

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (NO FEE REQUIRED, EFFECTIVE OCTOBER 7, 1996).

For the fiscal year ended December 31, 1997.

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 0-7201.

POE & BROWN, INC.

(Exact name of Registrant as specified in its charter)

|  |  |
|--|--|
| Florida<br>(State or other jurisdiction of<br>incorporation or organization) | 59-0864469<br>(I.R.S. Employer<br>Identification Number) |
|--|--|

220 South Ridgewood Avenue, Daytona Beach, FL 32114  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (904) 252-9601

Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.10 par value  
(Title of class)  
\_\_\_\_\_

Indicate by check mark whether the Registrant (1) has filed all reports re  
quired 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 ninety (90) days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein and will not be contained, to  
the best of the Registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K .

The aggregate market value of the voting stock held by non-affiliates of  
the Registrant, computed by reference to the last reported price at which  
the stock was sold on March 6, 1998, was \$332,162,522.

The number of shares of the Registrant's common stock, \$.10 par value, out  
standing as of March 6, 1998, was 13,221,016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 1997 Annual Report to Shareholders are  
incorporated by reference into Parts I and II of this Report. With the  
exception of those portions which are incorporated by reference, the  
Registrant's Annual Report to Shareholders is not deemed filed as part of  
this Report.

Portions of the Registrant's Proxy Statement for the 1998 Annual Meeting of  
Shareholders are incorporated by reference into Part III of this Report.

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POE & BROWN, INC.

PART I

ITEM 1. BUSINESS

General

Poe & Brown, Inc. (the "Company") is a general insurance agency headquartered in Daytona Beach and Tampa, Florida that resulted from an April 28, 1993 business combination involving Poe & Associates, Inc. ("Poe") and Brown & Brown, Inc. ("Brown"). Poe was incorporated in 1958 and Brown commenced business in 1939. Industry segment information is not presented because the Company realizes substantially all of its revenues from the general insurance agency business.

The Company is a diversified insurance brokerage and agency that markets and sells primarily property and casualty insurance products and services to its clients. Because the Company does not engage in underwriting activities, it does not assume underwriting risks. Instead, it acts in an agency capacity to provide its customers with targeted, customized risk management products.

The Company is compensated for its services by commissions paid by insurance companies and fees for administration and benefit consulting services. The commission is usually a percentage of the premium paid by an insured. Commission rates generally depend upon the type of insurance, the particular insurance company, and the nature of the services provided by the Company. In some cases, a commission is shared with other agents or brokers who have acted jointly with the Company in a transaction. The Company may also receive from an insurance company a contingent commission that is generally based on the profitability and volume of business placed with it by the Company over a given period of time. Fees are principally generated by the Company's Service Division, which offers administration and benefit consulting services primarily in the workers' compensation and employee benefit markets. The amount of the Company's income from commissions and fees is a function of, among other factors, continued new business production, retention of existing customers, acquisitions, and fluctuations in insurance premium rates and insurable exposure units.

Premium pricing within the property and casualty insurance underwriting industry has been cyclical and has displayed a high degree of volatility based on prevailing economic and competitive conditions. Since the mid-1980s, the property and casualty insurance industry has been in a "soft market" during which the underwriting capacity of insurance companies expanded, stimulating an increase in competition and a decrease in premium rates and related commissions and fees.

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Significant reductions in premium rates occurred during the years 1987 through 1989 and continue, although to a lesser degree, through the present. The effect of this softness in rates on the Company's revenues has been somewhat offset by the Company's acquisitions and new business production. The Company cannot predict the timing or extent of premium pricing changes as a result of market fluctuations or their effect on the Company's operations in the future.

The Company's activities are conducted in 18 locations throughout Florida, three locations in Arizona and in seven additional locations in California, Connecticut, Georgia, New Jersey, Nevada, Pennsylvania, and Texas. Because the Company's business is concentrated in Florida, the occurrence of adverse economic conditions or an adverse regulatory climate in Florida could have a materially adverse effect on its business, although the Company has not encountered such conditions in the past.

The Company's business is divided into five divisions: (i) the Retail Division; (ii) the Professional Programs Division; (iii) the Commercial Programs Division; (iv) the Service Division; and (v) the Brokerage Division. The Retail Division is composed of Company employees in 24 offices who market and sell a broad range of insurance products to insureds. The two Program Divisions work with underwriters to develop proprietary insurance programs for specific niche markets. These programs are marketed and sold primarily through approximately 350 independent agencies and more than 2,000 independent agents across the United States. The Company receives an override on the commissions generated by these independent agencies. The Service Division provides insurance-related services such as third-party administration and consultation for workers' compensation and employee benefit markets. The Brokerage Division markets and sells excess and surplus commercial insurance, as well as certain niche programs, primarily through independent agents.

The following table sets forth a summary of (i) the commission and fee revenues realized from each of the Company's operating divisions for each of the three years in the period ended December 31, 1997 (in thousands of dollars), and (ii) the percentage of the Company's total commission and fee revenues represented by each division for each of such periods:

|                                | 1995             | %           | 1996             | %           | 1997             | %           |
|--------------------------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Retail Division                | \$ 59,552        | 58.4%       | \$ 66,798        | 58.4%       | \$ 74,394        | 59.8%       |
| Professional Programs Division | 21,463           | 21.0        | 20,377           | 17.8        | 20,477           | 16.5        |
| Commercial Programs Division   | 6,079            | 6.0         | 5,355            | 4.7         | 4,368            | 3.5         |
| Service Division               | 10,751           | 10.5        | 11,887           | 10.4        | 12,150           | 9.8         |
| Brokerage Division             | 4,153            | 4.1         | 9,961            | 8.7         | 12,976           | 10.4        |
| Total                          | <u>\$101,998</u> | <u>100%</u> | <u>\$114,378</u> | <u>100%</u> | <u>\$124,365</u> | <u>100%</u> |
|                                | =====            | =====       | =====            | =====       | =====            | =====       |

#### Retail Division

The Company's Retail Division operates through 24 locations in eight states. These locations employ approximately 623 persons. The Company's retail insurance agency business

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consists primarily of selling and marketing property and casualty insurance coverages to commercial, professional and, to a limited extent, individual customers. The categories of insurance principally sold by the Company are: Casualty - insurance relating to legal liabilities, workers' compensation, commercial and private passenger automobile coverages, and fidelity and surety insurance; and Property - insurance against physical damage to property and resultant interruption of business or extra expense caused by fire, windstorm or other perils. The Company also sells and services all forms of group and individual life, accident, health, hospitalization, medical and dental insurance programs. Each category of insurance is serviced by insurance specialists employed by the Company.

No material part of the Company's retail business depends upon a single customer or a few customers. During 1997, the Company's Retail Division received approximately \$578,000 of fees and commissions from Rock-Tenn Company, the Company's largest single Retail Division customer. Such amount represented less than 1% of the Retail Division's total commission and fee revenues for 1997.

In connection with the selling and marketing of insurance coverages, the Company provides a broad range of related services to its customers, such as risk management surveys and analysis, consultation in connection with placing insurance coverages, and claims processing. The Company believes these services are important factors in securing and retaining customers.

#### Professional and Commercial Programs Divisions

In 1996, the Company's National Programs Division was divided into two distinct market-responsive groups as a result of changes in market conditions. The two divisions created as a result of this separation are the Professional Programs Division and the Commercial Programs Division. These divisions tailor insurance products to the needs of a particular professional or trade group, negotiate policy forms, coverages and commission rates with an insurance company and, in certain cases, secure the formal or informal endorsement of the product by a professional association or trade group. Programs are marketed and sold primarily through a national network of independent agencies that solicit customers through advertisements in association publications, direct mailings and personal contact. The Company also markets a variety of these products through certain of its retail offices. Under agency agreements with the insurance companies that underwrite these programs, the Company usually has authority to bind coverages, subject to established guidelines, to bill and collect premiums and, in some cases, to process claims.

The Company is committed to ongoing market research and development of new proprietary programs. The Company employs a variety of methods, including interviews with members of various professional and trade groups to which the Company does not presently offer insurance products, to assess the coverage needs of such professional associations and trade groups. If the initial market research is positive, the Company studies the existing and potential competition and locates potential carriers for the program. A proposal is then submitted to and negotiated with a selected carrier and, in many instances, a professional or trade association from which endorsement of the program is sought. New programs are introduced through written

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communications, personal visits with agents, placements of advertising in trade publications and, where appropriate, participation in trade shows and conventions. Several new programs are currently being reviewed or implemented by the Company. There can be no assurance, however, as to whether the Company will be successful in developing or implementing any such new programs, or what the market reception will be.

