

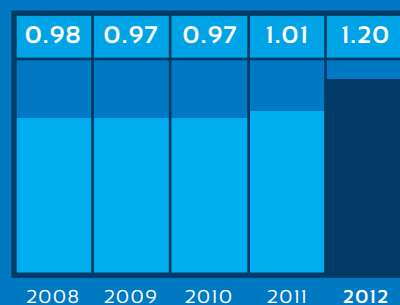
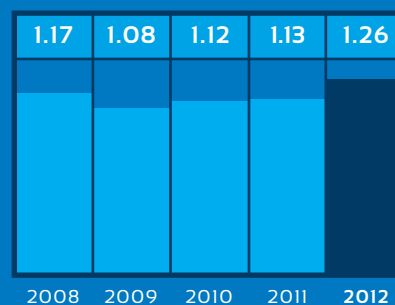
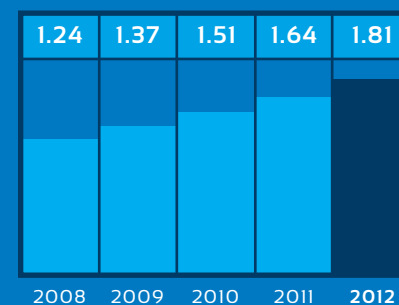
A close-up photograph of a cheetah's face, showing its distinctive black spots on a golden-brown coat. The cheetah's eye is partially visible, and its nose is in the lower right corner. The background is a blurred pattern of spots.

Our spots never fade,
they just get deeper.



ANNUAL REPORT

2012

Total Revenues
 DOLLARS IN BILLIONS

Net Income Per Share – Diluted
 IN DOLLARS

Shareholders' Equity
 DOLLARS IN BILLIONS


FINANCIAL HIGHLIGHTS

Year Ended December 31,

<i>(in thousands, except per share data and percentages)</i>		2012	Percent Change	2011	2010	2009	2008
Total revenues	\$	1,200,032	18.4%	\$ 1,013,542	\$ 973,492	\$ 967,877	\$ 977,554
Total expenses	\$	895,221	20.5%	\$ 743,021	\$ 707,394	\$ 713,123	\$ 705,056
Income before income taxes	\$	304,811	12.7%	\$ 270,521	\$ 266,098	\$ 254,754	\$ 272,498
Net income per share – diluted	\$	1.26	11.5%	\$ 1.13	\$ 1.12	\$ 1.08	\$ 1.17
Weighted average number of shares outstanding – diluted		142,010	1.2%	140,264	139,318	137,507	136,884
Dividends paid per share	\$	0.3450	6.2%	\$ 0.3250	\$ 0.3125	\$ 0.3025	\$ 0.2850
Total assets	\$	3,128,058	20.0%	\$ 2,607,011	\$ 2,400,814	\$ 2,224,226	\$ 2,119,580
Long-term debt	\$	450,000	80.0%	\$ 250,033	\$ 250,067	\$ 250,209	\$ 253,616
Total shareholders' equity	\$	1,807,333	9.9%	\$ 1,643,963	\$ 1,506,344	\$ 1,369,874	\$ 1,241,741

DEAR SHAREHOLDERS,



J. POWELL BROWN, CPCU
President and
Chief Executive Officer

2012 was a year of change, growth and reflection. Our goal last year was to grow organically and profitably. We were successful on both fronts. We grew our core commissions and fees revenue organically by 2.6%, up from the negative internal growth of the past five years, and we grew our net income by 12.2%. As you know, our Company is a proxy for the middle-market economy, and we began to see encouraging indicators from our clients last year. In addition, we completed acquisitions which had estimated annualized revenues of \$150 million, highlighted by \$107 million attributable to Arrowhead. Throughout the year we added 884 teammates. Today, we have 6,548 teammates across the U.S. and in London, and we have expanded our footprint and capabilities.

RETAIL

We grew the Retail Division's core commissions and fees revenue organically 1.5%, and total revenues were up 6.1% overall to \$644.4 million. Our core margins improved incrementally and we started to see some of our clients' businesses do better in 2012. I am frequently asked, "What has the bigger impact on your business: rates or exposure units?" I have regularly responded, "Exposure units" (i.e., payroll, sales, number of vehicles and number of employees), which in my view represent 65-75% of the impact, while rates account for the remaining 25-35%. During the year, I asked Charlie Lydecker to become the first-ever President of our Retail Division – a well-deserved promotion for someone who is intensely focused on internal revenue growth and driving operating profit dollars.

NATIONAL PROGRAMS

Organic growth in National Programs' core commissions and fees revenue was light at 0.8%, in part because the 13.4% organic growth logged by Arrowhead was not included due to the fact that 2012 was Arrowhead's first year with our team. Had Arrowhead's growth been included, the increase in

National Programs' core commissions and fees revenue would have been around 3.8%. Total revenues of this Division increased 53.8% to \$252.9 million.

WHOLESALE BROKERAGE

All of our Wholesale Brokerage Division operations were consolidated under the leadership of Tony Strianese, Regional President, in 2012. During the year, the Wholesale Brokerage team grew core commissions and fees revenue organically 6.1%, and total revenues were up 5.4%, to \$183.6 million. With Tony at the helm, this Division grew by \$9.4 million in organic core commissions and fees revenue dollars – the most of any of our divisions. Great job! Tony and his team did a wonderful job of delivering for their clients while improving our relationships with our strategic partners. During the year we asked Kathy Colangelo, a longtime leader in Wholesale Brokerage, to join our Senior Leadership Team as a Regional Vice President. She continues to help us grow and get better every day.

SERVICES

Services grew its core commissions and fees revenue organically, as a percentage, the most of any of our Divisions, at 8.6%. Total revenues were \$116.7 million, up 76.9%, and

2012 highlights included the addition of American Claims Management (an Arrowhead business) and strong internal revenue growth posted by several other great businesses in this Division, including The Advocate GroupSM, NuQuest/Bridge Pointe[®] and Colonial Claims.

ACQUISITIONS

We completed acquisitions representing an aggregate of \$150 million of annualized revenues in 2012. Scott Penny, our Chief Acquisitions Officer and Regional President, and his team did a great job of identifying well-run businesses that fit culturally with Brown & Brown. Frequently, you will hear me refer to the acquisition pipeline as “lumpy;” however, even though the “when” and “why” are different for each sale, we strive to be in a position to talk with every potential seller.

CAPITAL STRUCTURE/GOALS/PEOPLE

We have been criticized for our lack of internal revenue growth during the years 2007-2011. Although we continued to have industry-leading margins and a strong balance sheet, our stock price suffered. Going forward, we want to continue to grow our business organically and profitably. In

order to reach our next intermediate goal of \$2 Billion in revenues, we believe we will need roughly 4,000 additional teammates – some will come through acquisitions and many we will hire from other industries, and colleges and universities to be trained and mentored. The “people process” is without doubt the most important component of getting to the next level.

For our longtime shareholders, we would like to thank you for your continued support, and we welcome our new shareholders. We are stronger financially, and tougher, as a result of 2007-2011. It was a painful period, but today we are a better company for it.

Finally, I would like to thank each and every one of our teammates for everything they have done, and will do, for our clients. It's a pleasure to work with and for you all.

Regards,



J. Powell Brown, CPCU
President and
Chief Executive Officer

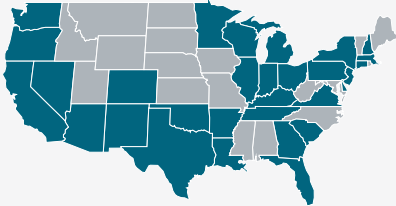
A close-up photograph of a cheetah in a savanna environment. The cheetah is the central focus, looking directly at the camera with a steady gaze. Its fur is a mix of tan and black spots, and its eyes are a striking orange-brown. The background is filled with tall, dry grasses and some green foliage, creating a natural, textured backdrop. The lighting is soft, highlighting the texture of the cheetah's fur.

Always ready for the next opportunity

Our origins date to 1939, with the establishment of Brown & Brown, Inc., a pure retail insurance agency placing insurance coverage for customers directly with standard carriers. Over time, as opportunities presented themselves, we expanded our operations into our other three business divisions: Wholesale Brokerage, Services, and lastly, National Programs.

As we grow, our expertise and experience deepen. Although we expect that we will always be primarily retail-driven, the expansion of our other business divisions allows for greater diversification, stronger personal relationships and enhanced business synergies within and among our business divisions ... all of which leads to a company built to last!

THE RETAIL DIVISION

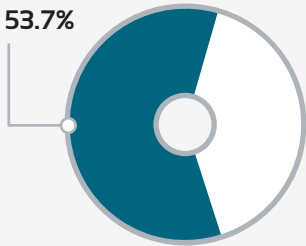


RETAIL DIVISION OFFICE LOCATIONS

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

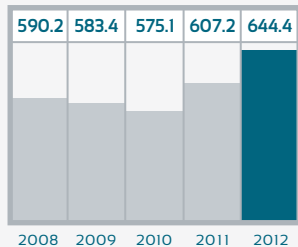
Contribution to Total Revenues

53.7%



Division Total Revenues

DOLLARS IN MILLIONS



The Retail Division, Brown & Brown’s largest, generated 53.7% of the Company’s total revenues in 2012, and is comprised of 3,461 insurance professionals operating in 105 decentralized profit centers throughout 30 states. These operations provide varied and innovative products and services in response to the ever-changing demands of our middle-market clientele. Just as no two marketplaces are exactly alike, no two Brown & Brown retail offices are exactly the same. Each profit center leader is strongly encouraged to anticipate the needs of the marketplace by identifying and developing unique insurance products and by accessing existing proprietary initiatives of other Brown & Brown offices. As a result, our retail offices have been successful in developing expertise in certain insurance coverage niches with the support of our regional and national carrier partners. Examples of areas of acknowledged expertise include long-term care providers; condominiums; highway contractors; recreational vehicles and power sports craft dealers; yacht and marine fleet owners; equine; aviation; medical malpractice; earthquake; and dry cleaning establishments, to name but a few.

Brown & Brown’s core retail competencies continue to be in the categories of property insurance relating to physical damage to property and resultant interruption of business or extra expense caused by fire, windstorm or other perils; casualty insurance relating to legal liabilities, workers’ compensation, and commercial and private passenger automobile coverages; and fidelity and surety bonds. Additionally, we sell and service group and individual life, accident, disability, health, hospitalization, medical and dental insurance.

The employee benefits segment of our business is currently experiencing the most significant legal transformation, thereby affording another excellent opportunity for Brown & Brown to deploy its collective arsenal of ideas and solutions. Staying abreast of the constantly changing benefits industry and healthcare reform requirements enables our retail agents to ably assist our customers in making informed decisions on all aspects of their group benefit plans with full awareness of the impact to their bottom lines. Additionally, we provide a growing number of services outside the traditional insurance placement, which include: a Brown & Brown private exchange; pharmacy benefit analysis tools; actuaries; proprietary online enrollment systems; benefits communication platforms; employee surveys; human resource services; wellness services; back-office service center; defined contribution specialist; Taft-Hartley expertise; association expertise; and health care reform modeling tools.

The Brown & Brown Retail Employee Benefits operations generated approximately \$225 million of revenue in 2012, representing approximately 19% of our Company’s total revenues, and in 2012, our Retail Division President named the first National Benefits Leader for all of Brown & Brown. This new



**BROWN & BROWN OF ILLINOIS, INC.
D/B/A WEIBLE & CAHILL**
Lisle, Illinois

Our team at Brown & Brown of Illinois, Inc., d/b/a Weible & Cahill, concentrates on acting as risk management advisors to our construction clientele on insurance and surety matters. Protecting our contractors' balance sheets and making certain they are addressing their exposures in the construction field requires superior attention to detail. Our commitment to this attention to detail and our high level of service are integral components for building long-term relationships.

Pictured here are **Sam Maack** and **Brian Bries**, Account Executives at the working asphalt plant at K-Five Construction Corp. which has been a client of Weible & Cahill for over 30 years.



**BROWN & BROWN OF FLORIDA, INC.
D/B/A PROFESSIONAL CARE PROVIDERS
INSURANCE NETWORK**

Daytona Beach, Florida

Pictured here from left to right are **Oscar Roiz**, CFO The Palace Group; **Jacob Shaham**, CEO The Palace Group; **Helen Shaham**, President The Palace Group; **Brian Lindahl**, SVP Brown & Brown of Florida



**BROWN & BROWN INSURANCE
OF GEORGIA, INC.**

Marietta, Georgia

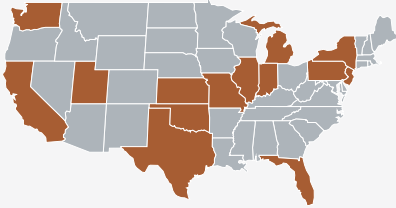
Sally Lewis-Butler, Profit Center Leader of a Retail Division "Office of the Year" for 2012, pictured at one of the many properties her business insures.

leader's priorities for 2013 include implementation of our private-label exchange, compliance training, collaboration tools, agency management system upgrades, national vendor agreements, healthcare reform resources and carrier relationships.

Retail Division acquisitions during 2012 consisted of 15 high-quality transactions, totaling \$34 million in annualized revenue, and bringing nearly 300 new teammates. Leaders who have joined us as the result of acquisitions, including both our Retail Division "Top Gun" and the leader of our "Office of the Year" for 2012,

continue to serve as our best references. Among the challenges of the coming years, continued increase in the depth and breadth of our Retail Leadership Team remains a key focus. The highest quality individuals are being added to our "bench" daily to ensure we have teammates that are ready for whatever challenges may confront us in our ongoing quest for sustainable growth. This Division is emerging from the protracted economic downturn of past years with increased momentum and discipline, as evidenced by a strong top-line finish and improved margins in 2012.

THE NATIONAL PROGRAMS DIVISION



NATIONAL PROGRAMS DIVISION OFFICE LOCATIONS

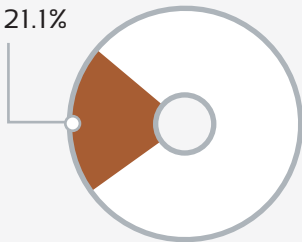
California	New Jersey
Florida	New York
Illinois	Oklahoma
Indiana	Pennsylvania
Kansas	Texas
Michigan	Utah
Missouri	Washington

The depth and breadth of our insurance knowledge and expertise is nowhere more evident than in our National Programs Division, which has origins dating from the 1970s. Today, this Division manages or administers more than 34 programs that provide a broad spectrum of insurance products and services to a wide variety of customers. In most cases, the insurance carriers that support the programs have delegated underwriting and, in many instances, claims-handling authority to our programs operations. These programs are generally distributed through nationwide networks of independent agents and offer targeted products and services designed for specific industries, trade groups, professions, public entities and market niches.

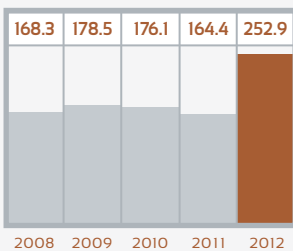
Our National Programs Division operations can be grouped into four broad categories:

- 1 | Commercial Programs
- 2 | Professional Programs
- 3 | Arrowhead Insurance Group Programs
- 4 | Public Entity-Related Programs

Contribution to Total Revenues
21.1%



Division Total Revenues DOLLARS IN MILLIONS



COMMERCIAL

Proctor Financial, Inc.

Proctor Financial, Inc. (PFI) is a leader in lender-placed hazard and flood insurance for residential, Real-Estate-Owned ("REO") and commercial properties. Providing more than 1,700 financial institutions nationwide with lender-placed coverage and hazard tracking services, PFI works with seven carriers rated "A-" or better by *A.M. Best* and administers insurance on over 150,000 properties throughout the U.S. and its territories, including Guam and Puerto Rico.

In addition to competitive insurance products, PFI offers customized servicing solutions to financial institutions based on their business needs. PFI's hazard-tracking services include imaging services, an e-client portal, management reports, compliance resources, borrower care center, new loan setup, quality control, and escrow and tax services that provide clients with innovative means of improving efficiencies and enhance borrower relationships through customized technology workflow processes.

PFI has partnered with financial institutions and property and casualty agents for decades to provide quality insurance products and technology-based administrative solutions. PFI's customized solutions reduce administrative costs and streamline operations for clients. Business relationships are enhanced by PFI's dedicated service team, who work tirelessly to achieve borrower satisfaction.

FLORIDA INTRACOASTAL UNDERWRITERS, LIMITED COMPANY

Sunrise, Florida

Jeff Eisen, President of Florida Intracoastal Underwriters, Limited Company, (FIU) stands in front of two high-rise condominiums insured by our program underwritten by one of our insurance carrier partners. The FIU program is one of the premier underwriting organizations for wind exposed properties in Florida, with its unique reinsurance structure that provides the very large limits that are needed to insure some of the largest structures in Florida.



PFI has obtained ISO 9001 registration for the servicing of lender-placed insurance, further confirmation that PFI's system and products consistently meet or exceed international standards of quality. In 2011 and 2012, PFI earned the Benchmark Portal Call Center of Excellence Award, a prestigious honor in the customer service and support industry recognizing commitment to efficiency and effectiveness. These achievements highlight PFI's dedication to superior performance.

Florida Intracoastal Underwriters, Limited Company

Florida Intracoastal Underwriters, Limited Company (FIU) is a managing general agency founded in 1990 that specializes in providing property coverage for the largest of the high-rise condominiums and apartment buildings that dominate the Florida coastline. FIU performs underwriting, administration and claims functions for the insurance companies it represents and is widely recognized in the insurance and reinsurance communities as one of the premier underwriting organizations for wind-exposed properties in Florida, with written premiums exceeding \$100 million.

FIU has been issuing policies on behalf of the same "A"-rated insurance company for the past 10 years. The program is supported by numerous reinsurance partners that participate in varying percentages in a unique reinsurance facility that provides the very large limits needed to insure some of the largest structures in Florida.

The success of the FIU program can be attributed to the consistency of its results produced by strict adherence to its core underwriting principles and the consistency of a management team and key personnel that have nearly all been in place since its inception.

American Specialty Insurance & Risk Services, Inc.

American Specialty Insurance & Risk Services, Inc. offers a large portfolio of insurance programs designed to meet the needs of the sports, motorsports, entertainment and recreation industries. American Specialty serves a broad range of insureds, including amateur and professional sports teams and associations, local fairs and festivals, special events, convention and civic

AMERICAN SPECIALTY INSURANCE & RISK SERVICES, INC.

Roanoke, Indiana

American Specialty provides insurance programs to meet the needs of the sports, motorsports, recreation and entertainment industries. In addition to programs for amateur and professional teams and leagues, American Specialty also offers programs for the coliseums, stadiums, arenas, and convention centers where the games are played and the crowds gather.

From left to right: Tony Wittwer, President; Stan Sheehan, CPCU, Sr. Vice President & Chief Underwriting Officer; Mark Thompson, Sr. Vice President, Claims Management; Drew Smith, Sr. Vice President & Chief Marketing Officer



centers, family entertainment centers, motorsport race teams and tracks, amusement parks, horse tracks and dog tracks, stadiums, gymnastics centers, indoor soccer facilities and zoos. American Specialty's programs offer multi-line coverage options, including general liability, excess liability, property, auto and participant accident insurance. American Specialty provides services such as underwriting, marketing, claims management, risk management and policy issuance/administration on behalf of insurance carriers with which it has exclusive arrangements. American Specialty's programs are distributed on a nationwide open-market basis through local independent agents.

Parcel Insurance Plan® (PIP®)

Parcel Insurance Plan (PIP) offers discounted rates on shipping insurance compared to the declared value coverage offered by other carriers, and is the oldest and largest provider of parcel insurance in the country. PIP offers convenient electronic reporting of shipping activity and prompt claim payment. PIP is now integrated into the shipping label technology of several of the country's largest e-commerce companies.

PIP was founded in 1966 with the mission of providing dramatically lower-cost shipping insurance to business shippers, while offering superior customer service and claims handling. Since its inception, PIP has been underwritten by one of America's largest and most established insurance companies. Now, more than 47 years later, PIP is the country's first and largest supplier of third-party shipping insurance.

Shipping insurance covers packages in the event that they are lost or damaged while in transit. PIP insures packages shipped via most couriers and other freight or small parcel carriers. The carriers charge the same shipping insurance rates to all customers, including high-volume commercial shippers who pack, label and document their shipments better than the general public. PIP offers an extremely competitive alternative, rewarding these companies with the low rates and excellent service they deserve. Shippers who qualify for PIP are those who spend about \$1,000 or more annually with a carrier to insure their packages, or ship at least \$600 in value per day.

Industry Consulting Group

Industry Consulting Group (ICG) is a leading property tax solutions provider headquartered in Dallas, Texas. Working closely with our Proctor Financial, Inc. operation, ICG provides a broad range of tax products and services organized in four core lines of business – mortgage origination and servicing, oil and gas production, trust management and corporate-owned and leased real estate. ICG has demonstrated consistent growth during the past 26 years, expanding from a predominately Texas territory to a full-coverage, full-service national footprint. Today, ICG provides a comprehensive product line of traditional and non-traditional services to more than 150 clients and manages a tax portfolio of nearly one million real estate and oil-and-gas properties across the country.

Irving Weber Associates, Inc. (IWA®) – Fabricare Insurance Program®

IWA is a full-service program administrator specializing, for the past 67 years, in the design, marketing and underwriting of niche industry insurance solutions. Long known for its signature dry cleaners program, IWA is now a leading program provider for coin-operated laundromats, convenience stores, office product retailers, grocery stores and restaurants. As a well-respected national program administrator, IWA enjoys the endorsement of 12 dry cleaning associations, including the Dry Cleaning and Laundry Institute, as well as the premier dry cleaning restoration franchisor.

Each of IWA's unique insurance programs offers specialized coverages aimed at the needs of a particular industry. Examples of these are IWA's bailee coverage for dry cleaners, which is unlimited with minimum sub-limits; pump and canopy coverage for convenience stores with gas stations; water backup for laundromats; and food spoilage for restaurants.

Acumen Re Management Corporation

Since 1993, Acumen Re has been active in the facultative reinsurance casualty market, providing outsourced technical expertise in workers' compensation, general liability and professional liability (directors and officers along with errors and omissions) reinsurance accounts.

Acumen Re's territory encompasses the entire United States, and this entity accesses insureds via approved reinsurance intermediaries strategically located throughout the country.

AFC Insurance

AFC Insurance is a program administrator specializing in niche property and casualty products for both for-profit and nonprofit social services agencies and home health care operations. As an industry leader backed by "A"-rated carriers, as rated by *A.M. Best*, AFC offers nationwide programs designed to meet the unique needs of insureds operating in the health and human services sector.

As a social services insurance specialist, AFC prides itself on its unparalleled risk knowledge and offers Humanity PlusSM – a human and social services insurance program featuring unique coverages designed to protect a variety of social services risks throughout the U.S. Eligible classes include adult day care centers, group homes, homeless shelters, mental/behavioral health facilities, alcohol and drug rehabilitation centers, services for the developmentally disabled, food banks, soup kitchens and many more.

In-Home PlusSM is AFC's home health care insurance program, written on a national basis. With specialized understanding of home health care and hospice agencies, AFC offers a program customized to meet the unique needs of a full range of related risks. Eligible classes include skilled to non-skilled nursing care, physical, occupational and/or speech therapy, home health aides, basic assistance, hospice, companion care, nutritional support, visiting nurses associations, nurse registries and medical staffing.

