to make adjustments, or to effect any recapitalization, reorganization, or other changes in the Corporation's capital structure or its business; to issue bonds, debentures, preferred or prior preference stocks affecting the Stock of the Corporation or the rights thereof; to dissolve the Corporation or sell or transfer any part of its assets or business; or to do any other corporate act, whether of a similar character or otherwise.

13. Application of Funds. The proceeds received by the Corporation from the sale of Stock pursuant to Options granted under this Plan will be used for general corporate purposes.

14. Choice of Law. The validity, interpretation, and administration of the Plan and of any rules, regulations, determinations, or decisions made thereunder, and the rights of any and all person having or claiming to have any interest therein or thereunder, shall be determined exclusively in accordance with the internal laws of the State of Florida. Without limiting the generality of the foregoing, the period within which any action in connection with Plan must be commenced shall be governed by the internal laws of the State of Florida without regard to the place where the act or omission complained of took place or the resident of any party to such action. Any action in connection with the Plan must be brought in the State of Florida, County of Hillsborough.

15. Number and Gender. Unless otherwise clearly indicated in this Plan, words in the singular or plural shall include the plural and singular, respectively, where they would so apply, and words in the masculine or neuter gender shall include the feminine, masculine or neuter gender where applicable.

16. Shareholder Approval. The Plan or any increase in the maximum number of shares of Stock issuable thereunder as provided in Section 4.1 hereof (the "Maximum Shares") shall be approved by the stockholders of the Corporation within twelve (12) months of the date of adoption thereof by the Board. Awards granted prior to shareholder approval of the Plan or in excess of the Maximum Shares previously approved by the stockholders shall become exercisable no earlier than the date of shareholder approval of the Plan or such increase in the Maximum Shares, as the case may be.

APPENDIX A

BROWN & BROWN, INC. UK STOCK PERFORMANCE PLAN

Brown & Brown, Inc., a corporation organized under the laws of the State of Florida, establishes, as a sub-plan of the Brown & Brown, Inc. 2010 Stock Incentive Plan, this UK Stock Performance Plan for the purposes of attracting and retaining Key Employees in the UK, providing an incentive for Key Employees in the UK to achieve long-range performance goals, and enabling Key Employees in the UK to share in the successful performance of the stock of Brown & Brown, Inc., as measured against pre-established performance goals.

ARTICLE I - DEFINITIONS AND INTERPRETATION

1.01 Award means a conditional right to acquire Stock granted pursuant to Article VI of this Plan under which the Key Employee shall not have any beneficial interest in that Stock until such time as the Award is Released to the Key Employee pursuant to Section 6.06 of this Plan.

1.02 Award Certificate means a certificate confirming an Award made to a Key Employee under this Plan.

1.03 Award Effective Date means the date on which an Award to a Key Employee becomes effective. An Award shall be effective (i) as of the date set by the Committee when the Award is granted or, (ii) if the Award is made subject to one, or more than one, condition under Section 6.03 of this Plan, as of the date that such condition or conditions are satisfied.

1.04 Award Release Date means the date on which Vested Stock is Released to the Key Employee.

1.05 Board means the Board of Directors of Brown & Brown, Inc.

1.06 Bonus means a cash amount in sterling equal to the aggregate of the dividends that would have been declared during the period between the Award Effective Date and the Award Release Date and payable to the Key Employee in respect of the Stock Released to the Key Employee pursuant to the relevant Award had that Stock been Released to the Key Employee on the Award Effective Date rather than the Award Release Date. Where such dividends would have been paid in US dollars the Committee shall convert such amounts into a sterling amount by reference to the exchange rate on the Award Release Date, such rate on that date to be determined by the Committee in its sole and absolute discretion.

1.07 Change in Control means (i) the acquisition of the power to direct, or cause the direction of, the management and policies of the Company by a person not previously possessing such power, acting alone or in conjunction with others, whether through ownership of Stock, by contract or otherwise, or (ii) the acquisition, directly or indirectly, of the power to vote twenty percent or more of the outstanding Stock by a person or persons. For purposes of this Section 1.07, the term "person" means a natural person, corporation, partnership, joint venture, trust, government or instrumentality of a government. Also for purposes of this Section 1.07, customary agreements with or among underwriters and selling group members with respect to a bona fide public offering of Stock shall be disregarded.

