BROWN \& BROWN INC
Form 10-Q
November 10, 2008

## UNITED STATES

SECURITIES AND EXCHANGE COMMISSION<br>Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008
or

0
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from $\qquad$ to $\qquad$
Commission file number 001-13619

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

Florida
(State or other jurisdiction of incorporation or organization)
59-0864469
(I.R.S. Employer Identification
Number)
${ }^{\circledR}$
220 South Ridgewood Avenue, Daytona Beach, FL 32114
(Address of principal executive offices)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12-2 of the Exchange Act. (Check one):

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

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

The number of shares of the Registrant's common stock, $\$ .10$ par value, outstanding as of November 4, 2008 was 141,490,970.

BROWN \& BROWN, INC.
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## PART I -FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS (UNAUDITED)
BROWN \& BROWN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| (in thousands, except per share data) | For the three months ended September 30, |  |  |  | For the nine months ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2008 |  | 2007 |  | 2008 |  | 2007 |
| REVENUES |  |  |  |  |  |  |  |  |
| Commissions and fees | \$ | 243,766 | \$ | 225,421 | \$ | 736,129 | \$ | 701,456 |
| Investment income |  | 1,228 |  | 3,286 |  | 5,136 |  | 27,855 |
| Other income, net |  | 2,035 |  | 8,577 |  | 4,199 |  | 13,130 |
| Total revenues |  | 247,029 |  | 237,284 |  | 745,464 |  | 742,441 |
| EXPENSES |  |  |  |  |  |  |  |  |
| Employee compensation and benefits |  | 122,172 |  | 110,491 |  | 363,873 |  | 333,937 |
| Non-cash stock-based compensation |  | 1,819 |  | 1,491 |  | 5,563 |  | 4,327 |
| Other operating expenses |  | 36,405 |  | 32,928 |  | 101,993 |  | 96,409 |
| Amortization |  | 12,281 |  | 10,331 |  | 34,789 |  | 29,798 |
| Depreciation |  | 3,391 |  | 3,213 |  | 9,929 |  | 9,492 |
| Interest |  | 3,867 |  | 3,395 |  | 11,045 |  | 10,445 |
| Total expenses |  | 179,935 |  | 161,849 |  | 527,192 |  | 484,408 |
| Income before income taxes |  | 67,094 |  | 75,435 |  | 218,272 |  | 258,033 |
| Income taxes |  | 26,501 |  | 29,219 |  | 85,521 |  | 100,078 |
| Net income | \$ | 40,593 | \$ | 46,216 | \$ | 132,751 | \$ | 157,955 |
| Net income per share: |  |  |  |  |  |  |  |  |
| Basic | \$ | 0.29 | \$ | 0.33 | \$ | 0.94 | \$ | 1.13 |
| Diluted | \$ | 0.29 | \$ | 0.33 | \$ | 0.94 | \$ | 1.12 |
| Weighted average number of shares outstanding: |  |  |  |  |  |  |  |  |
| Basic |  | 141,073 |  | 140,593 |  | 140,834 |  | 140,401 |
| Diluted |  | 141,606 |  | 141,288 |  | 141,395 |  | 141,209 |
| Dividends declared per share | \$ | 0.07 | \$ | 0.06 | \$ | 0.21 | \$ | 0.18 |

See accompanying notes to condensed consolidated financial statements.

BROWN \& BROWN, INC. CONDENSED CONSOLIDATED

BALANCE SHEETS
(UNAUDITED)

| (in thousands, except per share data) | $\begin{gathered} \text { September } \\ 30, \\ 2008 \end{gathered}$ | $\begin{gathered} \text { December } \\ 31, \\ 2007 \end{gathered}$ |
| :---: | :---: | :---: |
| ASSETS |  |  |
| Current Assets: |  |  |
| Cash and cash equivalents | \$ - | \$ 38,234 |
| Restricted cash and investments | 240,616 | 254,404 |
| Short-term investments | 7,287 | 2,892 |
| Premiums, commissions and fees receivable | 256,479 | 240,680 |
| Deferred income taxes | - | 17,208 |
| Other current assets | 35,846 | 33,964 |
| Total current assets | 540,228 | 587,382 |
| Fixed assets, net | 63,673 | 62,327 |
| Goodwill | 995,720 | 846,433 |
| Amortizable intangible assets, net | 493,737 | 443,224 |
| Other assets | 13,943 | 21,293 |
| Total assets | \$ 2,107,301 | \$ 1,960,659 |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |
| Current Liabilities: |  |  |
| Premiums payable to insurance companies | \$ 390,616 | \$ 394,034 |
| Premium deposits and credits due customers | 48,352 | 41,211 |
| Accounts payable | 16,814 | 18,760 |
| Accrued expenses | 77,488 | 90,599 |
| Current portion of long-term debt | 7,703 | 11,519 |
| Total current liabilities | 540,973 | 556,123 |
| Long-term debt | 253,655 | 227,707 |
| Deferred income taxes, net | 83,972 | 65,736 |
| Other liabilities | 11,912 | 13,635 |
| Shareholders' Equity: |  |  |
| Common stock, par value $\$ 0.10$ per share; authorized 280,000 shares; issued and |  |  |
| outstanding 141,412 at 2008 and 140,673 at 2007 | 14,141 | 14,067 |
| Additional paid-in capital | 247,988 | 231,888 |
| Retained earnings | 954,647 | 851,490 |
| Accumulated other comprehensive income, net of related income tax effect of $\$ 8$ at 2008 and $\$ 8$ at 2007 | 13 | 13 |


| Total shareholders' equity | $1,216,789$ | $1,097,458$ |
| :--- | ---: | ---: |
| Total liabilities and shareholders' equity | $\$ 2,107,301$ | $\$ 1,960,659$ |

See accompanying notes to condensed consolidated financial statements.

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BROWN \& BROWN, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF <br> CASH FLOWS <br> (UNAUDITED)

|  | For the nine months <br> ended September 30, <br> (in thousands) |  |
| :--- | ---: | ---: |
| Cash flows from operating activities: | 2008 | 2007 |
| Net income |  |  |
| Adjustments to reconcile net income to net cash provided by operating activities: | 132,751 | $\$ 157,955$ |
| Amortization |  |  |
| Depreciation | 34,789 | 29,798 |
| Non-cash stock-based compensation | 9,929 | 9,492 |
| Deferred income taxes | 5,563 | 4,327 |
| Net (gain) on sales of investments, fixed | 33,750 | 12,368 |
| assets and customer accounts |  | $(235)$ |
| Changes in operating assets and liabilities, net of effect |  | $(30,198)$ |
| from acquisitions and divestitures: |  |  |
| Restricted cash and investments decrease | 13,788 | 15,041 |
| Premiums, commissions and fees receivable (increase) decrease | $(12,010)$ | 13,623 |
| Other assets decrease | 9,432 | 4,107 |
| Premiums payable to insurance companies (decrease) | $(6,826)$ | $(42,596)$ |
| Premium deposits and credits due customers increase | 7,067 |  |
| Accounts payable (decrease) increase | $(7,758)$ | 5,072 |
| Accrued expenses (decrease) | $(14,503)$ | $(14,7012$ |
| Other liabilities (decrease) | $(1,672)$ | $(710)$ |
| Net cash provided by operating activities | 204,065 | 166,490 |

Cash flows from investing activities:
Additions to fixed assets
$(11,115)$
$(24,848)$
Payments for businesses acquired, net of cash acquired
$(221,616)$
$(148,365)$
$\begin{array}{ll}\text { Proceeds from sales of fixed assets and customer accounts } & 3,881\end{array}$
Purchases of investments
$(7,874)$
$(2,629)$
Proceeds from sales of investments
4,080
21,594
Net cash used in investing activities
$(232,644)$
$(148,189)$
Cash flows from financing activities:
Proceeds from long-term debt 25,000
Payments on long-term debt $\quad(15,672)$
$\begin{array}{lll}\text { Borrowings on revolving credit facility } & 2,180 & 18,130\end{array}$
Payments on revolving credit facility $\quad(2,180) \quad(18,130)$
$\begin{array}{ll}\text { Income tax benefit from issuance of common stock } & \text { 4,539 }\end{array}$
$\begin{array}{lll}\text { Issuances of common stock for employee stock benefit plans } & 10,611 & 11,321\end{array}$
Cash dividends paid
$(29,594) \quad(25,275)$
Net cash (used in) financing activities
$(9,655)$
$(32,766)$
Net (decrease) in cash and cash equivalents
$(38,234)$
$(14,465)$
$\begin{array}{lll}\text { Cash and cash equivalents at beginning of period } & 38,234 & 88,490\end{array}$

See accompanying notes to condensed consolidated financial statements.

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

## NOTE $1 \cdot$ Nature of Operations

Brown \& Brown, Inc., a Florida corporation, and its subsidiaries (collectively, "we" "Brown \& Brown" or the "Company") is a diversified insurance agency, wholesale brokerage, programs, and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty, and employee benefits arenas. Brown \& Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, professional and individual customers; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance and reinsurance, primarily through independent agents and brokers; the National Programs Division, which is comprised of two units - Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities and market niches; and the Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services.

## NOTE 2 • Basis of Financial Reporting

The accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited, condensed, consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

NOTE $3 \cdot$ Cash and Cash Equivalents, and Restricted Cash and Investments
In its capacity as an insurance agent or broker, Brown \& Brown typically collects premiums from insureds and, after deducting its authorized commissions, remits the net premiums to the appropriate insurance companies. Accordingly, as reported in the Consolidated Balance Sheets, "premiums" are receivable from insureds. Unremitted net insurance premiums are held in a fiduciary capacity until disbursed by Brown \& Brown. 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, and reports such amounts as restricted cash and investments on the Consolidated Balance Sheets. In certain states where Brown \& Brown operates, the use and investment alternatives for these funds are prescribed by law. As of September 30, 2008 and December 31, 2007, the amount of funds in state-mandated "premium trust accounts" was $\$ 130.7$ million and $\$ 132.3$ million, respectively. All cash and investments that will ultimately be used to pay premiums to insurance companies are recorded as restricted cash and investments.

NOTE 4 • Net Income Per Share
Basic net income per share is computed by dividing net income available to shareholders by the weighted average number of shares outstanding for the period. Basic net income per share excludes dilution. Diluted net income per share reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted to common stock.

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

| (in thousands, except per share data) | For the three months ended September 30, 20082007 |  |  |  | For the nine months ended September 30, 20082007 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net income | \$ | 40,593 | \$ | 46,216 | \$ | 132,751 | \$ | 157,955 |
| Weighted average number of common shares outstanding |  | 141,073 |  | 140,593 |  | 140,834 |  | 140,401 |
| Dilutive effect of stock options using the treasury stock method |  | 533 |  | 695 |  | 561 |  | 808 |
| Weighted average number of shares outstanding |  | 141,606 |  | 141,288 |  | 141,395 |  | 141,209 |
| Net income per share: |  |  |  |  |  |  |  |  |
| Basic | \$ | 0.29 | \$ | 0.33 | \$ | 0.94 | \$ | 1.13 |
| Diluted | \$ | 0.29 | \$ | 0.33 | \$ | 0.94 | \$ | 1.12 |

## NOTE $5 \cdot$ New Accounting Pronouncements

Fair Value Measurements - In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 establishes a framework for the measurement of assets and liabilities that uses fair value and expands disclosures about fair value measurements. SFAS 157 will apply whenever another GAAP standard requires (or permits) assets or liabilities to be measured at fair value, but does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for all interim periods within those fiscal years. The adoption of SFAS 157 did not have any impact on the amounts reported on the Company's condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115 ("SFAS 159 "). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on assets and liabilities for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company elected not to report any financial assets or liabilities at fair value under SFAS 159.

Business Combinations - In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141R"). SFAS 141R requires 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 even if the

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acquirer has not acquired $100 \%$ of its target. 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. Transaction costs will be expensed as incurred. SFAS 141R also modifies the recognition of pre-acquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141R amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The Company expects to adopt SFAS 141R on January 1, 2009 and is currently assessing the impact that the adoption could have on the Company's financial statements.