AFC's human and social services insurance program and home health care insurance program offer comprehensive packages, complete with coverage for general and professional liability, property, umbrella, auto, abuse and molestation and coverage endorsements and enhancements such as volunteers and independent contractors as insureds, optional key employee replacement endorsement and optional extended coverage endorsement with blanket additional insured. AFC also offers workers' compensation, accident and health, D&O and employment practices liability ("EPLI") coverages.

PROFESSIONAL PROGRAMS

CalSurance Associates, CITA Insurance Services® and Lancer Claims Services

Brown & Brown Program Insurance Services, Inc., based in Orange, California, offers specialty programs and operates under the trade names “CalSurance Associates,” “CITA Insurance Services” and “Lancer Claims Services.” The focus of this business, which celebrated its 50th anniversary in 2012, is the sale and service of professional liability insurance to more than 100,000 individuals and small firms in the financial services sector.

CalSurance® collaborates with program sponsors and underwriters to develop customized group insurance programs for life insurance agents, property/casualty insurance agents, registered representatives and investment advisors in all 50 states. Program sponsors include some of the largest insurers and independent security broker/dealers in the United States as well as industry associations and other affinity partners. Most programs are written through a risk purchasing group on a master policy with certificates for each member (agent, rep, advisor, or firm). CalSurance has proprietary systems that facilitate the sale of insurance online and provide sponsors with flexible program administration. An integral part of the services on these programs is the claim adjusting provided by Lancer Claims Services, a division of CalSurance.

CITA Insurance Services is a national program administrator with underwriting authority for several classes of professionals including wholesale life brokers, benefits consultants, real estate agents and insurance agents. Business is solicited from independent agents and in some cases programs are marketed directly to prospective policyholders. CITA Insurance Services is also a wholesale brokerage for risks in the hospitality industry.

B&B Protector Plans, Inc.

The professional programs teams that comprise B&B Protector Plans, Inc., based in Tampa, Florida, act as national administrators of property and casualty

insurance solutions for professionals. Doing business as the “Professional Protector Plan® for Dentists”, the “Lawyer’s Protector Plan®”, the “Optometric Protector Plan®” and others, this operation’s reputation for innovation and client service is based on a 44-year history of meeting the complex insurance needs of allied healthcare professionals, including dentists, physicians and optometrists, as well as lawyers and other professional groups, related to protecting their practices from the risk of financial loss.

Working in concert with prominent national carriers and an established network of distribution partners, B&B Protector Plans, Inc. excels in product development, program underwriting, policy service, sales, national advertising and promotional campaign development and, more importantly, the identification of emerging trends and new client needs in the rapidly changing, competitive insurance environment.

These programs embrace change as an opportunity to deliver value to clients in new ways. As advances in information technology change the character and structure of the insurance business, there is commitment to the delivery of fast, economical, client-responsive underwriting and efficient policy-level data management and analysis. The professional programs administered by B&B Protector Plans, Inc. are generally characterized by stable, long-term carrier relationships, desirable loss ratios and knowledgeable local distribution partners. Innovation in the delivery of insurance services is a cornerstone.

TitlePac® Inc.

TitlePac is the nation’s largest provider of errors and omissions (“E&O”) coverage to title professionals across the country. This coverage was designed in 1972, when the principals of this entity determined that E&O products available to title and abstract professionals were too expensive and afforded less than adequate coverage. Coverage was later added for real estate settlement agents, real estate closers and escrow agents. Since that time, TitlePac has become the recognized leader in this line of business with a market share in excess of 30%. Over the years,



**CALSURANCE ASSOCIATES AND
CITA INSURANCE SERVICES®**
Orange, California

Lynn Johnson, Executive Vice President of CalSurance Associates and John Jasinski, Executive Vice President, CITA Insurance Services, reflect on some of the important tenets of Brown & Brown, Inc.

TitlePac has helped revise title professionals' E&O coverage forms, with the consequence that almost every currently available title E&O policy form includes language that TitlePac helped develop.

TitlePac is not simply an agent shopping title professionals E&O. Rather, this entity has underwriting and binding authority with a domestic insurance carrier rated "AXV" by *A.M. Best*. This program enables TitlePac to provide quick and knowledgeable service to title professionals in 48 states. The program offers quality coverage, rates tailored for this industry and lower minimum premiums for those who qualify. TitlePac and its carrier partner work hand-in-hand to deliver quality service and knowledge through the title professionals program, and TitlePac also offers quotes from other "A"-rated markets to applicants who do not qualify for the program. These other markets may offer limits up to \$2 million with prior acts or retroactive coverage to applicants who meet certain underwriting qualifications.

ARROWHEAD INSURANCE GROUP PROGRAMS

On January 9, 2012, we completed the acquisition of Arrowhead General Insurance Agency, Inc. (Arrowhead), a national insurance program manager and one of the largest general agents ("GAs") in the property and casualty insurance industry in the U.S. Arrowhead, based in San Diego, California, acts as a "virtual insurer" by providing outsourced product development, marketing, underwriting, actuarial, compliance and claims and other administrative services for more than 20 insurance carrier partners. While Arrowhead has full underwriting authority from its carrier partners, it does not assume any underwriting risk. As a GA, Arrowhead has the authority to underwrite, bind, and issue policies, collect premiums and provide administrative and claims services. Arrowhead also provides third-party claims administration ("TPA") services through its sister operation in our Services Division, American Claims Management, Inc. (ACM). Arrowhead's turnkey service offering enables carriers to minimize investment in product development, infrastructure and operations and to quickly take advantage of market dislocations and opportunities.



ARROWHEAD – SPECIAL RISK San Diego, California

Lew Defuria, President of the Special Risk Division at Arrowhead, explains the interaction of fault lines and the use of modeling in underwriting commercial earthquake insurance in California.

Arrowhead currently offers 19 insurance products through nine distinct programs and maintains a distribution network of over 3,100 agencies in more than 5,600 locations nationwide. Each of Arrowhead's insurance programs targets a distinct market niche and has its own underwriting staff and distribution network.

The cornerstone of Arrowhead's infrastructure is its technology platform, which includes 10 highly customized policy administration systems, an integrated claims management system and Arrowhead Exchange, a secure online portal that allows agents to transact business electronically. Arrowhead Exchange enables automated quotes, binding and policy issuance/renewal in addition to post-sale servicing (policy inquiries and billing). This platform attracts customers through its ease of transacting business, allowing producers to turn around policies in as little as a single day, and lowers operating costs with increased automation. Currently, Arrowhead Exchange handles more than 120,000 monthly transactions. Additionally, approximately 95% of all personal lines transactions are submitted online.

Arrowhead's programs are roughly split between operations providing specialty insurance coverages

to commercial entities and operations offering personal lines insurance coverages to individuals. Some of Arrowhead's programs include:

Arrowhead – Special Risk

The Special Risk Division at Arrowhead is a recognized leader in the commercial property segment of the industry. Arrowhead provides difference in conditions ("DIC"), commercial earthquake, and "all risk" coverages on behalf of several highly-rated and recognized insurance companies. Arrowhead also has a commercial earthquake program tailored for smaller businesses. Arrowhead has the capacity to offer in excess of \$100 million in limits for businesses that meet its underwriting guidelines. Distribution is primarily accomplished through wholesale brokers.

Arrowhead – Workers' Compensation

Arrowhead provides workers' compensation coverage in 43 states for California-based insureds. Arrowhead's workers' compensation franchise is focused in targeted industry segments such as agriculture, contractors, food services, horticulture and manufacturing. The program offers insureds a range of incremental services including

loss control, dedicated claims contacts from American Claims Management and flexible billing options such as a monthly self-reporting feature.

The Workers' Compensation Program is supported by five carriers, and distributes its product through 400 retail insurance and wholesale agencies in 562 locations.

Arrowhead – Personal Property

The Personal Property Program provides coverages for homeowners and renters in approximately 17 states. Coverages include HO6 (condominium), HO3 (homeowners'), HO4 (tenant/renters'), DP3 (dwelling fire) and personal umbrella liability.

Products are distributed through a mix of over 1,500 retail agencies and online aggregators in nearly 3,000 locations. The majority of the program's business is transacted through Arrowhead Exchange.

Arrowhead – Residential Earthquake

The Residential Earthquake Program specializes in monoline residential earthquake coverage for California home and condominium owners. The program generally covers dwellings with replacement values between \$75,000 and \$5 million.

Products are distributed through a mix of retail agencies and online aggregators. The majority of this program's business is also transacted through Arrowhead Exchange.

Arrowhead – Automotive Aftermarket

The Automotive Aftermarket Program was launched in 2012. This program offers commercial package insurance for non-dealership automotive services operations such as auto recyclers, brake shops, equipment dealers, mechanical repairs, oil and lube shops, parts retailers and wholesalers, tire retailers and wholesalers and transmission mechanics. Coverage includes building coverage, contents, commercial umbrella, equipment breakdown, fleet and service vehicles, garage and general liability and mechanics' errors and omissions.

Arrowhead – Wheels

The Wheels Program provides private passenger automobile and motorcycle coverage for a range of drivers. Arrowhead's auto program offers two personal auto coverage types: one traditional non-standard auto product offering minimum state required liability limits and another targeting full coverage, multi-vehicle risks. The majority of the business is submitted and processed through Arrowhead Exchange and is written in six states: California, Arizona, Michigan, Washington, Oregon and Texas.

Products are distributed through a mix of retail agencies and online aggregators.

PUBLIC ENTITY-RELATED PROGRAMS

These operations provide insurance programs designed specifically for cities, municipalities, school boards and quasi-governmental agencies. Offerings range from fully insured programs to risk retention insurance pools to excess and facultative specific coverages.

Canfield & Associates

Located in Ephrata, Washington, Canfield & Associates has management contracts for five programs (the "Programs") that provide property and casualty insurance coverage to cities, counties, municipalities and school boards in the State of Washington. The Programs are as follows: the Cities Insurance Association of Washington (CIAW), which is comprised of more than 200 cities and special districts; the Schools Insurance Association of Washington (SIAW) and the United Schools Insurance Program (USIP), two school programs representing nearly 200 schools; the Washington Rural Counties Insurance Program (WRCIP) made up of eight counties; and the Non-Profit Insurance Program (NPIP) made up of 526 private non-profit organizations.

The Programs have self-insured retentions ("SIRs") which vary by line of coverage from a low of \$50,000 to a high of \$250,000 on each claim. Excess or reinsurance is purchased above the SIRs to reach the desired

limits. Canfield utilizes an independent actuary to help determine the funding necessary to adequately fund the budgets for each Program. Canfield is also responsible for the administration of the Programs in preparing their budgets as well as providing certain accounting functions. The annual budgets for all the Programs total approximately \$60 million. Ultimately, Canfield team members present information to the separate Boards for each of the Programs with respect to services performed by Canfield and those Boards make the final decisions on actions taken.

Public Risk Underwriters®

Public Risk Underwriters of Florida, Inc. (PRUFL) administers the Preferred Governmental Insurance Trust (the "Trust") that was created in 1999 to provide commercial property and casualty insurance to Florida public entities including cities, counties, schools and special taxing districts. PRUFL is responsible for performing administrative functions for the Trust, including placement of excess insurance policies, rating and underwriting, policy issuance, loss control services, member services, marketing of the Trust, coordination of the claims-handling process, and accounting and financial reporting.

A distinct advantage enjoyed by PRUFL is that the Trust is the only public entity trust in Florida that distributes commercial insurance products exclusively through a retail insurance agency force. This enables Trust members to deal with a local agent, and affords them access to additional services provided by these retail insurance agencies. The Trust also provides its members periodic property appraisals, a toll-free hotline to assist with potential professional liability claim situations, a quarterly newsletter, periodic webinars and in-person regional seminars with guest speakers that address relevant insurance topics.

During its existence, the Trust has grown to several hundred members with more than \$88 million of annual written premium and a cumulative aggregated surplus of more than \$80 million. This financial

strength, combined with a disciplined underwriting approach and long-term commitment to providing high-quality insurance services to the Trust's members at a competitive price, are key factors in the ongoing success of the Trust and PRUFL.

Public Risk Underwriters of Indiana, LLC d/b/a Downey Public Risk Underwriters

Public Risk Underwriters of Indiana, LLC (Downey) has been providing insurance and risk management services for public entities since 1970. For well over 20 years, Downey has been the administrator of Indiana Public Employers Plan, Inc. (IPEP) and it has become the largest provider of workers' compensation for Indiana public entities in the State of Indiana. Currently, IPEP provides coverage for over 500 local governmental units, representing approximately \$1 billion in public worker wages.

Downey is also the general agent for a public entity property and casualty insurance program underwritten in partnership with an "A"-rated insurance carrier. This program offers comprehensive package lines of insurance including professional liability for law enforcement and public officials. The program is available to counties, cities, towns, townships and other tax-based authorities.

In addition, Downey is a Regional Director for Volunteer Firefighter Insurance Services (VFIS) in the State of Indiana. VFIS is the largest writer of property and casualty insurance for emergency service organizations in the United States. Through the VFIS program Downey provides professional liability and enhanced package coverages to emergency services organizations in Indiana.

Together, these property, casualty and workers' compensation programs bring protection to over 1,000 public entities throughout the 92 counties in Indiana. Services provided in the various programs include underwriting, risk management, claims management, loss control, safety training and insurance brokerage. They are marketed through a network of



**PUBLIC RISK UNDERWRITERS®
OF FLORIDA**
Lake Mary, Florida

Dwight E. Wolf, II (left), Mayor of the City of Wildwood, FL and Chairman of the Board for Preferred Governmental Insurance Trust, meets with **Bill Zimmer** (right), Profit Center Leader of Public Risk Underwriters of Florida, Inc., on the steps of Wildwood's city hall to discuss the Trust's status and upcoming operational strategy.

over 250 local independent insurance agents throughout Indiana.

Public Risk Underwriters of New Jersey (PRUNJ)

Prior to 1985, New Jersey public entities had two choices for insurance: commercial insurance or self-insurance. Smaller entities did not have the financial wherewithal to self-insure and therefore, commercial insurance was their only choice. In 1985, the New Jersey legislature permitted public entities to join together to form joint insurance funds ("JIFs") for the purpose of obtaining a competitively priced and comprehensive insurance program. JIF members gain access to an expert team of insurance professionals and a wealth of resources for superior reinsurance, primary insurance and excess liability. JIFs provide their members with a means of controlling losses while increasing workplace safety and productivity. By working cooperatively, members spread the risk and stabilize costs.

PRUNJ provides administrative services and insurance procurement for the Statewide Insurance Fund

("Statewide"). Statewide is a municipal JIF comprised of counties, municipalities, utility authorities, community colleges and emergency services entities.

With a budget of approximately \$24 million and over \$1 billion in property assets, the operations of PRUNJ are similar to those of an insurance company. Formed in 1994, Statewide was initially created for the purpose of insuring local units for workers' compensation coverage and expanded to all lines of coverage in 1997.





One of our strengths is our ability to quickly meet our customers exactly at the point of need. Over 30% of our total revenues are generated from our National Programs and Services Divisions that consist of more than 40 independent, decentralized operations that provide various professional services or insurance products to specific industries, trade groups or market niches. Open the pages to read a brief review of all of our special programs in these Divisions, and see why we are one of the largest and most diversified insurance agencies in the country.

Brown & Brown, Inc.

PROGRAMS AT-A-GLANCE

NATIONAL PROGRAMS DIVISION

Commercial Programs

Acumen Re Active in the facultative reinsurance casualty market providing out-sourced technical expertise on workers' compensation, general liability and professional liability reinsurance accounts.

AFC Program administrator specializing in niche property and casualty products for for-profit and nonprofit social services insurance and home healthcare insurance.

American Specialty Offers a large portfolio of insurance programs designed to meet the needs of the sports, motorsports, entertainment, and recreation industries.

Florida Intracoastal Underwriters (FIU) Specialty program for certain coastal condominiums in Florida.

Industry Consulting Group (ICG) A property tax solutions provider offering products in the areas of mortgage origination and servicing, oil and gas production, trust management and corporate-owned and leased real estate.

IWA® – Fabricare®

Program administrator offering niche industry insurance solutions for entities including dry cleaners, coin-operated laundromats, convenience stores, office product retailers, grocery stores and restaurants.

Parcel Insurance Plan® (PIP®)

Is the oldest and largest provider of third-party parcel insurance in the country for packages shipped via UPS, FedEx, USPS and most other freight or small parcel carriers.

Proctor Financial, Inc.

Provides over 1,700 financial institutions nationwide with lender-placed insurance coverage and related services with insurance on over 100,000 properties, including properties in Guam and Puerto Rico.

Professional Programs

Allied Protector Plan®

The **Allied Protector Plan® (APP®)** offers professional and general liability insurance programs for individual practitioners and businesses in the healthcare industry such as dental hygienists and dental assistants, home health agencies, physical therapy clinics and medical directors.

CalSurance®

Develops customized group insurance programs for life insurance agents, property/casualty insurance agents, registered representatives and investment advisors.



CITA Insurance ServicesSM	Program administrator with underwriting authority for several classes of professionals including wholesale life brokerages, benefit consultants, real estate agents and insurance agents.	Optometrists/Ophthalmologists	The Optometric Protector Plan[®] (OPP[®]) is today's premier professional liability program for eye care professionals such as optometrists, ophthalmologists, opticians and ophthalmic technicians.
CPAs	The CPA Protector Plan[®] provides professional liability insurance to both CPA individuals and firms.	PRSG	Provides professional liability and related package insurance products tailored to the needs of lawyers.
Dentists	The Professional Protector Plan[®] for Dentists (PPP[®]) offers a coverage package that includes professional and general liability, property, EPLI, workers' compensation, claims and risk management.	Railroad Industry Servicers	The Railroad Protector Plan[®] (RRPP[®]) covers insureds servicing the railroad industry, offering general liability, property, commercial auto, umbrella, railroad protective liability and inland marine.
Lawyers	The Lawyer's Protector Plan[®] (LPP[®]) provides professional liability insurance with a niche focus on law firms with 1–50 attorneys. The Lawyer's program handles all aspects of insurance operation including underwriting, distribution management, policy issuance and claims.	TOPP[®]	Targets towing operations. The Towing program provides coverage including GL, commercial auto, garagekeeper's legal liability, property and motor truck cargo coverage.
Mosquito Control	Operating as Southwest Assurance Corporation (SAC) , the Mosquito program covers governmental entities/independent taxing districts providing mosquito control.	Wedding/Event	The Wedding Protector Plan[®] offers an online wedding/private event cancellation and postponement insurance policy for certain unfortunate, unforeseen events occurring before or on the wedding day.
		TitlePac[®]	Nation's largest provider of errors and omissions (E&O) coverage to title professionals.



Arrowhead Programs – Commercial Lines

Architecture and Engineering	Specializes in professional liability coverages for architects, engineers and environmental consultants.
Auto Aftermarket	Offers commercial package insurance for non-dealership automotive services operations.
Commercial	Offers commercial auto, commercial package and commercial general liability products primarily in California and Texas.
Marine	Targets entities that include marinas, boat dealers and manufacturers, yacht clubs and independent ship repairers and offers property and liability coverages.
Special Risk	Provides earthquake, flood and “all risk” coverages to commercial property owners.
Workers’ Compensation	Provides workers’ compensation coverage in 43 states for California-based insureds.

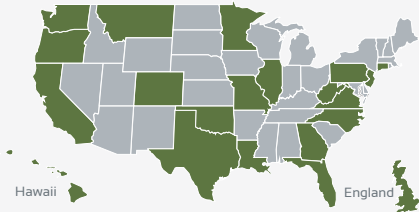
Arrowhead Programs – Personal Lines

Personal Property	Provides coverages for homeowners and renters.
Real Estate Errors & Omissions	Offers professional liability coverages for real estate agents.
Residential Earthquake	Specializes in monoline residential earthquake coverage for California home and condominium owners.
Wheels	Provides private passenger automobile and motorcycle coverage for a range of drivers.
Public Entities–Related Programs	
Canfield & Associates	Provides property and casualty insurance coverage to cities, counties, municipalities, school boards, and non-profit organizations in the State of Washington.
Downey Public Risk Underwriters	Administers insurance programs to provide commercial property and casualty insurance to Indiana public entities including cities, counties, schools and special taxing districts.
Ideal	Illinois Regional Director of a property and casualty Fire District program.



PRUNJ	Provides administrative services and insurance procurement for the Statewide Insurance Fund, a municipal joint insurance fund comprised of counties, municipalities, utility authorities, community colleges and emergency services entities in New Jersey.	AmeriSys®	Provides certified and non-certified medical management and managed care programs for workers' compensation insurance plans. Services include case management; utilization review and management; client access to custom-developed medical provider networks; and Return-to-Work programs and initiatives.
PRUFL	Administers the Preferred Governmental Insurance Trust that was created in 1999 to provide commercial property and casualty insurance to Florida public entities including cities, counties, schools and special taxing districts.	Colonial Claims	Leading catastrophe adjusting company specializing in the adjustment of National Flood Insurance Program (NFIP) claims.
SERVICES DIVISION		NuQuest/Bridge Pointe® and Protocols®	Multidisciplinary consulting firms specializing in medical settlement planning for parties involved in complex workers' compensation and personal injury cases in compliance with Medicare set-aside regulations.
The Advocator GroupSM	Provides Social Security disability advocacy and Medicare enrollment decision support services.	PGCS®	Preferred Governmental Claims Solutions, Inc.® provides claims-handling services for public entity clients.
American Claims Management (ACM)	Provides claims adjusting, administration, subrogation, litigation and data management services to insurance companies, self-insureds, public municipalities, insurance brokers and corporate entities.	USIS®	Provides third-party claims administration as well as managed care services for workers' compensation and liability claims in the southeastern United States.

THE WHOLESALE BROKERAGE DIVISION

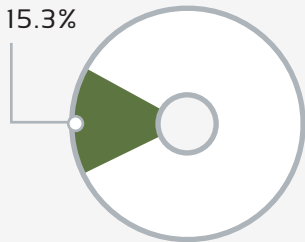


WHOLESALE BROKERAGE DIVISION OFFICE LOCATIONS

California	New Jersey
Colorado	North Carolina
Connecticut	Oklahoma
Florida	Oregon
Georgia	Pennsylvania
Hawaii	Texas
Illinois	Virginia
Louisiana	Washington
Minnesota	West Virginia
Missouri	
Montana	London, England

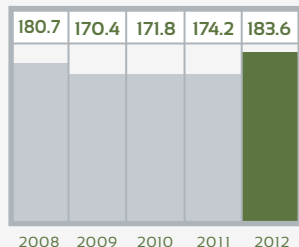
Contribution to Total Revenues

15.3%



Division Total Revenues

DOLLARS IN MILLIONS



True Partnerships ... A Value-Added Proposition

Our Wholesale Brokerage Division markets excess and surplus commercial and personal insurance products to retail insurance agencies, and sells reinsurance products and services to insurance companies throughout the United States.

Our Wholesale Brokerage Division can be categorized in three broad groups:

- 1 | Brokerage operations
- 2 | Binding authority operations
- 3 | Reinsurance brokerage operations

Brokerage Operations

Our Brokerage operations represent a wide variety of U.S. and U.K. surplus lines insurance companies, and certain of our offices are also Lloyd's of London correspondents. Generally, our brokers focus on either property coverages or casualty coverages such as general liability, product liability or professional liability. In recent years, these operations have developed a Practice Group program, and have identified "subject matter experts" and outside industry groups conversant with designated coverage lines to be available to their customer base of retail agents so that they, in turn, may utilize these resources to create more value for their customers. Practice group focus areas include property, casualty, casualty construction, executive liability, health care and public entity.

