

BROWN & BROWN INC
Form 10-Q
August 10, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from _____ to _____

Commission file number 001-13619

BROWN & BROWN, INC.

(Exact name of Registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

59-0864469
(I.R.S. Employer Identification
Number)

220 South Ridgewood Avenue,
Daytona Beach, FL
(Address of principal executive
offices)

32114
(Zip Code)

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

Registrant's Website: www.bbinsurance.com

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

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submit and post such files).

Yes ☐ No ☐

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

Large accelerated
filer ☒

Accelerated filer ☐

Non-accelerated
filer ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the Registrant's common stock, \$.10 par value, outstanding as of August 6, 2009 was 141,477,011.

BROWN & BROWN, INC.

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, “we”, “Brown & Brown” or the “Company”), makes “forward-looking statements” within the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “estimate,” “plan” and “continue” or similar words. We have based these statements on our current expectations about future events. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-Q and those reports, statements, information and announcements are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include the following items, in additions to those matters described in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A “Risk Factors”:

Material adverse changes in economic conditions in the markets we serve and in the general economy;

Future regulatory actions and conditions in the states in which we conduct our business;

Competition from others in the insurance agency, wholesale brokerage, insurance programs and service business;

A significant portion of business written by Brown & Brown is for customers located in California, Florida, Indiana, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on our business;

The integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration; and

Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (“SEC”) filings.

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

PART I -FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS (UNAUDITED)

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

(in thousands, except per share data)	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
REVENUES				
Commissions and fees	\$ 244,595	\$ 238,835	\$ 508,559	\$ 492,363
Investment income	460	1,909	770	3,908
Other income, net	1,314	976	620	2,164
Total revenues	246,369	241,720	509,949	498,435
EXPENSES				
Employee compensation and benefits	122,625	120,514	249,966	241,701
Non-cash stock-based compensation	1,695	1,800	3,511	3,744
Other operating expenses	35,620	34,384	71,484	65,588
Amortization	12,519	11,392	24,904	22,508
Depreciation	3,299	3,292	6,632	6,538
Interest	3,632	3,744	7,266	7,178
Total expenses	179,390	175,126	363,763	347,257
Income before income taxes	66,979	66,594	146,186	151,178
Income taxes	26,311	26,196	57,506	59,020
Net income	\$ 40,668	\$ 40,398	\$ 88,680	\$ 92,158
Net income per share:				
Basic	\$ 0.29	\$ 0.29	\$ 0.63	\$ 0.65
Diluted	\$ 0.29	\$ 0.29	\$ 0.63	\$ 0.65
Weighted average number of shares outstanding:				
Basic	141,523	140,723	141,540	140,713
Diluted	141,888	141,265	141,865	141,330
Dividends declared per share	\$ 0.075	\$ 0.07	\$ 0.15	\$ 0.14

See accompanying notes to condensed consolidated financial statements.

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED
BALANCE SHEETS
(UNAUDITED)

	June 30, 2009	December 31, 2008
(in thousands, except per share data)		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 189,994	\$ 78,557
Restricted cash and investments	160,121	144,750
Short-term investments	7,640	7,511
Premiums, commissions and fees receivable	235,463	244,515
Deferred income taxes	—	14,171
Other current assets	24,302	33,528
Total current assets	617,520	523,032
Fixed assets, net	63,189	63,520
Goodwill	1,050,720	1,023,372
Amortizable intangible assets, net	488,021	495,627
Other assets	10,762	14,029
Total assets	\$ 2,230,212	\$ 2,119,580
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	\$ 397,991	\$ 357,707
Premium deposits and credits due customers	39,003	43,577
Accounts payable	33,378	18,872
Accrued expenses	78,493	96,325
Current portion of long-term debt	4,015	6,162
Total current liabilities	552,880	522,643
Long-term debt	250,289	253,616
Deferred income taxes, net	98,635	90,143
Other liabilities	15,223	11,437
Shareholders' Equity:		
Common stock, par value \$0.10 per share; authorized 280,000 shares; issued and outstanding 141,481 at 2009 and 141,544 at 2008	14,148	14,154
Additional paid-in capital	254,185	250,167
Retained earnings	1,044,852	977,407
Accumulated other comprehensive income, net of related income tax effect of \$0 at 2009 and \$8 at 2008	—	13

Total shareholders' equity	1,313,185	1,241,741
Total liabilities and shareholders' equity	\$ 2,230,212	\$ 2,119,580

See accompanying notes to condensed consolidated financial statements.

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

	For the six months ended June 30,	
(in thousands)	2009	2008
Cash flows from operating activities:		
Net income	\$ 88,680	\$ 92,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	24,904	22,508
Depreciation	6,632	6,538
Non-cash stock-based compensation	3,511	3,744
Deferred income taxes	22,670	25,934
Net loss (gain) on sales of investments, fixed assets and customer accounts	462	(759)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:		
Restricted cash and investments (increase) decrease	(15,371)	38,774
Premiums, commissions and fees receivable decrease (increase)	10,919	(21,098)
Other assets decrease (increase)	11,509	(3,708)
Premiums payable to insurance companies increase	39,686	26,209
Premium deposits and credits due customers (decrease)	(4,703)	(9,004)
Accounts payable increase	14,394	136
Accrued expenses (decrease)	(18,315)	(17,678)
Other liabilities increase (decrease)	9	(1,386)
Net cash provided by operating activities	184,987	162,368
Cash flows from investing activities:		
Additions to fixed assets	(6,262)	(8,194)
Payments for businesses acquired, net of cash acquired	(38,773)	(187,042)
Proceeds from sales of fixed assets and customer accounts	634	2,703
Purchases of investments	(4,247)	(3,950)
Proceeds from sales of investments	4,098	810
Net cash used in investing activities	(44,550)	(195,673)
Cash flows from financing activities:		
Proceeds from long-term debt	—	25,000
Payments on long-term debt	(8,266)	(10,767)
Borrowings on revolving credit facility	7,580	—
Payments on revolving credit facility	(7,580)	—
Issuances of common stock for employee stock benefit plans	501	535
Cash dividends paid	(21,235)	(19,697)
Net cash (used in) provided by financing activities	(29,000)	(4,929)
Net increase (decrease) in cash and cash equivalents	111,437	(38,234)
Cash and cash equivalents at beginning of period	78,557	38,234
Cash and cash equivalents at end of period	\$ 189,994	\$ —