1.08 Code means the Internal Revenue Code of 1986, as amended.

1.09 Committee means the Compensation Committee of the Board or, if the Compensation Committee at any time has less than three members, a committee that shall have at least three members, each of whom shall be appointed by and shall serve at the pleasure of the Board.

1.10 Company means Brown & Brown, Inc., a corporation organized under the laws of the State of Florida.

1.11 Disability means a physical or mental condition of a Key Employee resulting from bodily injury, disease or mental disorder that renders him or her incapable of engaging in any occupation or employment for wage or profit. Disability does not include any physical or mental condition resulting from the Key Employee's engagement in a felonious act, self-infliction of an injury, or performance of military service. Disability of a Key Employee shall be determined by a properly qualified doctor selected by the Committee in its sole and absolute discretion.

1.12 Grant Date means the date on which the Award is granted, subject to the discretion of the Committee to determine that the Grant Date of an Award granted to an Original Employee in 2010 shall be April 30, 2008.

1.13 Group Company means the Company and any subsidiary of the Company (as defined in section 1159 of the Companies Act 2006).

1.14 Key Employee means a full time, salaried employee (including an executive director) of a Group Company who, in the judgment of the Committee acting in its sole and absolute discretion, is a key to the successful operation of the Company.

1.15 Original Employee means a Key Employee who was employed by a Group Company as of April 30, 2008.

1.16 Ownership Change Event means the occurrence of any of the following with respect to the Company:

- (a) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock or beneficial ownership of the Company;
- (b) a merger or consolidation in which the Company is a party; or
- (c) the sale, exchange, or transfer of all or substantially all of the assets of the Company.

1.17 Plan means this UK Stock Performance Plan.

1.18 Proportionate Number means the result of $A \times (B \div 15)$ where A is the aggregate number of shares of Stock in respect of which the Award has become effective and B is the number of Years of Vesting Service for a Group Company which have been completed by the Key Employee.

1.19 Release means the issue or transfer of Vested Stock to the Key Employee pursuant to Section 6.06 and “Released” shall be construed accordingly.

1.20 Stock means the common stock, \$0.10 par value, of the Company.

1.21 Tax means all forms of taxation, charge, duty, withholding or deduction in the nature of tax (including without limitation primary Class 1 national insurance contributions and, if so determined by the Committee, secondary Class 1 national insurance contributions) whatsoever and whenever created, enacted or imposed and whether of the United Kingdom or elsewhere and any amount whatever payable to any Tax Authority as a result of any enactment relating to tax together with all related fines, penalties, interest and surcharges.

1.22 Tax Authority means any statutory or governmental authority or body (whether of the United Kingdom or elsewhere) involved in the collection or administration of Tax.

1.23 Tax Liability means the liability of a Group Company or the trustee or trustees of any relevant employee share ownership trust to account for any amount of Tax in relation to the Vesting or Release of an Award.

1.24 Transfer of Control means an Ownership Change Event or a series of related Ownership Change Events (collectively, the “**Transaction**”) wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the “**Transferee Corporation(s)**”), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporation which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Committee shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

1.25 Vest means the Key Employee becoming entitled to have the Vested Stock Released to him or her and “Vesting” and “Vested” shall be construed accordingly.

1.26 Vested Stock means those shares of Stock in respect of which an Award has Vested.

1.27 Year of Vesting Service means, with respect to each Award, a twelve consecutive month period measured from the Grant Date of the Award and each successive twelve consecutive month period measured from each anniversary of such Grant Date for that Award.

Any reference in this Plan to any enactment includes a reference to that enactment as from time to time modified, extended or re-extended.

ARTICLE II - ELIGIBILITY

Only Key Employees shall be eligible to receive Awards under this Plan. The Committee, in its sole and absolute discretion, shall determine the Key Employees to whom Awards shall be granted. A member of the Committee is not eligible to be granted an Award during the period he or she serves on the Committee.