The Property practice group, part of Peachtree Special Risk Brokers, LLC, offers specialized expertise in the full array of property insurance coverages needed by, among others, municipalities and the hospitality and healthcare industries for real estate, catastrophe-exposed property, builder's risk and single/multi-family habitational risks. The Property practice group is available to assist with technical issues, market intelligence and account strategy, thereby establishing a growth platform for all Wholesale Brokerage Division property brokers.

The Casualty practice group specializes in the real estate, manufacturing, hospitality, service and transportation sectors. The real estate sector includes apartments, condominiums and retail/commercial lessors' risk schedules. The manufacturing sector includes high-hazard product liability, discontinued products liability and products recall for domestic and imported consumer products and other manufacturing and distribution exposures. The hospitality sector includes hotels, motels, restaurants and nightlife entertainment establishments. The service sector includes risks that may offer a personal

PEACHTREE SPECIAL RISK BROKERS, LLC
Atlanta, Georgia

SunTrust Bank works closely with Brown & Brown Insurance of Georgia and Peachtree Special Risk, to facilitate the property insurance placement of SunTrust's large commercial real estate schedule. Peachtree provides retailers like Brown & Brown and their clients access to over 50 specialty insurance markets that are insuring property exposed to catastrophic perils. Peachtree designs and negotiates the broadest and most competitive structure when "layering" carriers to share in large property exposures and assists insureds and retail brokers with claims handling, servicing, building carrier relationships and staying current on insurance market conditions.

From left to right: Daniel Baltz, Senior Vice President Insurance Risk, SunTrust Bank; Elizabeth White, President, Peachtree Special Risk; Clay Collins, Senior Executive Vice President, Brown & Brown Insurance of Georgia, Inc.

service to the general public, such as companies involved in retail, transport, distribution and food services, as well as other service-oriented businesses. Finally, the transportation sector includes trucking, commodity hauling, furniture movers and other automobile-related exposures.

The Casualty Construction practice group includes multiple offices and entities within our Wholesale Brokerage Division where brokers specialize in the construction sector. This group works with local, regional and national retail agents providing specialized insurance solutions for the construction industry. Products offered range from commercial general liability, umbrella liability, builders risk, inland marine, automobile liability, and environmental liability to "wrap" programs for the difficult-to-place contractors and construction projects.

The Executive Liability practice group, based in ECC Insurance Brokers, Inc., was one of the catalysts of growth for our Wholesale Brokerage Division in 2012. The three primary executive liability lines are directors and officers' liability, employment practices liability and professional liability. Other lines of coverage in this area include cyber liability, fiduciary liability, crime, kidnap and ransom and coverage for medical professionals. These are all lines of insurance that provide balance sheet protection to not-for-profits, professional groups, and privately and publicly held entities across the country. Professional liability/errors and omissions ("E&O") coverage protects members of specified professions such as architects, engineers, accountants, lawyers and physicians.



APEX INSURANCE SERVICES

Karl Snearer, President | Richmond, Virginia

Apex Insurance Services is a national leader in developing insurance and reinsurance solutions for public entities and educational institutions. Apex also offers a variety of services for insurance pools and programs providing coverage and member services to cities, counties, special districts, public schools and community colleges.

The Public Entity practice group is anchored by Apex Insurance Services (Apex). Apex is a national leader in developing insurance and reinsurance solutions for public entities and educational institutions. Apex works with local independent insurance agents and brokers to provide their clients, from small special governmental districts to large intergovernmental pools, a comprehensive, competitive property and casualty insurance program with a focus on risk management, loss control and outstanding claims services. In addition to typical property and general liability insurance policies, special insurance coverages can include public officials and employment practices liability, law enforcement liability, school board legal liability, public transit liability and environmental liability. Apex also offers a variety of services for insurance pools and programs providing coverage and member services to cities, counties, special districts, public schools and community colleges.

Binding Authority Operations

Our binding authority operations represent admitted insurance companies, thereby enabling smaller insurance agencies that would not otherwise have

access to certain insurance company representation to place coverage with these companies. Our binding authority teams have contracts with specialty lines companies that authorize them to directly quote and issue policies. To be successful in this business over a long period of time, our binding authority personnel must think like insurance company underwriters, which requires that they understand risks and determine the appropriate premiums to be charged for such risks. The market product, expertise and quick turnaround times that they offer enable these team members to efficiently bind accounts with the best coverages and at the most competitive prices available. We have binding authority for both commercial lines business and personal lines business.

Commercial Lines – This is one of the largest units within our Wholesale Brokerage Division, consisting of more than 150 brokers in 22 offices who focus on binding authority business. The excess and surplus lines offices regularly focus on catastrophe-prone areas such as coastlines or casualty accounts that may be more difficult to place due to size or loss history. Our commercial binding products include property, casualty, transportation and professional liability. This team

**AXIOM RE**

Burlington, North Carolina

During a recent meeting at his client's office in Columbia, SC, Gordon Lahey of Axiom Re coordinated a reinsurance renewal review summary and business update for Rob Bates of Southern Mutual Church Insurance Company together with one of their reinsurer partners, Bastian Hemmert of Hannover Re who was visiting from Germany. Axiom structures and places reinsurance programs not only with U.S. reinsurers, but also with reinsurance markets throughout the world.

From left to right: Gordon Lahey, Executive Vice President, Axiom Re LP; Robert Bates, President and Chief Executive Officer, Southern Mutual Church Insurance Co.; Bastian Hemmert, Underwriter, Hannover Re

is constantly scouting for the new opportunities and additional insurance capacity required to maintain their competitive edge.

Personal Lines – Personal Lines is a significant and growing contributor to the operations of our Wholesale Brokerage Division. This business varies from state to state, and office to office; some operations focus on smaller-premium transactions driven by automation and ease of use for our retail agent customers, while others provide a higher level of personal “touch” and expertise and deal principally with medium- and larger-premium accounts. Typical focus areas are, along the Eastern and Gulf coasts of the United States, coastal wind issues, and in the West, brush fire and earthquake exposures.

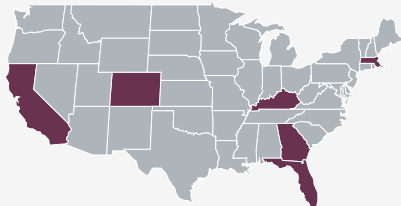
Reinsurance Brokerage Operations

Axiom Re, LP – Our largest reinsurance brokerage operation is Axiom Re, LP (Axiom), a multi-faceted reinsurance services company with a primary focus on treaty reinsurance brokerage. Axiom strives to structure reinsurance products that work efficiently and strategically for its insurance company clients in order to better manage and transfer risk. Axiom

operates as an advisor and advocate to these clients, creating products with a global reach that include access to treaty, facultative and capital markets. Axiom markets reinsurance products to the highest-rated reinsurance carriers with the goal of promoting the establishment of long-term relationships between its ceding company clients and the reinsurance market.

Evergreen Re – As one of the nation's largest health plan reinsurance brokers, Evergreen Re uses highly evolved, actuarially sound risk analysis to provide health plans, physician groups, and other managed healthcare organizations vital information as well as unique best-of-class solutions and services to protect them from catastrophic claims and financial turbulence. From HMO reinsurance, managed transplant insurance and managed care liability to pharmaceutical benefits consulting and other specific risk reduction products that help control costs, Evergreen Re's goal is to provide clients with the most effective tools to better manage the high risk and catastrophic exposures they face in today's healthcare environment.

THE SERVICES DIVISION

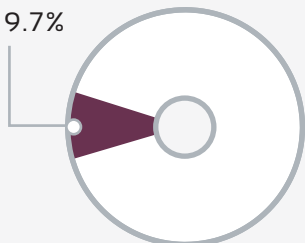


SERVICES DIVISION OFFICE LOCATIONS

- California
- Colorado
- Florida
- Georgia
- Kentucky
- Massachusetts

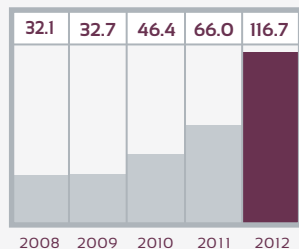
Contribution to Total Revenues

9.7%



Division Total Revenues

DOLLARS IN MILLIONS



Our Services Division originated in 1982 with the establishment of United Self Insured Services (USIS), a third-party administration (“TPA”) business that provides comprehensive risk management and TPA claims handling services to self-funded insurance pools and other insurance entities offering statutory workers’ compensation insurance coverage in the state of Florida.

As our expertise grew and our relationships with our insurance carrier partners strengthened, we sought out opportunities to assist in other aspects of their business.

With superior outcomes and a sustained commitment to “customer-centric” services, we have continuously expanded our customer mix as well as our geographic footprint. We now provide claims administration services for virtually every type of claim, including workers’ compensation, flood, and professional and general liability.

USIS, Inc.

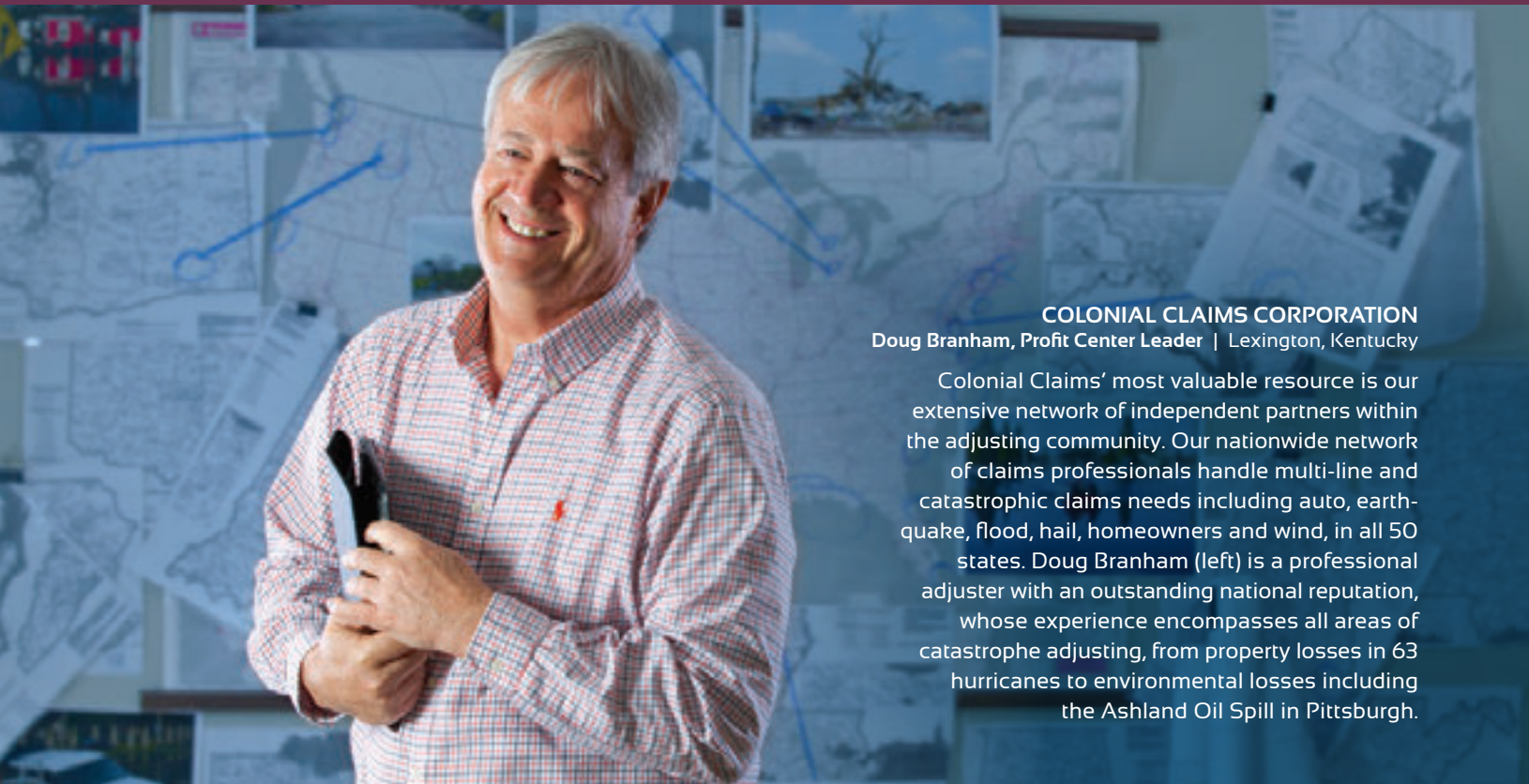
USIS today provides full-service third-party claims administration and managed care services for workers’ compensation and liability claims throughout the southeastern United States.

Our customers include commercial insurance carriers, self-insurance funds, risk pools and trusts, as well as self-insured employers in the public and private sectors. Most of these customers are attracted and retained due to our ability and willingness to uniquely customize our services. Our goal is to provide high-quality, cost-effective service that enhances and improves upon our customers’ existing programs rather than interfering with their business models.

Rapid access to critical loss, management and claims information is essential for any insurance or self-insurance entity’s success. Via our web portal, we have the ability to provide access to this information on demand, and we also provide reports that are tailored to the unique requirements of our business partners.

Our services products include:

- Workers’ Compensation Claims Administration
- Liability Claims Administration
- Telephonic and Field Case Management
- Vocational Services
- Pharmacy Benefit Management
- Claims Program Advocacy
- Loss Control
- Medical Provider Networks
- Utilization Review
- Medical Bill Auditing and Review
- Catastrophic Claim and Case Management
- Life Care Planning and Medical Care Cost Projections



COLONIAL CLAIMS CORPORATION

Doug Branham, Profit Center Leader | Lexington, Kentucky

Colonial Claims' most valuable resource is our extensive network of independent partners within the adjusting community. Our nationwide network of claims professionals handle multi-line and catastrophic claims needs including auto, earthquake, flood, hail, homeowners and wind, in all 50 states. Doug Branham (left) is a professional adjuster with an outstanding national reputation, whose experience encompasses all areas of catastrophe adjusting, from property losses in 63 hurricanes to environmental losses including the Ashland Oil Spill in Pittsburgh.

Our services are not "bundled," and as a result, we have maximum flexibility in meeting each customer's specific needs with respect to workers' compensation and/or liability claims programs.

Our success and efficiency in paying and administering workers' compensation claims led us to begin providing certified and non-certified medical management and managed care programs for workers' compensation insurance plans through AmeriSys®, a division of USIS. These services include case management; utilization review and management; client access to customized medical provider networks ("PPOs"); and "return-to-work" programs and initiatives. As medical costs consume an ever-larger portion of the workers' compensation claim dollar, AmeriSys provides its customers with the systems and programs necessary to contain those costs, while ensuring continued patient satisfaction and promoting prompt returns to work. AmeriSys is certified by the Utilization Review Accreditation Commission ("URAC") for workers' compensation, meeting the most stringent certification criteria in effect for our industry.

Part of our TPA business involved governmental organizations, and as our expertise expanded, we

created a specialty group to focus exclusively on governmental clients through our subsidiary, Preferred Governmental Claim Solutions, Inc.® (PGCS). PGCS is a premier public-entity TPA operation located in Lake Mary, Florida, with roots dating to 1956. PGCS has provided workers' compensation, general liability, automobile liability, professional liability, and property claims administration services to more than 450 governmental entities including school districts, cities, towns, counties, and fire districts.

PGCS' adjusters regularly handle governmental tort liability, police and firefighter presumption claims, and public sector workers' compensation claims, and PGCS' claims staff has over 650 years of combined insurance experience. Claims are handled under strict supervision in accordance with industry best practices.

Communication with our clients is the cornerstone of our claims administration operations. Quarterly in-depth claim review meetings, 24/7 claim reporting, use of professional adjusters and nurses, utilization of attorneys specializing in public entity defense, litigation management, and "return-to-work" programs are just a few examples of ways in which PGCS has set the standard for the industry.



USIS, INC.
Orlando, Florida

Pictured at the USIS office is **Liz Morris**, Vice President of Claims for USIS, and **Bill Bond**, President of FHM Insurance, a USIS client.



THE ADVOCATOR GROUPSM
Bob Trotta, Chief Operating Officer
Wakefield, Massachusetts

The Advocate Group helps protect the economic and emotional well being of their clients – employees transitioning from the workplace due to disability or retirement.

American Claims Management

In January 2012, our Services Division was strengthened by the addition of American Claims Management (ACM), part of the Arrowhead Insurance Group. ACM serves both the commercial and personal property and casualty insurance markets on a nationwide basis, and provides claims adjusting, administration, subrogation, litigation and data management services to insurance companies, self-insureds, public municipalities, insurance brokers and corporate entities. Sixty percent of ACM's 2012 net revenues were derived from the various Arrowhead programs in our National Programs Division, with the remainder generated from third parties.

ACM currently provides claims administration services for nearly all of the programs in which Arrowhead is involved. ACM's largest line of business is workers' compensation. Other larger programs include personal property, personal auto and commercial.

The Advocate GroupSM

The Advocate Group, headquartered in Wakefield, Massachusetts with an additional location in Longwood, Florida, is a \$30 million company specializing in Social Security disability advocacy and Medicare enrollment decision support services. With nearly 200 employ-

ees, this entity's focus is on education and advocacy services that protect the economic and emotional well-being of individuals transitioning from the workplace due to a medical condition or voluntary retirement. The daunting financial decisions facing our clients during such change, especially those relating to Medicare coverage and expenses, can have profound implications for their futures.

Founded in 2002, The Advocate Group has grown rapidly by building a team of professionals who share a passion for service. This enterprise's focus on innovation and relationships creates a unique culture that fosters personal accountability, resourcefulness, and teamwork.

Given the rapidly changing nature and complexity of today's healthcare system, it is imperative that individuals and families have objective and independent information on which to base financial and health decisions. The Advocate Group provides guidance and resources that enable sound and informed choices in these arenas.

NuQuest/Bridge Pointe[®] and Protocols[®]

In 2001, the Centers for Medicare and Medicaid Services (CMS) began enforcement and compliance efforts with

respect to the Medicare Secondary Payer statute (MSP). The MSP was first implemented in 1980 to protect the Medicare Trust Fund by ensuring that Medicare does not pay for services or items in situations in which other primary coverage is available. To avoid a burden shift from primary payers to Medicare, the MSP imposes mandatory insurer reporting requirements on primary payers, requires reimbursement of payments made by Medicare from primary payers, and requires future medical costs to be paid from settlement proceeds before Medicare pays. Common primary coverage subject to MSP compliance includes group health insurance, workers' compensation plans and personal injury proceeds.

Compliance with this important and necessary law requires skills, systems and expertise that are not typically part of our insurance carrier partners' core operations. Recognizing an opportunity to expand our offerings of services needed by insurance carriers, we recruited two nationally recognized leaders in MSP compliance, NuQuest/Bridge Pointe and Protocols.

NuQuest/Bridge Pointe and Protocols are multidisciplinary consulting firms that specialize in medical settlement planning for parties (including our insurance carrier partners and their clients) involved in complex workers' compensation and personal injury cases. Our team of experts – medical, benefits and legal – works with clients to create a comprehensive plan for the projected medical care of an injured person. We also advise on the best and most cost-effective way to finance this care. Among our specialty services are: Medicare lien resolution, Medicare set-aside analysis and allocation, medical cost projections, settlement consulting and training.

As Medicare continues to mature and baby boomers move into retirement, maintaining the integrity and viability of the Medicare Trust Fund becomes more and more important. As a result, primary payers will face increasing compliance burdens associated with MSP obligations. Through continuous innovation, efficient and high-quality service, and enduring relationships, our MSP services enable our clients to be in compliance with Federal Medicare laws and Medicare set-aside guidance.

Colonial Claims Corporation

Colonial Claims, a company founded in 1982, joined Brown & Brown in December 2011. This enterprise is one of the premier catastrophe adjusting companies in the nation, with the ability to deal with losses associated with all perils and major catastrophes. For the last 19 years, Colonial has led the nation yearly in volume of National Flood Insurance Program ("NFIP") claims adjusted. Additionally, many of Colonial's cadre of adjusters have liability and environmental adjusting experience. In the course of its history, Colonial has represented more than 100 property and casualty and surplus lines insurance carriers.

Colonial has been designated by the Federal Emergency Management Agency ("FEMA") to train and certify adjusters to handle NFIP losses. Additionally, this entity's comprehensive property training program allows it to provide catastrophe teams to assist with wind and hail needs as well as homeowner losses. Colonial's extensive network of independent adjusters assures that this enterprise can handle losses anywhere in the United States or its territories.

Experience, customer service and expedited closing ratios set Colonial apart in the industry. The majority of Colonial's adjusters have more than 16 years of experience, while its management team has, over the past 40 years, supervised loss adjustment in areas ranging from property losses in over 120 hurricanes to environmental losses such as the Exxon Valdez oil spill disaster. Colonial was the largest recipient of flood losses during Hurricane Katrina, handling approximately 58,000 claims during the 2005 season. Most recently, the storm season of 2012 produced approximately 51,000 losses. Colonial's broad staff of dedicated in-house examiners and its state-of-the-art technology position enable this entity to lead the industry in quality and timeliness of adjustment of claims.

LEADERSHIP OVERVIEW



Linda S. Downs
CPCU, AIA
Chief Operating Officer &
Regional President



Chris L. Walker
Regional Executive Vice
President
National Programs Division
and Services Division



C. Roy Bridges
CIC
Regional President
Retail Division



Kathy Colangelo
CIC, ASLI
Regional Vice President
Wholesale Brokerage Division



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



Nicholas J. Dereszynski
CEBS, CIC
Regional Vice President
Retail Division



J. Scott Penny
CIC
Chief Acquisitions Officer &
Regional President
National Programs, Retail and
Wholesale Brokerage Divisions



Anthony M. Grippa
Regional Vice President
Retail Division



Anthony T. Strianese
Regional President
Wholesale Brokerage Division



Thomas K. Huval
CIC
Regional Vice President
Retail Division



Sam R. Boone, Jr.
Regional Executive Vice President
Services Division and
National Programs Division



Richard A. Knudson
CIC
Regional Vice President
Retail Division



Kenneth R. Masters
Regional Executive Vice President
National Programs Division

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

- A. **Wendell S. Reilly**
 Managing Partner,
 Grapevine Partners, LLC
*Acquisition Committee, Chairman;
 Nominating/Corporate Governance
 Committee*
- B. **Samuel P. Bell, III, Esq.**
 Partner of the law firm of Pennington,
 Moore, Wilkinson, Bell & Dunbar, P.A.
*Acquisition Committee; Compensation
 Committee, Chairman*
- C. **Bradley Currey, Jr.**
 Former Chairman & Chief Executive
 Officer, Rock-Tenn Company
*Acquisition Committee; Audit Committee;
 Nominating/Corporate Governance
 Committee*
- D. **Toni Jennings**
 Former Lieutenant Governor, State of
 Florida; Chairman, Jack Jennings & Sons
Audit Committee; Compensation Committee
- E. **Hugh M. Brown**
 Founder and former President &
 Chief Executive Officer, BAMSI, Inc.
*Audit Committee; Nominating/Corporate
 Governance Committee*
- F. **J. Powell Brown, CPCU**
 President & Chief Executive Officer,
 Brown & Brown, Inc.
- G. **J. Hyatt Brown, CPCU, CLU**
 Chairman, Brown & Brown, Inc.
- H. **Chilton D. Varner, Esq.**
 Partner of the law firm of King & Spalding, LLP
*Compensation Committee; Nominating/
 Corporate Governance Committee, Chairman;
 Lead Director*
- I. **Timothy R. M. Main**
 Managing Director, Evercore Group LLC
Acquisition Committee
- J. **John R. Riedman**
 Chairman, Riedman Corporation
- K. **Theodore J. Hoepner**
 Former Vice Chairman, SunTrust Bank
 Holding Company
*Acquisition Committee; Audit Committee,
 Chairman; Compensation Committee*
- L. **H. Palmer Proctor, Jr.**
 President, Fidelity Southern
 Corporation
Audit Committee



A B C D E F G H I J K L

EXECUTIVE OFFICERS

- J. Powell Brown, CPCU**
 President & Chief Executive Officer
- Linda S. Downs, CPCU, AIA**
 Chief Operating Officer &
 Regional President
- C. Roy Bridges, CIC**
 Regional President
- Charles H. Lydecker,**
CPCU, CIC, AIM
 Retail Division President
- J. Scott Penny, CIC**
 Chief Acquisitions Officer &
 Regional President
- Anthony T. Strianese**
 Regional President
- Sam R. Boone, Jr.**
 Regional Executive Vice President
- Kenneth R. Masters**
 Regional Executive Vice President
- Chris L. Walker**
 Regional Executive Vice President
- Cory T. Walker,**
CPCU, CIC, ARM, CRM
 Senior Vice President, Treasurer
 & Chief Financial Officer
- Robert W. Lloyd, Esq., CIC**
 Vice President & General Counsel
- Laurel L. Grammig, Esq., CIC**
 Vice President, Secretary & Chief
 Compliance and Regulatory Officer
- Richard Freebourn, Sr., CPCU, CIC**
 Vice President, Internal Operations

Every morning in Africa
A Gazelle awakes.
It knows that it must run faster
Than the fastest Cheetah
Or it will be killed.