See accompanying notes to condensed consolidated financial statements.

BROWN & BROWN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 · Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries is a diversified insurance agency, wholesale brokerage, insurance programs and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, professional, public and quasi-public entities, and individual customers; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial insurance and reinsurance, primarily through independent agents and brokers; the National Programs Division, which is composed of two units — Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public and quasi-public entities and market niches; 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, 2008.

Results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

NOTE 3 · 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 June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Net income	\$ 40,668	\$ 40,398	\$ 88,680	\$ 92,158

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Weighted average number of common shares Outstanding	141,523	140,723	141,540	140,713
Dilutive effect of stock options using the treasury stock method	365	542	325	617
Weighted average number of shares Outstanding	141,888	141,265	141,865	141,330
Net income per share:				
Basic	\$ 0.29	\$ 0.29	\$ 0.63	\$ 0.65
Diluted	\$ 0.29	\$ 0.29	\$ 0.63	\$ 0.65

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NOTE 4 · New Accounting Pronouncements

Business Combinations — In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards 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 acquirer has not acquired 100% of its target. Additionally, the fair value of contingent consideration arrangements (such as earnout purchase arrangements) at the acquisition date must be included in the purchase price consideration. Transaction costs are 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. Effective January 1, 2009, the Company adopted SFAS 141R on a prospective basis. As a result, the recorded purchase price for all acquisitions consummated after January 1, 2009 will include an estimation of the fair value of liabilities associated with any potential earnout provisions. Subsequent changes in these earnout obligations will be recorded in the consolidated statement of income when incurred. Potential earnout obligations are typically based upon future earnings of the acquired entities, usually between one to three years.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (“FSP 142-3”). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. This pronouncement requires enhanced disclosures concerning a company’s treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of FSP 142-3 did not have any material impact on our consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, Accounting for Defensive Intangible Assets (“EITF 08-7”). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period the asset diminished in value. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141R and SFAS 157. EITF 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of EITF 08-7 did not have any material impact on our consolidated financial statements.

Subsequent Events - In May 2009, the FASB issued SFAS No. 165 Subsequent Events, (“SFAS 165”), which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS 165 is effective on a prospective basis for interim or annual periods ending after June 15, 2009, and was adopted on June 1, 2009. This standard did not have a material impact on the Company’s financial condition, results of operations and cash flows.

Subsequent events have been evaluated through the date and time the condensed consolidated financial statements were issued on August 10, 2009. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in our condensed consolidated financial statements.

International Accounting Standards — International Financial Reporting Standards (“IFRS”) are a set of standards and interpretations adopted by the International Accounting Standards board. The Securities and Exchange Commission is currently considering a potential IFRS adoption process in the United States, which could, in the near

term, provide domestic issuers with an alternative accounting method and which could ultimately replace U.S. GAAP reporting requirements with IFRS reporting requirements. We are currently investigating the implications should we be required to adopt IFRS in the future.

NOTE 5 · Business Combinations

Acquisitions in 2009

For the six months ended June 30, 2009, Brown & Brown acquired the assets and assumed certain liabilities of six insurance intermediaries and a book of business (customer accounts). The aggregate purchase price of these acquisitions was \$41,415,000 including \$36,285,000 of net cash payments, the assumption of \$1,323,000 of liabilities and \$3,807,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 will include an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

The fair value of earn-out obligations is based on the present value of the expected future payments to be made to the sellers of the acquired businesses in accordance with the provisions outlined in the respective purchase agreements. In determining fair value, the acquired business's future performance is estimated using financial projections developed by management for the acquired business and reflects market participant assumptions regarding revenue growth and/or profitability. The expected future payments are estimated on the basis of the earn-out formula and performance targets specified in each purchase agreement compared to the associated financial projections. These payments are then discounted to present value using a risk-adjusted rate that takes into consideration the likelihood that the forecasted earn-out payments will be made. The change to the fair value of earn-out obligations recorded in net income for the three or six months ended June 30, 2009 was not material.

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

(in thousands)		2009	Net		Recorded	Recorded	Maximum
Name	Business Segment	Date of Acquisition	Cash Paid	Note Payable	Earn-out Payable	Purchase Price	Potential Earn-out Payable
Conner Strong Companies, Inc.	Retail	January 2	\$ 23,621	\$ —	\$ —	\$ 23,621	\$ —
Other	Various	Various	12,664	—	3,807	16,471	8,666
Total			\$ 36,285	\$ —	\$ 3,807	\$ 40,092	\$ 8,666

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

(in thousands)	Conner Strong	Other	Total
Fiduciary cash	\$ —	\$ —	\$ —
Other current assets	556	1,310	1,866
Fixed assets	52	96	148
Goodwill	14,062	8,062	22,124
Purchased customer accounts	9,100	8,114	17,214
Noncompete agreements	—	65	65
Other assets	—	(2)	(2)
Total assets acquired	23,770	17,645	41,415

Other current liabilities	(149)	(1,174)	(1,323)
Total liabilities assumed	(149)	(1,174)	(1,323)
Net assets acquired	\$ 23,621	\$ 16,471	\$ 40,092

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

Goodwill of \$22,124,000, of which \$19,072,000 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 \$18,112,000, \$93,000, \$3,919,000 and \$0, respectively.