ARTICLE III - STOCK AVAILABLE FOR AWARDS

The Company shall reserve 5,953,543 shares of Stock for use under this Plan. All such shares of Stock shall be reserved to the extent that the Company deems appropriate from authorized but unissued shares of Stock and from shares of Stock that have been reacquired by the Company. Furthermore, any shares of Stock that are subject to an Award which is forfeited under Section 6.02, 6.03 or 6.04 of this Plan shall again become available for use under this Plan.

ARTICLE IV - EFFECTIVE DATE

This Plan shall be effective on the date it is adopted by the Board, subject to the approval of the shareholders of the Company within twelve months after the date of adoption of this Plan by the Board. Any Award granted under this Plan before the date of such shareholder approval shall be awarded expressly subject to such approval.

ARTICLE V - ADMINISTRATION

This Plan shall be administered by the Committee. The Committee, acting in its sole and absolute discretion, shall exercise such powers and take such action as expressly called for under this Plan. Furthermore, the Committee shall have the power to interpret this Plan and to take such other action in the administration and operation of this Plan as the Committee deems equitable under the circumstances, which action shall be binding on the Company with respect to each affected Key Employee and each other person directly or indirectly affected by such action. Nothing in this Article V shall affect or impair the Board's power to take the actions reserved to it in this Plan.

ARTICLE VI - STOCK AWARDS

6.01 Committee Action. The Committee shall have the right to grant Awards to Key Employees under this Plan. Each Award shall be evidenced by an Award Certificate, and each Award Certificate shall set forth the Grant Date of the Award, the conditions under which the Award will become effective and the conditions under which the Award shall Vest.

6.02 No Transfer of Awards. An Award granted to a Key Employee shall not be transferred, assigned, pledged, charged or otherwise disposed of by the Key Employee (except on his or her death to his or her personal representatives) and shall immediately be forfeited if the Key Employee purports to so transfer, assign, pledge, charge or otherwise dispose of the Award or if the Key Employee is declared bankrupt, or enters into any arrangement with his or her creditors under any formal insolvency procedure.

6.03 Conditions for Awards. The Committee shall make Awards to Key Employees effective only upon the satisfaction of one, or more than one, objective performance targets. The Committee shall determine the performance targets which will be applied with respect to each grant of an Award at the time of grant of such Award, but in no event later than ninety (90) days after the commencement of the period of service to which the performance targets relate. The performance criteria applicable to Awards will be one or more of the following criteria:

- (a) Stock price;
- (b) average annual growth in earnings per share;
- (c) increase in shareholder value;
- (d) earnings per share;
- (e) net income;
- (f) return on assets;
- (g) return on shareholders' equity;
- (h) increase in cash flow;
- (i) operating profit or operating margins;
- (j) revenue growth of the Company; and
- (k) operating expenses.

For the avoidance of doubt, the Committee shall have the discretion to determine the performance targets applicable to an Award granted to an Original Employee in 2010 as if the Award had been granted on April 30, 2008.

The related Award Certificate shall set forth each such target and the deadline for satisfying each such target. Where a target is satisfied the Committee shall certify in writing that such target has been satisfied. The shares of Stock underlying an Award shall be unavailable under Article III of this Plan as of the date on which such Award is granted. If an Award fails to become effective under this Section 6.03, the underlying shares of Stock subject to such Award shall again become available under Article III of this Plan as of the date of such failure to become effective. An Award or Awards may not be granted to a Key Employee in any calendar year over more than 500,000 shares of Stock in aggregate provided that the relevant limit in respect of an Award or Awards granted to an Original Employee in 2010 shall be [40,000] shares of Stock in aggregate.