Noncontrolling Interests in Consolidated Financial Statements - In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"), an amendment of Accounting Research Bulletin ("ARB") No. 51 ("ARB 51"). SFAS 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for, and reporting of, transactions between the reporting entity and holders of such noncontrolling interests. Under SFAS 160, noncontrolling interests are considered equity and should be reported as an element of consolidated equity. Net income will encompass the total income of all consolidated subsidiaries and there will be separate disclosure in the income statement of the attribution of that income between the controlling and noncontrolling interests; increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. SFAS 160 is required to be adopted prospectively in the first annual reporting period beginning on or after December 15, 2008, except for reclassifying noncontrolling interests to equity separate from the parent's shareholders' equity in the consolidated statement of financial position and the recasting of consolidated net income (loss) to include net income (loss) attributable to both controlling and noncontrolling interests, both of which are required to be adopted retrospectively. Because all of the Company's subsidiaries are $100 \%$ owned, the Company does not expect the adoption of SFAS 160 to have any impact on the Company's financial statements.

NOTE $6 \cdot$ Business Combinations
Acquisitions in 2008
For the nine months ended September 30, 2008, Brown \& Brown acquired the assets and assumed certain liabilities of 28 insurance intermediaries, the stock of two insurance intermediaries and several books of business (customer accounts). The aggregate purchase price of these acquisitions was $\$ 233,988,000$, including $\$ 215,126,000$ of net cash payments, the issuance of $\$ 5,213,000$ in notes payable and the assumption of $\$ 13,649,000$ of liabilities. All of these acquisitions were acquired primarily to expand Brown \& Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent contingent consideration (earn-out payment) is allocated to goodwill. Acquisitions are initially recorded at preliminary fair values. Subsequently, the Company completes the final fair value allocations and any adjustments to assets or liabilities acquired are recorded in the current period.

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

| (in thousands) |  | 2008 | Net |  |  |  | Recorded |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Business | Date of |  | Cash |  | Notes |  | Purchase |
| Name | Segment | Acquisition |  | Paid |  | Payable |  | Price |
| LDP Consulting Group, |  |  |  |  |  |  |  |  |
| Inc. | Retail | January 24 |  | 39,241 |  | - |  | 39,241 |
| Powers \& Effler Insurance |  |  |  |  |  |  |  |  |
| Brokers | Retail | April 1 |  | 25,036 |  | - |  | 25,036 |
| HBA Insurance Group, |  |  |  |  |  |  |  |  |
| Inc. | Retail | June 1 |  | 48,306 |  | 2,000 |  | 50,306 |
| Fullerton \& Company, |  |  |  |  |  |  |  |  |
| Inc. | Retail | August 1 |  | 17,399 |  | - |  | 17,399 |
| Other | Various | Various |  | 85,144 |  | 3,213 |  | 88,357 |
| Total |  |  | \$ | 215,126 | \$ | 5,213 | \$ | 220,339 |

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

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| (in thousands) | LDP |  | Powers |  | HBA |  | Fullerton |  | Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Fiduciary cash | \$ | 173 | \$ | - |  | - | \$ | 1,541 | \$ | - | \$ | 1,714 |
| Other current |  |  |  |  |  |  |  |  |  |  |  |  |
| assets |  | 1,121 |  | 75 |  | - |  | 1,242 |  | 1,804 |  | 4,242 |
| Fixed |  |  |  |  |  |  |  |  |  |  |  |  |
| assets |  | 19 |  | 353 |  | 652 |  | 41 |  | 504 |  | 1,569 |
| Goodwill |  | 21,857 |  | 17,227 |  | 35,158 |  | 15,029 |  | 49,128 |  | 138,399 |
| Purchased customer accounts |  | 21,225 |  | 7,545 |  | 14,390 |  | 5,105 |  | 38,421 |  | 86,686 |
| Noncompete agreements |  | 55 |  | 11 |  | 141 |  | 80 |  | 420 |  | 707 |
| Other assets |  | 11 |  | - |  | - |  | 644 |  | 16 |  | 671 |
| Total assets acquired |  | 44,461 |  | 25,211 |  | 50,341 |  | 23,682 |  | 90,293 |  | 233,988 |
| Other current |  |  |  |  |  |  |  |  |  |  |  |  |
| liabilities |  | $(5,220)$ |  | (175) |  | (35) |  | $(4,589)$ |  | $(1,936)$ |  | $(11,955)$ |
| Deferred income |  |  |  |  |  |  |  |  |  |  |  |  |
| taxes |  | - |  | - |  | - |  | $(1,694)$ |  | - |  | $(1,694)$ |
| Total liabilities assumed |  | $(5,220)$ |  | (175) |  | (35) |  | $(6,283)$ |  | $(1,936)$ |  | $(13,649)$ |
| Net assets acquired | \$ | 39,241 |  | 25,036 |  | 50,306 | \$ | 17,399 | \$ | 88,357 | \$ | 220,339 |

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

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Goodwill of $\$ 138,399,000$, of which $\$ 123,797,000$ is expected to be deductible for income tax purposes, was assigned to the Retail, Wholesale Brokerage, National Programs and Services Divisions in the amounts of $\$ 134,576,000$, $\$ 3,503,000, \$ 320,000$ and nil, respectively.

The results of operations for the acquisitions completed during 2008 have been combined with those of the Company since their respective acquisition dates. If the acquisitions had occurred as of the beginning of each period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.
(UNAUDITED)
(in thousands, except per share data)

Total revenues
Income before income taxes
Net income
Net income per share:

| Basic | $\$$ | 0.29 | $\$$ | 0.36 | $\$$ | 0.99 | $\$$ | 1.23 |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Diluted | $\$$ | 0.29 | $\$$ | 0.36 | $\$$ | 0.98 | $\$$ | 1.22 |
|  |  |  |  |  |  |  |  |  |
| Weighted average number of shares outstanding: |  |  |  |  |  |  |  |  |
| Basic | 141,073 |  | 140,593 |  | 140,834 | 140,401 |  |  |
| Diluted | 141,606 | 141,288 | 141,395 | 141,209 |  |  |  |  |

Additional contingent 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 2008 as a result of these adjustments totaled $\$ 14,642,000$, of which $\$ 14,560,000$ was allocated to goodwill, $\$ 30,000$ to noncompete agreements and $\$ 52,000$ represented net liabilities that were forgiven. Of the $\$ 14,642,000$ net additional consideration paid, $\$ 8,204,000$ was paid in cash and $\$ 6,438,000$ was issued in notes payable. As of September 30, 2008, the maximum future contingency payments related to acquisitions totaled $\$ 233,370,000$.

Acquisitions in 2007
For the nine months ended September 30, 2007, Brown \& Brown acquired the assets and assumed certain liabilities of 25 insurance intermediaries, the stock of three insurance intermediaries and several books of business (customer accounts). The aggregate purchase price of these acquisitions was $\$ 163,485,000$, including $\$ 144,022,000$ of net cash payments, the issuance of $\$ 4,961,000$ in notes payable and the assumption of $\$ 14,502,000$ of liabilities. All of these acquisitions were acquired primarily to expand Brown \& Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to goodwill. Acquisitions are initially recorded at preliminary fair values. Subsequently, the Company completes the final fair value allocations and any adjustments to assets or liabilities acquired are recorded in the current period.

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

| (in thousands) |  | 2007 |  | Net |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Recorded |  |  |  |  |  |  |  |

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

| (in thousands) | ALCOS |  | Grinspec |  | Sobel |  | Combined |  | Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Fiduciary cash | \$ | 627 | \$ | - | \$ | - | \$ | 2,686 | \$ | 716 | \$ | 4,029 |
| Other current assets |  | 1,224 |  | 669 |  | 286 |  |  |  | 800 |  | 2,979 |
| Fixed assets |  | 720 |  |  |  | 50 |  | 212 |  | 214 |  | 1,196 |
| Goodwill |  | 26,863 |  | 19,235 |  | 19,653 |  | 16,320 |  | 17,817 |  | 99,888 |
| Purchased customer accounts |  | 10,046 |  | 12,498 |  | 13,129 |  | 7,448 |  | 11,710 |  | 54,831 |
| Noncompete agreements |  | 130 |  |  |  | 31 |  | 66 |  | 210 |  | 437 |
| Other assets |  | 115 |  |  |  | - |  | - |  | 10 |  | 125 |
| Total assets acquired |  | 39,725 |  | 32,402 |  | 33,149 |  | 26,732 |  | 31,477 |  | 163,485 |
| Other current liabilities |  | $(2,173)$ |  | (463) |  | (102) |  | $(1,383)$ |  | $(5,246)$ |  | $(9,367)$ |
| Deferred income taxes |  | $(3,083)$ |  | - |  | - |  | - |  | (749) |  | $(3,832)$ |
| Other liabilities |  |  |  | - |  | - |  | $(1,303)$ |  | - |  | $(1,303)$ |
| Total liabilities assumed |  | $(5,256)$ |  | (463) |  | (102) |  | $(2,686)$ |  | $(5,995)$ |  | $(14,502)$ |
| Net assets acquired | \$ | 34,469 | \$ | 31,939 | \$ | 33,047 | \$ | 24,046 | \$ | 25,482 | \$ | 148,983 |

The weighted average useful lives for the above acquired amortizable intangible assets are as follows: purchased customer accounts, 15.0 years and noncompete agreements, 4.8 years.

Goodwill of $\$ 99,888,000$, of which $\$ 70,054,000$ is expected to be deductible for income tax purposes, was assigned to the Retail, Wholesale Brokerage, National Programs and Services Divisions in the amounts of $\$ 81,283,000$, $\$ 17,767,000, \$ 391,000$ and $\$ 447,000$, respectively.

The results of operations for the acquisitions completed during 2007 have been combined with those of the Company since their respective acquisition dates. If the acquisitions had occurred as of the beginning of each period, the Company's results of operations would be as shown in the following table These unaudited proforma 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) <br> (in thousands, except per share data) | For the three months ended September 30, |  |  |  | For the nine months ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2007 |  | 2006 |  | 2007 |  | 2006 |
| Total revenues | \$ | 239,671 | \$ | 230,359 | \$ | 766,810 | \$ | 719,967 |
| Income before income taxes |  | 76,151 |  | 71,103 |  | 265,573 |  | 234,853 |
| Net income |  | 46,654 |  | 43,672 |  | 162,571 |  | 145,164 |
| Net income per share: |  |  |  |  |  |  |  |  |
| Basic | \$ | 0.33 | \$ | 0.31 | \$ | 1.16 | \$ | 1.04 |
| Diluted | \$ | 0.33 | \$ | 0.31 | \$ | 1.15 | \$ | 1.03 |
| Weighted average number of shares outstanding: |  |  |  |  |  |  |  |  |
| Basic |  | 140,593 |  | 139,668 |  | 140,401 |  | 139,522 |
| Diluted |  | 141,288 |  | 141,027 |  | 141,209 |  | 140,949 |

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Additional contingent 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 2007 as a result of these adjustments totaled $\$ 18,969,000$, of which $\$ 18,921,000$ was allocated to goodwill and $\$ 48,000$ to noncompete agreements. Of the $\$ 18,969,000$ net additional consideration paid, $\$ 8,372,000$ was paid in cash, $\$ 10,896,000$ was issued in notes payable and $\$ 299,000$ was assumed as net liabilities. As of September 30, 2007, the maximum future contingency payments related to acquisitions totaled $\$ 204,777,000$.

NOTE 7 • Goodwill
Goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Brown \& Brown completed its most recent annual assessment as of November 30, 2007 and identified no impairment as a result of the evaluation.

The changes in goodwill for the nine months ended September 30, 2008 are as follows:

| (in thousands) | Retail |  | Wholesale Brokerage |  | National <br> Programs |  | Services |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance as of January 1, 2008 | \$ | 453,485 | \$ | 242,730 | \$ | 146,948 | \$ | 3,270 | \$ | 846,433 |
| Goodwill of acquired businesses |  | 143,136 |  | 3,503 |  | 320 |  | 6,000 |  | 152,959 |
| Goodwill disposed of relating to sales of businesses |  | $(3,619)$ |  | (53) |  | - |  |  |  | $(3,672)$ |
| Balance as of September 30, 2008 | \$ | 593,002 | \$ | 246,180 | \$ | 147,268 | \$ | 9,270 | \$ | 995,720 |

NOTE 8 • Amortizable Intangible Assets
Amortizable intangible assets at September 30, 2008 and December 31, 2007 consisted of the following:

|  | September 30, 2008 |  |  |  | December 31, 2007 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | Weighted |  |  |  |  |
|  | Gross |  | Net | Average | Gross |  | Net | Average |
|  | Carrying | Accumulated | Carrying | Life | Carrying | Accumulated | Carrying | Life |
| (in thousands) | Value | Amortization | Value | (years) | Value | Amortization | Value | (years) |
| Purchased customer |  |  |  |  |  |  |  |  |
| accounts | \$ 711,962 | \$ (220,599) | \$ 491,363 | 14.9 \$ | \$ 628,123 | \$ (187,543) | \$ 440,580 | 14.9 |
| Noncompete arreements | 24,125 | $(21,751)$ | 2,374 | 7.4 | 25,858 | $(23,214)$ | 2,644 | 7.7 |
| Total | \$ 736,087 | \$ (242,350) | \$ 493,737 |  | \$ 653,981 | \$ (210,757) | \$ 443,224 |  |

Amortization expense for other amortizable intangible assets for the years ending December 31, 2008, 2009, 2010, 2011 and 2012 is estimated to be $\$ 46,815,000, \$ 47,802,000, \$ 47,112,000, \$ 45,686,000$, and $\$ 45,070,000$, respectively.