Every morning in Africa
A Cheetah awakes.
It knows that it must run faster
Than the slowest Gazelle
Or it will starve to death.

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

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

GENERAL

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

We are a diversified insurance agency, wholesale brokerage, insurance programs and services organization headquartered in Daytona Beach 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, or sales and payroll levels) to determine what premium to charge the insured. Insurance companies establish these premium rates based upon many factors, including reinsurance rates paid by such insurance companies, none of which we control.

The volume of business from new and existing customers, fluctuations in insurable exposure units and changes in general economic and competitive conditions all affect our revenues. For example, level rates of inflation or a general decline in economic activity could limit increases in the values of insurable exposure units. Conversely, the increasing costs of litigation settlements and awards have caused some customers to seek higher levels of insurance coverage. Historically, our revenues have typically grown as a result of 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. As of January 2013, our senior leadership group included eight executive officers with regional responsibility for oversight of designated operations within the Company, and four regional vice presidents in our Retail Division and one regional vice president in our Wholesale Brokerage Division who report directly to one of our executive officers. In October 2012, Kathy Colangelo was promoted to be Regional Vice President of our Wholesale Brokerage Division.

We increased revenues every year from 1993 to 2012, with the exception of 2009, when our revenues dropped 1.0%. Our revenues grew from \$95.6 million in 1993 to \$1.2 billion in 2012, reflecting a compound annual growth rate of 14.2%. In the same 19 year period, we increased net income from \$8.0 million to \$184.0 million in 2012, a compound annual growth rate of 17.9%.

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

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

For 2012, our consolidated internal revenue growth rate was 2.6%. In the event that the gradual increases in insurance premium rates and insurable exposure units that occurred in 2012 continue in 2013, we should continue to see positive quarterly internal growth rates in 2013.

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

primarily received in the first and second quarters of each year, based on the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 4.8% 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 guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In contrast, the term "core organic commissions and fees" is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). Core organic commissions and fees attempts to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes from (i) net new and lost accounts, (ii) net changes in our clients' exposure units, and (iii) net changes in insurance premium rates. The net changes in each of these three components can be determined for each of our customers. However, because our agency management accounting systems do not aggregate such data, it is not reportable. Core organic commissions and fees can reflect either "positive" growth with a net increase in revenues, or "negative" growth with a net decrease in revenues.

In recent years, five national insurance companies have replaced the loss-ratio based profit-sharing contingent commission calculation with a guaranteed fixed-base methodology, referred to as "Guaranteed Supplemental Commissions" ("GSCs"). Since GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2012, we accrued and earned \$9.1 million from GSCs during 2012, most of which will be collected in the first quarter of 2013. For the twelve-month periods ended December 31, 2011 and 2010, we earned \$12.1 million and \$13.4 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, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting 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 21.7% in 2012, 16.4% in 2011 and 14.6% in 2010.

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 Deposit Insurance Corporation ("FDIC") or into money-market investment funds (a portion of which is FDIC insured) of SunTrust and Wells Fargo, two large national banks. Effective January 1, 2013, the FDIC ceased providing insurance guarantees on non-interest bearing checking accounts. 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 are intended to 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 like "Citizens Property Insurance Corporation" in Florida.

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

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 result of the ensuing significant insurance property losses, Florida property insurance rates increased in 2006. To counter the higher property insurance rates, the State of Florida instructed Citizens to significantly reduce its property insurance rates 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.

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 wholesale brokers such as Hull & Company, Inc., another of our subsidiaries. Consequently, these operations lost significant amounts of revenue to Citizens. From 2008 through 2012, Citizens' impact was not as dramatic as it had been in 2007; FIU's core commissions and fees decreased 19.7% during this four-year period. Citizens continued to be competitive against the excess and surplus lines insurers, and therefore Citizens negatively affected the revenues of our Florida-based wholesale brokerage operations, such as Hull & Company, Inc., from 2007 through 2012, although the impact has been decreasing each year.

Citizens' impact on our Florida retail offices was less severe than on our National Programs and Wholesale Brokerage Division operations because our retail offices have the ability to place business with Citizens, although at slightly lower commission rates and with greater difficulty than with other insurance companies.

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. Citizens raised its insurance rates again in 2011 and 2012, and is expected to continue to increase its insurance rates in 2013. Our commission revenues from Citizens for 2012, 2011 and 2010 were approximately \$6.4 million, \$7.8 million, and \$8.3 million, respectively. If, as expected, Citizens continues to attempt to reduce its insured exposures, the financial impact of Citizens on our business should continue to be reduced in 2013.

Current Year Company Overview

2012 was an important transition year. After five years of experiencing negative internal growth in our core organic commissions and fees revenue as a direct result of the general weakness of the economy, we achieved a 2.6% positive internal revenue growth in 2012, which reflects a net growth of \$24.9 million in core organic commissions and fees. The net growth in core organic commissions and fees of \$24.9 million is a significant improvement from the comparable net lost revenues of \$21.5 million and \$40.1 million in 2011 and 2010, respectively. This improvement is principally attributable to rising insurance premium rates, and increasing insurance exposure units as a result of a gradually improving U. S. economy.

We have also succeeded in acquiring insurance operations that we believe may be of incrementally higher quality in each of the last three years. We completed 20 acquisitions in 2012, compared with the 38 and 33 acquisitions made in 2011 and 2010, respectively. However, the estimated annualized revenues from the 2012 acquisitions (excluding acquired books of business [customer accounts]) were \$149.6 million, an increase over the \$88.7 million and \$70.6 million that we acquired in 2011 and 2010, respectively.

Income before income taxes in 2012 increased over 2011 by 12.7%, or \$34.3 million, to \$304.8 million. However, that net increase of \$34.3 million includes \$44.2 million of income before income taxes related to new acquisitions that were stand-alone offices, and therefore, income before income taxes from those offices that existed in the same time periods of 2012 and 2011 (including the new acquisitions that "folded in" to those offices) decreased by \$10.0 million. The net decrease of \$10.0 million related primarily to: (1) \$5.4 million

from a change in estimated acquisition earn-out payables, (2) \$1.9 million of increased interest expense related to the Arrowhead acquisition, (3) \$1.7 million in increased non-cash stock-based compensation primarily due to new grants issued, and (4) \$6.8 million earned by our Retail Division commissioned producers as a result of a special one-time bonus program for those whose 2012 production exceeded their 2011 production by at least 5%. Therefore, excluding these items, income before income taxes from those offices that existed in the same time periods of 2012 and 2011 (including the new acquisitions that “folded in” to those offices) increased by only \$5.8 million.

Acquisitions

Approximately 37,500 independent insurance agencies are estimated to be operating currently in the United States. Part of our continuing business strategy is to attract high-quality insurance intermediaries to join our operations. From 1993 through 2012, we acquired 440 insurance intermediary operations, excluding acquired books of business (customer accounts).

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

(in millions, except for number of acquisitions)									
	Number of Acquisitions		Estimated Annual Revenues	Net Cash Paid	Notes Issued	Other Payable	Liabilities Assumed	Recorded Earn-out Payable	Aggregate Purchase Price
	Asset	Stock							
2012	19	1	\$ 149.6	\$ 483.9	\$ 0.1	\$ 25.4	\$ 136.7	\$ 21.5	\$ 667.6
2011	37	1	\$ 88.7	\$ 167.4	\$ 1.2	\$ —	\$ 15.7	\$ 30.5	\$ 214.8
2010	33	—	\$ 70.6	\$ 158.6	\$ 0.8	\$ —	\$ 2.3	\$ 25.1	\$ 186.8

On January 9, 2012, we completed the acquisition of Arrowhead pursuant to a merger agreement dated December 15, 2011 (the “Merger Agreement”). Under the Merger Agreement, the total cash purchase price of \$395.0 million is subject to adjustments for options to purchase shares of Arrowhead’s common stock, working capital, sharing of net operating tax losses, Arrowhead’s preferred stock units, transaction expenses, and closing debt. In addition, within 60 days following the third anniversary of the acquisition’s closing date, we will pay to certain persons who were Arrowhead equityholders as of the closing date additional earn-out payments equal, collectively, to \$5.0 million, subject to certain adjustments based on the “cumulative EBITDA” of Arrowhead and all of its subsidiaries, as calculated pursuant to the Merger Agreement, during the final year of the three-year period following the acquisition’s closing date.

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

Critical Accounting Policies

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

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

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

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is billed to the customer, whichever is later. Commission revenues related to installment billings at the Company's subsidiary, Arrowhead, are recorded on the later of the effective date of the policy or the first installment billing. At those dates, the earnings process has been completed, and we can reliably estimate the impact of policy cancellations for refunds and establish reserves accordingly. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted in accordance with known circumstances. Subsequent commission adjustments are recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments from insurance companies. Profit-sharing contingent commissions are recognized when determinable, which is when such commissions are received from insurance companies, or when we receive formal notification of the amount of such payments. Fee revenues are recognized as services are rendered.

Business Combinations and Purchase Price Allocations

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

All of our business combinations initiated after June 30, 2001 have been accounted for using the purchase method. In connection with these acquisitions, we record the estimated value of the net tangible assets purchased and the value of the identifiable intangible assets purchased, which typically consist of purchased customer accounts and non-compete agreements. Purchased customer accounts include the physical records and files obtained from acquired businesses that contain information about insurance policies, customers and other matters essential to policy renewals. However, they

primarily represent the present value of the underlying cash flows expected to be received over the estimated future renewal periods of the insurance policies comprising those purchased customer accounts. The valuation of purchased customer accounts involves significant estimates and assumptions concerning matters such as cancellation frequency, expenses and discount rates. Any change in these assumptions could affect the carrying value of purchased customer accounts. Non-compete agreements are valued based on their duration and any unique features of particular agreements. Purchased customer accounts and non-compete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and intangible assets is assigned to goodwill and is not amortized.

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

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

Intangible Assets Impairment

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

Management assesses the recoverability of our goodwill on an annual basis, and assesses the recoverability of our amortizable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) significant decline in our market capitalization. If the recoverability of these assets is unlikely because of the existence of one or more of the above-referenced factors, an impairment analysis is performed. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2012 and determined that the fair value of goodwill exceeded the carrying value of such assets. Additionally, there have been no impairments recorded for amortizable intangible assets for the years ended December 31, 2012, 2011 and 2010.

Non-Cash Stock-Based Compensation

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

Litigation Claims

We are subject to numerous litigation claims that arise in the ordinary course of business. If it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss is estimable, an accrual for the costs to resolve these claims is recorded in accrued expenses in the accompanying Consolidated Balance Sheets. Professional fees related to these claims are included in other operating expenses in the accompanying Consolidated Statements of Income. Management, with the assistance of in-house and outside counsel, determines whether it is probable that a liability has been incurred and estimates the amount of loss based upon analysis of individual issues. New developments or changes in settlement strategy in dealing with these matters may significantly affect the required reserves and affect our net income.

New Accounting Pronouncements

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

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

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

Financial information relating to our Consolidated Financial Results is as follows:

(in thousands, except percentages)	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 1,136,252	19.5 %	\$ 950,685	5.8 %	\$ 898,833
Profit-sharing contingent commissions	43,683	1.1 %	43,198	(21.1)%	54,732
Guaranteed supplemental commissions	9,146	(24.3)%	12,079	(9.5)%	13,352
Investment income	797	(37.1)%	1,267	(4.4)%	1,326
Other income, net	10,154	60.8 %	6,313	20.3 %	5,249
Total revenues	1,200,032	18.4 %	1,013,542	4.1 %	973,492
EXPENSES					
Employee compensation and benefits	608,506	19.6 %	508,675	4.3 %	487,820
Non-cash stock-based compensation	15,865	41.7 %	11,194	63.5 %	6,845
Other operating expenses	174,389	21.0 %	144,079	6.1 %	135,851
Amortization	63,573	16.1 %	54,755	6.4 %	51,442
Depreciation	15,373	24.1 %	12,392	(2.0)%	12,639
Interest	16,097	13.9 %	14,132	(2.3)%	14,471
Change in estimated acquisition earn-out payables	1,418	NMF ⁽¹⁾	(2,206)	31.8 %	(1,674)
Total expenses	895,221	20.5 %	743,021	5.0 %	707,394
Income before income taxes	\$ 304,811	12.7 %	\$ 270,521	1.7 %	\$ 266,098
Net internal growth rate – core commissions and fees	2.6 %		(2.4)%		(4.5)%
Employee compensation and benefits ratio	50.7 %		50.2 %		50.1 %
Other operating expenses ratio	14.5 %		14.2 %		14.0 %
Capital expenditures	\$ 24,028		\$ 13,608		\$ 10,454
Total assets at December 31	\$ 3,128,058		\$ 2,607,011		\$ 2,400,814

(1) NMF = Not a meaningful figure

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions and GSCs, increased \$183.1 million, or 18.2% in 2012. Profit-sharing contingent commissions and GSCs decreased \$2.4 million or 4.4% in 2012 to \$52.8 million, due primarily to \$4.1 million and \$1.2 million reductions in profit-sharing contingent commissions and GSCs in our Retail and Wholesale Brokerage Divisions, respectively; but these reductions were partially offset by a \$3.2 million increase in our National Programs Division. Core commissions and fees revenue increased \$185.6 million on a net

basis, of which approximately \$171.4 million represented core commissions and fees from acquisitions that had no comparable revenues in 2011. After taking into account divested business of \$10.7 million, the remaining net increase of \$24.9 million, representing net new business, reflects a 2.6% internal growth rate for core organic commissions and fees.

Commissions and fees revenue, including profit-sharing contingent commissions and GSCs, increased 4.0% in 2011. Profit-sharing contingent commissions decreased

\$11.5 million to \$43.2 million in 2011, with the decrease primarily due to reductions in amounts paid to offices in our National Programs and Wholesale Brokerage Divisions. Core organic commissions and fees revenue decreased 2.4% in 2011. The 2011 decrease of 2.4% represents \$21.5 million of net lost core commissions and fees revenue, of which \$21.2 million was attributable to our Retail Division. The remaining \$0.3 million of net lost core commissions and fees revenue related to a \$4.5 million reduction in our National Programs Division, which was partially offset by a \$3.6 million increase in our Wholesale Brokerage Division and a \$0.6 million increase in our Services Division. The declines in profit-sharing contingent commissions and core organic commissions and fees during 2011 were more than offset by the addition of \$77.6 million of core commissions and fees revenue from acquired operations.

Investment Income

Investment income decreased to \$0.8 million in 2012, compared with \$1.3 million in 2011, mainly due to lower average daily invested balances in 2012 than in 2011. Investment income of \$1.3 million in 2011 was effectively flat as compared with 2010. Even though the average daily invested balance in 2011 was higher in 2010, the lower income yields negated any income growth.

Other Income, Net

Other income for 2012 reflected income of \$10.2 million, compared with \$6.3 million in 2011 and \$5.2 million in 2010. We recognized gains of \$4.3 million, \$2.3 million and \$1.2 million from sales of books of business (customer accounts) in 2012, 2011, and 2010, respectively. Although we are not in the business of selling books of business, we periodically will sell an office or a book of business because it does not produce reasonable margins or demonstrate a potential for growth, or for other reasons related to the particular assets in question. Other income also included \$3.6 million, \$1.3 million and \$2.3 million in 2012, 2011, and 2010, respectively, paid to us in connection with settlements of litigation against former employees for violation of restrictive covenants contained in their employment agreements with us. Additionally, we recognized non-recurring gains, rental income and sales of software services of \$2.3 million, \$2.3 million and \$0.9 million in 2012, 2011, and 2010, respectively.

Employee Compensation and Benefits

Employee compensation and benefits expense increased, on a net basis, approximately 19.6% or \$99.8 million in 2012. However, that net increase included \$80.9 million of new compensation costs related to new acquisitions that were stand-alone offices, and therefore, employee compensation and benefits from those offices that existed in the same time periods of 2012 and 2011 (including the new acquisitions that "folded in" to those offices) increased by \$18.9 million. The employee compensation and benefit increases from these offices were primarily related to increases in staff and management salaries of \$3.2 million, new salaried producers of \$1.3 million, profit center bonuses of \$1.4 million, health insurance costs of \$1.8 million, employee 401(k)/profit-sharing contributions of \$0.7 million and bonus incentives of \$8.1 million primarily due to \$6.8 million earned by our Retail Division commissioned producers as a result of a special one-time bonus program for those whose 2012 production exceeded their 2011 production by at least 5%.

Employee compensation and benefits expense increased, on a net basis, approximately 4.3% or \$20.9 million in 2011. However, that net increase included \$27.8 million of new compensation costs related to new acquisitions that were stand-alone offices, and therefore, employee compensation and benefits from those offices that existed in the same time periods of 2011 and 2010 (including the new acquisitions that "folded in" to those offices) decreased by \$6.9 million. The employee compensation and benefit reductions from these offices were primarily related to reductions in staff and management salaries of \$6.8 million and reductions in commissions paid to producers of \$2.8 million; the aggregate of which was partially off-set by an increase in bonuses of \$2.7 million.

Employee compensation and benefits expense as a percentage of total revenues increased in 2012 to 50.7% as compared to 50.2% for 2011 and 50.1% for 2010. We had 6,438 full-time equivalent employees at December 31, 2012, compared with 5,557 at December 31, 2011 and 5,286 at December 31, 2010. Of the net increase of 881 full-time equivalent employees at December 31, 2012 over the prior year-end, an increase of 759 was attributable to acquisitions, thus reflecting a net increase of 122 employees in the offices existing at both year-ends.

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

Non-Cash Stock-Based Compensation

We have an employee stock purchase plan, and grant stock options and non-vested stock awards to our employees. Compensation expense for all share-based awards is recognized in the financial statements based upon the grant-date fair value of those awards. For 2012, 2011 and 2010, the non-cash stock-based compensation expense incorporates the costs related to each of our four stock-based plans as explained in Note 11 of the Notes to the Consolidated Financial Statements.

Non-cash stock-based compensation increased 41.7%, or \$4.7 million, in 2012 as a result of new grants under our Stock Incentive Plan ("SIP") that will vest in four to ten years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated earnings per share growth at certain levels by us, over three- to five-year measurement periods.

Non-cash stock-based compensation increased 63.5%, or \$4.3 million, in 2011 as a result of new grants under our SIP that will vest in six to ten years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated earnings per share growth at certain levels by us, over a five-year measurement period ending December 31, 2015.

Other Operating Expenses

As a percentage of total revenues, other operating expenses represented 14.5% in 2012, 14.2% in 2011, and 14.0% in 2010. Other operating expenses in 2012 increased \$30.3 million over 2011, of which \$33.3 million was related to acquisitions that joined as stand-alone offices. Therefore, other operating expenses attributable to offices that existed in the same periods in both 2012 and 2011 (including the new acquisitions that "folded in" to those offices) decreased by \$3.0 million. Of the \$3.0 million decrease, \$2.7 million related to reductions in office rents and related expenses, \$2.2 million related to a reduction in legal expenses and \$2.0 million related to lower insurance costs. These cost savings were partially offset by increases of \$1.3 million in consulting and inspection services, \$1.1 million for litigation reserves, and \$1.0 million in employee sales meetings.

Other operating expenses in 2011 increased \$8.2 million over 2010, of which \$10.0 million was related to acquisitions that joined as stand-alone offices. Therefore, other operating expenses attributable to offices that existed in the same periods in both 2011 and 2010 (including the new acquisitions that "folded in" to those offices) decreased by \$1.8 million. Of the \$1.8 million decrease, \$2.4 million related to reductions in office rents and related expenses, and \$1.9 million related to lower insurance costs. These cost savings were partially offset by a \$2.6 million increase in legal costs which was primarily related to the enforcement of restrictive covenants contained in our employment agreements with former employees.

Amortization

Amortization expense increased \$8.8 million, or 16.1%, in 2012, and \$3.3 million, or 6.4%, in 2011. The increases in 2012 and 2011 were due to the amortization of additional intangible assets as a result of acquisitions completed in those years.

Depreciation

Depreciation increased 24.1% in 2012, and decreased 2.0% in 2011. The increase in 2012 was due primarily to the addition of fixed assets as a result of recent acquisitions. The decrease in 2011 was the result of certain fixed assets becoming fully depreciated.

Interest Expense

Interest expense increased \$2.0 million, or 13.9%, in 2012, and decreased \$0.3 million, or 2.3%, in 2011. The 2012 increase was due primarily to the additional debt borrowed in connection with our acquisition of Arrowhead, and the 2011 decrease was due primarily to loan principal reductions.

Change in estimated acquisition earn-out payables

Accounting Standards Codification ("ASC") Topic 805 – *Business Combinations* is the authoritative guidance requiring an acquirer to recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities (with only limited exceptions) upon initially obtaining control of an acquired entity. Additionally, the fair value of contingent consideration arrangements (such as earn-out purchase

arrangements) at the acquisition date must be included in the purchase price consideration. As a result, the recorded purchase prices for all acquisitions consummated after January 1, 2009 include an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in these earn-out obligations are required to be recorded in the consolidated statement of income when incurred. Estimations of potential earn-out obligations are typically based upon future earnings of the acquired entities, usually for periods ranging from one to three years.

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

As of December 31, 2012, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3). The resulting net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables were as follows:

(in thousands)	2012	2011	2010
Change in fair value on estimated acquisition earn-out payables	\$ (1,051)	\$ (4,043)	\$ (2,606)
Interest expense accretion	2,469	1,837	932
Net change in earnings from estimated acquisition earn-out payables	\$ 1,418	\$ (2,206)	\$ (1,674)

The fair values of the estimated earn-out payables were reduced in 2012, 2011 and 2010 since certain acquisitions did not perform at the level estimated based on our original projections. An acquisition is considered to be performing well if its operating profit exceeds the level needed to reach the minimum purchase price. However, a reduction in the estimated acquisition earn-out payable can occur even though the acquisition is performing well, if it is not performing at the level contemplated by our original estimate.