6.04 Conditions for Vesting of Awards. Subject to the provisions of Article IX and Article XII of this Plan, an Award which has become effective upon the satisfaction of any conditions for the grant specified by the Committee pursuant to Section 6.03 shall Vest upon the Key Employee's completion of fifteen Years of Vesting Service for a Group Company. Subject to the provisions of Article IX of this Plan, if the Key Employee's employment with a Group Company terminates to the effect that he or she is no longer employed by any Group Company before his or her completion of fifteen Years of Vesting Service for a Group Company, the Key Employee's Award shall be forfeited unless:

(a) the Key Employee's employment with the Group Company terminates on or after the Award Effective Date in circumstances where the Committee is satisfied that the Key Employee has no intention of taking paid employment elsewhere at any time in the future in which case, subject to the provisions of Article XII of this Plan, the Award shall Vest on the date of termination in respect of the Proportionate Number of shares of Stock and shall be forfeited in respect of the remaining shares of Stock subject to the Award;

(b) the Key Employee's employment with the Group Company terminates as a result of his or her death or Disability in which case, subject to the provisions of Article XII of this Plan, the Award shall Vest in full on the date of termination; or

(c) the Committee, in its sole and absolute discretion, waives the conditions described in this Section 6.04 in which case, subject to the provisions of Article XII of this Plan, the Award shall Vest in accordance with the Committee's determination in its sole and absolute discretion.

6.05 Dividends and Voting Rights. For the avoidance of doubt, a Key Employee shall not be entitled to receive dividends declared or paid, or to exercise voting rights or any other right, in relation to Stock subject to an Award in respect of any period prior to the Release of the Stock to the Key Employee.

6.06 Release of Stock. On or as soon as reasonably practicable after an Award has Vested the Company will issue, transfer or procure the transfer to the Key Employee the relevant number of shares of Stock in respect of which the Award has Vested. The certificate representing shares of Stock Released pursuant to the Award shall be transferred to the Key Employee as soon as practicable after the Award Release Date. For the avoidance of doubt, the Key Employee shall have no entitlement in relation to rights attaching to the shares of Stock until the shares have been issued or transferred to the Key Employee pursuant to this Section 6.06.

6.07 Cash Bonus Representing Dividends. Within 30 days of the Release of an Award the Company or another Group Company shall pay the Bonus to the relevant Key Employee, subject to deduction of any applicable Tax (which, for the avoidance of doubt, shall not include secondary Class 1 national insurance contributions for this purpose).

ARTICLE VII - SECURITIES REGISTRATION

Each Award Certificate shall provide that, upon the receipt of shares of Stock pursuant to the Release of an Award, the Key Employee shall, if so requested by the Company, hold such shares of Stock for investment and not with a view of resale or distribution to the public and, if so requested by the Company, shall deliver to the Company a written statement signed by the Key Employee satisfactory to the Company to that effect. With respect to Stock issued pursuant to this Plan, the Company at its expense shall take such action as it deems necessary or appropriate to register the original issuance of such Stock to a Key Employee under the Securities Act of 1933 or under any other applicable securities laws or to qualify such Stock for an exemption under any such laws prior to the issuance of such Stock to a Key Employee. Notwithstanding the foregoing, the Company shall have no obligation whatsoever to take any such action in connection with the transfer, resale or other disposition of such Stock by a Key Employee.

ARTICLE VIII - ADJUSTMENT

The Board, in its sole and absolute discretion, may, but shall not be required to, adjust the number of shares of Stock reserved under Article III of this Plan, the annual grant limit set forth in Section 6.03 of this Plan (to the extent permitted by the rules relating to the qualified performance-based compensation exemption from the limit on tax deductibility of compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code")), and shares of Performance Stock theretofore granted in an equitable manner to reflect any change in the capitalization of the Company, including, but not limited to, such changes as Stock dividends or Stock splits. If any adjustment under this Article VIII would create a fractional share of Stock, such fractional share shall be disregarded and the number of shares of Stock reserved or granted under this Plan shall be the next lower number of shares of Stock, rounding all fractions downward. An adjustment made under this Article VIII by the Board shall be conclusive and binding on all affected persons and, further, shall not constitute an increase in the number of shares reserved under Article III within the meaning of Article X(a) of this Plan.

ARTICLE IX - TERMINATION AFTER TRANSFER OF CONTROL

9.01 Termination After Transfer of Control. If the Key Employee's employment with the Group Company terminates by reason of Termination After Transfer of Control (as defined in Section 9.02) then, subject to the provisions of Article XII of this Plan, the Award shall Vest in full on the date on the date of such Termination After Transfer of Control.