NOTE 9 • Investments

Investments consisted of the following:

| (in thousands) | Current |  | Non- <br> Current |  | Current |  | Non- <br> Current |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Available-for-sale marketable equity securities | \$ | 46 | \$ | - | \$ | 46 | \$ | - |
| Non-marketable equity securities and certificates of deposit |  | 7,241 |  | 287 |  | 2,846 |  | 355 |
| Total investments | \$ | 7,287 | \$ | 287 | \$ | 2,892 | \$ | 355 |

The following table summarizes available-for-sale securities:

|  |  |  |  | Gross <br> Unrealized <br> Gains |  | Gross <br> Unrealized <br> Losses | Estimated <br> Fair |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Value |  |  |  |  |  |  |  |

The following table summarizes the proceeds and realized gains/(losses) on non-marketable equity securities and certificates of deposit for the three and nine months ended September 30, 2008 and 2007:

| (in thousands) | Proceeds |  | Gross <br> Realized <br> Gains |  | Gross <br> Realized Losses |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| For the three months ended: |  |  |  |  |  |  |
| September 30, 2008 | \$ | 3,269 | \$ |  | \$ |  |
| September 30, 2007 | \$ | 2,112 | \$ | 1 | \$ |  |
| For the nine months ended: |  |  |  |  |  |  |
| September 30, 2008 | \$ | 3,976 | \$ | 542 | \$ | (9) |
| September 30, 2007 | \$ | 21,594 | \$ | 18,760 |  | (500) |

As of December 31, 2006, our largest security investment was 559,970 common stock shares of Rock-Tenn Company, a New York Stock Exchange-listed company, which we had owned for more than 25 years. Our investment in Rock-Tenn Company accounted for $81 \%$ of the total value of our available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit as of December 31, 2006. Rock-Tenn Company's closing stock price at December 31, 2006 was $\$ 27.11$. In late January 2007, the Board of Directors authorized the sale of half of our investment in Rock-Tenn Company, and subsequently authorized the sale of the balance of the shares. We realized a gain in excess of our original cost basis of $\$ 8,840,000$ in the first quarter of 2007 and $\$ 9,824,000$ in the second quarter of 2007 as the results of these sales. As of June 30, 2007, we no longer owned any shares of Rock-Tenn Company.

## NOTE $10 \cdot$ Long-Term Debt

Long-term debt at September 30, 2008 and December 31, 2007 consisted of the following:

| (in thousands) |  | 2008 | 2007 |
| :--- | ---: | ---: | ---: |
| Unsecured senior notes | $\$ 50,000$ | $\$$ | 225,000 |
| Acquisition notes payable |  | 11,223 | 14,025 |
| Revolving credit facility |  | - | - |
| Term loan agreements |  | - | - |
| Other notes payable |  | 135 | 201 |
| Total debt |  | $(7,703$ | 239,226 |
| Less current portion | $\$$ | 253,655 | $\$$ |
| Long-term debt |  |  | 227,707 |

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: Series A, for $\$ 100.0$ million due in 2011 and bearing interest at $5.57 \%$ per year; and Series B, for $\$ 100.0$ million due in 2014 and bearing interest at $6.08 \%$ per year. The closing on the

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Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. Brown \& Brown has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of September 30, 2008 and December 31, 2007 there was an outstanding balance of $\$ 200.0$ million on the Notes.

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). The Purchaser also purchased Notes issued by the Company in 2004. The Master Agreement provides for a $\$ 200.0$ million private uncommitted "shelf" facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed 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 Facility Agreement occurred on December 22, 2006, through the issuance of $\$ 25.0$ million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of $5.66 \%$ per annum. On February 1, 2008, $\$ 25.0$ million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of $5.37 \%$ per annum were issued. As of September 30, 2008 there was an outstanding balance of $\$ 50.0$ million under the Master Agreement.

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement (the "Loan Agreement") with a national banking institution that was dated as of June 3, 2008, amending and restating the existing Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), in order to increase the lending commitment to $\$ 50.0$ million (subject to potential increases up to $\$ 100.0$ million) and to extend the maturity date from December 20, 2011 to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $\$ 75.0$ million. After a series of amendments that provided covenant exceptions for the notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $\$ 20.0$ million. The calculation of interest and fees is generally based on the Company's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization, and non-cash stock-based compensation. Interest is charged at a rate equal to $0.50 \%$ to $1.00 \%$ above the London Interbank Offering Rate ("LIBOR") or $1.00 \%$ below the base rate, each as more fully defined in the Loan Agreement. Fees include an upfront fee, an availability fee of $0.10 \%$ to $0.20 \%$, and a letter of credit usage fee of $0.50 \%$ to $1.00 \%$. The Loan Agreement contains various covenants, limitations, and events of default customary for similar facilities for similar borrowers. The 90-day LIBOR was $4.05 \%$ and $4.70 \%$ as of September 30, 2008 and December 31, 2007, respectively. There were no borrowings against this facility at September 30, 2008 or December 31, 2007.

In January 2001, Brown \& Brown entered into a $\$ 90.0$ million unsecured seven-year term loan agreement with a national banking institution, bearing an interest rate based upon the 30 -, 60 - or 90 -day LIBOR plus $0.50 \%$ to $1.00 \%$, depending upon Brown \& Brown's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock-based compensation. The loan was fully funded on January 3, 2001 and was to be repaid in equal quarterly installments of $\$ 3,200,000$ through December 2007. As of December 31, 2007, the outstanding balance had been paid in full.

All four of these credit agreements require Brown \& Brown to maintain certain financial ratios and comply with certain other covenants. Brown \& Brown was in compliance with all such covenants as of September 30, 2008 and December 31, 2007.

To hedge the risk of increasing interest rates from January 2, 2002 through the remaining six years of its seven-year $\$ 90.0$ million term loan, Brown \& Brown entered into an interest rate exchange (or "swap") agreement that effectively converted the floating rate LIBOR-based interest payments to fixed interest rate payments at $4.53 \%$. This agreement did not affect the required $0.50 \%$ to $1.00 \%$ credit risk spread portion of the term loan. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, the fair value of the interest rate swap of approximately $\$ 37,000$, net of related income taxes of approximately $\$ 22,000$, was recorded in other assets as of December 31, 2006, with the related change in fair value reflected as other comprehensive income. Brown \& Brown had designated and assessed the derivative as a highly effective cash flow hedge. As of December 31, 2007, the interest rate swap agreement expired in conjunction with the final principal payment on the term loan.

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Acquisition notes payable represent debt owed 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 April 2011, including interest ranging from $0.00 \%$ to $8.00 \%$.

NOTE $11 \cdot$ Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

|  | For the nine months |  |  |
| :--- | :---: | :---: | :---: |
| (in thousands) | ended September 30, |  |  |
| 2008 | 2007 |  |  |
| Cash paid during the period for: | $\$$ | 13,332 | $\$$ |
| Interest | $\$$ | 48,624 | $\$$ |
| Income taxes | 74,054 |  |  |

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

| (in thousands) | For the nine months ended September 30, 2008 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Unrealized holding loss on available-for-sale securities, net of tax effect of $\$ 0$ for 2008; net of tax benefit of $\$ 5,305$ for 2007 | \$ |  | \$ | $(9,051)$ |
| Net loss on cash-flow hedging derivative, net of tax effect of $\$ 0$ for 2008, net of tax benefit of $\$ 20$ for 2007 | \$ |  | \$ | (35) |
| Notes payable issued or assumed for purchased customer accounts | \$ | 12,897 | \$ | 15,857 |
| Notes received on the sale of fixed assets and customer accounts | \$ | 2,916 | \$ | 8,580 |

NOTE 12 • Comprehensive Income
The components of comprehensive income, net of related income tax effects, are as follows:

| (in thousands) | For the three months ended September 30, 2008 2007 |  |  |  | For the nine months ended September 30, 2008 2007 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net income | \$ | 40,593 | \$ | 46,216 | \$ | 132,751 | \$ | 157,955 |
| Net unrealized holding loss on available-for-sale securities |  | 5 |  | (7) |  |  |  | $(9,051)$ |
| Net loss on cash-flow hedging derivative |  | - |  | (9) |  |  |  | (35) |
| Comprehensive income | \$ | 40,598 | \$ | 46,200 | \$ | 132,751 | \$ | 148,869 |

NOTE $13 \cdot$ Legal and Regulatory Proceedings
Governmental Investigations
As previously disclosed in our public filings, offices of the Company are party to profit-sharing contingent compensation agreements with certain insurance companies, including agreements providing for potential payment of revenue-sharing commissions by insurance companies based primarily on the overall profitability of the aggregate business written with that insurance company, and/or additional factors such as retention ratios and overall volume of business that an office or offices place with the insurance company. Additionally, to a lesser extent, some offices of the Company are party to override commission agreements with certain insurance companies. These agreements provide for commission rates in excess of standard commission rates to be applied to specific lines of business, such as group health business, based primarily on the overall volume of such business that such office or offices place with the insurance company. The Company has not chosen to discontinue receiving profit-sharing contingent compensation or override commissions.

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As previously reported, governmental agencies in a number of states have looked or are looking into issues related to compensation practices in the insurance industry, and the Company continues to respond to written and oral requests for information and/or subpoenas seeking information related to this topic. To date, requests for information and/or subpoenas have been received from governmental agencies such as attorneys general and departments of insurance. Agencies in Arizona, Virginia, Washington and Florida have concluded their respective investigations of subsidiaries of Brown \& Brown, Inc. based in those states.

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

## Other

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

As previously reported, on September 4, 2008, a final judgment for $\$ 2,173,316$ plus post-judgment interest at a rate of $5 \%$ was entered against Brown \& Brown Insurance Services of Texas, Inc. (BBTX), a subsidiary of Brown \& Brown, Inc., in the action styled Great American Insurance Company, et al. v. The Contractor's Advantage, Inc., et al., Cause No. 2002-33960, which was tried earlier this year in the 189th Judicial District Court in Harris County, Texas.

Although the ultimate outcome of the matters referenced in this section titled "Other" cannot be ascertained and liabilities in indeterminate amounts may be imposed on Brown \& Brown, Inc. or its subsidiaries, on the basis of present information, availability of insurance and legal advice received, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the Company's consolidated financial position. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made 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.

For a more complete discussion of the foregoing matters, please see Item 3 of Part I of our Annual Report on Form $10-\mathrm{K}$ filed with the Securities and Exchange Commission for our fiscal year ended December 31, 2007 and Note 13 to the Consolidated Financial Statements contained in Item 8 of Part II thereof.

## NOTE $14 \cdot$ 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, professional and individual customers; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers; the National Programs Division, which is comprised of two units - Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designed for specific industries, trade groups, public and
quasi-public entities, and market niches; and the Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services. Brown \& Brown conducts all of its operations within the United States of America, except for one start-up wholesale brokerage operation based in London, England that commenced business in March 2008 and which has earned less than $\$ 1.7$ million of revenue as of the date of this filing.