As of December 31, 2012, the estimated acquisition earn-out payables equaled \$52,987,000, of which \$10,164,000 was recorded as accounts payable and \$42,823,000 was recorded as other non-current liability. As of December 31, 2011, the estimated acquisition earn-out payables equaled \$47,715,000, of which \$3,654,000 was recorded as accounts payable and \$44,061,000 was recorded as other non-current liability.

Income Taxes

The effective tax rate on income from operations was 39.6% in 2012, 39.4% in 2011, and 39.2% in 2010. The higher effective annual tax rates are primarily the result of higher average effective state income tax rates.

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

RESULTS OF OPERATIONS — SEGMENT INFORMATION

As discussed in Note 15 of the Notes to 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 emphasizes the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of total employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

The term "core commissions and fees" excludes profit-sharing contingent commissions and GSCs, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based

services rendered. In contrast, the term "core organic commissions and fees" is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). Core organic commissions and fees attempts to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes attributable to (i) net new and lost accounts, (ii) net changes in our clients' exposure units, and (iii) net changes in insurance premium rates. The net changes in each of these three components can be determined for each of our customers. However, because our agency management accounting systems do not aggregate such data, it is not reportable. Core organic commissions and fees reflect either "positive" growth with a net increase in revenues, or "negative" growth with a net decrease in revenues.

The internal growth rates for our core organic commissions and fees for the three years ended December 31, 2012, 2011 and 2010 by Division, are as follows:

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

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income as follows:

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

(in thousands, except percentages)							
2011	For the years ended December 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2011	2010					
Retail ⁽¹⁾	\$ 580,304	\$ 544,004	\$ 36,300	6.7 %	\$ 57,541	\$ (21,241)	(3.9) %
National Programs	148,842	152,209	(3,367)	(2.2) %	1,140	(4,507)	(3.0) %
Wholesale Brokerage	156,664	151,822	4,842	3.2 %	1,186	3,656	2.4 %
Services	64,875	46,486	18,389	39.6 %	17,773	616	1.3 %
Total core commissions and fees	\$ 950,685	\$ 894,521	\$ 56,164	6.3 %	\$ 77,640	\$ (21,476)	(2.4) %

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income is as follows:

(in thousands)	For the years ended December 31,	
	2011	2010
Total commissions and fees	\$ 950,685	\$ 894,521
Profit-sharing contingent commissions	43,198	54,732
Guaranteed supplemental commissions	12,079	13,352
Divested business	—	4,312
Total commissions and fees	\$ 1,005,962	\$ 966,917

(in thousands, except percentages)							
2010	For the years ended December 31,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2010	2009					
Retail	\$ 548,885	\$ 550,237	\$ (1,352)	(0.2) %	\$ 23,586	\$ (24,938)	(4.5) %
National Programs	152,281	165,700	(13,419)	(8.1) %	739	(14,158)	(8.5) %
Wholesale Brokerage	151,331	151,177	154	0.1 %	1,094	(940)	(0.6) %
Services	46,336	32,689	13,647	41.7 %	13,716	(69)	(0.2) %
Total core commissions and fees	\$ 898,833	\$ 899,803	\$ (970)	(0.1) %	\$ 39,135	\$ (40,105)	(4.5) %

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income is as follows:

(in thousands)	For the years ended December 31,	
	2010	2009
Total core commissions and fees	\$ 898,833	\$ 899,803
Profit-sharing contingent commissions	54,732	47,637
Guaranteed supplemental commissions	13,352	15,884
Divested business	—	1,539
Total commissions and fees	\$ 966,917	\$ 964,863

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

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

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. Approximately 95.7% of the Retail Division's commissions and fees revenue is commission-based. Because most of our other operating

expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions, net of related compensation, which we receive will be reflected in our pre-tax income.

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

(in thousands, except percentages)	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 619,975	6.7 %	\$ 581,125	6.1 %	\$ 547,881
Profit-sharing contingent commissions	12,843	(12.8)%	14,736	(3.5)%	15,274
Guaranteed supplemental commissions	6,890	(24.3)%	9,105	(14.5)%	10,654
Investment income	108	5.9 %	102	(40.0)%	170
Other income, net	4,613	116.5 %	2,131	97.0 %	1,082
Total revenues	644,429	6.1 %	607,199	5.6 %	575,061
EXPENSES					
Employee compensation and benefits	326,574	7.5 %	303,841	5.2 %	288,957
Non-cash stock-based compensation	5,680	(7.1)%	6,114	74.0 %	3,514
Other operating expenses	98,532	(0.2)%	98,745	6.0 %	93,184
Amortization	34,639	3.8 %	33,373	8.6 %	30,725
Depreciation	5,181	2.7 %	5,046	(5.7)%	5,349
Interest	26,641	(3.8)%	27,688	2.4 %	27,037
Change in estimated acquisition earn-out payables	1,968	NMF ⁽¹⁾	(5,415)	212.8%	(1,731)
Total expenses	499,215	6.4 %	469,392	5.0 %	447,035
Income before income taxes	\$ 145,214	5.4 %	\$ 137,807	7.6 %	\$ 128,026
Net internal growth rate — core organic commissions and fees	1.5 %		(3.9)%		(4.5)%
Employee compensation and benefits ratio	50.7 %		50.0 %		50.2 %
Other operating expenses ratio	15.3 %		16.3 %		16.2 %
Capital expenditures	\$ 5,732		\$ 6,102		\$ 4,852
Total assets at December 31	\$ 2,420,759		\$ 2,155,413		\$ 1,914,587

(1) NMF = Not a meaningful figure

The Retail Division's total revenues in 2012 increased 6.1%, or \$37.2 million, over the same period in 2011, to \$644.4 million. Profit-sharing contingent commissions and GSCs in 2012 decreased \$4.1 million, or 17.2%, from 2011, to \$19.7 million, primarily due to increased loss ratios resulting in lower profitability for insurance companies in 2011, and to the fact that two national insurance carriers who provided us GSC contracts in 2011 changed to profit-sharing contingency contracts in 2012. The \$38.9 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$38.7 million related to core commissions and fees revenue from acquisitions that had no comparable revenues in 2011, (ii) a decrease of \$8.5 million related to commissions and fees revenue recorded in 2011 from business divested or transferred to the Wholesale Brokerage Division during 2012, and (iii) the remaining net increase of \$8.7 million primarily related to net new business. The Retail Division's internal growth rate for core organic commissions and fees revenue was 1.5% for 2012, and resulted primarily from stabilizing insurable exposure units with slightly stronger upward pressure on general insurance premium rates.

Income before income taxes for 2012 increased 5.4%, or \$7.4 million, over the same period in 2011, to \$145.2 million. Included in the \$7.4 million net increase in income before income taxes is another \$7.4 million net expense increase in change in estimated acquisition earn-out payables and a \$0.3 million net expense increase from amortization, depreciation and inter-company interest changes. Excluding these items and the \$4.1 million decrease in profit-sharing contingent commissions and GSCs, income before income taxes for 2012 increased \$19.2 million over 2011, of which \$8.7 million originated from new acquisitions that were stand-alone operations, and \$10.5 million was generated by offices in existence in both 2011 and 2012. Of the \$10.5 million increase from existing offices, \$8.7 million (\$1.4 million of fold-in acquired revenues) was attributed to organic growth of core commissions and fees, \$5.6 million cost savings from other operating expenses, \$0.5 million reduction in non-cash stock-based compensation, but partially offset by \$4.9 million increase in compensation and employee benefits. The \$4.9 million net increase in compensation and employee benefits was primarily due to the one-time producer bonuses of \$6.8 million paid to commissioned producers whose 2012

production exceeded their 2011 production by at least five percent, which was partially offset by a reduction of approximately \$2.0 million less staff salaries. The \$5.6 million reduction in other operating expenses was primarily related to reductions in occupancy/office rents, legal and claims settlements, insurance expense, and data processing costs.

The Retail Division's total revenues in 2011 increased 5.6%, or \$32.1 million, over the same period in 2010, to \$607.2 million. Profit-sharing contingent commissions and GSCs in 2011 decreased \$2.1 million, or 8.0%, from 2010, primarily due to increased loss ratios resulting in lower profitability for insurance companies in 2010, and less premiums written as a result of the slowing U.S. economy. The \$33.2 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately \$57.5 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in 2010, (ii) a decrease of \$3.7 million related to commissions and fees revenue recorded in 2010 from business divested during 2011, (iii) a decrease of \$0.4 million for business transferred to our Wholesale Brokerage Division, and (iv) a net decrease of \$21.2 million primarily attributable to net lost business. The Retail Division's negative growth rate for core organic commissions and fees revenue was (3.9)% for 2011, and resulted primarily from lower property insurance rates and reduced insurable exposure units in most areas of the United States. However, as of the end of 2011, there were indications that exposure units' rates of decline were slowing, and some property insurance rates were beginning to increase slightly.

Income before income taxes for 2011 increased 7.6%, or \$9.8 million, over the same period in 2010, to \$137.8 million. The increase was mainly due to the profitability of our new acquisitions, and general cost savings that partially offset the decline in core organic commissions and fees. Of the \$9.8 million net increase in income before income taxes, \$3.7 million resulted from the change in estimated acquisition earn-out payables. Partially offsetting the \$21.2 million reduction in core organic commissions and fees were reductions of approximately \$9.9 million in compensation expense and \$6.3 million in other operating expenses, led by lower rent and insurance costs.

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

National Programs Division

The National Programs Division provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and markets targeted products and services designated for

specific industries, trade groups, public and quasi-public entities and market niches. Like the Retail Division and the Wholesale Brokerage Division, the National Programs Division's revenues are primarily commission-based.

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

(in thousands, except percentages)	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 233,261	56.7 %	\$ 148,842	(2.3)%	\$ 152,281
Profit-sharing contingent commissions	18,392	22.4 %	15,029	(34.4)%	22,894
Guaranteed supplemental commissions	276	(42.6)%	481	(27.5)%	663
Investment income	20	— %	—	(100.0)%	1
Other income, net	994	NMF ⁽¹⁾	75	(64.6)%	212
Total revenues	252,943	53.8 %	164,427	(6.6)%	176,051
EXPENSES					
Employee compensation and benefits	110,362	63.4 %	67,560	— %	67,547
Non-cash stock-based compensation	3,707	177.5 %	1,336	74.2 %	767
Other operating expenses	44,248	88.4 %	23,486	0.6 %	23,351
Amortization	13,936	79.4 %	7,770	(7.8)%	8,427
Depreciation	4,600	56.6 %	2,937	(2.2)%	3,004
Interest	25,674	NMF ⁽¹⁾	1,381	(48.3)%	2,670
Change in estimated acquisition earn-out payables	(1,075)	111.6%	(508)	NMF ⁽¹⁾	21
Total expenses	201,452	93.8 %	103,962	(1.7)%	105,787
Income before income taxes	\$ 51,491	(14.8)%	\$ 60,465	(13.9)%	\$ 70,264
Net internal growth rate — core organic commissions and fees	0.8%		(3.0)%		(8.5)%
Employee compensation and benefits ratio	43.6%		41.1 %		38.4 %
Other operating expenses ratio	17.5%		14.3 %		13.3 %
Capital expenditures	\$ 9,633		\$ 1,968		\$ 2,377
Total assets at December 31	\$ 1,183,191		\$ 680,251		\$ 624,540

(1) NMF = Not a meaningful figure

The National Programs Division's total revenues in 2012 increased \$88.5 million to \$252.9 million, a 53.8% increase over 2011. Profit-sharing contingent commissions and GSCs in 2012 increased \$3.2 million over 2011, due primarily to profit-sharing contingent commissions earned at our Arrowhead operation. Of the \$84.4 million net increase in core commissions and fees for National Programs: (i) an increase of approximately \$83.3 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in 2011; and (ii) a net increase of \$1.1 million was primarily related to net new business. Therefore, the National Programs Division's internal growth rate for core organic commissions and fees revenue was 0.8% for 2012. Of the \$1.1 million of net new business, \$2.2 million related to a net increase in commissions and fees revenue at Proctor Financial, Inc., ("Proctor"), which was partially offset by \$1.7 million of net lost business in our facultative reinsurance facility, and the remaining \$0.6 million of net new business was generated by various other programs.

Income before income taxes for 2012 decreased 14.8%, or \$9.0 million, from the same period in 2011, to \$51.5 million. This net decrease was due to: (i) a reduction of \$5.6 million from the offices that existed in both 2012 and 2011, primarily as a result of reduced profit-sharing contingent commissions and GSCs of \$1.3 million and increased compensation expense mainly related to increased staffing levels at Proctor, (ii) loss before income taxes and change in estimated acquisition earn-out payables of (\$4.8) million related to new acquisitions that were stand-alone offices (primarily the Arrowhead acquisition), and (iii) a \$1.4 million income credit generated from the change in estimated acquisition earn-out payables. Income before income taxes and inter-company interest expense related to new acquisitions that were stand-alone offices (primarily the Arrowhead acquisition) that had no comparable earnings in the same period of 2011 was approximately \$21.7 million for 2012; however those earnings were offset by \$25.0 million of inter-company interest expense allocation.

The National Programs Division's total revenues in 2011 decreased \$11.6 million, or 6.6% to \$164.4 million from 2010. Profit-sharing contingent commissions and GSCs in 2011 decreased \$8.0 million from 2010, of which \$2.9 million related to our condominium program at Florida Intracoastal Underwriters, Limited Company ("FIU"), and \$4.4 million related to Proctor. The decrease in FIU's profit-sharing contingent commissions in 2011 was principally attributable to fact that in 2010, FIU received a higher amount of profit-sharing contingent commissions because they included a delayed 2009 payment. Proctor's decreased profit-sharing contingent commissions were the direct result of the lower premiums generated by Proctor in 2010. Of the \$3.4 million net decrease in core commissions and fees for National Programs: (i) an increase of approximately \$1.1 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2010, and (ii) a net decrease of \$4.5 million was primarily related to net lost business. Therefore, the National Programs Division's negative growth rate for core organic commissions and fees revenue was (3.0)% for 2011. Of the \$4.5 million of net lost business, \$4.4 million related to Proctor, and was primarily the result of its loss of a large customer, \$1.5 million related to our CalSurance® operations and \$1.1 million related to FIU, all of which was partially offset by a \$1.3 million increase related to our public entity business and a \$1.2 million net aggregate increase attributable to the other programs in the Division.

Income before income taxes for 2011 decreased 13.9%, or \$9.8 million, from the same period in 2010, to \$60.5 million. This decrease was primarily driven by the reductions in profit-sharing contingent commissions. Non-cash stock grant compensation increased \$0.6 million due to new SIP grants made in the first quarter of 2011; and other operating expenses increased \$0.1 million. Additionally, interest expense of this Division relating to prior acquisitions decreased by \$1.3 million, primarily due to the 1.0% annual reduction in the cost of capital interest rate charged against the total purchase price of each of the Division's prior acquisitions.

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

Wholesale Brokerage Division

The Wholesale Brokerage Division markets and sells excess and surplus commercial and personal lines insurance and reinsurance, primarily through independent agents and

brokers. Like the Retail and National Programs Divisions, the Wholesale Brokerage Division's revenues are primarily commission-based.

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

(in thousands, except percentages)	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 168,182	7.4 %	\$ 156,664	3.5 %	\$ 151,331
Profit-sharing contingent commissions	12,448	(7.3)%	13,433	(18.9)%	16,564
Guaranteed supplemental commissions	2,192	(10.5)%	2,450	8.6 %	2,255
Investment income	22	(35.3)%	34	17.2 %	29
Other income, net	721	(54.3)%	1,577	(3.5)%	1,634
Total revenues	183,565	5.4 %	174,158	1.4 %	171,813
EXPENSES					
Employee compensation and benefits	87,293	5.2 %	82,974	(1.1)%	83,927
Non-cash stock-based compensation	1,328	(10.4)%	1,482	102.7 %	731
Other operating expenses	33,486	6.7 %	31,379	(3.2)%	32,421
Amortization	11,280	2.2 %	11,032	0.4 %	10,987
Depreciation	2,718	4.8 %	2,594	(5.3)%	2,740
Interest	3,974	(47.0)%	7,495	(33.9)%	11,342
Change in estimated acquisition earn-out payables	131	(81.0)%	691	NMF ⁽¹⁾	(246)
Total expenses	140,210	1.9 %	137,647	(3.0)%	141,902
Income before income taxes	\$ 43,355	18.7 %	\$ 36,511	22.1 %	\$ 29,911
Net internal growth rate — core organic commissions and fees	6.1 %		2.4 %		(0.6)%
Employee compensation and benefits ratio	47.6 %		47.6 %		48.8 %
Other operating expenses ratio	18.2 %		18.0 %		18.9 %
Capital expenditures	\$ 3,383		\$ 2,658		\$ 1,893
Total assets at December 31	\$ 837,364		\$ 712,212		\$ 673,927

(1) NMF = Not a meaningful figure

The Wholesale Brokerage Division's total revenues for 2012 increased 5.4%, or \$9.4 million, over the same period in 2011, to \$183.6 million. Profit-sharing contingent commissions and GSCs for 2012 decreased \$1.2 million from the same period of 2011, primarily due to developed losses and increased loss ratios experienced by our insurance carrier partners. Of the \$11.5 million net increase in core commissions and fees revenue: (i) an increase of approximately \$3.6 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2011; (ii) a decrease of \$1.5 million related to commissions and fees revenue recorded in 2011 from business divested or transferred from the Retail Division during 2012; and (iii) the remaining net increase of \$9.4 million primarily related to net new business and continued increases in premium rates on many lines of insurance, but primarily on coastal property. As such, the Wholesale Brokerage Division's internal growth rate for core organic commissions and fees revenue was 6.1% for 2012.

Income before income taxes for 2012 increased 18.7%, or \$6.8 million over the same period in 2011 to \$43.4 million, primarily due to a net reduction in the inter-company interest expense allocation of \$3.5 million. Additionally, while total revenues increased by \$9.4 million, employee compensation and benefits cost increased \$4.3 million, and other operating expenses increased by \$2.1 million. Employee compensation and benefit expense increased primarily due to higher bonus expense as a result of the Division's increased profitability, and \$1.2 million in new producer salaries. Other operating expenses increased as a result of higher costs for data processing, telephone and inter-company overhead charges.

The Wholesale Brokerage Division's total revenues in 2011 increased \$2.3 million over 2010, of which \$5.3 million resulting from an increase in core commissions and fees revenue was partially offset by a \$2.9 million reduction in profit-sharing contingent commissions and GSCs. Of the \$5.3 million net increase in core commissions and fees revenue: (i) an increase of approximately \$1.2 million related to the core commissions and fees revenue from acquisitions

that had no comparable revenues in the same period of 2010; (ii) a decrease of \$0.4 million related to commissions and fees revenue recorded in 2010 for business divested during 2011; and (iii) the remaining net increase of \$3.7 million primarily related to net new business. As such, the Wholesale Brokerage Division's core organic commissions and fees revenue for 2011 was 2.4%. The positive internal growth rate in 2011 compared with the negative growth rate in 2010 reflected the gradual stabilization of coastal property insurance rates and the fact that excess and surplus lines insurance products continued to be competitive with the products of admitted carriers, including the Citizens Property Insurance Corporation in Florida.

Income before income taxes for 2011 increased 22.1%, or \$6.6 million, over the same period in 2010, to \$36.5 million. Even though total revenues increased by \$2.3 million, total expenses were reduced by \$4.3 million. Employee compensation and benefits expense was reduced \$1.0 million, primarily due to lower management and staff salaries and lower commissions paid to producers, and other operating expenses were reduced by \$1.0 million, primarily in the areas of office rents, postage, and insurance costs. Additionally, interest expenses of the Wholesale Brokerage Division related to prior acquisitions decreased by \$3.8 million, primarily due to the 1.0% annual reduction in the cost of capital interest rate charged against the total purchase price of each of the Division's prior acquisitions.

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

Services Division

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

December 2011, catastrophe claims adjusting services.

Unlike our other segments, nearly all of the Services Division's 2012 commissions and fees revenue was generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division is as follows:

(in thousands, except percentages)	2012	Percent Change	2011	Percent Change	2010
REVENUES					
Core commissions and fees	\$ 116,247	79.2 %	\$ 64,875	40.0 %	\$ 46,336
Profit-sharing contingent commissions	—	— %	—	— %	—
Guaranteed supplemental commissions	—	— %	—	— %	—
Investment income	1	(99.2)%	128	753.3 %	15
Other income, net	488	(49.6)%	969	909.4 %	96
Total revenues	116,736	76.9 %	65,972	42.0 %	46,447
EXPENSES					
Employee compensation and benefits	59,235	71.7 %	34,494	30.4 %	26,443
Non-cash stock-based compensation	597	171.4 %	220	152.9 %	87
Other operating expenses	26,180	125.2 %	11,626	50.3 %	7,734
Amortization	3,680	44.8 %	2,541	101.0 %	1,264
Depreciation	1,278	116.6 %	590	67.6 %	352
Interest	8,602	49.7 %	5,746	121.7 %	2,592
Change in estimated acquisition earn-out payables	394	(87.0)%	3,026	973.0 %	282
Total expenses	99,966	71.6 %	58,243	50.3 %	38,754
Income before income taxes	\$ 16,770	117.0 %	\$ 7,729	0.5 %	\$ 7,693
Net internal growth rate — core organic commissions and fees	8.6 %		1.3 %		(0.2)%
Employee compensation and benefits ratio	50.7 %		52.3 %		56.9 %
Other operating expenses ratio	22.4 %		17.6 %		16.7 %
Capital expenditures	\$ 2,519		\$ 689		\$ 419
Total assets at December 31	\$ 238,430		\$ 166,060		\$ 145,321

The Services Division's total revenues for 2012 increased 76.9%, or \$50.8 million, over the same period in 2011, to \$116.7 million. Of the \$51.4 million net increase in core commissions and fees revenue: (i) an increase of approximately \$45.8 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2011; and (ii) the remaining net increase of \$5.6 million primarily related to net new business. As such, the Services Division's internal growth rate for core organic commissions and fees revenue was 8.6% for 2012.

Income before income taxes in 2012 increased \$9.0 million over 2011. This net increase was due to: (i) a net increase of \$1.2 million from the offices that existed in both 2012 and 2011, excluding the impact of the change in estimated acquisition earn-out payables, (ii) income before income taxes and change in estimated acquisition earn-out payables of \$5.2 million related to new acquisitions that were stand-alone offices, and (iii) a \$2.6 million income credit generated from the change in estimated acquisition earn-out payables. Income before income taxes, and inter-company interest expense and change in estimated acquisition earn-out payables, related to new acquisitions that were stand-alone offices that had no comparable earnings in the same period of 2011 totaled approximately \$8.8 million for 2012; however, those earnings were partially offset by \$3.6 million of inter-company interest expense allocation.

The Services Division's total revenues in 2011 increased \$19.5 million over 2010, almost exclusively due to acquired revenues attributable to our new Social Security disability and Medicare benefits advocacy services. The net increase in the Division's core organic commissions and fees in this period was primarily due to our Medicare Secondary Payer statute ("MSP") compliance-related services.

Income before income taxes in 2011 increased less than \$0.1 million over 2010. Even though the operations acquired in 2011 added substantially to income before income taxes, it was substantially offset by \$3.2 million of inter-company interest charged against the total purchase price of the Division's acquisitions and a \$2.7 million charge for the change in estimated acquisition earn-out payables.