The results of operations for the acquisitions completed during 2009 have been combined with those of the Company since their respective acquisition dates. The total revenues and net loss from the acquisitions completed during 2009 included in the Condensed Consolidated Statement of Income for the three months ended June 30, 2009 was \$3,359,000 and \$26,000, respectively. The total revenues and net income from the acquisitions completed during 2009 included in the Condensed Consolidated Statement of Income for the six months ended June 30, 2009 was \$6,364,000 and \$474,000, respectively. If the acquisitions had occurred as of the beginning of each period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED) (in thousands, except per share data)	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Total revenues	\$ 246,723	\$ 245,956	\$ 512,685	\$ 507,766
Income before income taxes	67,097	68,046	147,139	154,348
Net income	40,740	41,279	89,258	94,090
Net income per share:				
Basic	\$ 0.29	\$ 0.29	\$ 0.63	\$ 0.67
Diluted	\$ 0.29	\$ 0.29	\$ 0.63	\$ 0.67
Weighted average number of shares outstanding:				
Basic	141,523	140,723	141,540	140,713
Diluted	141,888	141,265	141,865	141,330

Acquisitions in 2008

For the six months ended June 30, 2008, Brown & Brown acquired the assets and assumed certain liabilities of 20 insurance intermediaries, the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price of these acquisitions was \$194,400,000, including \$182,698,000 of net cash payments, the issuance of \$4,713,000 in notes payable and the assumption of \$6,989,000 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)		2008	Net		Recorded
Name	Business Segment	Date of Acquisition	Cash Paid	Notes Payable	Purchase Price
LDP Consulting Group, Inc.	Retail	January 24	39,226	—	39,226
Powers & Effler Insurance Brokers	Retail	April 1	25,029	—	25,029
HBA Insurance Group, Inc.	Retail	June 1	48,297	2,000	50,297

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Other	Various	Various	70,146	2,713	72,859
Total			\$ 182,698	\$ 4,713	\$ 187,411

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

(in thousands)	LDP	Powers	HBA	Other	Total
Fiduciary cash	\$ 173	\$ —	\$ —	\$ —	173
Other current assets	1,121	75	—	1,201	2,397
Fixed assets	19	353	652	451	1,475
Goodwill	29,108	17,220	35,149	44,034	125,511
Purchased customer accounts	13,958	7,545	14,390	28,421	64,314
Noncompete agreements	55	11	141	301	508
Other Assets	11	—	—	11	22
Total assets acquired	44,445	25,204	50,332	74,419	194,400
Other current liabilities	(5,219)	(175)	(35)	(1,560)	(6,989)
Total liabilities assumed	(5,219)	(175)	(35)	(1,560)	(6,989)
Net assets acquired	\$ 39,226	\$ 25,029	\$ 50,297	\$ 72,859	\$ 187,411

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

Goodwill of \$125,511,000, all of which 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 \$121,568,000, \$3,623,000, \$320,000 and \$0, 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)	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Total revenues	\$ 247,078	\$ 265,896	\$ 518,419	\$ 544,217
Income before income taxes	68,337	90,937	157,777	195,672
Net income	41,456	55,977	96,181	119,739
Net income per share:				
Basic	\$ 0.29	\$ 0.40	\$ 0.68	\$ 0.85
Diluted	\$ 0.29	\$ 0.40	\$ 0.68	\$ 0.85
Weighted average number of shares outstanding:				
Basic	140,723	140,384	140,713	140,303
Diluted	141,265	141,120	141,330	141,170

For acquisitions consummated prior to January 1, 2009, additional consideration paid to sellers as a result of purchase price "earn-out" provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by the Company in 2009 as a result of these adjustments totaled \$5,280,000, of which \$5,224,000 was allocated to goodwill, \$31,000 to noncompete agreements and \$25,000 to purchased customer accounts. Of the \$5,280,000 net additional consideration paid, \$2,488,000 was paid in cash and \$2,792,000 was issued in notes payable. The net additional consideration paid by the Company in 2008 as a result of these adjustments totaled \$7,157,000, of which \$7,106,000 was allocated to goodwill, \$30,000 to non-compete agreements and \$21,000 of net liabilities were forgiven. Of the \$7,157,000 net additional consideration paid, \$4,517,000 was paid in cash and \$2,640,000 was issued in notes payable. As of June 30, 2009, the maximum future contingency payments related to acquisitions totaled \$203,216,000, of which \$3,807,000 is recorded as non-current other liabilities.

NOTE 6 · Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. Brown & Brown completed its most recent annual assessment as of November 30, 2008 and identified no impairment as a result of the evaluation.