Professional Programs. The professional groups serviced by the Professional Programs Division include dentists, lawyers, physicians, optometrists and opticians, chiropractors, architects and engineers. Set forth below is a brief description of the programs offered to these major professional groups.

- Dentists: The largest program marketed by the Professional Programs Division is a package insurance policy known as the Professional Protector Plan, which provides comprehensive coverage for dentists, including practice protection and professional liability. This program, initiated in 1969, is endorsed by 36 state or local dental societies, and is offered in 49 states, the District of Columbia, the Virgin Islands and Puerto Rico. This program presently insures approximately 36,300 dentists, which the Company believes represents approximately 27% of the eligible practicing dentists within the Company's marketing territories.

- Lawyers: The Company began marketing lawyers' professional liability insurance in 1973, and the national Lawyer's Protector Plan was introduced in 1983. The program presently insures approximately 37,500 attorneys and is offered in 46 states, the District of Columbia, Puerto Rico and the

Virgin Islands.

- Physicians: The Company markets professional liability insurance for physicians, surgeons, and other health care providers through a program known as the Physicians Protector Plan. The program, initiated in 1980, is currently offered in eight states and Puerto Rico and insures approximately 2,000 physicians.

- Optometrists and Opticians: The Optometric Protector Plan was created in 1973 to provide optometrists and opticians with a package of practice and professional liability coverage. This program insures approximately 7,500 optometrists and opticians in all 50 states, the District of Columbia and Puerto Rico.

- Chiropractors: The Chiropractic Protector Plan<sup>SM</sup> (the "CPP") was introduced in 1996 to provide professional liability and comprehensive general liability coverage for chiropractors. This program is currently being offered in Connecticut, Florida, Illinois and Pennsylvania, with the expectation that it will soon be offered in ten additional states.

- Architects and Engineers: The Architects & Engineers Protector Plan<sup>SM</sup> was introduced in 1997 to provide professional liability and comprehensive general liability coverage for architects and engineers. This program is currently available to "full service" architects in six states and to landscape architects in all 50 states.

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The professional programs described above (other than the Physicians and Architects & Engineers Programs) are underwritten predominantly through CNA Insurance Companies ("CNA"). The Company and CNA are parties to Program Agency Agreements with respect to each of the programs described above except for the CPP, with respect to which an agreement is currently being finalized. Among other things, these agreements grant the Company the exclusive right to solicit and receive applications for program policies directly and from other licensed agents and to bind and issue such policies and endorsements thereto. In fulfilling its obligations under the agreements, the Company must comply with the administrative and underwriting guidelines established by CNA. The Company must use its best efforts to promote the programs and solicit and sell program policies. The Company is compensated through commissions on premiums, which vary according to insurance product (e.g., workers' compensation, commercial umbrella, package coverage, monoline professional and general liability) and the Company's role in the transaction. The commission to which the Company is entitled may change upon 90 days written notice from CNA. The Program Agency Agreements are generally cancellable by either party for any reason on advance written notice of six months or one year. An agreement may also be terminated upon breach, by the non-breaching party, subject to certain opportunities to cure the breach.

Commercial Programs. The Commercial Programs Division serves a number of targeted commercial industries and trade groups, with an emphasis on the automotive, manufacturing and wholesale-distribution industries. Among its programs are the following:

- - Towing Operators Protector Plan.<sup>r</sup> Introduced in 1992, this program provides specialized insurance products to towing and recovery industry operators in all 50 states.
- - Automobile Dealers Protector Plan.<sup>r</sup> This program insures independent automobile dealers and is currently offered in 48 states. It originated in Florida over 25 years ago through a program still endorsed by the Florida Independent Auto Dealers Association.
- - Manufacturers Protector Plan.<sup>SM</sup> Introduced in 1997, this program provides specialized coverages for manufacturers, with an

emphasis on selected niche markets.

- - Wholesalers & Distributors Preferred Program.SM Introduced in 1997, this program provides stabilized property and casualty protection for businesses principally engaged in the wholesale-distribution industry. This program replaced the Company's prior wholesaler-distributor program, which was terminated in 1997 when the Company severed its relationship with the National Association of Wholesaler-Distributors.
- - Railroad Protector Plan.SM Also introduced in 1997, this program is designed for contractors, manufacturers and other entities that service the needs of the railroad industry.
- - Agricultural Protector Plan.SM Introduced in early 1998, this program offers growers of annually harvested crops a broad-based program of specialized coverages.

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- - Automobile Transporters Protector Plan.SM Introduced in 1996, this program is designed for automobile transporters engaged in the transport of vehicles for automobile auctions, automobile leasing concerns, and automobile and truck dealerships. It is currently offered in all 50 states.
- - Recycler's Comprehensive Protector Plan.SM This program is in the last stages of development and implementation, and the Company intends to introduce the program by mid-1998. The program is expected to provide specialized property, liability, workers' compensation and pollution coverages for the recycling industry.

#### Service Division

The Service Division consists of two separate components: (i) insurance and related services as a third-party administrator ("TPA") and consultant for employee health and welfare benefit plans, and (ii) insurance and related services providing comprehensive risk management and third-party administration to self-funded workers' compensation plans.

In connection with its employee benefit plan administrative services, the Service Division provides TPA services and consulting related to benefit plan design and costing, arrangement for the placement of stop-loss insurance and other employee benefit coverages, and settlement of claims. The Service Division provides utilization management services such as pre-admission review, concurrent/retrospective review, pre-treatment review of certain non-hospital treatment plans, and medical and psychiatric case management. In addition to the administration of self-funded health care plans, the Service Division offers administration of flexible benefit plans, including plan design, employee communication, enrollment and reporting. The Service Division's workers' compensation TPA services include risk management services such as loss control, claim administration, access to major reinsurance markets, cost containment consulting, and services for secondary disability and subrogation recoveries.

The Service Division provides workers' compensation TPA services for approximately 2,500 employers representing more than \$3 billion of employee payroll. The Company's largest workers' compensation contract represents approximately 69% of the Company's workers' compensation TPA revenues, or approximately 4% of the Company's total commission and fee revenues.

#### Brokerage Division

The Brokerage Division markets excess and surplus lines and specialty niche insurance products to the Company's Retail Division, as well as to other retail agencies throughout Florida and the southeastern United States. The Brokerage Division represents various U.S. and U.K. surplus lines companies and is also a Lloyd's of London correspondent. In addition to surplus

lines carriers, the Brokerage Division represents admitted carriers for smaller agencies that do not have access to large insurance carrier representation. Excess and surplus products include commercial automobile, garage, restaurant, builder's risk and inland marine lines. Difficult-to-insure general

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liability and products liability coverages are a specialty, as is excess workers' compensation. Retail agency business is solicited through mailings and direct contact with retail agency representatives. The Company has a 75% ownership interest in Florida Intracoastal Underwriters, Limited Company ("FIU") of Miami Lakes, Florida. FIU is a managing general agency that specializes in providing insurance coverages for coastal and inland high-value condominiums and apartments. FIU has developed a unique reinsurance facility to support the underwriting activities associated with these risks.

#### Employees

At December 31, 1997, the Company had 1,082 full-time equivalent employees. The Company has contracts with its sales employees that include provisions restricting their right to solicit the Company's customers after termination of employment with the Company. The enforceability of such contracts varies from state to state depending upon state statutes, judicial decisions and factual circumstances. The majority of these contracts are terminable by either party; however, the agreements not to solicit the Company's customers generally continue for a period of two or three years after employment termination.

None of the Company's employees is represented by a labor union, and the Company considers its relations with its employees to be satisfactory.

#### Competition

The insurance agency business is highly competitive, and numerous firms actively compete with the Company for customers and insurance carriers. Although the Company is the largest insurance agency headquartered in Florida, a number of firms with substantially greater resources and market presence compete with the Company in Florida and elsewhere. This situation is particularly pronounced outside Florida. Competition in the insurance business is largely based on innovation, quality of service and price.

A number of insurance companies are engaged in the direct sale of insurance, primarily to individuals, and do not pay commissions to agents and brokers. To date, such direct writing has had relatively little effect on the Company's operations, primarily because the Company's Retail Division is commercially oriented.

#### Regulation, Licensing and Agency Contracts

The Company or its designated employees must be licensed to act as agents by state regulatory authorities in the states in which the Company conducts business. Regulations and licensing laws vary in individual states and are often complex.

The applicable licensing laws and regulations in all states are subject to amendment or reinterpretation by state regulatory authorities, and such authorities are vested in most cases with relatively broad discretion as to the granting, revocation, suspension and renewal of licenses. The

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possibility exists that the Company could be excluded or temporarily suspended from carrying on some or all of its activities in, or otherwise subjected to penalties by, a particular state.