Other

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

Our cash and cash equivalents of \$286.3 million at December 31, 2011 reflected an increase of \$13.3 million from the \$273.0 million balance at December 31, 2010. During 2011, \$237.5 million of cash was provided from operating activities. Also during this period, \$166.1 million of cash was used for acquisitions, \$13.6 million was used for additions to fixed assets, \$102.1 million was used for payments on long-term debt and \$46.5 million was used for payment of dividends. Additionally, in the third quarter of 2011, we borrowed \$100.0 million on our Master Agreement to fund the repayment of our \$100.0 million of Series A Senior Notes that matured on September 15, 2011.

Our cash and cash equivalents of \$273.0 million at December 31, 2010 reflected an increase of \$75.9 million from the \$197.1 million balance at December 31, 2009. During 2010, \$296.1 million of cash was provided from operating activities. Also during this period, \$157.6 million of cash was used for acquisitions, \$10.4 million was used for additions to fixed assets, \$19.4 million was used for payments on long-term debt and \$44.5 million was used for payment of dividends.

On January 9, 2012, we completed the acquisition of Arrowhead for a total cash purchase price of \$395.0 million, subject to certain adjustments and potential earn-out payments of up to \$5 million in the aggregate following the third anniversary of the acquisition's closing date. We financed the acquisition through various modified and new credit facilities.

Our ratio of current assets to current liabilities (the "current ratio") was 1.34 and 1.47 at December 31, 2012 and 2011, respectively.

Contractual Cash Obligations

As of December 31, 2012, our contractual cash obligations were as follows:

(in thousands)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 450,093	\$ 93	\$ 125,000	\$ 225,000	\$ 100,000
Other liabilities	46,945	24,455	14,147	5,863	2,480
Operating leases	133,878	30,645	48,602	31,331	23,300
Interest obligations	53,425	15,835	21,517	12,885	3,188
Unrecognized tax benefits	294	—	294	—	—
Maximum future acquisition contingency payments	146,858	30,833	116,025	—	—
Total contractual cash obligations	\$ 831,493	\$ 101,861	\$ 325,585	\$ 275,079	\$ 128,968

Debt

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: (1) Series A, which closed on September 15, 2004, for \$100.0 million was due in 2011 and bore interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for \$100.0 million due in 2014 and 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. On September 15, 2011, the \$100.0 million of Series A Notes were redeemed on their normal maturity date. As of December 31, 2012 and 2011, there was an outstanding balance on the Notes of \$100.0 million.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). On September 30, 2009, we and the Purchaser amended the Master Agreement to extend the term of the agreement until August 20, 2012. The Purchaser also purchased Notes issued by us in 2004. The Master Agreement provided 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 year. On February 1, 2008, \$25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. On September 15, 2011, pursuant to a Confirmation of Acceptance dated January 21, 2011 (the "Confirmation"), in connection with the Master Agreement, \$100.0 million in Series E Senior Notes due September 15, 2018, with a fixed interest rate of 4.50% per year, were issued. The Series E Senior Notes were issued for the sole purpose of retiring the Series A Senior Notes. As of December 31, 2012, and December 31, 2011, there was an outstanding

debt balance issued under the provisions of the Master Agreement of \$150.0 million. The Master Agreement expired on September 30, 2012 and was not extended.

On October 12, 2012, we entered into a Master Note Facility Agreement (the "New Master Agreement") with another national insurance company (the "New Purchaser"). The New Purchaser also purchased Notes issued by us in 2004. The New Master Agreement provides for a \$125.0 million private uncommitted "shelf" facility for the issuance of unsecured senior 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 New Master Agreement includes various covenants, limitations and events of default similar to the Master Agreement.

On June 12, 2008, we entered into an Amended and Restated Revolving Loan Agreement dated as of June 3, 2008 (the "Prior Loan Agreement"), with a national banking institution, amending and restating the Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), 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. At December 31, 2012 and December 31, 2011, there were no borrowings against this facility.

On January 9, 2012, we entered into: (1) an amended and restated revolving and term loan credit agreement (the "SunTrust Agreement") with SunTrust Bank ("SunTrust") that provides for (a) a \$100.0 million term loan (the "SunTrust Term Loan") and (b) a \$50.0 million revolving line of credit (the "SunTrust Revolver") and (2) a \$50.0 million promissory note (the "JPM Note") in favor of JPMorgan Chase Bank, N.A. ("JPMorgan"), pursuant to a letter agreement executed by

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

JPMorgan (together with the JPM Note, (the "JPM Agreement") that provides for a \$50.0 million uncommitted line of credit bridge facility (the "JPM Bridge Facility"). The SunTrust Term Loan, the SunTrust Revolver and the JPM Bridge Facility were each funded on January 9, 2012, and provided the financing for the Arrowhead acquisition. The SunTrust Agreement amended and restated the Prior Loan Agreement.

The maturity date for the SunTrust Term Loan and the SunTrust Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. Both the SunTrust Term Loan and the SunTrust Revolver may be increased by up to \$50.0 million (bringing the total available to \$150.0 million for the SunTrust Term Loan and \$100.0 million for the SunTrust Revolver). The calculation of interest and fees for the SunTrust Agreement is generally based on our funded debt-to-EBITDA ratio. Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the SunTrust Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the SunTrust Term Loan and SunTrust Revolver are unsecured and the SunTrust Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers and that are substantially similar to those contained in the Prior Loan Agreement.

The maturity date for the JPM Bridge Facility was February 3, 2012, at which time all outstanding principal and unpaid interest would have been due. On January 26, 2012, we entered into a term loan agreement (the "JPM Agreement") with JPMorgan that provided for a \$100.0 million term loan (the "JPM Term Loan"). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver's amount outstanding was reduced to zero.

The maturity date for the JPM Term Loan is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. Interest is charged at a rate equal to the Alternative Base Rate or 1.00% above the Adjusted LIBOR Rate, each as more fully described in the JPM Agreement.

Fees include an up-front fee. The obligations under the JPM Term Loan are unsecured and the JPM Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers.

The 30-day LIBOR and Adjusted LIBOR Rate as of December 31, 2012 were 0.23% and 0.25%, respectively.

The Notes, the Master Agreement, the SunTrust Agreement and the JPM Agreement all require that we maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of December 31, 2012 and 2011.

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 SunTrust Agreement and the JPM Agreement described above, will be sufficient to satisfy our normal liquidity needs through at least the end of 2013. 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.

Consolidated Statements of Income

Year Ended December 31,

(in thousands, except per share data)	2012	2011	2010
REVENUES			
Commissions and fees	\$ 1,189,081	\$ 1,005,962	\$ 966,917
Investment income	797	1,267	1,326
Other income, net	10,154	6,313	5,249
Total revenues	1,200,032	1,013,542	973,492
EXPENSES			
Employee compensation and benefits	608,506	508,675	487,820
Non-cash stock-based compensation	15,865	11,194	6,845
Other operating expenses	174,389	144,079	135,851
Amortization	63,573	54,755	51,442
Depreciation	15,373	12,392	12,639
Interest	16,097	14,132	14,471
Change in estimated acquisition earn-out payables	1,418	(2,206)	(1,674)
Total expenses	895,221	743,021	707,394
Income before income taxes	304,811	270,521	266,098
Income taxes	120,766	106,526	104,346
Net income	\$ 184,045	\$ 163,995	\$ 161,752
Net income per share:			
Basic	\$ 1.28	\$ 1.15	\$ 1.14
Diluted	\$ 1.26	\$ 1.13	\$ 1.12
Weighted average number of shares outstanding:			
Basic	139,364	138,582	137,924
Diluted	142,010	140,264	139,318
Dividends declared per share	\$ 0.3450	\$ 0.3250	\$ 0.3125

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

At December 31,

(in thousands, except per share data)	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 219,821	\$ 286,305
Restricted cash and investments	164,564	130,535
Short-term investments	8,183	7,627
Premiums, commissions and fees receivable	302,725	240,257
Deferred income taxes	24,408	19,863
Other current assets	39,811	23,540
Total current assets	759,512	708,127
Fixed assets, net	74,337	61,360
Goodwill	1,711,514	1,323,469
Amortizable intangible assets, net	566,538	496,182
Other assets	16,157	17,873
Total assets	\$ 3,128,058	\$ 2,607,011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	\$ 406,704	\$ 327,096
Premium deposits and credits due customers	32,867	30,048
Accounts payable	48,524	22,384
Accrued expenses and other liabilities	79,593	100,865
Current portion of long-term debt	93	1,227
Total current liabilities	567,781	481,620
Long-term debt	450,000	250,033
Deferred income taxes, net	237,630	178,052
Other liabilities	65,314	53,343
Commitments and contingencies (Note 13)		
Shareholders' Equity:		
Common stock, par value \$0.10 per share; authorized 280,000 shares; issued and outstanding 143,878 at 2012 and 143,352 at 2011	14,388	14,335
Additional paid-in capital	335,872	307,059
Retained earnings	1,457,073	1,322,562
Accumulated other comprehensive income, net of related income tax effect of \$0 at 2012 and \$4 at 2011	—	7
Total shareholders' equity	1,807,333	1,643,963
Total liabilities and shareholders' equity	\$ 3,128,058	\$ 2,607,011

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands, except per share data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares Outstanding	Par Value				
Balance at January 1, 2010	142,076	\$14,208	\$ 267,856	\$1,087,805	\$ 5	\$1,369,874
Net income				161,752		161,752
Net unrealized holding loss on available-for-sale securities					2	2
Comprehensive income						161,754
Common stock issued for employee stock benefit plans	705	70	7,495			7,565
Income tax benefit from exercise of stock benefit plans			11,391			11,391
Common stock issued to directors	14	1	255			256
Cash dividends paid (\$0.3125 per share)				(44,496)		(44,496)
Balance at December 31, 2010	142,795	\$14,279	\$ 286,997	\$1,205,061	\$ 7	\$1,506,344
Net income and comprehensive income				163,995		163,995
Common stock issued for employee stock benefit plans	545	55	18,859			18,914
Income tax benefit from exercise of stock benefit plans			916			916
Common stock issued to directors	12	1	287			288
Cash dividends paid (\$0.3250 per share)				(46,494)		(46,494)
Balance at December 31, 2011	143,352	\$14,335	\$ 307,059	\$1,322,562	\$ 7	\$1,643,963
Net income				184,045		184,045
Net unrealized holding gain on available-for-sale securities					(7)	(7)
Comprehensive income						184,038
Common stock issued for employee stock benefit plans	501	50	19,549			19,599
Income tax benefit from exercise of stock benefit plans			8,659			8,659
Common stock issued to directors	25	3	605			608
Cash dividends paid (\$0.3450 per share)				(49,534)		(49,534)
Balance at December 31, 2012	143,878	\$14,388	\$ 335,872	\$1,457,073	\$ —	\$1,807,333

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,

(in thousands)	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 184,045	\$ 163,995	\$ 161,752
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	63,573	54,755	51,442
Depreciation	15,373	12,392	12,639
Non-cash stock-based compensation	15,865	11,194	6,845
Change in estimated acquisition earn-out payables	1,418	(2,206)	(1,674)
Deferred income taxes	32,723	30,328	22,587
Income tax benefit from exercise of shares from the stock benefit plans	(8,659)	(916)	(11,391)
Net gain on sales of investments, fixed assets and customer accounts	(4,105)	(1,890)	(1,474)
Payments on acquisition earn-outs in excess of original estimated payables	(4,086)	(1,369)	—
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:			
Restricted cash and investments (increase) decrease	(34,029)	(6,941)	31,663
Premiums, commissions and fees receivable (increase)	(11,312)	(20,570)	(2,555)
Other assets decrease (increase)	2,145	(7,322)	14,529
Premiums payable to insurance companies (decrease) increase	(4,651)	9,447	436
Premium deposits and credits due customers increase (decrease)	2,506	1,277	(9,673)
Accounts payable increase (decrease)	36,505	(2,807)	28,246
Accrued expenses and other liabilities (decrease) increase	(43,059)	3,975	(2,087)
Other liabilities (decrease)	(23,937)	(5,811)	(5,233)
Net cash provided by operating activities	220,315	237,531	296,052
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets	(24,028)	(13,608)	(10,454)
Payments for businesses acquired, net of cash acquired	(425,054)	(166,055)	(157,637)
Proceeds from sales of fixed assets and customer accounts	14,095	3,686	1,558
Purchases of investments	(11,167)	(12,698)	(9,285)
Proceeds from sales of investments	10,654	12,950	9,327
Net cash used in investing activities	(435,500)	(175,725)	(166,491)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on acquisition earn-outs	(13,539)	(8,843)	(2,136)
Proceeds from long-term debt	200,000	100,000	—
Payments on long-term debt	(1,227)	(102,072)	(19,425)
Borrowings on revolving credit facilities	100,000	—	—
Payments on revolving credit facilities	(100,000)	—	—
Income tax benefit from exercise of shares from the stock benefit plans	8,659	916	11,391
Issuances of common stock for employee stock benefit plans	13,305	8,667	11,119
Repurchase of stock benefit plan shares for employee to fund tax withholdings	(8,963)	(659)	(10,143)
Cash dividends paid	(49,534)	(46,494)	(44,496)
Net cash provided by (used in) financing activities	148,701	(48,485)	(53,690)
Net (decrease) increase in cash and cash equivalents	(66,484)	13,321	75,871
Cash and cash equivalents at beginning of year	286,305	272,984	197,113
Cash and cash equivalents at end of year	\$ 219,821	\$ 286,305	\$ 272,984

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries (collectively, "Brown & Brown" or the "Company") is a diversified insurance agency, wholesale brokerage, insurance programs and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public entity, professional and individual customers; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial insurance and reinsurance, primarily through independent agents and brokers; the National Programs Division, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and markets targeted products and services designated for specific industries, trade groups, governmental entities and market niches; 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, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services.

Principles of Consolidation

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

Reclassification

Effective January 1, 2012, certain offices were reclassified from the National Programs Division to the Wholesale Brokerage Division, and as such, certain prior-year amounts have been reclassified to conform to the current year presentation.

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is billed to the customer, whichever is later. Commission revenues related to installment billings at the Company's subsidiary, Arrowhead General Insurance Agency, Inc. ("Arrowhead"), are recorded on the later of the effective date of the policy or the first installment billing. At those dates, the earnings process has been completed, and Brown & Brown can reliably estimate the impact of policy cancellations for refunds and establish reserves accordingly. The reserve for policy cancellations is based upon historical cancellation experience adjusted for known circumstances. The policy cancellation reserve was \$7,174,000 and \$6,396,000 at December 31, 2012 and 2011, respectively, and it is periodically evaluated and adjusted as necessary. Subsequent commission adjustments are recognized upon receipt of notification from the insurance companies. Commission revenues are reported net of commissions paid to sub-brokers or co-brokers. Profit-sharing contingent commissions from insurance companies are recognized when determinable, which is when such commissions, or official notification of the amount of such commissions is received. Fee income is recognized as services are rendered.

Use of Estimates

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

Cash and Cash Equivalents

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

Notes to Consolidated Financial Statements

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

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

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

Investments

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

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

Fixed Assets

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

Goodwill and Amortizable Intangible Assets

The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and amortizable intangible assets is assigned to goodwill. While goodwill is not amortizable, it is subject to assessment at least annually, and more frequently in the presence of certain circumstances, for impairment by application of a fair value-based test. The Company compares the fair value of each reporting unit with its carrying amount to determine if there is potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of earnings before interest, income taxes, depreciation, amortization and change in estimated acquisition earn-out payables. Brown & Brown completed its most recent annual assessment as of November 30, 2012 and determined that the fair value of goodwill exceeded the carrying value of such assets. In addition, as of December 31, 2012, there are no accumulated impairment losses.

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

The carrying value of amortizable intangible assets attributable to each business or asset group comprising Brown & Brown is periodically reviewed by management to determine if there are events or changes in circumstances that would indicate that its carrying amount may not be recoverable. Accordingly, if there are any such changes in circumstances during the year, Brown & Brown assesses the carrying value of its amortizable intangible assets by considering the estimated future undiscounted cash flows generated by the corresponding business or asset group. Any impairment identified through this assessment may require that the carrying value of related amortizable intangible assets be adjusted; however, no impairments were recorded for the years ended December 31, 2012, 2011 and 2010.

Income Taxes

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

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

Net Income Per Share

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

Basic EPS is computed based on the weighted average number of common shares (including participating securities) issued and outstanding during the period. Diluted EPS is computed based on the weighted average number of common shares issued and outstanding plus equivalent shares, assuming the exercise of stock options. The dilutive effect of stock options is computed by application of the treasury-stock method. For the year ended December 31, 2010, the impact of outstanding options to purchase 12,000 shares of common stock was anti-dilutive; these shares 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 years ended December 31:

(in thousands, except per share data)	2012	2011	2010
Net income	\$ 184,045	\$ 163,995	\$ 161,752
Net income attributable to unvested awarded performance stock	(5,313)	(5,099)	(5,097)
Net income attributable to common shares	\$ 178,732	\$ 158,896	\$ 156,655
Weighted average basic number of common shares outstanding	143,507	143,029	142,412
Less unvested awarded performance stock included in weighted average basic share outstanding	(4,143)	(4,447)	(4,488)
Weighted average number of common shares outstanding for basic earnings per common share	139,364	138,582	137,924
Dilutive effect of stock options	2,646	1,682	1,394
Weighted average number of shares outstanding	142,010	140,264	139,318
Net income per share:			
Basic	\$ 1.28	\$ 1.15	\$ 1.14
Diluted	\$ 1.26	\$ 1.13	\$ 1.12

Notes to Consolidated Financial Statements

Fair Value of Financial Instruments

The carrying amounts of Brown & Brown's financial assets and liabilities, including cash and cash equivalents, restricted cash and investments, investments, premiums, commissions and fees receivable, premiums payable to insurance companies, premium deposits and credits due customers and accounts payable, at December 31, 2012 and 2011, approximate fair value because of the short-term maturity of these instruments. The carrying amount of Brown & Brown's long-term debt approximates fair value at December 31, 2012 and 2011 because the related coupon rate approximates the current market rate.

Stock-Based Compensation

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

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

Recent Accounting Pronouncements

Goodwill Impairment — In September 2011, the FASB issued authoritative guidance which simplifies goodwill impairment testing by allowing an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. An entity is no longer required to determine the fair value of a reporting unit unless it is more likely than not that the fair value is less than carrying value. The guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have any material impact on the Company's Consolidated Financial Statements.

NOTE 2 BUSINESS COMBINATIONS

Acquisitions in 2012

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

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

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company's Condensed Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period, as defined in Accounting Standards Codification ("ASC") Topic 805 – *Business Combinations*. However, the Company does not expect any adjustments to such allocations to be material to the Company's Condensed Consolidated Financial Statements. The acquisitions made in 2012 have been accounted for as business combinations and are as follows:

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

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

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

Notes to Consolidated Financial Statements

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

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

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

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

Acquisitions in 2011

During 2011, Brown & Brown acquired the assets and assumed certain liabilities of 37 insurance intermediaries, all of the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price of these acquisitions was \$214,822,000, including \$167,444,000 of cash payments, the issuance of \$1,194,000 in notes payable, the assumption of \$15,659,000 of liabilities and \$30,525,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract high-quality personnel. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

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

The acquisitions made in 2011 have been accounted for as business combinations and are as follows:

(in thousands)							
Name	Business Segment	2011 Date of Acquisition	Cash Paid	Note Payable	Recorded Earn-out Payable	Net Assets Acquired	Maximum Potential Earn-out Payable
Balcos Insurance, Inc.	Retail	January 1	\$ 8,611	\$ —	\$ 1,595	\$ 10,206	\$ 5,766
Associated Insurance Service, Inc. et al.	Retail	January 1	12,000	—	1,575	13,575	6,000
United Benefit Services Insurance Agency LLC et al.	Retail	February 1	14,283	—	2,590	16,873	8,442
First Horizon Insurance Group, Inc. et al.	Retail	April 30	25,060	—	—	25,060	—
Fitzharris Agency, Inc. et al.	Retail	May 1	6,159	—	888	7,047	3,832
Corporate Benefit Consultants, LLC	Retail	June 1	9,000	—	2,038	11,038	4,520
Sitzmann, Morris & Lavis Insurance Agency, Inc. et al.	Retail	November 1	40,460	—	6,228	46,688	19,000
Snapper Shuler Kenner, Inc. et al.	Retail	November 1	7,493	—	1,318	8,811	3,988
Industry Consulting Group, Inc.	National Programs	November 1	9,133	—	3,877	13,010	5,794
Colonial Claims Corporation et al.	Services	December 23	9,950	—	4,248	14,198	8,000
Other	Various	Various	25,295	1,194	6,168	32,657	12,865
Total			\$ 167,444	\$ 1,194	\$ 30,525	\$ 199,163	\$ 78,207

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

(in thousands)	Balcos	AIS	United	FHI	FA	CBC
Cash	\$ —	\$ —	\$ —	\$ 5,170	\$ —	\$ —
Other current assets	187	252	438	1,640	77	227
Fixed assets	20	100	20	134	60	6
Goodwill	6,486	9,055	10,049	15,254	7,244	6,738
Purchased customer accounts	3,530	4,086	7,045	8,088	3,351	4,046
Non-compete agreements	42	92	45	10	21	21
Other assets	—	—	4	9	—	—
Total assets acquired	10,265	13,585	17,601	30,305	10,753	11,038
Other current liabilities	(59)	(10)	(728)	(3,790)	(3,706)	—
Deferred income taxes, net	—	—	—	(1,455)	—	—
Other liabilities	—	—	—	—	—	—
Total liabilities assumed	(59)	(10)	(728)	(5,245)	(3,706)	—
Net assets acquired	\$ 10,206	\$ 13,575	\$ 16,873	\$ 25,060	\$ 7,047	\$ 11,038

Notes to Consolidated Financial Statements

(in thousands)	SML	SSK	ICG	CC	Other	Total
Cash	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,170
Other current assets	1,372	247	336	—	1,059	5,835
Fixed assets	465	45	100	60	65	1,075
Goodwill	31,601	5,818	9,564	8,070	18,465	128,344
Purchased customer accounts	13,995	2,726	7,161	6,094	13,746	73,868
Non-compete agreements	42	12	11	23	187	506
Other assets	4	—	5	—	2	24
Total assets acquired	47,479	8,848	17,177	14,247	33,524	214,822
Other current liabilities	(791)	(37)	(1,096)	(49)	(867)	(11,133)
Deferred income taxes, net	—	—	—	—	—	(1,455)
Other liabilities	—	—	(3,071)	—	—	(3,071)
Total liabilities assumed	(791)	(37)	(4,167)	(49)	(867)	(15,659)
Net assets acquired	\$ 46,688	\$ 8,811	\$ 13,010	\$ 14,198	\$ 32,657	\$ 199,163

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

Goodwill of \$128,344,000, was assigned to the Retail, National Programs and Services Divisions in the amounts of \$108,420,000, \$11,853,000 and \$8,071,000, respectively. Of the total goodwill of \$128,344,000, \$84,105,000 is currently deductible for income tax purposes and \$13,714,000 is non-deductible. The remaining \$30,525,000 relates to the recorded acquisition earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2011 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through December 31, 2011 included in the Condensed Consolidated Statement of Income for the twelve months ended December 31, 2011 were \$40,291,000 and \$7,223,000, respectively. If the acquisitions had occurred as of the beginning of the comparable prior annual reporting period, the Company's estimated 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 Year Ended December 31,	
	2011	2010
Total revenues	\$1,058,142	\$ 1,059,857
Income before income taxes	\$ 283,404	\$ 291,944
Net income	\$ 171,805	\$ 177,464
Net income per share:		
Basic	\$ 1.20	\$ 1.25
Diluted	\$ 1.19	\$ 1.23
Weighted average number of shares outstanding:		
Basic	138,582	137,924
Diluted	140,264	139,318

Acquisitions in 2010

During 2010, Brown & Brown acquired the assets and assumed certain liabilities of 33 insurance intermediaries and several books of business (customer accounts). The aggregate purchase price of these acquisitions was \$186,783,000, including \$158,636,000 of cash payments, the issuance of \$759,000 in notes payable, the assumption of \$2,298,000 of liabilities and \$25,090,000 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 personnel. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

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

These acquisitions have been accounted for as business combinations and are as follows:

(in thousands)							
Name	Business Segment	2010 Date of Acquisition	Cash Paid	Note Payable	Recorded Earn-out Payable	Net Assets Acquired	Maximum Potential Earn-out Payable
DiMartino Associates, Inc.	Retail	March 1	\$ 7,047	\$ —	\$ 3,402	\$ 10,449	\$ 5,637
Stone Insurance Agencies, et al.	Retail	May 1	15,825	—	124	15,949	3,000
Crowe Paradis Holding Company, et al.	Services	September 1	75,000	—	8,665	83,665	15,000
Thomas R Jones, Inc.	Retail	October 1	14,634	—	—	14,634	—
Other	Various	Various	46,130	759	12,899	59,788	30,668
Total			\$ 158,636	\$ 759	\$ 25,090	\$ 184,485	\$ 54,305

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	Stone	Crowe	TR Jones	Other	Total	
Cash	\$ —	\$ —	\$ 1,000	\$ —	\$ —	\$ 1,000	
Other current assets	137	516	118	259	1,528	2,558	
Fixed assets	21	70	500	120	180	891	
Goodwill	6,890	11,128	53,573	8,683	36,119	116,393	
Purchased customer accounts	3,380	5,172	28,440	5,643	22,841	65,476	
Non-compete agreements	21	74	33	—	332	460	
Other assets	—	—	1	4	—	5	
Total assets acquired	10,449	16,960	83,665	14,709	61,000	186,783	
Other current liabilities	—	(1,011)	—	(75)	(1,212)	(2,298)	
Total liabilities assumed	—	(1,011)	—	(75)	(1,212)	(2,298)	
Net assets acquired	\$ 10,449	\$ 15,949	\$ 83,665	\$ 14,634	\$ 59,788	\$ 184,485	

Notes to Consolidated Financial Statements

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

Goodwill of \$116,393,000, was assigned to the Retail and Services Divisions in the amounts of \$57,423,000 and \$58,970,000, respectively. Of the total goodwill of \$116,393,000, \$91,303,000 is currently deductible for income tax purposes. The remaining \$25,090,000 relates to the earn-out payables and will not be deductible until it is earned and paid.