The changes in goodwill for the six months ended June 30, 2009 are as follows:

(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Total
Balance as of January 1, 2009	\$ 620,588	\$ 246,216	\$ 147,298	\$ 9,270	\$ 1,023,372
Goodwill of acquired businesses	22,478	200	4,670	—	27,348
Goodwill disposed of relating to sales of businesses	—	—	—	—	—
Balance as of June 30, 2009	\$ 643,066	\$ 246,416	\$ 151,968	\$ 9,270	\$ 1,050,720

NOTE 7 · Amortizable Intangible Assets

Amortizable intangible assets at June 30, 2009 and December 31, 2008 consisted of the following:

(in thousands)	June 30, 2009				December 31, 2008			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (years)
Purchased customer accounts	\$ 742,126	\$ (256,047)	\$ 486,079	14.9	\$ 724,953	\$ (231,748)	\$ 493,205	14.9
Noncompete agreements	24,551	(22,609)	1,942	7.3	24,455	(22,033)	2,422	7.3
Total	\$ 766,677	\$ (278,656)	\$ 488,021		\$ 749,408	\$ (253,781)	\$ 495,627	

Amortization expense for other amortizable intangible assets for the years ending December 31, 2009, 2010, 2011, 2012 and 2013 is estimated to be \$49,807,000, \$49,224,000, \$47,791,000, \$47,175,000, and \$46,274,000, respectively.

NOTE 8 · Investments

Investments consisted of the following:

(in thousands)	June 30, 2009 Carrying Value		December 31, 2008 Carrying Value	
	Current	Non-Current	Current	Non-Current
Available-for-sale marketable equity securities	\$ 25	\$ —	\$ 46	\$ —
Non-marketable equity securities and certificates of deposit	7,615	287	7,465	287
Total investments	\$ 7,640	\$ 287	\$ 7,511	\$ 287

The following table summarizes available-for-sale securities:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable equity securities:				
June 30, 2009	\$ 25	\$ 1	\$ —	\$ 26
December 31, 2008	\$ 25	\$ 21	\$ —	\$ 46

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The following table summarizes the proceeds and realized gains/(losses) on non-marketable equity securities and certificates of deposit for the three and six months ended June 30, 2009 and 2008:

(in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses
For the three months ended:			
June 30, 2009	\$ 3,536	\$ —	\$ —
June 30, 2008	\$ 657	\$ 464	\$ (9)
For the six months ended:			
June 30, 2009	\$ 4,098	\$ —	\$ —
June 30, 2008	\$ 707	\$ 542	\$ (9)

NOTE 9 · Long-Term Debt

Long-term debt at June 30, 2009 and December 31, 2008 consisted of the following:

(in thousands)	2009	2008
Unsecured senior notes	\$ 250,000	\$ 250,000
Acquisition notes payable	4,230	9,665
Revolving credit facility	—	—
Other notes payable	74	113
Total debt	254,304	259,778
Less current portion	(4,015)	(6,162)
Long-term debt	\$ 250,289	\$ 253,616

In 2004, the Company completed a private placement of \$200.0 million of unsecured senior notes (the “Notes”). The \$200.0 million is divided into two series: (1) Series A, which closed on September 15, 2004, for \$100.0 million due in 2011 and bearing interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for \$100.0 million due in 2014 and bearing interest at 6.08% per year. Brown & Brown used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of June 30, 2009 and December 31, 2008, 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 Agreement occurred on December 22, 2006, through the issuance of \$25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, \$25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year were issued. As of June 30, 2009 and December 31, 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 0.595% and 1.43% as of June 30, 2009 and December 31, 2008, respectively. There were no borrowings against this facility at June 30, 2009 or December 31, 2008.

All three of these outstanding 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 June 30, 2009 and December 31, 2008.

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

NOTE 10 · Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

(in thousands)	For the six months ended June 30,	
	2009	2008
Cash paid during the period for:		
Interest	\$ 7,323	\$ 6,915
Income taxes	\$ 24,226	\$ 44,431

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

(in thousands)	For the six months ended June 30,	
	2009	2008
Unrealized holding (loss) gain on available-for-sale securities, net of tax benefit of \$7 for 2009; net of tax benefit of \$3 for 2008	\$ (13)	\$ (5)
Notes payable issued or assumed for purchased customer accounts	\$ 6,599	\$ 7,353
Notes receivable on the sale of fixed assets and customer accounts	\$ (981)	\$ 162

NOTE 11 · Comprehensive Income

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

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Net income	\$ 40,668	\$ 40,398	\$ 88,680	\$ 92,158
Net unrealized holding loss (gain) on available-for-sale securities	1	(6)	(13)	(5)
Comprehensive income	\$ 40,669	\$ 40,392	\$ 88,667	\$ 92,153

NOTE 12 · Legal and Regulatory Proceedings

Legal Proceedings

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

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

Governmental Investigations Regarding Compensation Practices

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

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

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

For a more complete discussion of the foregoing matters, please see Item 3 of Part I of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for our fiscal year ended December 31, 2008 and Note 13 to the Consolidated Financial Statements contained in Item 8 of Part II thereof.

NOTE 13 · Segment Information

Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, governmental, professional and individual customers; the 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 composed of two units - Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services 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 administration, consulting for the workers' compensation and employee benefit self-insurance markets, managed healthcare services and 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 had \$2.6 million of revenues for the year ended December 31, 2008, and \$3.1 million of revenues for the first six months of 2009.

Summarized financial information concerning Brown & Brown's reportable segments for the six months ended June 30, 2009 and 2008 is shown in the following table. The "Other" column includes any income and expenses not allocated to reportable segments and corporate-related items, including the inter-company interest expense charge to the reporting segment.