Summarized financial information concerning Brown \& Brown's reportable segments for the nine months ended September 30, 2008 and 2007 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 charged to the reporting segment.

| (in thousands) | For the nine months ended September 30, 2008 |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Retail |  | Wholesale Brokerage |  | National <br> Programs |  | Services |  | Other |  | Total |  |
| Total revenues | \$ | 450,959 | \$ | 137,469 | \$ | 128,141 | \$ | 23,831 | \$ | 5,064 | \$ | 745,464 |
| Investment income |  | 878 |  | 1,223 |  | 263 |  | 6 |  | 2,766 |  | 5,136 |
| Amortization |  | 19,943 |  | 7,646 |  | 6,825 |  | 346 |  | 29 |  | 34,789 |
| Depreciation |  | 4,518 |  | 2,169 |  | 2,017 |  | 317 |  | 908 |  | 9,929 |
| Interest |  | 21,864 |  | 13,756 |  | 5,890 |  | 559 |  | $(31,024)$ |  | 11,045 |
| Income before income taxes |  | 115,229 |  | 19,634 |  | 42,565 |  | 5,346 |  | 35,498 |  | 218,272 |
| Total assets |  | 1,636,519 |  | 629,145 |  | 615,028 |  | 43,238 |  | $(816,629)$ |  | 2,107,301 |
| Capital expenditures |  | 3,218 |  | 4,148 |  | 1,980 |  | 160 |  | 1,609 |  | 11,115 |



NOTE $15 \cdot$ Subsequent Events
From October 1, 2008 through November 4, 2008, Brown \& Brown acquired the assets and assumed certain liabilities of four insurance intermediaries and several books of business (customer accounts). The aggregate purchase price of these acquisitions was $\$ 12,355,000$, including $\$ 11,905,000$ of net cash payments and the issuance of $\$ 450,000$ in notes payable. All of these acquisitions were acquired primarily to expand Brown \& Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are based primarily on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to goodwill.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.


#### Abstract

THE FOLLOWING DISCUSSION UPDATES THE MD\&A CONTAINED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED IN 2007, AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.


## GENERAL

We are a diversified insurance agency, wholesale brokerage, programs and services organization with origins dating from 1939, headquartered in Daytona Beach and Tampa, Florida. We market and sell to our customers insurance products and services, primarily in the property and casualty, and employee benefits areas. As an agent and broker, we do not assume underwriting risks. Instead, we provide our customers with quality insurance contracts, as well as other targeted, customized risk management products and services.

Our commissions and fees revenue is comprised of commissions paid by insurance companies and fees paid directly by customers. Commission revenues generally represent a percentage of the policy premium paid by the insured and are materially affected by fluctuations in both premium rate levels charged by insurance companies and the insureds' underlying "insurable exposure units," which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, sales and payroll levels) in order to determine what premium to charge an insured. These premium rates are established by insurance companies based upon many factors, including reinsurance rates paid by insurance carriers, none of which we control. Beginning in 1986 and continuing through 1999, commission revenues were adversely influenced by a consistent decline in premium rates resulting from intense competition among property and casualty insurance companies for market share. This condition of a prevailing decline in premium rates, commonly referred to as a "soft market," generally resulted in flat to reduced commissions on renewal business. Additionally, in a "soft market" standard carriers generally become more aggressive in their underwriting "appetites" and underwrite risks that are traditionally placed with excess and surplus lines carriers, thereby negatively impacting our wholesale brokerage operations. The effect of this softness in rates on our commission revenues was somewhat offset by our acquisitions and net new business production. As a result of increasing "loss ratios" (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2003, the increases in premium rates began to moderate, and in certain lines of insurance, premium rates decreased. In 2004, as general premium rates continued to moderate, the insurance industry experienced the worst hurricane season since 1992 (when Hurricane Andrew hit south Florida). The insured losses from the 2004 hurricane season were absorbed relatively easily by the insurance industry and the general insurance premium rates continued to soften during 2005. During the third quarter of 2005, the insurance industry experienced the worst hurricane season ever recorded. As a result of the significant losses incurred by insurance carriers due to these hurricanes, the insurance premium rates in 2006 increased on coastal property, primarily in the southeastern region of the United States. In other regions of the United States, insurance premium rates generally declined during 2006. In addition to significant insurance pricing declines in the State of Florida, as discussed below in the "Florida Insurance Overview", insurance premium rates continued a gradual decline during 2007 and the first nine months of 2008 in most of the other regions of the United States. One industry segment that was hit especially hard during 2007 was the home-building industry in southern California, and, to a lesser extent, in Nevada, Arizona and Florida. We have a wholesale brokerage operation that focuses on placing property and casualty insurance products for that home-building segment and a program operation that places errors and omissions professional liability coverages for title agents. Both of these operations' revenues were negatively affected by these national economic trends in 2007 and throughout the first nine months of 2008. Additionally, the continuing "soft market" during 2008 has negatively impacted our other wholesale brokerage operations, primarily as a result of the movement of risks that are traditionally placed with excess and surplus lines carriers to standard carriers.

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The volume of business from new and existing insured customers, fluctuations in insurable exposure units and changes in general economic and competitive conditions further affect our revenues. For example, the increasing costs of litigation settlements and awards have caused some customers to seek higher levels of insurance coverage. Conversely, general declines in economic activity could decrease the values of insurable exposure units. Historically, our revenues have continued to grow as a result of an intense focus on net new business growth and acquisitions. However, in 2007, substantial governmental involvement in the Florida insurance marketplace resulted in a substantial loss of revenues. We anticipate that results of operations will continue to be influenced by these competitive and economic conditions through the fourth quarter of 2008 and into 2009.

We also earn "profit-sharing contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on underwriting results and other aforementioned considerations for the prior year(s). Therefore, as an insurance company's loss ratio increases, the less profits are earned by that insurance company which will result in less profit-sharing contingent comissions for us. Over the last three years profit-sharing contingent commissions have averaged approximately $5.8 \%$ of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are primarily included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" excludes profit-sharing contingent commissions and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. Recently, six national insurance carriers announced the replacement of the current loss-ratio-based profit-sharing contingent commission calculation with a fixed-based methodology referred to as "Guaranteed Supplemental Commissions" ("GSCs"). Since these new GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based on actual premiums written. For the first nine months of 2008, $\$ 9.7$ million of GSCs were earned, of which $\$ 3.2$ million were earned for the three months ended September 30, 2008. For the first nine months of 2007, $\$ 5.0$ million of GSCs were earned, of which $\$ 1.7$ million were earned for the three months ended September 30, 2007.

Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services; and (2) our Wholesale Brokerage and National Program Divisions, which earn fees primarily for the issuance of insurance policies on behalf of insurance carriers. In each of the past three years, fee revenues have increased as a percentage of our total commissions and fees, from $13.6 \%$ in 2005 to $14.3 \%$ in 2007.

Investment income historically consists primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities in accordance with applicable law. Investment income also includes gains and losses realized from the sale of investments. In 2007, we sold our investment in Rock-Tenn Company which we had owned for over 25 years, for a net gain of $\$ 18.7$ million.

Other income consists primarily of gains and losses from the sale and disposition of assets. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth.

## Florida Insurance Overview

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

In August 2002, the Florida Legislature created Citizens Property Insurance Corporation ("Citizens") to be the "insurer of last resort" in Florida. As such, Citizens charged insurance rates that were higher than those prevailing in the private insurance marketplace. In each of 2004 and 2005, four major hurricanes made landfall in Florida, and as a result of the significant insurance property losses caused by these storms, property insurance rates generally increased in 2006. To counter the increased property insurance rates, the State of Florida caused Citizens to essentially reduce its property insurance rates by half beginning in January 2007. By state law, Citizens has guaranteed its rates through January 1, 2010. As a result, Citizens became the most competitive risk-bearer on commercial habitational coastal property

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exposures, such as condominiums, apartments, and certain assisted living facilities. Additionally, Citizens became the only insurance market for certain homeowners' policies throughout Florida. By the end of 2007, Citizens was the largest single underwriter of coastal property in Florida.

Because Citizens became the principal direct competitor of the risk-bearers that participate in our Florida Intracoastal Underwriters ("FIU") condominium program and the excess and surplus lines insurers that are represented by our wholesale brokerage operations offering property coverages such as our Hull \& Company subsidiary, these programs and operations lost significant amounts of revenue to Citizens during 2007. Citizens' impact on our Florida Retail Division was less pronounced because to our Retail Division offices, Citizens simply became another risk-bearer with which to write business, although at slightly lower commission rates and with more onerous requirements for placing coverage. In 2008, the insurance rates charged by Citizens have so far been, and are expected to continue to be, similar to the 2007 rates and therefore, the sequential year impact of Citizens' rates on our results may not be as significant as they were in 2007. Even though the Citizens' rates may be flat, however, the property insurance premium rates charged by the excess and surplus lines carriers with which our wholesale brokerage operations do business continue to decline, which in turn continues to have a significant negative impact on our wholesale brokerage operations.

In the second half of 2007, the standard insurance companies started to become more competitive in the casualty (liability) business, including workers' compensation business. The rates in the Florida casualty market began to drop as much as $20 \%-25 \%$ compared with 2006 rates. These competitive rates are likely to continue throughout the remainder of 2008 and into 2009.

## Company Overview - Third Quarter of 2008

For the third quarter of 2008 , our total core commissions and fees decreased $\$ 11.0$ million, or $5.1 \%$, primarily because of the continued "soft" insurance marketplace in the United States, governmental involvement in the Florida insurance marketplace and the negative impact of the economy on the home-building industry. Offsetting the negative internal revenue growth was an active quarter of 9 acquisitions (as well as several book of business purchases) with estimated annual revenues of $\$ 17.6$ million, which contributed to the $\$ 30.9$ million of total core commissions and fees related to acquisitions that had no comparable operations in the same period of 2007.

## Acquisitions

During the third quarter of 2008, we acquired the assets and assumed certain liabilities of eight insurance intermediary operations, the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price was $\$ 39.5$ million, including $\$ 32.4$ million of net cash payments, the issuance of $\$ 0.5$ million in notes payable and the assumption of $\$ 6.6$ million of liabilities. These acquisitions had estimated aggregate annualized revenues of $\$ 17.6$ million.

During the second quarter of 2008, we acquired the assets and assumed certain liabilities of 12 insurance intermediary operations (inadvertly reported as 13 in our Form 10-Q for the quarter ended June 30, 2008) and several books of business (customer accounts). The aggregate purchase price was $\$ 115.0$ million, including $\$ 111.2$ million of net cash payments, the issuance of $\$ 2.7$ million in notes payable and the assumption of $\$ 1.1$ million of liabilities. These acquisitions had estimated aggregate annualized revenues of $\$ 47.5$ million.

During the first quarter of 2008, we acquired the assets and assumed certain liabilities of eight insurance intermediary operations, the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price was $\$ 79.4$ million, including $\$ 71.5$ million of net cash payments, the issuance of $\$ 2.0$ million in notes payable and the assumption of $\$ 5.9$ million of liabilities. These acquisitions had estimated aggregate annualized revenues of $\$ 30.2$ million.

During the third quarter of 2007, we acquired the assets and assumed certain liabilities of 16 insurance intermediary operations and several books of business (customer accounts). The aggregate purchase price was $\$ 41.4$ million, including $\$ 33.4$ million of net cash payments, the issuance of $\$ 0.9$ million in notes payable and the assumption of $\$ 7.1$ million of liabilities. These acquisitions had estimated aggregate annualized revenues of $\$ 22.4$ million.

During the second quarter of 2007, we acquired the assets and assumed certain liabilities of two insurance intermediary operations, the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price was $\$ 68.7$ million, including $\$ 68.2$ million of net cash payments, and the assumption of $\$ 0.5$ million of liabilities. These acquisitions had estimated aggregate annualized revenues of $\$ 22.9$ million.

During the first quarter of 2007, we acquired the assets and assumed certain liabilities of seven insurance intermediary operations, the stock of two insurance intermediaries and several books of business (customer accounts). The aggregate purchase price was $\$ 53.4$ million, including $\$ 42.6$ million of net cash payments, the issuance of $\$ 4.0$ million in notes payable and the assumption of $\$ 6.8$ million of liabilities. These acquisitions had estimated aggregate annualized revenues of $\$ 25.5$ million.