#### ITEM 2. PROPERTIES

The Company's executive offices are located at 220 South Ridgewood Avenue, Daytona Beach, Florida 32114 and 401 East Jackson Street, Suite 1700, Tampa, Florida 33602. The Company also maintains offices in the following cities: Phoenix, Arizona, Prescott Arizona, Tucson, Arizona; San Francisco, California; Glastonbury, Connecticut; Brooksville, Florida; Ft. Lauderdale, Florida; Ft. Myers, Florida; Jacksonville, Florida; Kissimmee, Florida; Leesburg, Florida; Maitland, Florida; Melbourne, Florida; Miami Lakes, Florida; Naples, Florida; Orlando, Florida; St. Petersburg, Florida; Sarasota, Florida; West Palm Beach, Florida; Winter Haven, Florida; Atlanta, Georgia; Clark, New Jersey; Las Vegas, Nevada; Philadelphia, Pennsylvania; and Houston, Texas.

The Company occupies office premises under noncancellable operating leases expiring at various dates. These leases generally contain renewal options and escalation clauses based on increases in the lessors' operating expenses and other charges. The Company expects that most leases will be renewed or replaced upon expiration. See Note 8 of the "Notes to Consolidated Financial Statements" in the Company's 1997 Annual Report to Shareholders for additional information on the Company's lease commitments.

#### ITEM 3. LEGAL PROCEEDINGS

On February 21, 1995, an Amended Complaint was filed in an action pending in the Superior Court of Puerto Rico, Bayamon division, and captioned Cadillac Uniform & Linen Supply Company, et al. v. General Accident Insurance Company, Puerto Rico, Limited, et al. The case was originally filed on November 23, 1994, and named General Accident Insurance Company, Puerto Rico Limited, and Benj. Acosta, Inc. as defendants. The Amended Complaint added several defendants, including the Company and Poe & Brown of California, Inc. ("P&B/Cal."), a subsidiary of the Company, as parties to the case. The Plaintiffs allege that P&B/Cal. failed to procure sufficient coverage for a commercial laundry facility that was rendered inoperable for a period of time as the result of a fire, and further allege that the Company is vicariously liable for the actions of P&B/Cal. The Amended Complaint seeks damages of \$11.2 million against P&B/Cal., the Company, the P&B/Cal. employee who handled the account and LBI Corp., a/k/a Levinson Bros., Inc. The Company and P&B/Cal. believe that P&B/Cal. has meritorious defenses to each of the claims asserted against it, and that the Company likewise has meritorious defenses to allegations premised upon theories of vicarious liability. Both the Company and P&B/Cal. are contesting this action vigorously, and a hearing before a Special Master appointed by the court, whose findings will be reviewed and confirmed or rejected by the court, is currently scheduled for June 1998. In the event that damages are awarded against P&B/Cal. or the Company, P&B/Cal. and the Company believe that insurance would be available to cover such loss.

The Company is involved in various other pending or threatened proceedings by or against the Company or one or more of its subsidiaries that involve routine litigation relating to insurance

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risks placed by the Company and other contractual matters. Management of the Company does not believe that any of such pending or threatened proceedings (including the proceeding described above) will have a materially adverse effect on the consolidated financial position or future operations of the Company.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the Company's fourth quarter ended December 31, 1997.



ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange under the symbol "PBR." The number of shareholders of record as of March 6, 1998 was 816, and the closing price per share on that date was \$38.00.

The table below sets forth information for each quarter in the last two fiscal years concerning (i) the high and low sales prices for the Company's common stock, and (ii) cash dividends declared per share. The stock prices below do not reflect the three-for-two stock split effected by the Company on February 27, 1998.

|                | Stock Price Range |         | Cash Dividends |
|----------------|-------------------|---------|----------------|
|                | High              | - Low   | Per Share      |
| 1997           |                   |         |                |
| First quarter  | \$27.25           | \$25.50 | \$0.13         |
| Second quarter | 37.00             | 25.50   | 0.13           |
| Third quarter  | 41.25             | 35.75   | 0.13           |
| Fourth quarter | 47.00             | 40.00   | 0.14           |
| 1996           |                   |         |                |
| First quarter  | \$25.50           | \$24.00 | \$0.12         |
| Second quarter | 24.75             | 22.75   | 0.12           |
| Third quarter  | 25.38             | 23.50   | 0.12           |
| Fourth quarter | 27.50             | 24.00   | 0.13           |

ITEM 6. SELECTED FINANCIAL DATA

Information under the caption "Financial Highlights" on page 3 of the Company's 1997 Annual Report to Shareholders is incorporated herein by reference.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 18-21 of the Company's 1997 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Poe & Brown, Inc. and its subsidiaries, together with the report thereon of Arthur Andersen LLP appearing on pages 22-40 of the Company's 1997 Annual Report to Shareholders, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information contained under the captions "Management" and "Section 16(a) Beneficial Ownership Reporting Compliance" on pages 4-6 of the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information contained under the caption "Executive Compensation" on pages 6-8 of the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders is incorporated herein by reference; provided, however, that the report of the Compensation Committee on executive compensation, which begins on page 8 thereof, shall not be deemed to be incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information contained under the caption "Security Ownership of Management and Certain Beneficial Owners" on pages 2-3 of the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders is incorporated herein by reference.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information contained under the caption "Executive Compensation - Compensation Committee Interlocks and Insider Participation" on page 8 of the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements of Poe & Brown, Inc. (incorporated herein by reference from pages 22-40 of the Company's 1997 Annual Report to Shareholders) consisting of:
  - (a) Consolidated Statements of Income for each of the three years in the period ended December 31, 1997.
  - (b) Consolidated Balance Sheets as of December 31, 1997 and 1996.
  - (c) Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 1997.
  - (d) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1997.
  - (e) Notes to Consolidated Financial Statements.
  - (f) Report of Independent Certified Public Accountants.
2. Consolidated Financial Statement Schedules. The Consolidated Financial Statement Schedules are omitted because they are not applicable, not material, or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto.
3. EXHIBITS
  - 3a Articles of Incorporation of the Registrant, as last amended on April 28, 1993 (incorporated by reference to Exhibit 3a to Form 10-K for the year ended December 31, 1994).

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- 3b Amended and Restated Bylaws of the Registrant effective July 30, 1996 (incorporated by reference to Exhibit 3b to Form 10-K for the year ended December 31, 1996).
- 4 Revolving Loan Agreement dated November 9, 1994, by and among the Registrant and SunTrust Bank, Central Florida, N.A., f/k/a SunBank, National Association (incorporated by reference to Exhibit 4 to Form 10-K for the year ended December 31, 1994).
- 10a(1) Lease of the Registrant for office space at 220 South Ridgewood Avenue, Daytona Beach, Florida dated August 15, 1987 (incorporated by reference to Exhibit 10a(3) to Form 10-K for the year ended December 31, 1993).
- 10a(2) Lease Agreement for office space at SunTrust Financial Centre, Tampa, Florida, dated February 1995, between Southeast Financial Center Associates, as landlord, and the Registrant, as tenant (incorporated by reference to Exhibit 10a(4) to Form 10-K for the year ended December 31, 1994).
- 10b Registrant's 1989 Stock Option Plan (incorporated by reference to Exhibit 10f to Form 10-K for the year ended December 31, 1989).
- 10c Loan Agreement between Continental Casualty Company and the Registrant dated August 23, 1991 (incorporated by reference to Exhibit 10d to Form 10-K for the year ended December 31, 1991).
- 10d Indemnity Agreement dated January 1, 1979, among the Registrant, Whiting National Management, Inc., and Pennsylvania Manufacturers' Association Insurance Company (incorporated by reference to Exhibit 10g to Registration Statement No. 33-58090 on Form S-4).
- 10e Agency Agreement dated January 1, 1979 among the Registrant, Whiting National Management, Inc., and Pennsylvania Manufacturers' Association Insurance Company (incorporated by reference to Exhibit 10h to Registration Statement No. 33-58090 on Form S-4).
- 10f Deferred Compensation Agreement, dated May 1, 1983, as amended April 27, 1993, between Brown & Brown, Inc. and Kenneth E. Hill (incorporated by reference to Exhibit 10i to Form 10-K for the year ended December 31, 1993).
- 10g Employment Agreement, dated April 28, 1993 between the Registrant and J. Hyatt Brown (incorporated by reference to Exhibit 10k to Form 10-K for the year ended December 31, 1993).

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- 10h Portions of Employment Agreement, dated April 28, 1993 between the Registrant and Kenneth E. Hill (incorporated by reference to Exhibit 10l to Form 10-K for the year ended December 31, 1993).
- 10i Portions of Employment Agreement, dated April 28, 1993 between the Registrant and Jim W. Henderson (incorporated by reference to Exhibit 10m to Form 10-K for the year ended December 31,

1993).