For the six months ended June 30, 2009						
(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Other	Total
Total revenues	\$ 307,163	\$ 83,441	\$ 101,313	\$ 16,355	\$ 1,677	\$ 509,949
Investment income	152	47	2	12	557	770
Amortization	14,975	5,117	4,562	231	19	24,904
Depreciation	3,061	1,436	1,324	188	623	6,632
Interest	16,511	7,449	2,861	359	(19,914)	7,266
Income before income taxes	69,893	11,568	41,678	3,625	19,422	146,186
Total assets	1,739,230	654,210	644,934	45,582	(853,744)	2,230,212
Capital expenditures	2,101	1,884	2,193	87	(3)	6,262

For the six months ended June 30, 2008						
(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Other	Total
Total revenues	\$ 304,456	\$ 92,682	\$ 82,901	\$ 15,911	\$ 2,485	\$ 498,435
Investment income	749	824	186	(1)	2,150	3,908
Amortization	12,675	5,033	4,550	231	19	22,508
Depreciation	2,959	1,444	1,322	220	593	6,538
Interest	13,579	9,313	4,056	366	(20,136)	7,178
Income before income taxes	82,652	14,270	26,887	3,573	23,796	151,178
Total assets	1,582,866	683,470	564,174	43,022	(800,699)	2,072,833
Capital expenditures	2,157	3,262	1,368	126	1,281	8,194

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

THE FOLLOWING DISCUSSION UPDATES THE MD&A CONTAINED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED IN 2008, AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.

GENERAL

We are a diversified insurance agency, wholesale brokerage and services organization headquartered in Daytona Beach and Tampa, Florida. As an insurance intermediary, our principal sources of revenue are commissions paid by insurance companies and, to a lesser extent, fees paid directly by customers. Commission revenues generally represent a percentage of the premium paid by an insured and are materially affected by fluctuations in both premium rate levels charged by insurance companies and the insureds' underlying "insurable exposure units," which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, sales and payroll levels) in order to determine what premium to charge the 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.

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

Our culture is a strong, decentralized sales culture with a focus on consistent, sustained growth over the long term. Our senior leadership group includes 11 executive officers with regional responsibility for oversight of designated operations within the Company. Effective July 1, 2009, J. Powell Brown, who previously served as President of Brown & Brown, Inc., succeeded his father, J. Hyatt Brown, when he retired from the position of Chief Executive Officer. Mr. Hyatt Brown will continue to serve as Chairman of the Board, and will continue to be actively involved with acquisitions and recruitment.

We have increased annual revenues from \$95.6 million in 1993 (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to \$977.6 million in 2008, a compound annual growth rate of 16.8%. In the same period, we increased annual net income from \$8.0 million (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to \$166.1 million in 2008, a compound annual growth rate of 22.4%. From 1993 through 2006, excluding the historical impact of poolings, our pre-tax margins (income before income taxes and minority interest divided by total revenues) improved in all but one year, and in that year, the pre-tax margin was essentially flat. These improvements resulted primarily from net new business growth (new business production offset by lost business), revenues generated by acquisitions, and continued operating efficiencies.

We experienced increased overall revenue growth in 2008, which was primarily attributable to our acquisition in 2008 of 45 agency entities and several books of business (customer accounts) that generated total annualized revenues of approximately \$120.2 million. In the first six months of 2009, we acquired six agency entities and a book of business (customer accounts) that generated total annualized revenues of approximately \$17.8 million.

Despite this increased overall revenue growth, however, the past two years have posed significant challenges for us and for our industry in the form of a prevailing decline in insurance premium rates, commonly referred to as a "soft

market,” increased significant governmental involvement in the Florida insurance marketplace and beginning in the second half of 2008, increased pressure on the number of insurable exposure units as the consequence of the general weakening of the economy in the United States. Due to these challenges, among others, we have suffered substantial loss of revenues. While insurance premium rates declined during most of 2008 in most lines of coverage, the rate of the decline seemed to slow in the second half of 2008 and the first six months of 2009. For the remaining six months of 2009, continued declining exposure units are likely to have a greater negative impact on our commissions and fees revenues than will any declining insurance premium rates.

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 the other aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 6.1% of the previous year’s total commissions and fees revenue. Profit-sharing contingent commissions are typically included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term “core commissions and fees” that we use herein excludes profit-sharing contingent commissions and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In 2007 and 2008, six national insurance companies announced the replacement of the current loss-ratio based profit-sharing contingent commission calculation with a more guaranteed fixed-based methodology, referred to as “Guaranteed Supplemental Commissions” (“GSC”). Since this new GSC is not subject to the uncertainty of loss ratios, earnings are accrued throughout the year based on actual premiums written and included in our calculations of “core commissions and fees.” During 2008, \$13.4 million was earned from GSC, of which most was collected in the first quarter of 2009. For the six months ended June 30, 2009 and 2008, \$8.4 million and \$6.5 million, respectively was earned from GSC.

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. Fee revenues, as a percentage of our total commissions and fees, represented 13.7% in 2008, 14.3% in 2007 and 14.1% in 2006.

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. As a result of the bank liquidity and solvency issues in the United States in the last quarter of 2008, we moved substantial amounts of our cash into non-interest bearing checking accounts so that they would be fully insured by the Federal Depository Insurance Corporation (“FDIC”) or into money-market investment funds, (a portion of which recently became FDIC insured) of SunTrust and Wells Fargo, two large banks. Investment income also includes gains and losses realized from the sale of investments.