## Critical Accounting Policies

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

We believe that of our significant accounting and reporting policies, the more critical policies include our accounting for revenue recognition, business acquisitions and purchase price allocations, intangible asset impairments, reserves for litigation and derivative interests. In particular, the accounting for these areas requires significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 in the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2007 on file with the Securities and Exchange Commission for additional information regarding our critical and significant accounting policies.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

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 Condensed Consolidated Financial Results for the three and nine months ended September 30, 2008 and 2007 is as follows (in thousands, except percentages):

|  | For the three months ended September 30, |  |  |  |  | For the nine months ended September 30, |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | \% |  |  | 2008 |  | 2007 |  | \% <br> Change |
|  |  |  |  | 2007 | Change |  |  |  |  |  |
| REVENUES |  |  |  |  |  |  |  |  |  |  |
| Commissions and fees | \$ | 234,036 | \$ | 216,546 | 8.1\% | \$ | 684,640 | \$ | 645,778 | 6.0\% |
| Profit-sharing contingent commissions |  | 9,730 |  | 8,875 | 9.6\% |  | 51,489 |  | 55,678 | (7.5)\% |
| Investment income |  | 1,228 |  | 3,286 | (62.6)\% |  | 5,136 |  | 27,855 | (81.6)\% |
| Other income, net |  | 2,035 |  | 8,577 | (76.3)\% |  | 4,199 |  | 13,130 | (68.0)\% |
| Total revenues |  | 247,029 |  | 237,284 | 4.1\% |  | 745,464 |  | 742,441 | 0.4\% |
| EXPENSES |  |  |  |  |  |  |  |  |  |  |
| Employee compensation and benefits |  | 122,172 |  | 110,491 | 10.6\% |  | 363,873 |  | 333,937 | 9.0\% |
| Non-cash stock-based |  |  |  |  |  |  |  |  |  |  |
| Other operating expenses |  | 36,405 |  | 32,928 | 10.6\% |  | 101,993 |  | 96,409 | 28.6\% $5.8 \%$ |
| Amortization |  | 12,281 |  | 10,331 | 18.9\% |  | 34,789 |  | 29,798 | 16.7\% |
| Depreciation |  | 3,391 |  | 3,213 | 5.5\% |  | 9,929 |  | 9,492 | 4.6\% |
| Interest |  | 3,867 |  | 3,395 | 13.9\% |  | 11,045 |  | 10,445 | 5.7\% |
| Total expenses |  | 179,935 |  | 161,849 | 11.2\% |  | 527,192 |  | 484,408 | 8.8\% |


| Income before income | 67,094 | 75,435 | $(11.1) \%$ | 218,272 | 258,033 | $(15.4) \%$ |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| taxes |  | 26,501 | 29,219 | $(9.3) \%$ | 85,521 | 100,078 |
| Income taxes | $\$$ | 40,593 | $\$$ | 46,216 | $(12.2) \%$ | $\$$ |
| NET INCOME |  |  |  |  |  |  |

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## Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions, for the third quarter of 2008 increased $\$ 18.3$ million, or $8.1 \%$, over the same period in 2007. Profit-sharing contingent commissions for the third quarter of 2008 increased $\$ 0.9$ million over the third quarter of 2007 , to $\$ 9.7$ million. "Core commissions and fees" are our commissions and fees, less (i) profit-sharing contingent commissions and (ii) divested business (commissions and fees generated from offices, books of business or niches sold or terminated). Core commissions and fees revenue for the third quarter of 2008 increased $\$ 19.9$ million on a net basis, of which approximately $\$ 30.9$ million represents core commissions and fees from acquisitions that had no comparable operations in the same period of 2007. After divested business of $\$ 2.4$ million, the remaining net decrease of $\$ 11.0$ million represents net lost business, which reflects a (5.1)\% internal growth rate for core commissions and fees.

Commissions and fees, including profit-sharing contingent commissions, for the nine months ended September 30, 2008 increased $\$ 34.7$ million, or $4.9 \%$, over the same period in 2007. For the nine months ended September 30, 2008, profit-sharing contingent commissions decreased $\$ 4.2$ million from the comparable period in 2007, to $\$ 51.5$ million. Core commissions and fees revenue for the first nine months of 2008 increased $\$ 46.5$ million on a net basis, of which approximately $\$ 83.3$ million of the total increase represents core commissions and fees from acquisitions that had no comparable operations in the same period of 2007. After divested business of $\$ 7.7$ million, the remaining $\$ 36.8$ million represents net lost business, which reflects a $(5.8) \%$ internal growth rate for core commissions and fees.

## Investment Income

Investment income for the three months ended September 30, 2008 decreased $\$ 2.1$ million, or $62.6 \%$, from the same period in 2007. This decrease was primarily due to a reduction in invested funds as a result of increased acquisition activity, as well as lower investment yields. Investment income for the nine months ended September 30, 2008 decreased $\$ 22.7$ million, or $81.6 \%$, from the same period in 2007. This decrease is primarily due to the sale of our investment in Rock-Tenn Company which we had owned for over 25 years, for a net gain of approximately $\$ 18.7$ million in 2007. The remaining net decrease of $\$ 4.0$ million was primarily due to a reduction in invested funds as a result of increased acquisition activity, as well as lower investment yields.

Other Income, net
Other income for the three months ended September 30, 2008 decreased $\$ 6.5$ million, or $76.3 \%$, from the same period in 2007. Other income for the nine months ended September 30, 2008 decreased $\$ 8.9$ million, or $68.0 \%$, from the same period in 2007. Other income consists primarily of gains and losses from the sale and disposition of assets. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth.

## Employee Compensation and Benefits

Employee compensation and benefits for the third quarter of 2008 increased $\$ 11.7$ million, or $10.6 \%$, over the same period in 2007. This increase is primarily related to the addition of new employees from acquisitions completed since August 1, 2007. Employee compensation and benefits as a percentage of total revenue increased to $49.5 \%$ for the third quarter of 2008 , from $46.6 \%$ for the third quarter of 2007. This increase in the expense percentage represents approximately $\$ 11.7$ million in net additional costs, of which $\$ 13.4$ million relates to acquisitions that had no comparable operations in the same period of 2007. Therefore, excluding the impact of acquisitions of stand-alone offices, there was a net reduction of $\$ 1.7$ million in employee compensation and benefits primarily related to lower producer commissions and accrued bonuses.

Employee compensation and benefits for the nine months ended September 30, 2008 increased $\$ 29.9$ million, or 9.0\%, over the same period in 2007. This increase is primarily related to the addition of new employees from acquisitions completed during 2007 and 2008. Employee compensation and benefits as a percentage of total revenue increased to $48.8 \%$ for the nine months ended September 30, 2008, from $45.0 \%$ for the nine months ended September 30, 2007. Excluding the impact of the gain on the sale of our Rock-Tenn Company stock in 2007, employee compensation and benefits as a percentage of total revenues increased to $48.8 \%$ from $46.1 \%$ for the nine months ended September 30, 2007. This increase in the expense percentage represents approximately $\$ 29.9$ million in net additional costs, of which $\$ 36.0$ million relates to acquisitions that were stand-alone offices and that had no comparable operations in the same period of 2007. Therefore, excluding the impact of acquisitions of stand-alone offices, there was a net reduction of $\$ 6.0$ million in employee compensation and benefits primarily related to lower producer commissions and accrued bonuses.

## Non-Cash Stock-Based Compensation

Non-cash stock-based compensation for the three months ended September 30, 2008 increased approximately $\$ 0.3$ million, or $22.0 \%$, over the same period in 2007. For the entire year of 2008, we expect the total non-cash stock-based compensation expense to be approximately $\$ 7.5$ million to $\$ 8.0$ million, as compared with the total cost of $\$ 5.7$ million in 2007. The increased annual estimated cost primarily relates to new grants of performance stock and incentive stock options issued in February 2008.

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## Other Operating Expenses

Other operating expenses for the third quarter of 2008 increased $\$ 3.5$ million, or $10.6 \%$, over the same period in 2007. Other operating expenses as a percentage of total revenue increased to $14.7 \%$ for the third quarter of 2008 , from $13.9 \%$ for the third quarter of 2007. Acquisitions since August 1, 2007 that resulted in stand-alone offices accounted for approximately $\$ 3.8$ million of the increased other operating expenses. Therefore, there was a net reduction in other operating expenses of approximately $\$ 0.3$ million with respect to offices in existence in the third quarters of both 2008 and 2007.

Other operating expenses for the nine months ended September 30, 2008 increased $\$ 5.6$ million, or $5.8 \%$, over the same period in 2007. Other operating expenses as a percentage of total revenue increased to $13.7 \%$ for the nine months ended September 30, 2008, from $13.0 \%$ for the nine months ended September 30, 2007. Excluding the impact of the gain on the sale of our Rock-Tenn Company stock in 2007, other operating expenses as a percentage of total revenues increased to $13.7 \%$ from $13.3 \%$ for the nine months ended September 30, 2007. Acquisitions since February 1, 2007 that resulted in stand-alone offices accounted for approximately $\$ 9.4$ million of the increased other operating expenses. Therefore, there was a net reduction in other operating expenses of approximately $\$ 3.8$ million with respect to offices in existence in the first nine months of both 2008 and 2007. Of this reduction, $\$ 2.4$ million was the result of decreased expenses and reserves for errors and omissions, while the remaining savings were attributable to various other expense categories.

Amortization

Amortization expense for the third quarter of 2008 increased $\$ 1.9$ million, or $18.9 \%$, over the third quarter of 2007. Amortization expense for the nine months ended September 30, 2008 increased $\$ 5.0$ million, or $16.7 \%$, over the same period of 2007. These increases were primarily due to the amortization of additional intangible assets as the result of new acquisitions.

## Depreciation

Depreciation expense for the third quarter of 2008 increased $\$ 0.2$ million, or $5.5 \%$, over the third quarter of 2007. Depreciation expense for the nine months ended September 30, 2008 increased $\$ 0.4$ million, or $4.6 \%$, over the same period of 2007. These increases were due primarily to the purchase of new computers, related equipment and software, and the depreciation associated with acquisitions completed since February 1, 2007.

## Interest Expense

Interest expense for the third quarter of 2008 increased $\$ 0.5$ million, or $13.9 \%$, over the same period in 2007 . For the nine months ended September 30, 2008, interest expense increased $\$ 0.6$ million, or $5.7 \%$, over the same period in 2007. These increases were primarily due to the additional $\$ 25.0$ million of unsecured Series D Senior Notes issued in the first quarter of 2008.

## RESULTS OF OPERATIONS - SEGMENT INFORMATION

As discussed in Note 14 of the Notes to Condensed Consolidated Financial Statements, we operate in four reportable segments: the Retail, Wholesale Brokerage, National Programs and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses are the result of acquisitions within a given division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. As such, in evaluating the operational efficiency of a division, management places emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of employee compensation and benefits to total revenues, and the gradual improvement of the percentage of other operating expenses to total revenues.

The internal growth rates for our core commissions and fees for the three months ended September 30, 2008 and 2007, by divisional units, are as follows (in thousands, except percentages):
2008 For the three months

|  | 2008 |  | 2007 |  | Total Net Change |  | Total Net Growth \% | Less <br> Acquisition Revenues |  | Internal Net Growth \$ |  | Internal Net Growth \% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Florida Retail | \$ | 40,087 | \$ | 39,088 |  | 999 |  | \$ | 4,620 | \$ | $(3,621)$ | (9.3)\% |
| National |  |  |  |  |  |  |  |  |  |  |  |  |
| Retail |  | 77,172 |  | 60,958 |  | 16,214 | 26.6\% |  | 16,802 |  | (588) | (1.0)\% |
| Western Retail |  | 27,293 |  | 23,752 |  | 3,541 | 14.9\% |  | 5,473 |  | $(1,932)$ | (8.1)\% |
| Total Retail(1) |  | 144,552 |  | 123,798 |  | 20,754 | 16.8\% |  | 26,895 |  | $(6,141)$ | (5.0)\% |


| Wholesale <br> Brokerage | 36,491 | 39,328 | $(2,837)$ | $(7.2) \%$ | 3,831 | $(6,668)$ | $(17.0) \%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |


| Professional <br> Programs | 11,643 | 11,200 | 443 | $4.0 \%$ | - | 443 | $4.0 \%$ |
| :--- | ---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Special | 33,433 | 30,411 | 3,022 | $9.9 \%$ | 210 | 2,812 | $9.2 \%$ |
| Programs | 41,611 | 3,465 | $8.3 \%$ | 210 | 3,255 | $7.8 \%$ |  |
| Total National <br> Programs | 45,076 | 9,390 | $(1,473)$ | $(15.7) \%$ | - | $(1,473)$ | $(15.7) \%$ |
| Services | 7,917 |  |  |  |  |  |  |

Total Core

| Commissions |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| land Fees | $\$$ | 234,036 | $\$$ | 214,127 | $\$$ | 19,909 |

$9.3 \% \quad \$ \quad 30,936 \quad \$ \quad(11,027)$
(5.1)\%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended September 30, 2008 and 2007 is as follows (in thousands, except percentages):

|  | For the three months |  |  |
| :--- | :---: | :---: | :---: |
|  | ended September 30, |  |  |
|  | 2008 | 2007 |  |
| Total core commissions and fees | $\$ 34,036$ | $\$$ | 214,127 |
| Profit-sharing contingent commissions | 9,730 | 8,875 |  |


| Divested business |  | - |  | 2,419 |
| :--- | :--- | :--- | :--- | ---: |
| Total commission and fees | $\$$ | 243,766 | $\$ \quad 225,421$ |  |

(1)The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 14 which includes corporate and consolidation items.