- 10j Registrant's Stock Performance Plan  
(incorporated by reference to Exhibit 4 to  
Registration Statement No. 333-14925 on Form S-8).
- 11 Statement Re: Computation of Per Share  
Earnings.
- 13 Portions of Registrant's 1997 Annual Report  
to Shareholders (not deemed "filed" under the  
Securities Exchange Act of 1934, except for those  
portions specifically incorporated by reference  
herein).
- 22 Subsidiaries of the Registrant.
- 23 Consent of Arthur Andersen LLP.
- 24a Powers of Attorney pursuant to which this  
Form 10-K has been signed on behalf of certain  
directors and officers of the Registrant.
- 24b Resolutions of the Registrant's Board of  
Directors, certified by the Secretary.
- 27 Financial Data Schedule.

(b) REPORTS ON FORM 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POE & BROWN, INC.  
Registrant

By: \*

\_\_\_\_\_  
J. Hyatt Brown  
Chief Executive Officer

Date: March 24, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| Signature                         | Title  | Date           |
|-----------------------------------|--|----------------|
| _____<br>*<br>J. Hyatt Brown      | Chairman of the Board, President<br>and Chief Executive Officer<br>(Principal Executive Officer) | March 24, 1998 |
| _____<br>*<br>Samuel P. Bell, III | Director   | March 24, 1998 |
| _____<br>*<br>Bradley Currey, Jr. | Director   | March 24, 1998 |

|                                |  |                |
|--------------------------------|--|----------------|
| <hr/> *<br>Jim W. Henderson    | Director   | March 24, 1998 |
| <hr/> *<br>Kenneth E. Hill     | Director   | March 24, 1998 |
| <hr/> *<br>David H. Hughes     | Director   | March 24, 1998 |
| <hr/> *<br>Theodore J. Hoepner | Director   | March 24, 1998 |
| <hr/> *<br>Jan E. Smith        | Director   | March 24, 1998 |
| <hr/> *<br>William A. Zimmer   | Vice President, Treasurer and<br>Chief Financial Officer (Principal<br>Financial and Accounting Officer) | March 24, 1998 |

\*By: /s/ LAUREL L. GRAMMIG

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Laurel L. Grammig  
Attorney-in-Fact

## EXHIBIT 11

## STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

|  | Year Ended December 31,               |          |          |
|--|---------------------------------------|----------|----------|
|  | 1997                                  | 1996     | 1995     |
|  | (in thousands, except per share data) |          |          |
| Average shares outstanding   | 8,722                                 | 8,658    | 8,660    |
| Net effect of dilutive stock<br>options, based on the treasury<br>stock method | 3                                     | 25       | 39       |
|  | -----                                 | -----    | -----    |
| Total shares used in<br>computation  | 8,725                                 | 8,683    | 8,699    |
|  | =====                                 | =====    | =====    |
| Net income   | \$19,387                              | \$16,498 | \$14,799 |
|  | =====                                 | =====    | =====    |
| Net income per share   | \$ 2.22                               | \$ 1.90  | \$ 1.70  |
|  | =====                                 | =====    | =====    |

## EXHIBIT 13

## Portions of 1997 Annual Report to Shareholders

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## Financial Highlights

| (in thousands, except per<br>share data)         | Year ended December 31, |           |           |           |           |
|--|-------------------------|-----------|-----------|-----------|-----------|
|  | 1997                    | 1996      | 1995      | 1994      | 1993      |
| Commissions and fees(1)                          | \$124,365               | \$114,378 | \$101,998 | \$ 95,852 | \$ 94,420 |
| Total revenues(2)                                | \$129,191               | \$118,680 | \$106,365 | \$101,580 | \$ 97,821 |
| Total expenses                                   | \$ 97,553               | \$ 91,634 | \$ 83,036 | \$ 80,994 | \$ 84,774 |
| Income before taxes                              | \$ 31,638               | \$ 27,046 | \$ 23,329 | \$ 20,586 | \$ 13,047 |
| Net income(2,3)                                  | \$ 19,387               | \$ 16,498 | \$ 14,799 | \$ 13,519 | \$ 8,118  |
| Net income per share                             | \$ 2.22                 | \$ 1.90   | \$ 1.70   | \$ 1.56   | \$ 0.95   |
| Weighted average number<br>of shares outstanding | 8,725                   | 8,683     | 8,699     | 8,670     | 8,571     |
| Dividends declared per share                     | \$ 0.53                 | \$ 0.49   | \$ 0.48   | \$ 0.42   | \$ 0.40   |
| Total assets                                     | \$194,129               | \$179,743 | \$151,121 | \$140,980 | \$134,924 |
| Long-term debt                                   | \$ 4,093                | \$ 5,300  | \$ 7,023  | \$ 7,430  | \$ 17,637 |
| Shareholders' equity(4)                          | \$ 77,142               | \$ 67,286 | \$ 54,412 | \$ 44,106 | \$ 27,246 |

- (1) See Notes 2 and 3 to consolidated financial statements for information regarding business purchase transactions which impact the comparability of this information.
- (2) During 1994, the Company sold 150,000 shares of its investment in the common stock of Rock-Tenn Company for \$2,314,000, resulting in a net after-tax gain of \$1,342,000, or \$0.16 per share.
- (3) During 1995 and 1994, the Company reduced its general tax reserves by \$451,000 and \$700,000, or \$0.05 and \$0.08 per share, respectively, as a result of reaching a settlement with the Internal Revenue Service on certain examination issues. See Note 9 to consolidated financial statements.
- (4) Shareholders' equity as of December 31, 1997, 1996, and 1995, included net increases of \$6,744,000, \$6,511,000 and \$4,836,000, respectively, as a result of the Company's application of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

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

## General

In April of 1993, Poe & Associates, Inc., headquartered in Tampa, Florida, merged with Brown & Brown, Inc., headquartered in Daytona Beach, Florida, forming Poe & Brown, Inc. (the "Company"). Since that merger, the Company's operating results have steadily improved. The Company achieved pre-tax income from operations of \$31,638,000 in 1997 compared to \$27,046,000 in 1996 and \$23,329,000 in 1995. Pre-tax income as a percentage of total revenues was 24.5% in 1997, 22.8% in 1996 and 21.9% in 1995. This upward trend is primarily the result of the Company's achievement of revenue growth and operating efficiency improvements.

The Company's revenues are comprised principally of commissions paid by insurance companies, fees paid directly by clients and investment income. Commission revenues generally represent a percentage of the premium paid by the insured and are materially affected by fluctuations in both premium rate levels charged by insurance underwriters and the volume of premiums written by such underwriters. These premium rates are established

by insurance companies based upon many factors, none of which is controlled by the Company. Beginning in 1986 and continuing through 1997, revenues have been adversely influenced by a consistent decline in premium rates resulting from intense competition among property and casualty insurers for expanding market share. Among other factors, this condition of prevailing decline in premium rates, commonly referred to as a "soft market," has generally resulted in flat to reduced commissions on renewal business. The possibility of rate increases in 1998 is unpredictable.

Revenues are further impacted by the development of new and existing proprietary programs, fluctuations in insurable exposure units and the volume of business from new and existing clients, and changes in general economic and competitive conditions. For example, stagnant rates of inflation in recent years have generally limited the increases in insurable exposure units such as property values, sales and payroll levels. Conversely, the increasing trend in litigation settlements and awards has caused some clients to seek higher levels of insurance coverage. Still, the Company's revenues continue to grow through quality acquisitions, intense initiatives for new business and development of new products, markets and services. The Company anticipates that results of operations for 1998 will continue to be influenced by these competitive and economic conditions.

During 1996, the Company acquired three general insurance agencies, an insurance brokerage firm and several books of business (customer accounts) which were accounted for as purchases. During 1997, the Company acquired three general insurance agencies and several books of business (customer accounts) which were accounted for as purchases. On August 1, 1997, the

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Company acquired all of the outstanding stock of Shanahan, McGrath & Bradley, Inc. This transaction was accounted for as a pooling-of-interests; however, the financial statements for all prior periods were not restated due to the immaterial nature of the transaction.

Contingent commissions may be paid to the Company by insurance carriers based upon the volume and profitability of the business placed with such carriers by the Company and are generally received in the first quarter of each year. In the last three years, contingent commissions have represented 3.2% to 4.7% of total revenues.

Fee revenues are generated principally by the Service Division of the Company, which offers administration and benefit consulting services primarily in the workers' compensation and employee benefit self-insurance markets. Florida's legislative reform of workers' compensation insurance, as well as certain market factors, have resulted in increased competition in this service sector. In response to the increased competition, the Company has offered value-added services that enabled it to increase 1997 fee revenue over that recognized in 1996. For the past three years, service fee revenues have ranged from 9.8% to 10.6% of total commissions and fees.