Florida Insurance Overview

Many states have established “Residual Markets,” which are governmental or quasi-governmental insurance facilities that provide coverage to individuals and/or businesses that cannot buy insurance in the private marketplace, i.e., “insurers of last resort.” These facilities can be 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 and Citizens therefore charged insurance rates that were higher than those prevailing in the general 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, insurance rates increased in 2006. To counter the increased property insurance rates, the State of Florida instructed Citizens to essentially cut its property insurance rates in half beginning in January 2007. By state law, Citizens has guaranteed these rates through January 1, 2010. Therefore, Citizens became one of the most, if not the most, competitive risk-bearers for a large percentage of the commercial habitational coastal property exposures, such as condominiums, apartments, and certain assisted living facilities.

Additionally, Citizens became the only reasonably available insurance market for certain homeowner policies throughout Florida. By the end of 2007 and throughout 2008 and the first six months of 2009, Citizens was one of the largest underwriters of coastal property exposures in Florida.

Since Citizens became the principal direct competitor of the insurance carriers that underwrite the condominium program administered by Florida Intracoastal Underwriters ("FIU"), one of our subsidiaries, and the excess and surplus lines insurers represented by our Florida-based wholesale brokers such as Hull & Company, another of our subsidiaries, these operations lost significant amounts of revenue to Citizens during 2007. During 2008, FIU's revenues were relatively flat and therefore, Citizens's impact was not as dramatic as in 2007. However, Citizens continued to be very competitive against the excess and surplus lines insurers and therefore significantly negatively affected the revenues of our Florida-based wholesale brokerage operations.

Citizens's impact on our Florida Retail Division was less severe than on our National Program and Wholesale Brokerage Divisions, because to our Florida Retail Division, Citizens represents another risk-bearer with which to write business, although at slightly lower commission rates and greater difficulty in placing coverage. Citizens's rates for 2009 will remain relatively unchanged. Based on new legislation passed into law during the second quarter of 2009, however, Citizens's rates will increase by approximately 10% effective January 1, 2010.

Company Overview – Second Quarter of 2009

For the tenth consecutive quarter, we recorded negative internal revenue growth of our core commissions and fees revenues as a direct result of the continuing “soft market,” the competitiveness of Citizens, and the general weakness of the economy since the second half of 2008. Our total commissions and fees revenues excluding the effect of recent acquisitions, profit-sharing contingencies and sales of books of businesses over the last three months, had a negative internal growth rate of (4.7)%. Offsetting the negative internal growth rate was a strong quarter of revenue from acquisitions completed in 2008 and the first six months of 2009.

Acquisitions

During the first six months of 2009, we acquired the assets and assumed certain liabilities of six insurance intermediary operations, and a book of business (customer accounts). The aggregate purchase price was \$41.4 million, including \$36.3 million of net cash payments, the issuance, the assumption of \$1.3 million of liabilities and \$3.8 million of recorded earn-out payables. These acquisitions had estimated aggregate annualized revenues of \$17.8 million.

During the first six months of 2008, we acquired the assets and assumed certain liabilities of 21 insurance intermediary operations, the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price was \$194.4 million, including \$182.7 million of net cash payments, the issuance of \$4.7 million in notes payable and the assumption of \$7.0 million of liabilities. These acquisitions had estimated aggregate annualized revenues of \$77.7 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 and reserves for litigation. In particular, the accounting for these areas requires significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 in the “Notes to Consolidated Financial Statements” in our Annual Report on Form 10-K for the year ended December 31, 2008 on file with the Securities and Exchange Commission (“SEC”) for details regarding our critical and significant accounting policies. In addition, refer to Note 4 in the “Notes to Condensed Consolidated Financial Statements” in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, for a description of the new accounting rules governing business acquisitions.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

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

Financial information relating to our Condensed Consolidated Financial Results for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,			For the six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
REVENUES						
Commissions and fees	\$ 237,789	\$ 233,423	1.9%	\$ 471,827	\$ 450,604	4.7%
Profit-sharing contingent commissions	6,806	5,412	25.8%	36,732	41,759	(12.0)%
Investment income	460	1,909	(75.9)%	770	3,908	(80.3)%
Other income, net	1,314	976	34.6%	620	2,164	(71.3)%
Total revenues	246,369	241,720	1.9%	509,949	498,435	2.3%
EXPENSES						
Employee compensation and benefits	122,625	120,514	1.8%	249,966	241,701	3.4%
Non-cash stock-based compensation	1,695	1,800	(5.8)%	3,511	3,744	(6.2)%
Other operating expenses	35,620	34,384	3.6%	71,484	65,588	9.0%
Amortization	12,519	11,392	9.9%	24,904	22,508	10.6%
Depreciation	3,299	3,292	0.2%	6,632	6,538	1.4%
Interest	3,632	3,744	(3.0)%	7,266	7,178	1.2%
Total expenses	179,390	175,126	2.4%	363,763	347,257	4.8%
Income before income taxes	66,979	66,594	0.6%	146,186	151,178	(3.3)%
Income taxes	26,311	26,196	0.4%	57,506	59,020	(2.6)%
NET INCOME	\$ 40,668	\$ 40,398	0.7%	\$ 88,680	\$ 92,158	(3.8)%
Net internal growth rate – core commissions and fees	(4.7)%	(7.9)%		(3.5)%	(6.1)%	
Employee compensation and benefits ratio	49.8%	49.9%		49.0%	48.5%	
Other operating expenses ratio	14.5%	14.2%		14.0%	13.2%	
Capital expenditures	\$ 3,104	\$ 4,133		\$ 6,262	\$ 8,194	
Total assets at June 30, 2009 and 2008				\$ 2,230,212	\$ 2,072,833	

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions, for the second quarter of 2009 increased \$5.8 million, or 2.4%, over the same period in 2008. Profit-sharing contingent commissions for the second quarter of 2009 increased \$1.4 million over the second quarter of 2008, to \$6.8 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 second quarter of 2009 increased \$6.1 million, of which approximately \$17.1 million represents core commissions and fees from acquisitions that had no comparable operations in the same period of 2008. After divested business of \$1.7 million, the remaining net decrease of \$11.0 million represents net lost business, which reflects a (4.7)% internal growth rate for core commissions and fees.