The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended September 30, 2007 and 2006 is as follows (in thousands, except percentages):

|  | For the three months |  |  |
| :--- | ---: | ---: | ---: |
|  | ended September 30, |  |  |
|  | 2007 | 2006 |  |
| Total core commissions and fees |  | 216,546 | $\$$ |
| Profit-sharing contingent commissions | 8,875 |  | 204,571 |
| Divested business |  | - | 1,892 |
| Total commission and fees | $\$$ | 225,421 | $\$$ |

(1)The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 14 which includes corporate and consolidation items.

The internal growth rates for our core commissions and fees for the nine months ended September 30, 2008 and 2007, by divisional units, are as follows (in thousands, except percentages):


The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2008 and 2007 is as follows (in thousands, except percentages):

|  | For the nine months |  |  |  |
| :--- | :---: | ---: | ---: | ---: |
|  | ended September 30, |  |  |  |
|  | 2008 | 2007 |  |  |
| Total core commissions and fees | $\$ 84,640$ | $\$$ | 638,123 |  |
| Profit-sharing contingent commissions |  | 51,489 |  | 55,678 |
| Divested business |  | - | 7,655 |  |
| Total commission and fees | $\$$ | 736,129 | $\$$ | 701,456 |

(1)The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 14 which includes corporate and consolidation items.

| 2007 | For the nine months ended September 30, |  |  |  | Total Net Change |  | Total Net Growth \% | Less <br> Acquisition Revenues |  | Internal Net Growth \$ |  | Internal <br> Net <br> Growth \% <br> $1.6 \%$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2007 | 2006 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Retail |  | 180,521 |  | 154,527 |  | 25,994 | 16.8\% |  | 25,358 |  | 636 |  | 0.4\% |
| Western Retail |  | 73,447 |  | 77,593 |  | $(4,146)$ | (5.3)\% |  | 356 |  | $(4,502)$ | (5.8)\% |
| Total Retail(1) |  | 388,048 |  | 361,978 |  | 26,070 | 7.2\% |  | 27,840 |  | $(1,770)$ | (0.5)\% |
| Wholesale |  |  |  |  |  |  |  |  |  |  |  |  |
| Brokerage |  | 121,990 |  | 113,896 |  | 8,094 | 7.1\% |  | 11,767 |  | $(3,673)$ | (3.2)\% |
| Professional |  |  |  |  |  |  |  |  |  |  |  |  |
| Programs |  | 30,718 |  | 29,887 |  | 831 | 2.8\% |  | 376 |  | 455 | 1.5\% |
| Special |  |  |  |  |  |  |  |  |  |  |  |  |
| Programs |  | 77,494 |  | 80,220 |  | $(2,726)$ | (3.4)\% |  | 5,347 |  | $(8,073)$ | (10.1)\% |
| Total National |  |  |  |  |  |  |  |  |  |  |  |  |
| Programs |  | 108,212 |  | 110,107 |  | $(1,895)$ | (1.7)\% |  | 5,723 |  | $(7,618)$ | (6.9)\% |
| Services |  | 27,528 |  | 23,859 |  | 3,669 | 15.4\% |  | 2,328 |  | 1,341 | 5.6\% |
| Total Core |  |  |  |  |  |  |  |  |  |  |  |  |
| Commissions and Fees | \$ | 645,778 | \$ | 609,840 | \$ | 35,938 | 5.9\% | \$ | 47,658 | \$ | $(11,720)$ | (1.9)\% |

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2007 and 2006 is as follows (in thousands, except percentages):

|  | For the nine months ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2007 |  |  | 2006 |
| Total core commissions and fees | \$ | 645,778 | \$ | 609,840 |
| Profit-sharing contingent commissions |  | 55,678 |  | 40,163 |
| Divested business |  | - |  | 3,897 |
| Total commission and fees | \$ | 701,456 | \$ | 653,900 |

(1)The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 14 which includes corporate and consolidation items.

## Retail Division

The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. More than $96.1 \%$ of the Retail Division's commissions and fees revenues are commission-based. Since the majority of our operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions net of related compensation that we receive will be reflected in our pre-tax income.

Financial information relating to Brown \& Brown's Retail Division for the three and nine months ended September 30, 2008 and 2007 is as follows (in thousands, except percentages):

|  | For the three months ended September 30, |  |  |  |  | For the nine months ended September 30, |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | $2007 \quad$\% <br> Change |  |  | 2008 |  | 2007 |  | \% <br> Change |
|  |  |  |  |  |  |  |  |  |  |  |
| REVENUES <br> Commissions and fees | \$ | 144,909 | \$ | 127,108 | 14.0\% | \$ | 422,599 | \$ | 388,833 | 8.7\% |
| Profit-sharing contingent commissions |  | 1,795 |  | 2,359 | (23.9)\% |  | 25,704 |  | 33,348 | (22.9)\% |
| Investment income |  | 129 |  | 65 | 98.5\% |  | 878 |  | 164 | 435.4\% |
| Other income (loss), net |  | (330) |  | 7,327 | (104.5)\% |  | 1,778 |  | 11,889 | (85.0)\% |
| Total revenues |  | 146,503 |  | 136,859 | 7.0\% |  | 450,959 |  | 434,234 | 3.9\% |
| EXPENSES |  |  |  |  |  |  |  |  |  |  |
| Employee compensation and benefits |  | 73,604 |  | 64,059 | 14.9\% |  | 217,961 |  | 197,502 | 10.4\% |
| Non-cash stock-based compensation |  | 900 |  | 809 | 11.2\% |  | 2,719 |  | 2,431 | 11.8\% |
| Other operating expenses |  | 22,310 |  | 22,338 | (0.1)\% |  | 68,725 |  | 65,624 | 4.7\% |
| Amortization |  | 7,268 |  | 5,654 | 28.5\% |  | 19,943 |  | 15,885 | 25.5\% |
| Depreciation |  | 1,559 |  | 1,415 | 10.2\% |  | 4,518 |  | 4,255 | 6.2\% |
| Interest |  | 8,285 |  | 5,474 | 51.4\% |  | 21,864 |  | 15,217 | 43.7\% |
| Total expenses |  | 113,926 |  | 99,749 | 14.2\% |  | 335,730 |  | 300,914 | 11.6\% |
| Income before income taxes | \$ | 32,577 | \$ | 37,110 | (12.2)\% | \$ | 115,229 | \$ | 133,320 | (13.6)\% |
| Net internal growth rate - core commissions and fees |  |  |  |  |  |  |  |  |  |  |
|  |  | (5.0)\% |  | (6.0)\% |  |  | (6.9)\% |  | (0.5)\% |  |
| Employee compensation and |  | 50.2\% |  | 46.8\% |  |  | 48.3\% |  | 45.5\% |  |

benefits ratio
Other operating
expenses ratio
$15.2 \%$
$16.3 \%$
$15.2 \%$
$15.1 \%$

Capital
$\begin{array}{lllllllll}\text { expenditures } & \$ & 1,061 & \$ & 1,666 & \$ & 3,218 & \$ & 4,591\end{array}$
Total assets at
September 30,
2008 and 2007
$\$ \quad 1,636,519 \quad \$ \quad 1,285,096$

The Retail Division's total revenues during the three months ended September 30, 2008 increased $7.0 \%$, or $\$ 9.6$ million, over the same period in 2007 , to $\$ 146.5$ million. Profit-sharing contingent commissions for the third quarter of 2008 decreased $\$ 0.6$ million, or $23.9 \%$, from the third quarter of 2007 . Of the net increase in commissions and fees, approximately $\$ 26.9$ million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2007. Commissions and fees recorded in the third quarter of 2007 from business divested during 2008 was $\$ 2.4$ million. The remaining net decrease is primarily due to net lost business of $\$ 6.1$ million in core commissions and fees. The Retail Division's internal growth rate for core commissions and fees was (5.0)\% for the third quarter of 2008 and was driven primarily by continuing declines of insurance premium rates, although at rates of decline that seem to be slowing in many parts of the United States. However, in most parts of the United States the economy is also showing signs of declining insurable exposure units, such as sales and payroll levels. Additionally, other income for the three months ended September 30, 2008 decreased $\$ 7.7$ million from the same period in 2007 as a result of fewer gains from sales of books of business.

Income before income taxes for the three months ended September 30, 2008 decreased $12.2 \%$, or $\$ 4.5$ million from the same period in 2007 , to $\$ 32.6$ million. This decrease is primarily due to net lost business and lower other income.

The Retail Division's total revenues during the nine months ended September 30, 2008 increased 3.9\%, or $\$ 16.7$ million, to $\$ 451.0$ million. Profit-sharing contingent commissions for the nine months ended September 30, 2008, decreased $\$ 7.6$ million from the same period in 2007. Of the increase in commissions and fees, approximately $\$ 68.7$ million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2007. Commissions and fees recorded in the nine months ended September 30, 2007 from business divested during 2008 was $\$ 7.7$ million. The remaining net decrease of $\$ 26.3$ million is primarily due to net lost business in core commissions and fees. The Retail Division's internal growth rate for core commissions and fees was (6.9)\% for the nine months ended September 30, 2008 and was driven primarily by declining insurance property and casualty rates in the southeastern United States but was also affected by the continued softening of insurance premium rates in other regions of the United States. Additionally, other income for the nine months ended September 30, 2008 decreased $\$ 10.1$ million from the same period in 2007 as a result of fewer gains from the sales of books of business.

Income before income taxes for the nine months ended September 30, 2008 decreased $13.6 \%$, or $\$ 18.1$ million, to $\$ 115.2$ million. This decrease is primarily due to net lost business, lower profit-sharing contingent commission revenues and lower other income.

## Wholesale Brokerage Division

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

Financial information relating to our Wholesale Brokerage Division for the three and nine months ended September 30, 2008 and 2007 is as follows (in thousands, except percentages):

|  | For the three months ended September 30, |  |  |  |  | For the nine months ended September 30, |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | Change | 2008 |  | 2007 |  | \% <br> Change |
|  |  |  |  |  |  |  |  |  |  |  |
| REVENUES |  |  |  |  |  |  |  |  |  |  |
| Commissions and fees | \$ | 36,491 | \$ | 39,354 | (7.3)\% | \$ | 117,892 | \$ | 121,990 | (3.4)\% |
| Profit-sharing contingent commissions |  | 7,833 |  | 6,515 | 20.2\% |  | 17,969 |  | 17,685 | 1.6\% |
| Investment income |  | 399 |  | 799 | (50.1)\% |  | 1,223 |  | 2,262 | (45.9)\% |
| Other income, net |  | 64 |  | 626 | (89.8)\% |  | 385 |  | 607 | (36.6)\% |
| Total revenues |  | 44,787 |  | 47,294 | (5.3)\% |  | 137,469 |  | 142,544 | (3.6)\% |
| EXPENSES |  |  |  |  |  |  |  |  |  |  |
| Employee compensation and benefits |  | 21,819 |  | 21,713 | 0.5\% |  | 67,358 |  | 66,593 | 1.1\% |
| Non-cash stock-based compensation |  | 220 |  | 198 | 11.1\% |  | 617 |  | 593 | 4.0\% |
| Other operating expenses |  | 9,603 |  | 7,816 | 22.9\% |  | 26,289 |  | 23,281 | 12.9\% |
| Amortization |  | 2,613 |  | 2,293 | 14.0\% |  | 7,646 |  | 6,759 | 13.1\% |
| Depreciation |  | 725 |  | 713 | 1.7\% |  | 2,169 |  | 1,974 | 9.9\% |
| Interest |  | 4,443 |  | 4,815 | (7.7)\% |  | 13,756 |  | 14,197 | (3.1)\% |
| Total expenses |  | 39,423 |  | 37,548 | 5.0\% |  | 117,835 |  | 113,397 | 3.9\% |
| Income before income taxes | \$ | 5,364 | \$ | 9,746 | (45.0)\% | \$ | 19,634 | \$ | 29,147 | (32.6)\% |

Net internal growth rate core commissions and fees
Employee compensation and benefits ratio
Other operating expenses ratio

| Capital expenditures | $\$$ | 886 | $\$$ | 425 | $\$$ | 4,148 | $\$$ | 2,425 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

Total assets at September 30, 2008 and 2007

| $(17.0) \%$ | $(3.0) \%$ |  | $(14.9) \%$ |
| :--- | :--- | ---: | :---: |
| $48.7 \%$ | $45.9 \%$ | $49.0 \%$ | $46.7 \%$ |
| $21.4 \%$ | $16.5 \%$ |  | $19.1 \%$ |
| 886 | $\$$ | 425 | $\$$ |
|  |  | 4,148 | $\$$ |
|  |  | $\$ 629,145$ | $\$ 649,610$ |

The Wholesale Brokerage Division's total revenues for the three months ended September 30, 2008 decreased 5.3\%, or $\$ 2.5$ million, from the same period in 2007, to $\$ 44.8$ million. Profit-sharing contingent commissions for the third quarter of 2008 increased $\$ 1.3$ million over the same quarter of 2007 . Of the net decrease in core commissions and

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fees, approximately $\$ 3.8$ million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2007. The remaining net decrease is primarily due to $\$ 6.7$ million of net lost business in core commissions and fees. As such, the Wholesale Brokerage Division's internal growth rate for core commissions and fees was (17.0)\% for the third quarter of 2008. The continuing net lost business is broad-based and negatively impacted nearly all of our wholesale brokerage operations. The lost business is the result of continuing soft property and casualty rates, the slowing residential home-building market and the movement of accounts from the excess and surplus lines market to standard carriers.