Investment income consists primarily of interest earnings on premiums and advance premiums collected and not immediately remitted to insurance carriers, with such funds being held in a fiduciary capacity. Investment income also includes gains and losses realized from the sale of investments, although in 1996 and 1995, such sales were minimal and realized gains and losses were immaterial. In 1997, investment income included a \$303,000 realized gain from the sale of the Company's investment in Fort Brooke Bank. The Company's policy is to invest its available funds in high-quality, short-term fixed income investment securities.

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.

Results of operations for  
the years ended December 31, 1997, 1996 and 1995

#### Commissions and Fees

Commissions and fees increased 9% in 1997, 12% in 1996 and 6% in 1995. Excluding the effect of acquisitions, commissions and fees increased 6% in 1997, 4% in 1996 and 3% in 1995. The 1997 results reflect an increase in commissions for all of the Company's operating divisions, mainly through new business growth. In general, property and casualty insurance premium prices declined in 1997; however, certain segments and industries had some increases in insurable exposure units during 1997.

#### Investment Income

Investment income increased to \$4,085,000 in 1997 compared to \$3,230,000 in 1996 and \$3,733,000 in 1995. This increase is primarily due to higher levels of invested cash and increases in interest rate returns. Additionally, the 1997 results included a \$303,000 gain from the sale of the Company's investment in Fort Brooke Bank.

#### Other Income

Other income consists primarily of gains and losses from the sale and disposition of assets. During 1997, gains on the sale of customer accounts were \$646,000 compared to \$997,000 in 1996 and \$590,000 in 1995.

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#### Employee Compensation & Benefits

Employee compensation and benefits increased approximately 8% in 1997, 10% in 1996 and 5% in 1995. Without acquisitions, employee compensation and benefits increased 6% in 1997, 5% in 1996 and 1% in 1995. Employee compensation and benefits as a percentage of total revenue was 50% in 1997, down from 51% in 1996 and 52% in 1995. As of December 31, 1997, the Company had 1,082 full-time equivalent employees compared to 1,075 at the beginning of the year. The increase in personnel in 1997 is related to acquisitions. The 1997 increase in compensation and employee benefits of \$4,670,000 is primarily attributable to the additional commission expense as a result of the increased commission revenue.

#### Other Operating Expenses

Other operating expenses increased 4% in 1997, 11% in 1996, and remained constant in 1995. Without acquisitions, operating expenses increased 1% in 1997 and 6% in 1996, and decreased 3% in 1995. Other operating expenses as a percentage of total revenues decreased to 21% in 1997 from 22% in 1996 and 1995.

#### Interest and Amortization

Interest and amortization increased \$262,000, or 5%, in 1997 and \$703,000, or 14%, in 1996 and decreased \$580,000, or 10%, in 1995. The increase in 1997 is due primarily to the write-off of the remaining intangible assets related to a terminated agreement totaling \$670,000.

#### Income Taxes

The effective tax rate on income from operations was 38.7% in 1997, 39.0% in 1996 and 36.6% in 1995. The lower effective tax rate in 1995 is primarily due to the effect of recording a \$451,000 reduction to the general tax reserves as a result of reaching a settlement with the Internal Revenue Service ("Service") on the Service's outstanding examination issues (see below for detailed discussion of this adjustment).

In 1992, the Service completed examinations of the Company's federal income tax returns for tax years 1988, 1989 and 1990 and issued Reports of Proposed Adjustments asserting income tax deficiencies. The disputed items related primarily to the deductibility of amortization of purchased customer accounts of approximately \$5,107,000 and non-compete agreements of approximately \$993,000. In addition, the Service's report included a dispute regarding the time at which the Company's payments made pursuant to certain indemnity agreements would be deductible for tax reporting purposes.

In 1994 and 1995, the Company reached agreements with the Service on all disputed items. These agreements resulted in payments that reduced the reserve by approximately \$349,000. After considering these reductions, the Company recorded a \$451,000 reduction in the general tax reserve which was recorded as a reduction to the 1995 income tax provision.

#### Liquidity and Capital Resources

The Company's cash and cash equivalents of \$47,726,000 at December 31, 1997, increased \$15,940,000 from the December 31, 1996 balance of \$31,786,000. During 1997, cash of \$33,027,000 was provided from operating activities, proceeds of \$452,000

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from sales of fixed assets and customer accounts, proceeds from the sale of investments of \$557,000 and proceeds of \$1,044,000 from the exercise of stock options and issuances of common stock. Cash was used during 1997 primarily for payments on long-term debt and notes payable of \$2,611,000, additions to fixed assets of \$2,713,000, purchases of investments of \$253,000, acquisitions of businesses of \$3,067,000, repurchase of common stock of \$5,860,000 and dividend payments of \$4,636,000.

The Company's cash and cash equivalents of \$31,786,000 at December 31, 1996 increased \$3,436,000 from the December 31, 1995 balance of \$28,350,000. During 1996, cash of \$28,621,000 was provided from operating activities, proceeds of \$984,000 from sales of fixed assets and customer accounts, proceeds of \$1,118,000 from sales of investments, and proceeds of \$748,000 from the exercise of stock options and issuances of common stock. Cash was used during 1996 primarily for payments on long-term debt of \$4,223,000, additions to fixed assets of \$4,630,000, purchases of investments of \$881,000, acquisitions of businesses of \$12,254,000, repurchase of common stock of \$1,802,000 and dividend payments of \$4,245,000.

The Company's cash and cash equivalents of \$28,350,000 at December 31, 1995 increased \$5,165,000 from the December 31, 1994 balance of \$23,185,000. During 1995, primary sources of cash were \$21,208,000 from operating activities, \$1,469,000 from sales of fixed assets and customer accounts, and \$106,000 from the exercise of stock options and issuances of common stock. Cash was used during 1995 primarily for payments on long-term debt of \$2,132,000, additions to fixed assets of \$5,321,000, purchases of investments of \$1,208,000, acquisitions of businesses of \$6,005,000 and dividend payments of \$4,149,000.

The Company's current ratio was 1.14 to 1.0, 1.06 to 1.0 and 1.13 to 1.0 as of December 31, 1997, 1996 and 1995, respectively. The increase in the ratio at December 31, 1997 was primarily the result of increased cash.

In 1994, the Company entered into a revolving credit facility with a national banking association that provides for borrowings of up to \$10,000,000. On borrowings under this facility of less than \$1,000,000, the interest rate is the higher of the prime rate or the federal funds rate plus 0.50%. On borrowings under this facility equal to or in excess of \$1,000,000, the interest rate is LIBOR plus 0.50% to 1.25%, depending on certain financial ratios. A commitment fee is assessed in the amount of 0.25% per annum on the unused balance. The facility expires in November 1998. No borrowings were

outstanding against this line of credit as of December 31, 1997 and 1996. Borrowings would be secured by substantially all the assets of the Company, subject to existing or permitted liens.

The Company has a credit agreement with a major insurance company under which \$4,000,000 (the maximum amount available for borrowings) was borrowed at December 31, 1997 at an interest rate equal to the prime rate plus 1%. The amount available under this facility decreases by \$1,000,000 each August through the year 2001, when it will expire.

The Company believes that its existing cash, cash equivalents, short-term investment portfolio, funds generated from operations and the availability of the bank line of credit will be sufficient to satisfy its normal financial needs through at least the end of 1998. Additionally, the Company believes that funds generated from future operations will be sufficient to satisfy its normal financial needs, including the required annual principal payments of its long-term debt and any potential future tax liability.

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Consolidated Statements of Income

| (in thousands, except per share data)         | Year ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 1997                    | 1996      | 1995      |
| Revenues                                      |                         |           |           |
| Commissions and fees                          | \$124,365               | \$114,378 | \$101,998 |
| Investment income                             | 4,085                   | 3,230     | 3,733     |
| Other income                                  | 741                     | 1,072     | 634       |
| Total revenues                                | 129,191                 | 118,680   | 106,365   |
| EXPENSES                                      |                         |           |           |
| Employee compensation and benefits            | 65,067                  | 60,397    | 55,073    |
| Other operating expenses                      | 26,509                  | 25,522    | 22,951    |
| Interest and amortization                     | 5,977                   | 5,715     | 5,012     |
| Total expenses                                | 97,553                  | 91,634    | 83,036    |
| Income before income taxes                    | 31,638                  | 27,046    | 23,329    |
| Income taxes                                  | 12,251                  | 10,548    | 8,530     |
| Net income                                    | \$ 19,387               | \$ 16,498 | \$ 14,799 |
| Basic and diluted earnings per share          | \$ 2.22                 | \$ 1.90   | \$ 1.70   |
| Weighted average number of shares outstanding | 8,725                   | 8,683     | 8,699     |

See notes to consolidated financial statements.