9.02 Definitions.

(a) "Termination After Transfer of Control" shall mean either of the following events occurring after a Transfer of Control:

(i) termination by a Group Company of the Key Employee's employment with the Group Company, within twelve (12) months following a Transfer of Control, for any reason other than Termination for Cause (as defined below); or

(ii) upon the Key Employee's Constructive Termination (as defined below), the Key Employee's resignation from employment with a Group Company within twelve (12) months following the Transfer of Control.

Notwithstanding any provision herein to the contrary, Termination After Transfer of Control shall not include any termination of the Key Employee's employment with a Group Company which: (i) is a Termination for Cause (as defined below); (ii) is a result of the Key Employee's death or Disability; (iii) is a result of the Key Employee's voluntary termination of employment other than upon Constructive Termination (as defined below); or (iv) occurs prior to the effectiveness of a Transfer of Control.

(b) "Termination for Cause" shall mean termination by a Group Company of the Key Employee's employment with the Group Company for any of the following reasons: (i) theft, dishonesty, or falsification of any employment or Group Company records; (ii) improper use or disclosure of a Group Company's confidential or proprietary information; (iii) the Key Employee's failure or inability to perform any reasonable assigned duties after written notice from a Group Company of, and a reasonable opportunity to cure, such continued failure or inability; (iv) any material breach by the Key Employee of any employment agreement between the Key Employee and a Group Company, which breach is not cured pursuant to the terms of such agreement; or (v) the Key Employee's conviction of any criminal act which, in the Group Company's sole discretion, impairs the Key Employee's ability to perform his or her duties with the Group Company. Termination for Cause pursuant to the foregoing shall be determined in the sole but reasonably exercised discretion of the Committee.

(c) "Constructive Termination" shall mean any one or more of the following:

(i) without the Key Employee's express written consent, the assignment to the Key Employee of any duties, or any limitation of the Key Employee's responsibilities, substantially inconsistent with the Key Employee's positions, duties, responsibilities and status with the relevant Group Company immediately prior to the date of a Transfer of Control;

(ii) without the Key Employee's express written consent, the relocation of the principal place of the Key Employee's employment to a location that is more than fifty (50) miles from the Key Employee's principal place of employment immediately prior to the date of a Transfer of Control, or the imposition of travel requirements substantially more demanding of the Key Employee than such travel requirements existing immediately prior to the date of a Transfer of Control;

(iii) any failure by the relevant Group Company to pay, or any material reduction by the relevant Group Company of, (A) the Key Employee's

base salary in effect immediately prior to the date of the Transfer of Control (unless reductions comparable in amount and duration are concurrently made for all other employees of the relevant Group Company with responsibilities, organizational level and title comparable to the Key Employee's), or (B) the Key Employee's bonus compensation, if any, in effect immediately prior to the date of the Transfer of Control (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Key Employee); or

(iv) any failure by the relevant Group Company to (A) continue to provide the Key Employee with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with the relevant Group Company then held by the Key Employee, in any benefit or compensation plans and programs, including, but not limited to, the relevant Group Company's life, disability, health, dental, medical, savings, profit sharing, stock purchase and retirement plans, if any, in which the Key Employee was participating immediately prior to the date of the Transfer of Control, or their equivalent, or (B) provide the Key Employee with all other fringe benefits (or their equivalent) from time to time in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with the relevant Group Company then held by the Key Employee.

ARTICLE X - AMENDMENT OR TERMINATION

This Plan may be amended by the Board from time to time to the extent that the Board in its sole and absolute discretion deems necessary or appropriate. Notwithstanding the foregoing, no amendment of this Plan shall be made absent the approval of the shareholders of the Company if the effect of the amendment is:

(a) to increase the number of shares of Stock reserved under Article III of this Plan;

(b) to change the class of employees of the Company eligible for Awards or to otherwise materially modify the requirements as to eligibility for participation in this Plan; or

(c) to modify the material terms of this Plan that must be approved by shareholders of the Company under the rules relating to the qualified performance-based compensation exemption from the limit on tax deductibility of compensation under Section 162(m) of the Code.