Income before income taxes for the three months ended September 30, 2008 decreased $45.0 \%$, or $\$ 4.4$ million from the same period in 2007, to $\$ 5.4$ million, primarily due to net lost business.

The Wholesale Brokerage Division's total revenues for the nine months ended September 30, 2008 decreased 3.6\%, or $\$ 5.1$ million, to $\$ 137.5$ million from the same period in 2007. Profit-sharing contingent commissions for the nine months ended September 30, 2008 increased $\$ 0.3$ million from the same period in 2007. Of the decrease in core commissions and fees, approximately $\$ 14.1$ million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2007. The remaining net decrease is primarily due to net lost business of $\$ 18.2$ million in core commissions and fees. As such, the Wholesale Brokerage Division's internal growth rate for core commissions and fees was (14.9)\% for the nine months ended September 30, 2008. The majority of the net lost business was attributable to the $\$ 4.4$ million impact of decreasing property and casualty rates in Florida, the $\$ 2.3$ million impact of the soft reinsurance marketplace on our reinsurance brokerage operation, and the $\$ 4.0$ million impact of the slowing residential home-builders' market on one of our Wholesale Brokerage operations that focuses on that industry in the southwestern region of the United States. Our Wholesale Brokerage operations in other parts of the country are being negatively affected by a combination of declining insurance rates and increased competition from the standard lines carriers.

Income before income taxes for the nine months ended September 30, 2008 decreased $32.6 \%$, or $\$ 9.5$ million, to $\$ 19.6$ million from the same period in 2007, primarily due to net lost business.

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

Financial information relating to our National Programs Division for the three and nine months ended September 30, 2008 and 2007 is as follows (in thousands, except percentages):

For the three months ended September 30,

For the nine months ended September 30,

| $\%$ <br> Change | 2008 | 2007 | \% |
| :---: | :---: | :---: | :---: |
| Change |  |  |  |

## REVENUES

Commissions and

| fees | \$ | 45,076 | \$ | 41,611 | 8.3\% | \$ | 120,026 | \$ | 108,212 | 10.9\% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Profit-sharing contingent |  |  |  |  |  |  |  |  |  |  |
| commissions |  | 102 |  | 1 | NMF\% |  | 7,816 |  | 4,645 | 68.3\% |
| Investment income |  | 77 |  | 136 | (43.4)\% |  | 263 |  | 377 | (30.2)\% |
| Other income (loss), net |  | (15) |  | 30 | (150.0)\% |  | 36 |  | 19 | 89.5\% |
| Total revenues |  | 45,240 |  | 41,778 | 8.3\% |  | 128,141 |  | 113,253 | 13.1\% |

EXPENSES
Employee compensation and benefits
Non-cash

| stock-based <br> compensation | 198 | 197 |
| :--- | ---: | ---: |
| Other operating |  |  |
| expenses | 6,882 | 6,321 |
| Amortization | 2,275 | 2,259 |
| Depreciation | 695 | 680 |
| Interest | 1,834 | 2,473 |
| Total expenses | 29,562 | 28,205 |

Income before
$\begin{array}{llllllllll}\text { income taxes } & \$ & 15,678 & \$ & 13,573 & 15.5 \% & \$ & 42,565 & \$ & 31,548\end{array}$
Net internal growth
rate - core
commissions and
fees $\quad 7.8 \% \quad 5.4 \% \quad 10.5 \% \quad$ (6.9)\%
$\begin{array}{llll}\text { Employee } & 39.1 \% & 39.0 \% & 39.2 \%\end{array}$
compensation and
2007 Change
$8.3 \%$ \$ 120,026

7,816

36
113,253
13.1\%

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benefits ratio
Other operating
expenses ratio
15.2\%
15.1\%
15.6\%
16.1\%

Capital expenditures \$
612
\$
510
\$ 1,980 \$ 1,516
Total assets at
September 30, 2008
and 2007
\$ 615,028 \$ 553,453

Total revenues for National Programs for the three months ended September 30, 2008 increased 8.3\%, or $\$ 3.5$ million, over the same period in 2007 , to $\$ 45.2$ million. Profit-sharing contingent commissions for the third quarter of 2008 increased $\$ 0.1$ million over the third quarter of 2007. Included within the net increase in core commissions and fees is approximately $\$ 0.2$ million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2007. The remaining net increase of approximately $\$ 3.3$ million is primarily due to net new business. Therefore, the National Programs Division's internal growth rate for core commissions and fees was $7.8 \%$ for the three months ended September 30, 2008. The Professional Programs Unit within the National Programs Division had a $4.0 \%$ internal growth rate due to continued stabilizing professional liability rates. Additionally, the Special Programs Unit had a $9.2 \%$ internal growth rate, primarily due to approximately $\$ 1.8$ million of net new business generated by our Proctor Financial Services subsidiary and to the approximately $\$ 0.5$ million net increase in core commissions and fees in our condominium program at our FIU subsidiary.

Income before income taxes for the three months ended September 30, 2008 increased $15.5 \%$, or $\$ 2.1$ million, over the same period in 2007 , to $\$ 15.7$ million. This increase is primarily due to net new business.

Total revenues for National Programs for the nine months ended September 30, 2008 increased 13.1\%, or $\$ 14.9$ million, to $\$ 128.1$ million. Profit-sharing contingent commissions for the nine months ended September 30, 2008 increased $\$ 3.2$ million over the same period in 2007. Of the net increase in core commissions and fees, approximately $\$ 0.5$ million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2007. The remaining net increase of approximately $\$ 11.3$ million is primarily due to net new business. Therefore, the National Programs Division's internal growth rate for core commissions and fees was $10.5 \%$. The Professional Programs Unit within the National Programs Division had a $2.2 \%$ internal growth rate due to stabilizing professional liability rates. Additionally, the Special Programs Unit had a $13.8 \%$ internal growth rate, primarily due to approximately $\$ 10.5$ million of net new business generated by our Proctor Financial Services subsidiary and to the approximately $\$ 0.9$ million net increase in core commissions and fees in our FIU subsidiary.

Income before income taxes for the nine months ended September 30, 2008 increased $34.9 \%$, or $\$ 11.0$ million, to $\$ 42.6$ million, over the same period in 2007. This increase is primarily due to net new business generated by our Proctor Financial Services subsidiary.

Services Division
The Services Division provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability areas, as well as Medicare set-aside services. Unlike our other segments, approximately $98 \%$ of the Services Division's 2008 commissions and fees revenue is generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division for the three and nine months ended September 30, 2008 and 2007 is as follows (in thousands, except percentages):

|  | For the three months ended September 30, |  |  |  |  | For the nine months ended September 30, |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | \% <br> Change | 2008 |  | 2007 |  | $\begin{gathered} \text { \% } \\ \text { Change } \end{gathered}$ |
|  |  |  |  |  |  |  |  |  |  |  |
| REVENUES |  |  |  |  |  |  |  |  |  |  |
| Commissions and fees | \$ | 7,917 | \$ | 9,390 | (15.7)\% | \$ | 23,832 | \$ | 27,528 | (13.4)\% |
| Profit-sharing contingent commissions |  | - |  | - | - |  | - |  | - |  |
| Investment income |  | 7 |  | 8 | (12.5)\% |  | 6 |  | 25 | (76.0)\% |
| Other income (loss), net |  | (4) |  | (144) | (97.2)\% |  | (7) |  | (144) | (95.1)\% |
| Total revenues |  | 7,920 |  | 9,254 | (14.4)\% |  | 23,831 |  | 27,409 | (13.1)\% |
| EXPENSES |  |  |  |  |  |  |  |  |  |  |
| Employee compensation and benefits |  | 4,437 |  | 4,704 | (5.7)\% |  | 13,474 |  | 14,810 | (9.0)\% |
| Non-cash stock-based compensation |  | 35 |  | 35 | - |  | 105 |  | 105 | - |
| Other operating expenses |  | 1,270 |  | 1,348 | (5.8)\% |  | 3,684 |  | 4,108 | (10.3)\% |
| Amortization |  | 115 |  | 115 | - |  | 346 |  | 346 | - |
| Depreciation |  | 97 |  | 125 | (22.4)\% |  | 317 |  | 420 | (24.5)\% |
| Interest |  | 193 |  | 194 | (0.5)\% |  | 559 |  | 526 | 6.3\% |
| Total expenses |  | 6,147 |  | 6,521 | (5.7)\% |  | 18,485 |  | 20,315 | (9.0)\% |
| Income before income taxes | \$ | 1,773 | \$ | 2,733 | (35.1)\% | \$ | 5,346 | \$ | 7,094 | (24.6)\% |
| Net internal growth rate - core |  |  |  |  |  |  |  |  |  |  |
| Employee compensation and benefits ratio |  | 56.0\% |  | 50.8\% |  |  | 56.5\% |  | 54.0\% |  |
|  |  |  |  | 14.6\% |  |  | 15.5\% |  | 15.0\% |  |

Other operating
expenses ratio

| Capital expenditures | $\$$ | 34 | $\$$ | 42 | $\$$ | 160 | $\$$ | 283 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Total assets at <br> September 30,2008 <br> and 2007 |  |  |  |  |  |  |  |  |

The Services Division's total revenues for the three months ended September 30, 2008 decreased $14.4 \%$, or $\$ 1.3$ million, from the same period in 2007, to $\$ 7.9$ million. Core commissions and fees reflect an internal growth rate of (15.7)\% for the third quarter of 2008, primarily due to the loss of one of our largest third-party administration clients in August 2007.
Income before income taxes for the three months ended September 30, 2008 decreased $35.1 \%$, or $\$ 1.0$ million, from the same period in 2007 to $\$ 1.8$ million, primarily due to net lost business.

The Services Division's total revenues for the nine months ended September 30, 2008 decreased $13.1 \%$, or $\$ 3.6$ million, to $\$ 23.8$ million from the same period in 2007. Core commissions and fees reflect an internal growth rate of (13.4)\% for the nine months ended September 30, 2008, primarily due to the loss of one of our largest third-party administration clients in August 2007.

Income before income taxes for the nine months ended September 30, 2008 decreased $24.6 \%$, or $\$ 1.7$ million, to $\$ 5.3$ million from the same period in 2007, primarily due to net lost business.

Other
As discussed in Note 14 of the Notes to Consolidated Financial Statements, the "Other" column in the Segment Information table includes any income and expenses not allocated to reportable segments, and corporate-related items, including the inter-company interest expense charged to the reporting segment.

Investment income included in the "Other" column in the Segment Information table reflects a realized gain from the sale of our common stock investment in Rock-Tenn Company. For the year 2007, we recognized a total gain on the sale of the Rock-Tenn investment of $\$ 18.7$ million. As of June 30, 2007, we no longer owned any shares of Rock-Tenn Company.

## LIQUIDITY AND CAPITAL RESOURCES

As discussed in Note 3 of the Notes to Consolidated Financial Statements, we report all cash that will ultimately be used to pay premiums to insurance companies as "Restricted cash and investments", regardless of whether the cash is held in legally restricted state-mandated premium trust accounts or in unrestricted commingled operating cash accounts. Since $\$ 221.6$ million of cash has been used for acquisitions during the nine months ended September 30, 2008, all of the $\$ 240.6$ million of our cash at September 30, 2008 has been recorded as restricted cash and investment, though only $\$ 130.7$ million of these funds are held in legally restricted state-mandated premium trust accounts.