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Consolidated Balance Sheets

| (in thousands, except per share data)     | December 31, |           |
|---|--------------|-----------|
|   | 1997         | 1996      |
| ASSETS                                    |              |           |
| Cash and cash equivalents                 | \$ 47,726    | \$ 31,786 |
| Short-term investments                    | 1,299        | 1,087     |
| Premiums, commissions and fees receivable | 62,148       | 62,940    |
| Other current assets                      | 6,507        | 7,307     |
| Total current assets                      | 117,680      | 103,120   |
| Fixed assets, net                         | 11,863       | 12,085    |
| Intangibles, net                          | 49,593       | 50,167    |

|  |           |           |
|--|-----------|-----------|
| Investments  | 11,480    | 11,288    |
| Other assets   | 3,513     | 3,083     |
| Total assets   | \$194,129 | \$179,743 |
| LIABILITIES  |           |           |
| Premiums payable to insurance companies  | \$ 74,598 | \$ 73,570 |
| Premium deposits and credits due customers   | 7,035     | 7,329     |
| Accounts payable and accrued expenses  | 15,826    | 11,130    |
| Current portion of long-term debt  | 5,339     | 5,365     |
| Total current liabilities  | 102,798   | 97,394    |
| Long-term debt   | 4,093     | 5,300     |
| Deferred income taxes  | 3,951     | 3,603     |
| Other liabilities  | 6,145     | 6,160     |
| Total liabilities  | 116,987   | 112,457   |
| SHAREHOLDERS' EQUITY   |           |           |
| Common stock, par value \$0.10 per share;<br>authorized 18,000 shares; issued 8,738<br>shares at 1997 and 8,656 shares at 1996 | 874       | 866       |
| Additional paid-in capital   | -         | 1,671     |
| Retained earnings  | 69,524    | 58,238    |
| Net unrealized appreciation of<br>available-for-sale securities, net of tax<br>effect of \$4,312 at 1997 and \$4,163 at 1996   | 6,744     | 6,511     |
| Total shareholders' equity   | 77,142    | 67,286    |
| Total liabilities and shareholders' equity   | \$194,129 | \$179,743 |

See notes to consolidated financial statements.

#### Consolidated Statements of Shareholders' Equity

(in thousands, except per share data)

|  | Common Stock |        | Additional         | Retained | Net Unrealized                 |          |
|--|--------------|--------|--------------------|----------|--------------------------------|----------|
|  | Shares       | Amount | Paid-in<br>Capital | Earnings | Appreciation<br>(Depreciation) | Total    |
| Balance,<br>January 1, 1995  | 8,635        | \$864  | \$2,241            | \$35,660 | \$5,341                        | \$44,106 |
| Net income   |              |        |                    | 14,799   |                                | 14,799   |
| Acquired and<br>issued for stock<br>option plans and<br>employee stock<br>purchase plans | 47           | 4      | 318                | (216)    |                                | 106      |
| Tax benefit from<br>sale of option<br>shares by<br>employees                             |              |        | 55                 |          |                                | 55       |
| Net decrease in<br>unrealized<br>appreciation of<br>available-for-<br>sale securities    |              |        |                    |          | (505)                          | (505)    |
| Cash dividends<br>paid (\$0.48 per<br>share)   |              |        |                    | (4,149)  |                                | (4,149)  |
| BALANCE,<br>DECEMBER 31,<br>1995   | 8,682        | 868    | 2,614              | 46,094   | 4,836                          | 54,412   |
| Net income   |              |        |                    | 16,498   |                                | 16,498   |
| Acquired and<br>issued for<br>stock option<br>plans and<br>employee<br>stock             |              |        |                    |          |                                |          |

|  |       |       |         |          |         |           |
|--|-------|-------|---------|----------|---------|-----------|
| purchase plans   | (26)  | (2)   | (943)   | (109)    |         | (1,054)   |
| Net increase in unrealized appreciation of available-for-sale securities     |       |       |         |          | 1,675   | 1,675     |
| Cash dividends paid (\$0.49 per share)                                       |       |       |         | (4,245)  |         | (4,245)   |
| BALANCE, DECEMBER 31, 1996   | 8,656 | 866   | 1,671   | 58,238   | 6,511   | 67,286    |
| Net income   |       |       |         | 19,387   |         | 19,387    |
| Acquired and issued for stock option plans and employee stock purchase plans | 57    | 6     | (1,693) | (3,129)  |         | (4,816)   |
| Shares issued in acquisition   | 25    | 2     | 22      | (336)    |         | (312)     |
| Net increase in unrealized appreciation of available-for-sale securities     |       |       |         |          | 233     | 233       |
| Cash dividends paid (\$0.53 per share)                                       |       |       |         | (4,636)  |         | (4,636)   |
| BALANCE, DECEMBER 31, 1997   | 8,738 | \$874 | \$ -    | \$69,524 | \$6,744 | \$ 77,142 |

See notes to consolidated financial statements.

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#### Consolidated Statements of Cash Flows

| (in thousands)  | Year ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 1997                    | 1996      | 1995      |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                         |           |           |
| Net income  | \$ 19,387               | \$ 16,498 | \$ 14,799 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |           |           |
| Depreciation and amortization   | 8,051                   | 7,471     | 6,487     |
| Provision for doubtful accounts   | -                       | (100)     | 31        |
| Deferred income taxes   | 199                     | 966       | (2,191)   |
| Net gains on sales of investments, fixed assets and customer accounts             | (962)                   | (1,001)   | (537)     |
| Premiums, commissions and fees receivable decrease (increase)                     | 823                     | (6,287)   | 200       |
| Other assets decrease (increase)  | 570                     | (699)     | 235       |
| Premiums payable to insurance companies increase                                  | 607                     | 8,982     | 1,393     |
| Premium deposits and credits due customers (decrease) increase                    | (294)                   | 1,259     | (900)     |
| Accounts payable and accrued expenses increase                                    | 4,696                   | 1,713     | 1,115     |
| Other liabilities (decrease) increase   | (50)                    | (181)     | 576       |
| Net cash provided by operating activities   | 33,027                  | 28,621    | 21,208    |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                         |           |           |

|   |          |          |          |
|---|----------|----------|----------|
| Additions to fixed assets                                 | (2,713)  | (4,630)  | (5,321)  |
| Payments for businesses acquired, net of cash acquired    | (3,067)  | (12,254) | (6,005)  |
| Proceeds from sales of fixed assets and customer accounts | 452      | 984      | 1,469    |
| Purchases of investments                                  | (253)    | (881)    | (1,208)  |
| Proceeds from sales of investments                        | 557      | 1,118    | 642      |
| Net cash used in investing activities                     | (5,024)  | (15,663) | (10,423) |
| CASH FLOWS FROM FINANCING ACTIVITIES                      |          |          |          |
| Payments on long-term debt                                | (2,611)  | (4,223)  | (2,132)  |
| Proceeds from long-term debt                              | -        | -        | 500      |
| Exercise of stock options and issuances of stock          | 1,044    | 748      | 106      |
| Purchases of stock  | (5,860)  | (1,802)  | -        |
| Tax benefit from sale of option shares by employees       | -        | -        | 55       |
| Cash dividends paid                                       | (4,636)  | (4,245)  | (4,149)  |
| Net cash used in financing activities                     | (12,063) | (9,522)  | (5,620)  |
| Net increase in cash and cash equivalents                 | 15,940   | 3,436    | 5,165    |
| Cash and cash equivalents at beginning of year            | 31,786   | 28,350   | 23,185   |
| Cash and cash equivalents at end of year                  | \$47,726 | \$31,786 | \$28,350 |

See notes to consolidated financial statements.

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#### Notes to Consolidated Financial Statements

##### Note 1 Summary of Significant Accounting Policies

###### Nature of Operations

Poe & Brown, Inc. (the "Company") is a diversified insurance brokerage and agency that markets and sells primarily property and casualty insurance products and services to its clients. The Company's business is divided into five divisions: the Retail Division, which markets and sells a broad range of insurance products to commercial, professional and individual clients; the Professional Programs Division, which develops and administers property and casualty insurance solutions for professionals nationwide; the Commercial Programs Division, which serves individual large accounts of commercial groups and trade associations, providing primarily property and casualty and employee benefits coverage; the Service Division, which provides insurance-related services such as third-party administration and consultation for workers' compensation and employee benefit self-insurance markets; and the Brokerage Division, which markets and sells excess and surplus commercial insurance primarily through non-affiliated independent agents and brokers.

###### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Poe & Brown, Inc. and its subsidiaries. All significant intercompany account balances and transactions have been eliminated in consolidation.

###### Revenue Recognition

Commissions relating to the brokerage and agency activity whereby the Company has primary responsibility for the collection of premiums from insureds are generally recognized as of the latter of the effective date of the insurance policy or the date billed to the customer. Commissions to be received directly from insurance companies are generally recognized when the amounts are determined. Subsequent commission adjustments, such as policy endorsements, are recognized upon notification from the insurance companies. Commission revenues are reported net of sub-broker commissions. Contingent commissions from insurance companies are recognized when received. Fee income is

recognized as services are rendered.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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#### Cash and Cash Equivalents

Cash and cash equivalents principally consist of demand deposits with financial institutions and highly liquid investments having maturities of three months or less when purchased. Premiums received from insureds but not yet remitted to insurance carriers are held in cash and cash equivalents in a fiduciary capacity.

#### Premiums, Commissions and Fees Receivable

In its capacity as an insurance broker or agent, the Company typically collects premiums from insureds and, after deducting its authorized commission, remits the premiums to the appropriate insurance companies. In other circumstances, the insurance companies collect the premiums directly from the insureds and remit the applicable commissions to the Company. Accordingly, as reported in the Consolidated Balance Sheets, "premiums" are receivable from insureds and "commissions" are receivable from insurance companies. "Fees" are receivable from customers pertaining to the Company's Service Division.

#### Investments

The Company's marketable equity securities have been classified as "available-for-sale" and are reported at estimated fair value, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income.

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

Net unrealized gains reported in shareholders' equity were \$6,744,000 at December 31, 1997, \$6,511,000 at December 31, 1996 and \$4,836,000 at December 31, 1995, net of deferred income taxes of \$4,312,000, \$4,163,000 and \$3,027,000, respectively. The Company owned 559,970 shares of Rock-Tenn Company common stock at December 31, 1997 and 1996 which have been classified as non-current, available-for-sale securities. The Company has no current plans to sell these shares.

#### Fixed Assets

Fixed assets are stated at cost. Expenditures for improvements are capitalized, and expenditures for maintenance and repairs are charged to operations as incurred. Upon sale or retirement, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in income. Depreciation has been provided using principally the straight-line method over the estimated useful lives of the related assets, which range from three to 10 years. Leasehold improvements are amortized on the straight-line method

over the term of the related leases.

#### Intangibles

Intangible assets are stated at cost less accumulated amortization and principally represent purchased customer accounts, non-compete agreements, purchased contract agreements, and the excess of costs over the fair value of identifiable net assets acquired (goodwill). Purchased customer accounts, non-compete agreements and purchased contract agreements are being amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. The excess of costs over the fair value of identifiable net assets acquired is being amortized on a straight-line basis over 15 to 40 years. Purchased customer accounts are records and files obtained from acquired businesses that contain information on insurance policies and the related insured parties that is essential to policy renewals.

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The carrying value of intangibles, corresponding with each agency division comprising the Company, is periodically reviewed by management to determine if the facts and circumstances suggest that they may be impaired. In the insurance brokerage and agency industry, it is common for agencies or customer accounts to be acquired at a price determined as a multiple of the corresponding revenues. Accordingly, the Company assesses the carrying value of its intangibles by comparison to a reasonable multiple applied to corresponding revenues, as well as considering the operating cash flow generated by the corresponding agency division. Any impairment identified through this assessment may require that the carrying value of related intangibles be adjusted.

#### Income Taxes

The Company files a consolidated federal income tax return. Deferred income taxes are provided for in the consolidated financial statements and relate principally to expenses charged to income for financial reporting purposes in one period and deducted for income tax purposes in other periods, unrealized appreciation of available-for-sale securities, and basis differences of intangible assets.

#### Net Income Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." The new standard simplifies the computation of earnings per share (EPS) and increases comparability to international standards. Under SFAS No. 128, primary EPS is replaced by "Basic" EPS, which excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. "Diluted" EPS, which is computed similarly to fully diluted EPS, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Effective January 1, 1997, the Company adopted SFAS No. 128. All prior-period EPS information is required to be restated. The Company's basic and fully diluted EPS for the years ended December 31, 1997, 1996 and 1995 computed under SFAS No. 128 are not different than previously computed.

#### Note 2 Mergers

On August 1, 1997, the Company issued 25,471 shares of its common stock for all of the outstanding stock of Shanahan, McGrath & Bradley, Inc., an Arizona corporation. This acquisition has been accounted for as a pooling-of-interests; however, due to the immaterial nature of the transaction, the Company's consolidated financial statements have not been restated for all periods prior to the transaction. The results of operations of the acquired company from the period January 1, 1997 through



the date of the acquisition have been combined with those of the Company. The separate company operating results of Shanahan, McGrath & Bradley, Inc. for periods prior to the acquisition are not material to the Company's consolidated operating results.

Effective March 1, 1995, the Company issued 146,300 shares of its common stock in exchange for all of the partnership interest in Insurance West, a Phoenix, Arizona general insurance agency. The merger has been accounted for as

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a pooling-of-interests and, accordingly, the Company's consolidated financial statements have been restated for all periods prior to the merger to include the results of operations, financial positions and cash flows of Insurance West. The individual company operating results of Insurance West prior to the date of the merger are not material to the Company's consolidated operating results.

#### Note 3 Acquisitions

During 1997, the Company acquired three general insurance agencies and several books of business (customer accounts), which were accounted for as purchases. The total cost of these acquisitions was \$4,945,000, including \$3,067,000 of cash payments and notes payable of \$1,878,000. The total purchase price was assigned to purchased customer accounts and other intangible assets.

During 1996, the Company acquired three general insurance agencies, one insurance brokerage firm and several books of business (customer accounts), which were all accounted for as purchases. The total cost of these acquisitions was \$18,328,000, including \$12,254,000 of cash payments and notes payable of \$6,074,000. The total purchase price was assigned to purchased customer accounts, goodwill and other intangible assets.

During 1995, the Company acquired four general insurance agencies, an insurance brokerage firm and several books of business (customer accounts), which were all accounted for as purchases. The total cost of these acquisitions was \$7,250,000, including \$5,715,000 of cash payments and notes payable of \$1,535,000. The excess of the total purchase price over the fair value of net tangible assets acquired of approximately \$7,225,000 was assigned to purchased customer accounts, goodwill and other intangible assets.

Additional or return consideration resulting from acquisition contingency provisions is recorded as an adjustment to intangibles when the contingency occurs. Contingency payments totaling \$154,000 were made in 1997. There were no contingency payments made during 1996 or 1995. As of December 31, 1997, the maximum future contingency payments related to the 1997 and 1996 acquisitions totaled \$1,728,000.

The results of operations of the acquired companies have been included in the consolidated financial statements from their respective acquisition dates. Pro forma results of operations of the Company for the years ended December 31, 1997, 1996, and 1995, including 1997, 1996 and 1995 acquisitions as though they occurred on January 1, 1997, 1996 and 1995, respectively, were not materially different from the results of operations as reported.

#### Note 4 Investments

Investments at December 31 consisted of the following:

(in thousands)

|  | 1997           |             |
|--|----------------|-------------|
|  | Carrying Value |             |
|  | Current        | Non-current |

|   |          |           |
|---|----------|-----------|
| Available-for-sale marketable equity securities             | \$ 62    | \$ 11,480 |
| Nonmarketable equity securities and certificates of deposit | 1,237    | -         |
| Total investments   | \$ 1,299 | \$ 11,480 |

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|   |                |             |
|---|----------------|-------------|
| Investments at December 31 consisted of the following:      | 1996           |             |
| (in thousands)  | Carrying Value |             |
|   | Current        | Non-current |
| Available-for-sale marketable equity securities             | \$ 78          | \$ 11,059   |
| Nonmarketable equity securities and certificates of deposit | 1,009          | 229         |
| Total investments   | \$1,087        | \$ 11,288   |

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

|                               |        |                        |                         |                      |
|-------------------------------|--------|------------------------|-------------------------|----------------------|
| (in thousands)                | Cost   | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Marketable Equity Securities: |        |                        |                         |                      |
| 1997                          | \$ 486 | \$ 11,057              | \$ 1                    | \$ 11,542            |
| 1996                          | \$ 516 | \$ 10,637              | \$ 16                   | \$ 11,137            |

In 1997, proceeds from sales of available-for-sale securities totaled \$557,000, resulting in gross realized gains and losses of \$349,000 and (\$23,000), respectively. Proceeds from sales of available-for-sale securities totaled \$1,118,000 in 1996, resulting in gross realized gains and losses of \$91,300 and (\$71,700), respectively. In 1995, proceeds from sales of available-for-sale securities totaled \$329,000, resulting in gross realized gains and losses of \$42,000 and (\$41,000), respectively.