The Board in its sole and absolute discretion may suspend the granting of Awards under this Plan at any time and may terminate this Plan at any time. Notwithstanding the foregoing, the Board shall not have the right to modify, amend or cancel any subsisting Award granted before such suspension or termination unless the Key Employee to whom the Award was granted consents in writing to such modification, amendment or cancellation, or there is a dissolution or liquidation of the Company or a transaction described in Article VIII or IX of this Plan.

ARTICLE XI - TERM OF PLAN

No Awards will be granted under this Plan on or after the earlier of:

- (a) the twentieth anniversary of the effective date of this Plan, as determined under Article IV of this Plan, in which event this Plan otherwise thereafter shall continue in effect until all Awards granted under this Plan have been forfeited or have Vested and any Vested Stock has been Released; or
- (b) the date on which all of the Stock reserved under Article III of this Plan has, as a result of the Release of Awards, been issued or no longer is available for use under this Plan, in which event this Plan also shall terminate on such date.

ARTICLE XII - MISCELLANEOUS

12.01 Costs of the Plan. The cost of establishing and operating the Plan shall be borne by the Company but may be recharged to the relevant Group Companies on such arm's length basis as is considered appropriate from time to time

12.02 No Contract of Employment. Participation in the Plan is a matter separate from any contract of employment or other agreement and any benefit conferred by the Plan shall not be counted for pension or any other purpose. The rights and obligations of any individual under the terms of his office or employment with any Group Company will not be affected by his participation in the Plan and the Plan does not form part of any contract of employment between any individual and any Group Company. A Key Employee shall have no entitlement by way of compensation or damages resulting from the termination of the office or employment (for any reason and whether lawful or not) by virtue of which he is or may be eligible to participate in the Plan or for the loss or reduction of any right or benefit or prospective right or benefit under the Plan which he might otherwise have enjoyed whether the compensation is claimed for wrongful dismissal or otherwise.

12.03 Withholding. No Award shall Vest unless the following conditions have been satisfied:

- (a) if the Vesting or Release of the Award would result in a Tax Liability then the Key Employee must have entered into arrangements satisfactory to the Committee to ensure that the relevant Group Company will receive the amount of such Tax Liability (including but not limited to the Key Employee authorizing the Group Company (or other person) upon the Release of the Award to sell or procure the sale of a sufficient number of Vested Stock subject to the Award to ensure that an appropriate sum is raised in order to discharge any Tax Liability); and
- (b) where the Committee determines that an election should be made pursuant to Section 431 of the Income Tax (Earnings and Pensions) Act 2003 in respect of the shares of Stock Released to the Key Employee, such election has been made or the Committee is satisfied that such election will be made within the applicable time limit.

12.04 Governing Law. The provisions of this Plan and any Award shall be governed by and interpreted in accordance with the laws of England and Wales and any Group Company and Key Employees shall submit to the exclusive jurisdiction of the Courts of England and Wales.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002**

I, J. Powell Brown, certify that:

1. I have reviewed this Quarterly Report of Brown & Brown, Inc. (the "Registrant") on Form 10-Q for the quarter ended March 31, 2010;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 6, 2010

/s/ J. Powell Brown

J. Powell Brown
Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002**

I, Cory T. Walker, certify that:

1. I have reviewed this Quarterly Report of Brown & Brown, Inc. (the "Registrant") on Form 10-Q for the quarter ended March 31, 2010;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 6, 2010

/s/ Cory T. Walker

Cory T. Walker
Chief Financial Officer

**Certification Pursuant to Section 1350 of Title 18 of the United States Code, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Brown & Brown, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, J. Powell Brown, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. § 78m or § 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 6, 2010

/s/ J. Powell Brown

J. Powell Brown
Chief Executive Officer

**Certification Pursuant to Section 1350 of Title 18 of the United States Code, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Brown & Brown, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Cory T. Walker, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. § 78m or § 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 6, 2010

/s/ Cory T. Walker

Cory T. Walker
Chief Financial Officer