Our cash and cash equivalents balance at September 30, 2008 was $\$ 0.0$ million reflecting a net use of cash and cash equivalents of $\$ 38.2$ million from the $\$ 38.2$ million cash and cash equivalents balance at December 31, 2007. For the nine-month period ended September 30, 2008, $\$ 204.1$ million of cash was provided from operating activities. Also during this period, $\$ 221.6$ million of cash was used for acquisitions, $\$ 11.1$ million was used for additions to fixed assets, $\$ 15.7$ million was used for payments on long-term debt and $\$ 29.6$ million was used for payment of dividends. Additionally, on February 1, 2008 we borrowed $\$ 25.0$ million pursuant to our Master Agreement described below. As of September 30, 2008, we have $\$ 150.0$ million and $\$ 50.0$ million immediately available from our Master Agreement and Loan Agreement described below.

Our ratio of current assets to current liabilities (the "current ratio") was 1.00 and 1.10 at September 30, 2008 and December 31, 2007, respectively.

Contractual Cash Obligations
As of September 30, 2008, our contractual cash obligations were as follows:

Payments Due by Period

| (in thousands) |  | Total | Less Than 1 Year |  | 1-3 Years |  | 4-5 Years |  | After 5 Years |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Long-term debt | \$ | 261,317 | \$ | 7,664 | \$ | 103,653 | \$ | - | \$ | 150,000 |
| Capital lease obligations |  | 41 |  | 39 |  | 2 |  | - |  |  |
| Other long-term liabilities |  | 11,912 |  | 9,624 |  | 352 |  | 462 |  | 1,474 |
| Operating leases |  | 97,172 |  | 25,478 |  | 39,494 |  | 19,583 |  | 12,617 |
| Interest obligations |  | 71,922 |  | 14,510 |  | 28,625 |  | 17,675 |  | 11,112 |
| Unrecognized tax benefits |  | 471 |  | - |  | 471 |  |  |  |  |
| Maximum future acquisition contingency payments |  | 233,370 |  | 67,923 |  | 161,364 |  | 4,083 |  |  |
| Total contractual cash obligations | \$ | 676,205 | \$ | 125,238 | \$ | 333,961 | \$ | 41,803 | \$ | 175,203 |

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In July 2004, we completed a private placement of \$200.0 million of unsecured senior notes (the "Notes"). The \$200.0 million is divided into two series: Series A, for $\$ 100.0$ million due in 2011 and bearing interest at $5.57 \%$ per year; and Series B, for $\$ 100.0$ million due in 2014 and bearing interest at $6.08 \%$ per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. Brown \& Brown has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of September 30, 2008 and December 31, 2007 there was an outstanding balance of $\$ 200.0$ million on the Notes.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). The Purchaser also purchased Notes issued by 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 annum. On February 1, 2008, we issued $\$ 25.0$ million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of $5.37 \%$ per annum. As of September 30, 2008, there was an outstanding balance of $\$ 50.0$ million under the Master Agreement.

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement (the "Loan Agreement") with a national banking institution that was dated as of June 3, 2008, amending and restating the existing Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), in order to increase the lending commitment to $\$ 50.0$ million (subject to potential increases up to $\$ 100.0$ million) and extend the maturity date from December 20, 2011 to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $\$ 75.0$ million. After a series of amendments that provided covenant exceptions for the notes issued or to be issued under the Master Agreement, and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $\$ 20.0$ million. The calculation of interest and fees is generally based on the Company's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock-based compensation. Interest is charged at a rate equal to $0.50 \%$ to $1.00 \%$ above the London Interbank Offering Rate ("LIBOR") or $1.00 \%$ below the base rate, each as more fully defined in the Loan Agreement. Fees include an upfront fee, an availability fee of $0.10 \%$ to $0.20 \%$, and a letter of credit usage fee of $0.50 \%$ to $1.00 \%$. The Loan Agreement contains various covenants, limitations, and events of default customary for similar facilities for similar borrowers. The 90 -day LIBOR was $4.05 \%$ and $4.70 \%$ as of September 30, 2008 and December 31, 2007, respectively. There were no borrowings against this facility at September 30, 2008 or December 31, 2007.

In January 2001, we entered into a $\$ 90.0$ million unsecured seven-year term loan agreement with a national banking institution, bearing an interest rate based upon the 30 -, 60 - or 90 -day LIBOR plus $0.50 \%$ to $1.00 \%$, depending upon Brown \& Brown's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock-based compensation. The loan was fully funded on January 3, 2001 and was to be repaid in equal quarterly installments of $\$ 3,200,000$ through December 2007. As of December 31, 2007 the outstanding balance had been paid in full.

All four of these credit agreements require us to maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of September 30, 2008 and December 31, 2007.

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 Loan Agreement described above, will be sufficient to satisfy our normal liquidity needs through at least the next 12 months. Additionally, we believe that funds generated from future operations will be sufficient to satisfy our normal liquidity needs, including the required annual principal payments on our long-term debt.

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

In December 2001, a universal "shelf" registration statement that we filed with the Securities and Exchange Commission ("SEC") covering the public offering and sale, from time to time, of an aggregate of up to $\$ 250.0$ million of debt and/or equity securities, was declared effective. The net proceeds from the sale of such securities could be used to fund acquisitions and for general corporate purposes, including capital expenditures, and to meet working capital needs. A common stock follow-on offering of 5,000,000 shares in March 2002 was made pursuant to this "shelf" registration statement. As of December 31, 2007, approximately $\$ 90.0$ million of the universal "shelf" registration remains available. This universal "shelf" registration statement will expire on December 1, 2008, so if we should need to publicly raise additional funds, we may need to register additional securities with the SEC.

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## Disclosure Regarding Forward-Looking Statements

We make "forward-looking statements" within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995 throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," "plan" and " or similar words. We have based these statements on our current expectations about future events. Although we believe that our expectations reflected in or suggested by our forward-looking statements are reasonable, our actual results may differ materially from what we currently expect. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include:
material adverse changes in economic conditions in the markets we serve;
future regulatory actions and conditions in the states in which we conduct our business;
competition from others in the insurance agency and brokerage business;
a significant portion of business written by Brown \& Brown is for customers located in Arizona, California, Florida, Georgia, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on our business, although no such conditions have been encountered in the past;
the integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration; and
other risks and uncertainties as may be detailed from time to time in our public announcements and SEC filings.

You should carefully read this report completely and with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

We do not undertake any obligation to publicly update or revise any forward-looking statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our invested assets are held as cash and cash equivalents, restricted cash and investments, available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit. These investments are subject to interest rate risk and equity price risk. The fair values of our cash and cash equivalents, restricted cash and investments, and certificates of deposit at September 30, 2008 and December 31, 2007 approximated their respective carrying values due to their short-term duration and therefore such market risk is not considered to be material.

We do not actively invest or trade in equity securities. In addition, we generally dispose of any significant equity securities received in conjunction with an acquisition shortly after the acquisition date. As of December 31, 2006, our largest security investment was 559,970 common stock shares of Rock-Tenn Company, a New York Stock Exchange-listed company, which we had owned for more than 25 years. Our investment in Rock-Tenn Company
accounted for $81 \%$ of the total value of available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit as of December 31, 2006. Rock-Tenn Company's closing stock price at December 31, 2006 was $\$ 27.11$. In late January 2007, the stock of Rock-Tenn Company began trading in excess of $\$ 32.00$ per share and the Board of Directors authorized the sale of one-half of our investment, and subsequently authorized the sale of the balance of the shares. We realized a gain in excess of our original cost basis of $\$ 8.8$ million in the first quarter of 2007 and $\$ 9.9$ million in the second quarter of 2007. As of June 30,2007 , we no longer own any shares of Rock-Tenn Company and thus have no current exposure to equity price risk relating to the common stock of Rock-Tenn Company.

To hedge the risk of increasing interest rates from January 2, 2002 through the remaining six years of our seven-year $\$ 90$ million term loan, on December 5, 2001 we entered into an interest rate exchange, or "swap", agreement that effectively converted the floating rate interest payments based on LIBOR to fixed interest rate payments at $4.53 \%$. This agreement did not impact or change the required $0.50 \%$ to $1.00 \%$ credit risk spread portion of the term loan. We do not otherwise enter into derivatives, swaps or other similar financial instruments for trading or speculative purposes. As of December 31, 2007, the interest rate swap agreement expired in conjunction with the final principal payment on the loan agreement.

## ITEM 4. CONTROLS AND PROCEDURES

## Evaluation of Disclosure Controls and Procedures

We carried out an evaluation (the "Evaluation") required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 and 15d-15 under the Exchange Act ("Disclosure Controls"). Based on the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls provide reasonable assurance that the Disclosure Controls, as described in this Item 4, are effective in alerting them timely to material information required to be included in our periodic reports to the Securities and Exchange Commission.

## Changes in Internal Controls

There has not been any change in our internal control over financial reporting identified in connection with the Evaluation that occurred during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, those controls.

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

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

## CEO and CFO Certifications

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

## PART II

## ITEM 1. LEGAL PROCEEDINGS

In Item 3 of Part I of the Company's Annual Report on Form 10-K for its fiscal year ending December 31, 2007, certain information concerning certain legal proceedings and other matters was disclosed. Such information was
current as of the date of filing. During the third quarter of 2008, no new legal proceedings or material developments with respect to existing legal proceedings occurred other than those matters reflected in Note 13 above.

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## ITEM 1A. RISK FACTORS

The following is a discussion of the material changes to the risk factors previously disclosed in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007:

We could incur substantial losses from our cash and investment accounts if one of the financial institutions that we use would happen to fail or be taken over by the U.S. Federal Deposit Insurance Corporation ("FDIC").

Traditionally, we have maintained cash and investment balances, including restricted cash held in premium trust accounts, at various depository institutions in amounts that are significantly in excess of the FDIC insurance limits. While we have recently re-focused our investment and cash management strategy by moving more of our cash into non-interest bearing accounts (which are FDIC insured but not subject to any limits) and money market accounts (which recently became FDIC insured), we still maintain cash and investment balances in excess of the FDIC insurance limits. As the credit crisis persists, the financial strength of some depository institutions has diminished and this trend may continue. If one or more of the depository institutions in which we maintain significant cash balances were to fail, our ability to access these funds might be temporarily or permanently limited, and we could face m00aterial liquidity problems and potential material financial losses.

Our business, and therefore our results of operation and financial condition, may be adversely affected by the current disruption in the U.S. based credit markets and instability of financial systems.

The current disruption in the U.S. based credit markets, the repricing of credit risk and the deterioration of the financial and real estate markets have created increasingly difficult conditions for financial institutions and certain insurance companies. These conditions include significant losses, greater volatility, significantly less liquidity, widening of credit spreads and a lack of price transparency in certain markets. Most recently, such volatility has reached unprecedented levels and credit markets have been illiquid. These conditions have resulted in the failure of a number of financial institutions and unprecedented action by governmental authorities and central banks around the world, including investing in or lending money to financial institutions and insurance companies that are perceived to need additional capital. It is difficult to predict how long these conditions will persist and the extent to which Brown \& Brown's markets, products and business will be adversely affected.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. Although we are not currently experiencing any limitation of access to our revolving credit facility (which matures in 2013) and are not aware of any issues impacting the ability or willingness of our lenders under such facility to honor their commitments to extend us credit, the failure of a lender could adversely affect our ability to borrow on that facility, which over time could negatively impact our ability to consummate significant acquisitions or make other significant capital expenditures. Continued adverse conditions in the credit markets in future years could adversely affect the availability and terms of future borrowings or renewals or refinancings.

We also have a significant amount of trade accounts receivable from some of the insurance companies with which we place insurance. If those insurance companies experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us, which could have a significant adverse impact on our financial condition and results of operations.

## ITEM 6. EXHIBITS

The following exhibits are filed as a part of this Report:
3.1 Articles of Amendment to Articles of Incorporation (adopted April 24, 2003) (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 2003), and Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 1999).
3.2 Bylaws (incorporated by reference to Exhibit 3b to Form 10-K for the year ended December 31, 2002).
31.1 Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
31.2 Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
32.1 Section 1350 Certification by the Chief Executive Officer of the Registrant.
32.2 Section 1350 Certification by the Chief Financial Officer of the Registrant.

## SIGNATURE

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

BROWN \& BROWN, INC.

Date: November 10, 2008
/s/ CORY T. WALKER
Cory T. Walker
Sr. Vice President, Chief Financial Officer and
Treasurer
(duly authorized officer, principal financial officer and principal
accounting officer)