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 December 31, 2010 included in the Consolidated Statement of Income for the twelve months ended December 31, 2010 were \$30,172,000 and \$3,255,000, respectively. If the acquisitions had occurred as of the beginning of the comparable prior annual reporting 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 Year Ended December 31,	
	2010	2009
Total revenues	\$ 1,015,043	\$ 1,035,286
Income before income taxes	\$ 278,635	\$ 274,908
Net income	\$ 169,373	\$ 165,420
Net income per share:		
Basic	\$ 1.19	\$ 1.17
Diluted	\$ 1.18	\$ 1.16
Weighted average number of shares outstanding:		
Basic	137,924	137,173
Diluted	139,318	137,507

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 2012 as a result of these adjustments totaled \$2,907,000, all of which was allocated to goodwill. Of the \$2,907,000 net additional consideration paid, \$2,907,000 was paid in cash. The net additional consideration paid by the Company in 2011 as a result of these adjustments totaled \$4,190,000, all of which was allocated to goodwill. Of the \$4,190,000 net additional consideration paid, \$3,781,000 was paid in cash and \$409,000 was issued as a note payable. The net additional consideration paid by the Company in 2010 as a result of these adjustments totaled \$4,037,000, all of which was allocated to goodwill. Of the \$4,037,000 net additional consideration paid, \$975,000 was paid in cash and \$3,062,000 was issued in notes payable.

As of December 31, 2012, the maximum future contingency payments related to all acquisitions totaled \$146,858,000, of which all of the \$146,858,000 relates to acquisitions consummated subsequent to January 1, 2009.

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

As of December 31, 2012, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3). The resulting additions, payments, and net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, were as follows:

(in thousands)	For the Year Ended December 31,		
	2012	2011	2010
Balance as of the beginning of the period	\$ 47,715	\$ 29,608	\$ 7,354
Additions to estimated acquisition earn-out payables	21,479	30,525	25,090
Payments for estimated acquisition earn-out payables	(17,625)	(10,212)	(1,162)
Subtotal	51,569	49,921	31,282
Net change in earnings from estimated acquisition earn-out payables:			
Change in fair value on estimated acquisition earn-out payables	(1,051)	(4,043)	(2,606)
Interest expense accretion	2,469	1,837	932
Net change in earnings from estimated acquisition earn-out payables	1,418	(2,206)	(1,674)
Balance as of December 31	\$ 52,987	\$ 47,715	\$ 29,608

Of the \$52,987,000 in estimated acquisition earn-out payables as of December 31, 2012, \$10,164,000 was recorded as accounts payable and \$42,823,000 was recorded as other non-current liabilities. Of the \$47,715,000 in estimated acquisition earn-out payables as of December 31, 2011, \$3,654,000 was recorded as accounts payable and \$44,061,000 was recorded as other non-current liabilities.

NOTE 3 GOODWILL

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

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2011	\$ 716,626	\$ 140,238	\$ 269,723	\$ 68,240	\$1,194,827
Goodwill of acquired businesses	112,610	9,564	2,289	8,071	132,534
Goodwill transferred	(1,771)	—	1,771	—	—
Goodwill disposed of relating to sales of businesses	(3,892)	—	—	—	(3,892)
Balance as of December 31, 2011	823,573	149,802	273,783	76,311	1,323,469
Goodwill of acquired businesses	58,148	289,378	14,271	31,750	393,547
Goodwill disposed of relating to sales of businesses	(5,502)	—	—	—	(5,502)
Balance as of December 31, 2012	\$ 876,219	\$ 439,180	\$ 288,054	\$ 108,061	\$1,711,514

Notes to Consolidated Financial Statements

NOTE 4 AMORTIZABLE INTANGIBLE ASSETS

Amortizable intangible assets at December 31 consisted of the following:

(in thousands)	2012				2011			
	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	\$1,005,031	\$ (439,623)	\$ 565,408	14.9	\$ 876,552	\$ (381,615)	\$ 494,937	14.9
Non-compete agreements	25,320	(24,190)	1,130	7.2	25,291	(24,046)	1,245	7.2
Total	\$1,030,351	\$ (463,813)	\$ 566,538		\$ 901,843	\$ (405,661)	\$ 496,182	

Amortization expense recorded for amortizable intangible assets for the years ended December 31, 2012, 2011 and 2010 was \$63,573,000, \$54,755,000 and \$51,442,000, respectively.

Amortization expense for amortizable intangible assets for the years ending December 31, 2013, 2014, 2015, 2016 and 2017 is estimated to be \$64,082,000, \$63,020,000, \$61,730,000, \$57,149,000, and \$54,437,000, respectively.

NOTE 5 INVESTMENTS

Investments, which have been classified as ASC 805 Level 1 securities, at December 31 consisted of the following:

(in thousands)	2012 Carrying Value		2011 Carrying Value	
	Current	Non-Current	Current	Non-Current
Available-for-sale equity securities	\$ —	\$ —	\$ 36	\$ —
Certificates of deposit and other securities	8,183	16	7,591	516
Total investments	\$ 8,183	\$ 16	\$ 7,627	\$ 516

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

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities:				
2012	\$ —	\$ —	\$ —	\$ —
2011	\$ 25	\$ 11	\$ —	\$ 36

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

(in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses
2012	\$ 10,654	\$ 13	\$ —
2011	\$ 12,950	\$ 124	\$ —
2010	\$ 9,327	\$ 6	\$ —

NOTE 6 FIXED ASSETS

Fixed assets at December 31 consisted of the following:

(in thousands)	2012	2011
Furniture, fixtures and equipment	\$ 141,844	\$ 131,436
Leasehold improvements	18,889	17,045
Land, buildings and improvements	3,902	438
Total cost	164,635	148,919
Less accumulated depreciation and amortization	(90,298)	(87,559)
Total	\$ 74,337	\$ 61,360

Depreciation and amortization expense for fixed assets amounted to \$15,373,000 in 2012, \$12,392,000 in 2011, and \$12,639,000 in 2010.

NOTE 7 ACCRUED EXPENSES AND OTHER LIABILITIES

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

(in thousands)	2012	2011
Accrued compensation and benefits	\$ 19,943	\$ 16,818
Accrued rent and vendor expenses	16,972	11,554
Accrued bonuses	12,668	47,585
Reserve for policy cancellations	7,174	6,396
Accrued interest	3,295	3,288
Other	19,541	15,224
Total	\$ 79,593	\$ 100,865

Notes to Consolidated Financial Statements

NOTE 8 LONG-TERM DEBT

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

(in thousands)	2012	2011
Unsecured senior notes	\$ 450,000	\$ 250,000
Acquisition notes payable	93	1,260
Revolving credit facility	—	—
Total debt	450,093	251,260
Less current portion	(93)	(1,227)
Long-term debt	\$ 450,000	\$ 250,033

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 was due in 2011 and bore interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for \$100.0 million due in 2014 and 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. On September 15, 2011, the \$100.0 million of Series A Notes were redeemed on their normal maturity date. As of December 31, 2012 and 2011, there was an outstanding balance on the Notes of \$100.0 million.

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"). On September 30, 2009, the Company and the Purchaser amended the Master Agreement to extend the term of the agreement until August 20, 2012. 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 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 year. On February 1, 2008, \$25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. On September 15, 2011, pursuant to a Confirmation of Acceptance dated January 21, 2011 (the "Confirmation"), in connection with the Master Agreement, \$100.0 million in Series E Senior Notes due September 15, 2018, with a fixed interest rate of 4.50% per year, were issued. The Series E Senior Notes were issued for the sole purpose of retiring the Series A Senior Notes. As of December 31, 2012, and December 31, 2011, there was an outstanding debt balance issued under the provisions of the Master Agreement of \$150.0 million. The Master Agreement expired on September 30, 2012 and was not extended.

On October 12, 2012, the Company entered into a Master Note Facility Agreement (the "New Master Agreement") with another national insurance company (the "New Purchaser"). The New Purchaser also purchased Notes issued by the Company in 2004. The New Master Agreement provides for a \$125.0 million private uncommitted "shelf" facility for the issuance of unsecured senior 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 New Master Agreement includes various covenants, limitations and events of default similar to the Master Agreement.

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement dated as of June 3, 2008 (the "Prior Loan Agreement"), with a national banking institution, amending and restating the Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), 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. At December 31, 2012 and December 31, 2011, there were no borrowings against this facility.

On January 9, 2012, the Company entered into: (1) an amended and restated revolving and term loan credit agreement (the "SunTrust Agreement") with SunTrust Bank ("SunTrust") that provides for (a) a \$100.0 million term loan (the "SunTrust Term Loan") and (b) a \$50.0 million revolving line of credit (the "SunTrust Revolver") and (2) a \$50.0 million promissory note (the "JPM Note") in favor of JPMorgan Chase Bank, N.A. ("JPMorgan"), pursuant to a letter agreement executed by JP Morgan (together with the JPM Note, (the "JPM Agreement") that provides for a \$50.0 million uncommitted line of credit bridge facility (the "JPM Bridge Facility"). The SunTrust Term Loan, the SunTrust Revolver and the JPM Bridge Facility were each funded on January 9, 2012, and provided the financing for the Arrowhead acquisition. The SunTrust Agreement amended and restated the Prior Loan Agreement.

The maturity date for the SunTrust Term Loan and the SunTrust Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. Both the SunTrust Term Loan and the SunTrust Revolver may be increased by up to \$50.0 million (bringing the total available to \$150.0 million for the SunTrust Term Loan and \$100.0 million for the SunTrust Revolver). The calculation of interest and fees for the SunTrust Agreement is generally based on the Company's funded debt-to-EBITDA ratio. Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the SunTrust Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the SunTrust Term Loan and SunTrust Revolver are unsecured and the SunTrust Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers and that are substantially similar to those contained in the Prior Loan Agreement.

The maturity date for the JPM Bridge Facility was February 3, 2012, at which time all outstanding principal and unpaid interest would have been due. On January 26, 2012, the Company entered into a term loan agreement (the "JPM Agreement") with JPMorgan that provided for a \$100.0 million term loan (the "JPM Term Loan"). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver's amount outstanding was reduced to zero.

The maturity date for the JPM Term Loan is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. Interest is charged at a rate equal to the Alternative Base Rate or 1.00% above the Adjusted LIBOR Rate, each as more fully described in the JPM Agreement. Fees include an up-front fee. The obligations under the JPM Term Loan are unsecured and the JPM Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers.

The 30-day LIBOR and Adjusted LIBOR Rate as of December 31, 2012 were 0.23% and 0.25%, respectively.

The Notes, the Master Agreement, the SunTrust Agreement and the JPM Agreement all require the Company to maintain certain financial ratios and comply with certain other covenants. The Company was in compliance with all such covenants as of December 31, 2012 and 2011.

Acquisition notes payable represent debt incurred to former owners of certain insurance operations acquired by Brown & Brown. These notes and future contingent payments are payable in monthly, quarterly and annual installments through July 2013.

Interest paid in 2012, 2011 and 2010 was \$16,090,000, \$15,571,000 and \$14,491,000, respectively.

At December 31, 2012, maturities of long-term debt were \$93,000 in 2013, \$100,000,000 in 2014, \$25,000,000 in 2015, \$225,000,000 in 2016, \$0 in 2017 and \$100,000,000 in 2018 and beyond.

Notes to Consolidated Financial Statements

NOTE 9 INCOME TAXES

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

(in thousands)	2012	2011	2010
Current:			
Federal	\$ 75,522	\$ 65,461	\$ 70,715
State	11,852	10,084	10,236
Foreign	669	638	860
Total current provision	88,043	76,183	81,811
Deferred:			
Federal	27,348	27,212	19,890
State	5,375	3,131	2,645
Total deferred provision	32,723	30,343	22,535
Total tax provision	\$120,766	\$106,526	\$104,346

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

	2012	2011	2010
Federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	4.3	3.5	3.5
Non-deductible employee stock purchase plan expense	0.3	0.3	0.3
Non-deductible meals and entertainment	0.3	0.3	0.3
Other, net	(0.3)	0.3	0.1
Effective tax rate	39.6%	39.4%	39.2%

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

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

(in thousands)	2012	2011
Current deferred tax assets:		
Deferred profit-sharing contingent commissions	\$ 9,490	\$ 11,124
Net operating loss carryforwards	5,786	—
Accruals and reserves	9,132	8,739
Total current deferred tax assets	\$ 24,408	\$ 19,863

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

(in thousands)	2012	2011
Non-current deferred tax liabilities:		
Fixed assets	\$ 12,427	\$ 11,400
Net unrealized holding gain of available-for-sale securities	—	4
Prepaid insurance and pension	—	3,123
Intangible assets	245,020	176,459
Total non-current deferred tax liabilities	257,447	190,986
Non-current deferred tax assets:		
Deferred compensation	13,576	11,341
Net operating loss carryforwards	6,658	2,071
Valuation allowance for deferred tax assets	(417)	(478)
Total non-current deferred tax assets	19,817	12,934
Net non-current deferred tax liability	\$ 237,630	\$ 178,052

Income taxes paid in 2012, 2011 and 2010 were \$80,622,000, \$75,403,000, and \$69,828,000, respectively.

At December 31, 2012, Brown & Brown had net operating loss carryforwards of \$22,687,000 and \$84,311,000 for federal and state income tax reporting purposes, respectively, portions of which expire in the years 2013 through 2032. The federal carryforward is derived from insurance operations acquired by Brown & Brown in 2001 and 2012. The majority of the federal net operating loss carryforward resulted from the 2012 acquisition of Arrowhead. The state carryforward amount is derived from the operating results of certain subsidiaries and from the acquisition of Arrowhead.

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

(in thousands)	2012	2011	2010
Unrecognized tax benefits balance at January 1	\$ 806	\$ 656	\$ 635
Gross increases for tax positions of prior years	222	257	229
Gross decreases for tax positions of prior years	(409)	—	—
Settlements	(325)	(107)	(208)
Unrecognized tax benefits balance at December 31	\$ 294	\$ 806	\$ 656

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2012 and 2011, the Company had approximately \$79,000 and \$188,000 of accrued interest and penalties related to uncertain tax positions, respectively.

The total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized was \$294,000 as of December 31, 2012 and \$806,000 as of December 31, 2011. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

As a result of a 2006 Internal Revenue Service ("IRS") audit, the Company agreed to accrue at each December 31, for tax purposes only, a known amount of profit-sharing contingent commissions represented by the actual amount of profit-sharing contingent commissions received in the first quarter of the related year, with a true-up adjustment to the actual amount received by the end of the following March. Since this method for tax purposes differs from the method used for book purposes, it will result in a current deferred tax asset as of December 31 each year which will reverse by the following March 31 when the related profit-sharing contingent commissions are recognized for financial accounting purposes.

Notes to Consolidated Financial Statements

The Company is subject to taxation in the United States and various state jurisdictions. The Company is also subject to taxation in the United Kingdom. In the United States, federal returns for fiscal years 2009 through 2012 remain open and subject to examination by the Internal Revenue Service. The Company files and remits state income taxes in various states where the Company has determined it is required to file state income taxes. The Company's filings with those states remain open for audit for the fiscal years 2008 through 2012. In the United Kingdom, the Company's filings remain open for audit for the fiscal years 2008 through 2012. The Company's 2009 and 2010 federal corporate income tax returns are currently being audited by the Internal Revenue Service. The Company's 2008 through 2011 State of Colorado and State of Florida income tax returns are currently under audit. The Company is not subject to any other ongoing federal, state or foreign income tax audits.

NOTE 10 EMPLOYEE SAVINGS PLAN

The Company has an Employee Savings Plan (401(k)) in which substantially all employees with more than 30 days of service are eligible to participate. Under this plan, Brown & Brown makes matching contributions, of up to 2.5% of each participant's annual compensation. Further, the Plan authorizes the Company to make a discretionary profit-sharing contribution each year, which equaled 1.5% of each eligible employee's compensation in each of the past three years. The Company's contributions to the plan totaled \$14,266,000 in 2012, \$11,866,000 in 2011, and \$11,376,000 in 2010.

NOTE 11 STOCK-BASED COMPENSATION

Performance Stock Plan

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

At December 31, 2012, 6,750,253 shares had been granted under the PSP at initial stock prices ranging from \$4.25 to \$25.68. As of December 31, 2012, 1,296,517 shares had not met the first condition for vesting, 2,394,505 shares had met the first condition of vesting and had been awarded, and 3,059,231 shares had satisfied both conditions of vesting and had been distributed to participants.

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

A summary of PSP activity for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Weighted Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2010	\$ 7.39	7,758,547	4,423,436	3,335,111
Granted	\$ 9.67	384,420	—	384,420
Awarded	\$ 9.49	—	474,113	(474,113)
Vested	\$ 2.02	(1,388,789)	(1,388,789)	—
Forfeited	\$ 7.91	(962,324)	(117,241)	(845,083)
Outstanding at December 31, 2010	\$ 7.32	5,791,854	3,391,519	2,400,335
Granted	\$ —	—	—	—
Awarded	\$ 9.56	—	447,154	(447,154)
Vested	\$ 6.01	(106,490)	(106,490)	—
Forfeited	\$ 9.48	(753,552)	(386,914)	(366,638)
Outstanding at December 31, 2011	\$ 8.08	4,931,812	3,345,269	1,586,543
Granted	\$ —	—	—	—
Awarded	\$ 8.09	—	7,743	(7,743)
Vested	\$ 3.29	(877,224)	(877,224)	—
Forfeited	\$ 13.06	(363,566)	(81,283)	(282,283)
Outstanding at December 31, 2012	\$ 8.72	3,691,022	2,394,505	1,296,517

The weighted average grant-date fair value of PSP grants for years ended December 31, 2012, 2011 and 2010 was \$ 0.00, \$0.00 and \$9.67, respectively. The total fair value of PSP grants that vested during each of the years ended December 31, 2012, 2011 and 2010 was \$23,034,000, \$2,384,000 and \$31,965,000, respectively.

Stock Incentive Plan

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

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

Notes to Consolidated Financial Statements

In 2011, 2,375,892 shares were granted under the SIP. Of this total, 24,670 shares were granted to Decus employees under the SIP sub-plan applicable to Decus. As of December 31, 2012, 37,408 of the granted shares had satisfied the first condition of vesting and had been "awarded", meaning that dividends are paid on awarded shares and participants may exercise voting privileges on such shares.

In 2012, shares totaling 814,545 were granted under the SIP, primarily related to the Arrowhead acquisition. As of December 31, 2012, no shares had met the first condition for vesting. Additionally, non-employee members of the Board of Directors received shares issued pursuant to the SIP as part of their annual compensation. A total of 36,919 SIP shares were issued to these directors in 2011 and 2012, of which 11,682 were issued in January 2011, 12,627 in January 2012, and 12,610 in December 2012. The shares issued in December 2012 were issued at that earlier time rather than in January 2013 pursuant to action of the Board of Directors.

At December 31, 2012, 4,455,517 shares were available for future grants, of which 2,624,873 are reserved for grants with PSP-type vesting conditions.

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

A summary of SIP activity for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Weighted Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2010	\$ —	—	—	—
Granted	\$ 12.62	192,245	—	192,245
Awarded	\$ 12.62	—	38,449	(38,449)
Vested	\$ —	—	—	—
Forfeited	\$ —	—	—	—
Outstanding at December 31, 2010	\$ 12.62	192,245	38,449	153,796
Granted	\$ 23.94	2,375,892	—	2,375,892
Awarded	\$ 11.41	—	(1,041)	1,041
Vested	\$ —	—	—	—
Forfeited	\$ 23.94	(90,080)	—	(90,080)
Outstanding at December 31, 2011	\$ 23.06	2,478,057	37,408	2,440,649
Granted	\$ 22.59	814,545	—	814,545
Awarded	\$ —	—	—	—
Vested	\$ —	—	—	—
Forfeited	\$ 23.62	(135,291)	—	(135,291)
Outstanding at December 31, 2012	\$ 22.91	3,157,311	37,408	3,119,903

Employee Stock Purchase Plan

The Company has a shareholder-approved Employee Stock Purchase Plan ("ESPP") with a total of 12,000,000 authorized shares of which 1,734,510 were available for future subscriptions as of December 31, 2012. Employees of the Company who regularly work more than 20 hours per week are eligible to participate in the ESPP. Participants, through payroll deductions, may allot up to 10% of their compensation, to a maximum of \$25,000, to purchase Company stock between August 1st of each year and the following July 31st (the "Subscription Period") at a cost of 85% of the lower of the stock price as of the beginning or end of the Subscription Period.

The Company estimates the fair value of an ESPP share option as of the beginning of the Subscription Period as the sum of: (1) 15% of the quoted market price of the Company's stock on the day prior to the beginning of the Subscription Period, and (2) 85% of the value of a one-year stock option on the Company stock using the Black-Scholes option-pricing model. The estimated fair value of an ESPP share option as of the Subscription Period beginning in August 2012 was \$5.84. The fair values of an ESPP share option as of the Subscription Periods beginning in August 2011 and 2010, were \$4.27 and \$4.01, respectively.