Commissions and fees, including profit-sharing contingent commissions, for the six months ended June 30, 2009 increased \$16.2 million, or 3.3%, over the same period in 2008. For the six months ended June 30, 2009, profit-sharing contingent commissions decreased \$5.0 million from the comparable period in 2008, to \$36.7 million. Core commissions and fees revenue for the first six months of 2009 increased \$24.8 million, of which approximately \$40.4 million of the total increase represents core commissions and fees from acquisitions that had no comparable operations in the same period of 2008. After divested business of \$3.6 million, the remaining net decrease of \$15.6 million represents net lost business, which reflects a (3.5)% internal growth rate for core commissions and fees.

Investment Income

Investment income for the three months ended June 30, 2009 decreased \$1.4 million, or 75.9%, from the same period in 2008. Investment income for the six months ended June 30, 2009 decreased \$3.1 million, or 80.3%, from the same period in 2008. These decreases are primarily due to substantially lower interest yields on short-term money-market investments.

Other Income, net

Other income for the three months ended June 30, 2009 increased \$0.3 million, or 34.6%, from the same period in 2008. Other income for the six months ended June 30, 2009 decreased \$1.5 million, or 71.3%, from the same period in 2008. 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 second quarter of 2009 increased \$2.1 million, or 1.8%, over the same period in 2008. This increase is primarily related to the addition of new employees from acquisitions completed since May 1, 2008. Employee compensation and benefits as a percentage of total revenue decreased marginally to 49.8% for the second quarter of 2009, from 49.9% for the second quarter of 2008. Of the \$2.1 million increase in employee compensation and benefits, \$5.1 million relates to acquisitions that resulted in stand-alone offices which had no comparable operations in the same period of 2008. Therefore, excluding the impact of these acquisitions of stand-alone offices, there was a net reduction of \$3.0 million in employee compensation and benefits in the offices that operated in both periods.

Employee compensation and benefits for the six months ended June 30, 2009 increased \$8.3 million, or 3.4%, over the same period in 2008. This increase is primarily related to the addition of new employees from acquisitions completed during 2008. Employee compensation and benefits as a percentage of total revenue increased to 49.0% for

the six months ended June 30, 2009, from 48.5% for the six months ended June 30, 2008. Of the \$8.3 million increase in employee compensation and benefits, \$14.8 million relates to acquisitions that resulted in stand-alone offices which had no comparable operations in the same period of 2008. Therefore, excluding the impact of these acquisitions of stand-alone offices, there was a net reduction of \$6.5 million in employee compensation and benefits in the offices that operated in both periods.

Non-Cash Stock-Based Compensation

Non-cash stock-based compensation for the three and six months ended June 30, 2009 decreased approximately \$0.1 million, or 5.8% and \$0.2 million or 6.2%, from the same periods in 2008, respectively. For the entire year of 2009, we expect the total non-cash stock-based compensation expense to be slightly more than the total annual cost of \$7.3 million in 2008. The increased annual estimated cost primarily relates to new grants of performance stock (“PSP”) and incentive stock options issued in February 2008.

Other Operating Expenses

Other operating expenses for the second quarter of 2009 increased \$1.2 million, or 3.6%, from the same period in 2008. Other operating expenses as a percentage of total revenue increased to 14.5% for the second quarter of 2009, from 14.2% for the second quarter of 2008. Acquisitions since May 1, 2008 that resulted in stand-alone offices resulted in approximately \$1.5 million of 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 second quarters of both 2009 and 2008.

Other operating expenses for the six months ended June 30, 2009 increased \$5.9 million, or 9.0%, over the same period in 2008. Other operating expenses as a percentage of total revenue increased to 14.0% for the six months ended June 30, 2009, from 13.2% for the six months ended June 30, 2008. Acquisitions since February 1, 2008 that resulted in stand-alone offices resulted in approximately \$3.8 million of increased other operating expenses. Therefore, there was a net increase in other operating expenses of approximately \$2.1 million with respect to offices in existence in the first six months of both 2009 and 2008. Of this increase, \$2.1 million was the result of increased error and omission expenses and reserves, while the remaining net costs were attributable to various other expense categories.

Amortization

Amortization expense for the second quarter of 2009 increased \$1.1 million, or 9.9%, over the second quarter of 2008. Amortization expense for the six months ended June 30, 2009 increased \$2.4 million, or 10.6%, over the same period of 2008. These increases are primarily due to the amortization of additional intangible assets as the result of new acquisitions.

Depreciation

Depreciation expense for the second quarter of 2009 of \$3.3 million was essentially flat with the second quarter of 2008. Depreciation expense for the six months ended June 30, 2009 increased \$0.1 million, or 1.4%, over the same period of 2008. These increases are primarily due to the purchase of new computers, related equipment and software, and the depreciation associated with acquisitions completed since February 1, 2008.