For the ESPP plan years ended July 31, 2012, 2011 and 2010, the Company issued 562,748, 488,052 and 500,334 shares of common stock, respectively. These shares were issued at an aggregate purchase price of \$9,302,000, or \$16.53 per share, in 2012, \$8,048,000, or \$16.49 per share, in 2011, and \$8,326,000, or \$16.64 per share, in 2010.

For the five months ended December 31, 2012, 2011 and 2010 (portions of the 2012-2013, 2011-2012 and 2010-2011 plan years), 246,164, 230,481, and 206,201 shares of common stock (from authorized but unissued shares), respectively, were subscribed to by ESPP participants for proceeds of approximately \$5,278,000, \$3,810,000 and \$3,400,000, respectively.

Incentive Stock Option Plan

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

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

Notes to Consolidated Financial Statements

A summary of stock option activity for the years ended December 31, 2012, 2011 and 2010 is as follows:

Stock Options	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2010	2,388,684	\$ 17.03	6.1	\$21,629
Granted	—	\$ —		
Exercised	(313,514)	\$ 13.13		
Forfeited	(200,000)	\$ 18.48		
Expired	—	\$ —		
Outstanding at December 31, 2010	1,875,170	\$ 17.53	5.4	\$17,147
Granted	—	\$ —		
Exercised	(52,589)	\$ 18.48		
Forfeited	(438,044)	\$ 17.28		
Expired	—	\$ —		
Outstanding at December 31, 2011	1,384,537	\$ 17.58	4.4	\$14,587
Granted	—	\$ —		
Exercised	(645,745)	\$ 16.64		
Forfeited	—	\$ —		
Expired	—	\$ —		
Outstanding at December 31, 2012	738,792	\$ 18.39	4.9	\$ 8,891
Ending vested and expected to vest at December 31, 2012	738,792	\$ 18.39	4.9	\$ 8,891
Exercisable at December 31, 2012	162,792	\$ 17.82	4.0	\$ 1,243
Exercisable at December 31, 2011	396,985	\$ 18.16	5.4	\$ 1,774
Exercisable at December 31, 2010	257,040	\$ 17.92	6.0	\$ 1,546

The following table summarizes information about stock options outstanding at December 31, 2012:

Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 15.78	39,614	0.2	\$ 15.78	39,614	\$ 15.78
\$ 22.06	12,000	2.0	\$ 22.06	—	\$ 22.06
\$ 18.48	687,178	5.2	\$ 18.48	123,178	\$ 18.48
Totals	738,792	4.9	\$ 18.39	162,792	\$ 17.82

The total intrinsic value of options exercised, determined as of the date of exercise, during the years ended December 31, 2012, 2011 and 2010 was \$5,780,000, \$333,000 and \$2,344,000, respectively. The total intrinsic value is calculated as the difference between the exercise price of all underlying awards and the quoted market price of the Company's stock for all in-the-money stock options at December 31, 2012, 2011 and 2010, respectively.

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

Summary of Non-Cash Stock-Based Compensation Expense

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

(in thousands)	2012	2011	2010
Stock Incentive Plan	\$ 9,288	\$ 5,320	\$ 60
Employee Stock Purchase Plan	2,856	2,126	2,511
Performance Stock Plan	2,612	2,661	2,836
Incentive Stock Option Plan	1,109	1,087	1,438
Total	\$ 15,865	\$ 11,194	\$ 6,845

Summary of Unrecognized Compensation Expense

As of December 31, 2012, there was approximately \$68.0 million of unrecognized compensation expense related to all non-vested share-based compensation arrangements granted under the Company's stock-based compensation plans. That expense is expected to be recognized over a weighted average period of 7.8 years.

NOTE 12 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

(in thousands)	2012	2011	2010
Other payable issued for purchased customer accounts	\$ 25,439	\$ —	\$ —
Notes payable issued or assumed for purchased customer accounts	\$ 59	\$ 1,603	\$ 3,821
Estimated acquisition earn-out payables and related charges	\$ 21,479	\$ 30,525	\$ 25,090
Notes received on the sale of fixed assets and customer accounts	\$ 967	\$ 8,166	\$ 1,825

Notes to Consolidated Financial Statements

NOTE 13 COMMITMENTS AND CONTINGENCIES

Operating Leases

Brown & Brown leases facilities and certain items of office equipment under non-cancelable operating lease arrangements expiring on various dates through 2042. The facility leases generally contain renewal options and escalation clauses based upon increases in the lessors' operating expenses and other charges. Brown & Brown anticipates that most of these leases will be renewed or replaced upon expiration. At December 31, 2012, the aggregate future minimum lease payments under all non-cancelable lease agreements were as follows:

(in thousands)	
2013	\$ 30,645
2014	26,413
2015	22,189
2016	18,407
2017	12,924
Thereafter	23,299
Total minimum future lease payments	\$ 133,877

Rental expense in 2012, 2011 and 2010 for operating leases totaled \$39,810,000, \$34,951,000, and \$35,216,000, respectively.

Legal Proceedings

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

The Company accruals for legal matters, that were probable and estimable were not material at December 31, 2012 and 2011, and including estimated costs of settlement, damages and defense. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could adversely impact the Company's operating results, cash flows and overall liquidity. The Company maintains third-party insurance policies to provide coverage for certain legal claims, in an effort to mitigate its overall exposure to unanticipated claims or adverse decisions. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters. Based on the A. M. Best ratings of these third-party insurers, the Company does not believe there is a substantial risk of an insurer's material nonperformance related to any current insured claims.

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

NOTE 14 QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly operating results for 2012 and 2011 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2012				
Total revenues	\$ 302,486	\$ 290,916	\$ 303,800	\$ 302,830
Total expenses	\$ 219,696	\$ 219,771	\$ 222,151	\$ 233,603
Income before income taxes	\$ 82,790	\$ 71,145	\$ 81,649	\$ 69,227
Net income	\$ 49,433	\$ 42,471	\$ 49,504	\$ 42,637
Net income per share:				
Basic	\$ 0.34	\$ 0.30	\$ 0.34	\$ 0.30
Diluted	\$ 0.34	\$ 0.29	\$ 0.34	\$ 0.29
2011				
Total revenues	\$ 262,228	\$ 246,816	\$ 260,401	\$ 244,097
Total expenses	\$ 185,558	\$ 185,348	\$ 187,709	\$ 184,406
Income before income taxes	\$ 76,670	\$ 61,468	\$ 72,692	\$ 59,691
Net income	\$ 46,293	\$ 37,035	\$ 44,173	\$ 36,494
Net income per share:				
Basic	\$ 0.32	\$ 0.26	\$ 0.31	\$ 0.25
Diluted	\$ 0.32	\$ 0.26	\$ 0.30	\$ 0.25

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

NOTE 15 SEGMENT INFORMATION

Brown & Brown's business is divided into four reportable segments: 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 provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and 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, Social Security disability and Medicare benefits advocacy services and catastrophe claims adjusting services.

Brown & Brown conducts all of its operations within the United States of America, except for one wholesale brokerage operation based in London, England which commenced business in March 2008. This operation earned \$9.7 million, \$9.1 million and \$9.9 million of total revenues for the years ended December 31, 2012, 2011 and 2010, respectively. Long-lived assets held outside of the United States during each of these three years were not material.

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

Notes to Consolidated Financial Statements

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

(in thousands)	Year Ended December 31, 2012					
	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 644,429	\$ 252,943	\$ 183,565	\$ 116,736	\$ 2,359	\$ 1,200,032
Investment income	\$ 108	\$ 20	\$ 22	\$ 1	\$ 646	\$ 797
Amortization	\$ 34,639	\$ 13,936	\$ 11,280	\$ 3,680	\$ 38	\$ 63,573
Depreciation	\$ 5,181	\$ 4,600	\$ 2,718	\$ 1,278	\$ 1,596	\$ 15,373
Interest expense	\$ 26,641	\$ 25,674	\$ 3,974	\$ 8,602	\$ (48,794)	\$ 16,097
Income before income taxes	\$ 145,214	\$ 51,491	\$ 43,355	\$ 16,770	\$ 47,981	\$ 304,811
Total assets	\$ 2,420,759	\$ 1,183,191	\$ 837,364	\$ 238,430	\$ (1,551,686)	\$ 3,128,058
Capital expenditures	\$ 5,732	\$ 9,633	\$ 3,383	\$ 2,519	\$ 2,761	\$ 24,028

(in thousands)	Year Ended December 31, 2011					
	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 607,199	\$ 164,427	\$ 174,158	\$ 65,972	\$ 1,786	\$ 1,013,542
Investment income	\$ 102	\$ —	\$ 34	\$ 128	\$ 1,003	\$ 1,267
Amortization	\$ 33,373	\$ 7,770	\$ 11,032	\$ 2,541	\$ 39	\$ 54,755
Depreciation	\$ 5,046	\$ 2,937	\$ 2,594	\$ 590	\$ 1,225	\$ 12,392
Interest expense	\$ 27,688	\$ 1,381	\$ 7,495	\$ 5,746	\$ (28,178)	\$ 14,132
Income before income taxes	\$ 137,807	\$ 60,465	\$ 36,511	\$ 7,729	\$ 28,009	\$ 270,521
Total assets	\$ 2,155,413	\$ 680,251	\$ 712,212	\$ 166,060	\$ (1,106,925)	\$ 2,607,011
Capital expenditures	\$ 6,102	\$ 1,968	\$ 2,658	\$ 689	\$ 2,191	\$ 13,608

(in thousands)	Year Ended December 31, 2010					
	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 575,061	\$ 176,051	\$ 171,813	\$ 46,447	\$ 4,120	\$ 973,492
Investment income	\$ 170	\$ 1	\$ 29	\$ 15	\$ 1,111	\$ 1,326
Amortization	\$ 30,725	\$ 8,427	\$ 10,987	\$ 1,264	\$ 39	\$ 51,442
Depreciation	\$ 5,349	\$ 3,004	\$ 2,740	\$ 352	\$ 1,194	\$ 12,639
Interest expense	\$ 27,037	\$ 2,670	\$ 11,342	\$ 2,592	\$ (29,170)	\$ 14,471
Income before income taxes	\$ 128,026	\$ 70,264	\$ 29,911	\$ 7,693	\$ 30,204	\$ 266,098
Total assets	\$ 1,914,587	\$ 624,540	\$ 673,927	\$ 145,321	\$ (957,561)	\$ 2,400,814
Capital expenditures	\$ 4,852	\$ 2,377	\$ 1,893	\$ 419	\$ 913	\$ 10,454

Report of Independent Registered Public Accounting Firm

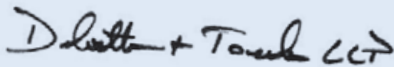
To the Board of Directors and Shareholders of Brown & Brown, Inc.
Daytona Beach, Florida

We have audited the accompanying consolidated balance sheets of Brown & Brown, Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brown & Brown, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.



Certified Public Accountants
Jacksonville, Florida
March 1, 2013

Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of Brown & Brown, Inc. and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Arrowhead General Insurance Agency Superholding Corporation, Richard W. Endlar Insurance Agency, Inc., Texas Security General Insurance Agency, Inc., Edgren Hecker & Lemmon Insurance, Inc. and Rowlands & Barranca Agency, Inc. (collectively the "2012 Excluded Acquisitions"), which were acquired during 2012 and whose financial statements constitute 0.2% and 19.0% of net and total assets, respectively, 10.1% of revenues, and 10.4% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2012. Accordingly, our audit did not include the internal control over financial reporting of the 2012 Excluded Acquisitions. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

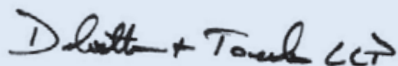
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated March 1, 2013 expressed an unqualified opinion on those financial statements.



Certified Public Accountants
Jacksonville, Florida
March 1, 2013

Management's Report on Internal Control Over Financial Reporting

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

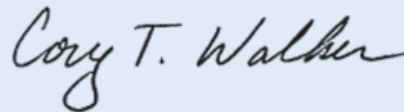
In conducting Brown & Brown's evaluation of the effectiveness of its internal control over financial reporting, Brown & Brown has excluded the following acquisitions completed by Brown & Brown during 2012: Arrowhead General Insurance Agency Superholding Corporation, Richard W. Endlar Insurance Agency, Inc., Texas Security General Insurance Agency, Inc., Edgren Hecker & Lemmon Insurance, Inc. and Rowlands & Barranca Agency, Inc. (collectively the "2012 Excluded Acquisitions"), which were acquired during 2012 and whose financial statements constitute 0.2% and 19.0% of net and total assets, respectively, 10.1% of revenues, and 10.4% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2012. Refer to Note 2 to the Consolidated Financial Statements for further discussion of these acquisitions and their impact on Brown & Brown's Consolidated Financial Statements.

Based on Brown & Brown's evaluation under the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that internal control over financial reporting was effective as of December 31, 2012. Management's internal control over financial reporting as of December 31, 2012 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Brown & Brown, Inc.
Daytona Beach, Florida
March 1, 2013



J. Powell Brown
Chief Executive Officer



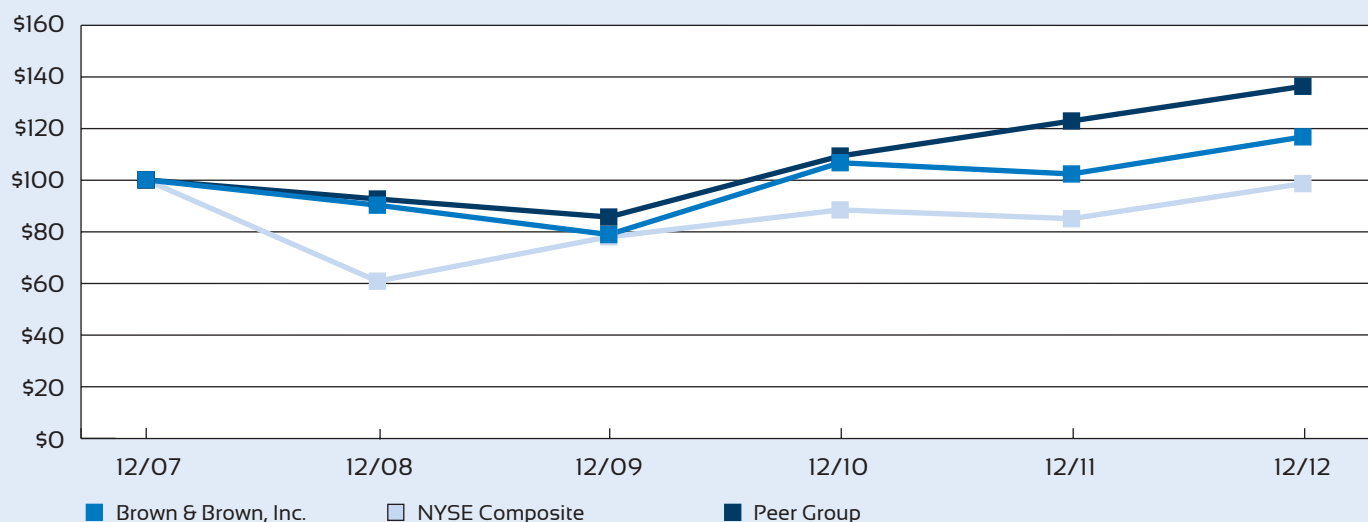
Cory T. Walker
Chief Financial Officer

Performance Graph

The following graph is a comparison of five-year cumulative total stockholder returns for our common stock as compared with the cumulative total stockholder return for the NYSE Composite Index, and a group of peer insurance broker and agency companies (Aon Corporation, Arthur J. Gallagher & Co, Marsh & McLennan Companies, Inc., and Willis Group Holdings, Ltd.). The returns of each company have been weighted according to such companies' respective stock market capitalizations as of December 31, 2007 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed \$100 investment on December 31, 2007, with all dividends reinvested.

Comparison of 5 Year Cumulative Total Return

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



Company/Index/Market	Year Ending					
	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Brown & Brown, Inc.	\$ 100.00	\$ 90.20	\$ 78.80	\$ 106.63	\$ 102.28	\$ 116.65
NYSE Composite Index	\$ 100.00	\$ 60.74	\$ 77.92	\$ 88.36	\$ 84.96	\$ 98.55
Peer Group	\$ 100.00	\$ 92.58	\$ 85.59	\$ 109.22	\$ 122.80	\$ 136.25

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

Shareholder Information

Corporate Offices

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

655 North Franklin Street
Suite 1900
Tampa, Florida 33602
(813) 222-4100

Outside Counsel

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

Corporate Information and Shareholder Services

The Company has included, as Exhibits 31.1 and 31.2, and 32.1 and 32.2 to its Annual Report on Form 10-K for the fiscal year 2012 filed with the Securities and Exchange Commission, certificates of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the Company's public disclosure. The Company has also submitted to the New York Stock Exchange a certificate from its Chief Executive Officer certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

A copy of the Company's 2012 Annual Report on Form 10-K will be furnished without charge to any shareholder who directs a request in writing to:

Corporate Secretary
Brown & Brown, Inc.
655 North Franklin Street
Suite 1900
Tampa, Florida 33602

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

Annual Meeting

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

May 8, 2013
9:00 a.m. (EDT)
The Shores Resort
2637 South Atlantic Avenue
Daytona Beach, Florida 32118

Transfer Agent and Registrar

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

Independent Registered Public Accounting Firm

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

Stock Listing

The New York Stock Exchange Symbol: BRO

Approximate number of shareholders of record as of February 20, 2013, was 1,200. Closing price per share on that date was \$29.38.

Market Price of Common Stock

2012	Stock Price Range		Cash Dividends per Common Share
	High	Low	
1st Quarter	\$ 25.00	\$ 21.85	\$ 0.085
2nd Quarter	\$ 27.32	\$ 23.42	\$ 0.085
3rd Quarter	\$ 28.17	\$ 24.71	\$ 0.085
4th Quarter	\$ 27.31	\$ 24.88	\$ 0.09
2011			
1st Quarter	\$ 26.60	\$ 23.56	\$ 0.08
2nd Quarter	\$ 27.07	\$ 24.84	\$ 0.08
3rd Quarter	\$ 26.10	\$ 17.19	\$ 0.08
4th Quarter	\$ 23.31	\$ 16.77	\$ 0.085

Additional Information

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

Ten-Year Financial Summary

(in thousands, except per share data, percentages and other information)	2012	2011	2010
REVENUES			
Commissions and fees	\$ 1,189,081	\$ 1,005,962	\$ 966,917
Investment income	797	1,267	1,326
Other income, net	10,154	6,313	5,249
Total revenues	1,200,032	1,013,542	973,492
EXPENSES			
Employee compensation and benefits	608,506	508,675	487,820
Non-cash stock-based compensation	15,865	11,194	6,845
Other operating expenses	174,389	144,079	135,851
Amortization	63,573	54,755	51,442
Depreciation	15,373	12,392	12,639
Interest	16,097	14,132	14,471
Change in estimated acquisition earn-out payables	1,418	(2,206)	(1,674)
Total expenses	895,221	743,021	707,394
Income before income taxes	304,811	270,521	266,098
Income taxes	120,766	106,526	104,346
Net income	\$ 184,045	\$ 163,995	\$ 161,752
Employee compensation and benefits as % of total revenue	50.7%	50.2%	50.1%
Other operating expenses as % of total revenue	14.5%	14.2%	14.0%
EARNINGS PER SHARE INFORMATION			
Net income per share – diluted	\$ 1.26	\$ 1.13	\$ 1.12
Weighted average number of shares outstanding – diluted	142,010	140,264	139,318
Dividends paid per share	\$ 0.3450	\$ 0.3250	\$ 0.3125
YEAR-END FINANCIAL POSITION			
Total assets	\$ 3,128,058	\$ 2,607,011	\$ 2,400,814
Long-term debt	\$ 450,000	\$ 250,033	\$ 250,067
Total shareholders' equity	\$ 1,807,333	\$ 1,643,963	\$ 1,506,344
Total shares outstanding	143,878	143,352	142,795
OTHER INFORMATION			
Number of full-time equivalent employees at year-end	6,438	5,557	5,286
Total revenues per average number of employees ⁽²⁾	\$ 191,729 ⁽³⁾	\$ 186,949	\$ 185,568
Stock price at year-end	\$ 25.46	\$ 22.63	\$ 23.94
Stock price earnings multiple at year-end ⁽⁴⁾	20.2	20.0	21.4
Return on beginning shareholders' equity ⁽⁵⁾	11%	11%	12%

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

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

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

Year Ended December 31,

2009	2008	2007	2006	2005	2004	2003
\$ 964,863	\$ 965,983	\$ 914,650	\$ 864,663	\$ 775,543	\$ 638,267	\$ 545,287
1,161	6,079	30,494 ⁽¹⁾	11,479	6,578	2,715	1,428
1,853	5,492	14,523	1,862	3,686	5,952	4,325
967,877	977,554	959,667	878,004	785,807	646,934	551,040
484,680	485,783	444,101	404,891	374,943	314,221	268,372
7,358	7,314	5,667	5,416	3,337	2,625	2,272
143,389	137,352	131,371	126,492	105,622	84,927	74,617
49,857	46,631	40,436	36,498	33,245	22,146	17,470
13,240	13,286	12,763	11,309	10,061	8,910	8,203
14,599	14,690	13,802	13,357	14,469	7,156	3,624
—	—	—	—	—	—	—
713,123	705,056	648,140	597,963	541,677	439,985	374,558
254,754	272,498	311,527	280,041	244,130	206,949	176,482
101,460	106,374	120,568	107,691	93,579	78,106	66,160
\$ 153,294	\$ 166,124	\$ 190,959	\$ 172,350	\$ 150,551	\$ 128,843	\$ 110,322
50.1%	49.7%	46.3%	46.1%	47.7%	48.6%	48.7%
14.8%	14.1%	13.7%	14.4%	13.4%	13.1%	13.5%
\$ 1.08	\$ 1.17	\$ 1.35	\$ 1.22	\$ 1.08	\$ 0.93	\$ 0.80
137,507	136,884	136,357	135,886	135,033	133,994	132,814
\$ 0.3025	\$ 0.2850	\$ 0.2500	\$ 0.2100	\$ 0.1700	\$ 0.1450	\$ 0.1213
\$ 2,224,226	\$ 2,119,580	\$ 1,960,659	\$ 1,807,952	\$ 1,608,660	\$ 1,249,517	\$ 865,854
\$ 250,209	\$ 253,616	\$ 227,707	\$ 226,252	\$ 214,179	\$ 227,063	\$ 41,107
\$ 1,369,874	\$ 1,241,741	\$ 1,097,458	\$ 929,345	\$ 764,344	\$ 624,325	\$ 498,035
142,076	141,544	140,673	140,016	139,383	138,318	137,122
5,206	5,398	5,047	4,733	4,540	3,960	3,517
\$ 182,549	\$ 187,181	\$ 196,251	\$ 189,368	\$ 184,896	\$ 173,046	\$ 159,699
\$ 17.97	\$ 20.90	\$ 23.50	\$ 28.21	\$ 30.54	\$ 21.78	\$ 16.31
16.6	17.9	17.4	23.1	28.3	23.4	20.4
12%	15%	21%	23%	24%	26%	28%

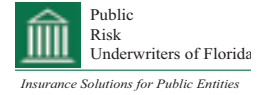
(4) Stock price at year-end divided by net income per share-diluted.

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

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

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

OUR SPOTS RUN DEEP



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