Interest Expense

Interest expense for the second quarter of 2009 decreased \$0.1 million, or 3.0%, from the same period in 2008. For the six months ended June 30, 2009, interest expense increased \$0.1 million, or 1.2%, over the same period in 2008. This increase is 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 13 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 June 30, 2009 and 2008, by divisional units are as follows (in thousands, except percentages):

2009	For the three months ended June 30,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2009	2008					
Florida Retail	\$ 43,991	\$ 45,334	\$ (1,343)	(3.0)%	\$ 2,536	\$ (3,879)	(8.6)%
National Retail	78,857	73,603	5,254	7.1%	9,345	(4,091)	(5.6)%
Western Retail	24,646	23,688	958	4.0%	4,467	(3,509)	(14.8)%
Total Retail(1)	147,494	142,625	4,869	3.4%	16,348	(11,479)	(8.0)%
Wholesale Brokerage	41,409	44,370	(2,961)	(6.7)%	364	(3,325)	(7.5)%
Professional Programs	9,531	9,335	196	2.1%	—	196	2.1%
Special Programs	31,096	27,412	3,684	13.4%	314	3,370	12.3%
Total National Programs	40,627	36,747	3,880	10.6%	314	3,566	9.7%
Services	8,259	7,982	277	3.5%	—	277	3.5%
Total Core Commissions and Fees	\$ 237,789	\$ 231,724	\$ 6,065	2.6%	\$ 17,026	\$ (10,961)	(4.7)%

(1)The Retail segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 13 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 June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,	
	2009	2008
Total core commissions and fees	\$ 237,789	\$ 231,724
Profit-sharing contingent commissions	6,806	5,412
Divested business	—	1,699

Total commission and fees	\$ 244,595	\$ 238,835
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	For the three months ended June 30,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2008	2007					
Florida Retail	\$ 45,806	\$ 50,858	\$ (5,052)	(9.9)%	\$ 2,827	\$ (7,879)	(15.5)%
National Retail	73,920	63,847	10,073	15.8%	14,393	(4,320)	(6.8)%
Western Retail	24,588	23,898	690	2.9%	3,587	(2,897)	(12.1)%
Total Retail(1)	144,314	138,603	5,711	4.1%	20,807	(15,096)	(10.9)%
Wholesale Brokerage	44,362	45,369	(1,007)	(2.2)%	5,294	(6,301)	(13.9)%
Professional Programs	9,353	9,080	273	3.0%	—	273	3.0%
Special Programs	27,412	22,599	4,813	21.3%	147	4,666	20.6%
Total National Programs	36,765	31,679	5,086	16.1%	147	4,939	15.6%
Services	7,982	9,184	(1,202)	(13.1)%	—	(1,202)	(13.1)%
Total Core Commissions and Fees	\$ 233,423	\$ 224,835	\$ 8,588	3.8%	\$ 26,248	\$ (17,660)	(7.9)%

(1) The Retail segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 13 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 June 30, 2008 and 2007 is as follows (in thousands, except percentages):

	For the three months ended June 30,	
	2008	2007
Total core commissions and fees	\$ 233,423	\$ 224,835
Profit-sharing contingent commissions	5,412	2,746
Divested business	—	2,895
Total commission and fees	\$ 238,835	\$ 230,476

The internal growth rates for our core commissions and fees for the six months ended June 30, 2009 and 2008, by divisional units are as follows (in thousands, except percentages):

2009	For the six months ended June 30,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2009	2008					
Florida Retail	\$ 84,122	\$ 86,561	\$ (2,439)	(2.8)%	\$ 6,203	\$ (8,642)	(10.0)%
National Retail	156,384	143,759	12,625	8.8%	20,788	(8,163)	(5.7)%
Western Retail	49,939	44,775	5,164	11.5%	12,033	(6,869)	(15.3)%
Total Retail(1)	290,445	275,095	15,350	5.6%	39,024	(23,674)	(8.6)%
Wholesale Brokerage	75,871	81,248	(5,377)	(6.6)%	1,082	(6,459)	(7.9)%
Professional Programs	20,103	19,580	523	2.7%	—	523	2.7%
Special Programs	69,064	55,212	13,852	25.1%	314	13,538	24.5%
Total National Programs	89,167	74,792	14,375	19.2%	314	14,061	18.8%
Services	16,344	15,915	429	2.7%	—	429	2.7%
Total Core Commissions and Fees	\$ 471,827	\$ 447,050	\$ 24,777	5.5%	\$ 40,420	\$ (15,643)	(3.5)%

(1) The Retail segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 13 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 six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the six months ended June 30,	
	2009	2008
Total core commissions and fees	\$ 471,827	\$ 447,050
Profit-sharing contingent commissions	36,732	41,759
Divested business	—	3,554
Total commission and fees	\$ 508,559	\$ 492,363

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2008	For the six months ended June 30,		Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth \$	Internal Net Growth %
	2008	2007					
Florida Retail	\$ 87,441	\$ 94,749	\$ (7,308)	(7.7)%	\$ 3,748	\$ (11,056)	(11.7)%
National Retail	144,605	115,548	29,057	25.1%	34,235	(5,178)	(4.5)%
Western Retail	46,292	46,324	(32)	(0.1)%	3,849	(3,881)	(8.4)%
Total Retail(1)	278,338	256,621	21,717	8.5%	41,832	(20,115)	(7.8)%
Wholesale Brokerage	81,401	82,636	(1,235)	(1.5)%	10,273	(11,508)	(13.9)%
Professional Programs	19,738	19,518	220	1.1%	—	220	1.1%
Special Programs	55,212	47,083	8,129	17.3%	278	7,851	16.7%
Total National Programs	74,950	66,601	8,349	12.5%	278	8,071	12.1%