Cash, cash equivalents, investments, premiums and commissions receivable, premiums payable to insurance companies, premium deposits and credits due customers, accounts payable and accrued expenses, and current and long-term debt are considered financial instruments. The carrying amount for each of these items at December 31, 1997 approximates its fair value.

#### Note 5 Fixed Assets

Fixed assets at December 31 consisted of the following:

|  |           |           |
|--|-----------|-----------|
| (in thousands)                                 | 1997      | 1996      |
| Furniture, fixtures, and equipment             | \$ 25,708 | \$ 23,766 |
| Land, buildings, and improvements              | 262       | 262       |
| Leasehold improvements                         | 1,009     | 926       |
|  | \$ 26,979 | \$ 24,954 |
| Less accumulated depreciation and amortization | 15,116    | 12,869    |
|  | \$ 11,863 | \$ 12,085 |

Depreciation and amortization expense amounted to \$2,924,000 in 1997, \$2,697,000 in 1996, and \$2,352,000 in 1995.

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Note 6 Intangibles

Intangibles at December 31 consisted of the following:

| (in thousands)                | 1997      | 1996      |
|-------------------------------|-----------|-----------|
| Purchased customer accounts   | \$ 54,414 | \$ 49,985 |
| Non-compete agreements        | 11,772    | 11,722    |
| Goodwill                      | 20,189    | 20,189    |
| Purchased contract agreements | 1,143     | 1,102     |
|                               | 87,518    | 82,998    |
| Less accumulated amortization | 37,925    | 32,831    |
|                               | \$ 49,593 | \$ 50,167 |

Amortization expense amounted to \$5,127,000 in 1997, \$4,774,000 in 1996, and \$4,135,000 in 1995.

Note 7 Long-Term Debt

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

| (in thousands)                              | 1997     | 1996     |
|---|----------|----------|
| Long-term credit agreement                  | \$ 4,000 | \$ 5,000 |
| Notes payable from treasury stock purchases | 879      | 1,162    |
| Acquisition notes payable                   | 4,452    | 4,351    |
| Other notes payable                         | 101      | 152      |
|   | 9,432    | 10,665   |
| Less current portion                        | 5,339    | 5,365    |
| Long-term debt                              | \$ 4,093 | \$ 5,300 |

In 1991, the Company entered into a long-term credit agreement with a major insurance company that provided \$10,000,000 at an interest rate equal to the prime rate plus 1% (9.5% at December 31, 1997). The amount of available credit decreases by \$1,000,000 each August through the year 2001, when it will expire. This credit agreement requires the Company to maintain certain financial ratios and comply with certain other covenants.

In 1994, the Company entered into a revolving credit facility with a national banking association that provides for borrowings of up to \$10,000,000. On borrowings under this facility of less than \$1,000,000, the interest rate is the higher of the prime rate or the federal funds rate plus 0.50%. On borrowings under this facility equal to or in excess of \$1,000,000,

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the interest rate is LIBOR plus 0.50% to 1.25%, depending on certain financial ratios. A commitment fee is assessed in the amount of 0.25% per annum on the unused balance. The facility expires in November 1998. No borrowings were outstanding against this line of credit as of December 31, 1997 and 1996. Borrowings would be secured by substantially all the assets of the Company, subject to existing or permitted liens.

Treasury stock notes payable are due to various individuals for the redemption of Brown & Brown, Inc. stock. These notes bear no interest and have maturities ranging from calendar years ending 1999 to 2001. These notes have been discounted at effective yields ranging from 7.9% to 8.75% for presentation in the consolidated financial statements.

Acquisition notes payable represent debt incurred to former owners of certain agencies acquired in 1997, 1996 and 1995. These notes, including future contingent payments, are payable in monthly and annual installments through 1999, including interest ranging from 5% to 6%.

Maturities of long-term debt for succeeding years are \$5,339,000 in 1998, \$1,566,000 in 1999, \$1,388,000 in 2000 and \$1,139,000 in 2001.

Interest expense included in the consolidated statements of income was \$850,000 in 1997, \$941,000 in 1996 and \$877,000 in 1995.

#### Note 8 Commitments and Contingencies

The Company leases facilities and certain items of office equipment under noncancelable operating lease arrangements expiring on various dates through 2005. The facility leases generally contain renewal options and escalation clauses based on increases in the lessors' operating expenses and other charges. The Company anticipates that most of these leases will be renewed or replaced upon expiration. At December 31, 1997, the aggregate future minimum lease payments under all noncancelable lease agreements were as follows:

| Year ended December 31,             | (in thousands) |
|-------------------------------------|----------------|
| 1998                                | \$ 4,255       |
| 1999                                | \$ 4,191       |
| 2000                                | \$ 3,701       |
| 2001                                | \$ 3,117       |
| 2002                                | \$ 2,852       |
| Thereafter                          | \$ 4,821       |
| Total minimum future lease payments | \$ 22,937      |

Rental expense in 1997, 1996 and 1995 for operating leases totaled \$5,130,000, \$5,108,000 and \$4,785,000, respectively.

The Company is not a party to any legal proceedings other than various claims and lawsuits arising in the normal course of business. Management of the Company does not believe that any such claims or lawsuits will have a material effect on the Company's financial condition or results of operations.

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#### Note 9 Income Taxes

At December 31, 1997, the Company had net operating loss carryforwards of \$409,000 for income tax reporting purposes that expire in the years 1998 through 2002. These carryforwards were derived from agency acquisitions by the Company beginning in 1985. For financial reporting purposes, a valuation allowance of \$38,000 has been recognized to offset the deferred tax assets related to these carryforwards.

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

and assets as of December 31, are as follows:

| (in thousands)  | 1997     | 1996     |
|---|----------|----------|
| Deferred tax liabilities:                                       |          |          |
| Fixed assets  | \$ 1,350 | \$ 975   |
| Net unrealized appreciation of<br>available-for-sale securities | 4,312    | 4,163    |
| Installment sales   | 24       | 108      |
| Prepaid insurance and pension                                   | 746      | 833      |
| Intangible assets   | 251      | 368      |
| Total deferred tax liabilities                                  | 6,683    | 6,447    |
| Deferred tax assets:  |          |          |
| Deferred compensation   | 1,568    | 1,386    |
| Accruals and reserves   | 773      | 965      |
| Net operating loss carryforwards                                | 159      | 261      |
| Other   | 270      | 270      |
| Valuation allowance for deferred<br>tax assets                  | (38)     | (38)     |
| Total deferred tax assets                                       | 2,732    | 2,844    |
| Net Deferred Tax Liabilities                                    | \$ 3,951 | \$ 3,603 |

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Significant components of the provision (benefit) for income taxes are as follows:

| (in thousands)                     | 1997     | 1996     | 1995     |
|------------------------------------|----------|----------|----------|
| Current:                           |          |          |          |
| Federal                            | \$10,332 | \$ 8,281 | \$ 9,374 |
| State                              | 1,720    | 1,301    | 1,347    |
| Total current provision            | 12,052   | 9,582    | 10,721   |
| Deferred:                          |          |          |          |
| Federal                            | 179      | 809      | (2,037)  |
| State                              | 20       | 157      | (154)    |
| Total deferred (benefit) provision | 199      | 966      | (2,191)  |
| Total tax provision                | \$12,251 | \$10,548 | \$ 8,530 |

A reconciliation of the differences between the effective tax rate and the federal statutory tax rate is as follows:

|  | 1997  | 1996  | 1995  |
|--|-------|-------|-------|
| Federal statutory tax rate                               | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal<br>income tax benefit | 3.5   | 3.3   | 3.5   |
| Interest exempt from taxation and<br>dividend exclusion  | (0.8) | (0.5) | (0.4) |
| Non-deductible goodwill amortization                     | 0.4   | 0.6   | 0.7   |
| Internal Revenue Service examination                     | --    | --    | (1.9) |
| Other, net   | 0.6   | 0.6   | (0.3) |
| Effective tax rate                                       | 38.7% | 39.0% | 36.6% |

Income taxes payable were \$178,000 at December 31, 1997, and income taxes receivable were \$645,000 at December 31, 1996, and are reported as a component of accounts payable and accrued expenses and other current receivables, respectively.

In 1992, the Internal Revenue Service ("Service") completed examinations of the Company's federal income tax returns for tax

years 1988, 1989 and 1990 and issued Reports of Proposed Adjustments asserting income tax deficiencies. The disputed issues related primarily to the deductibility of amortization of purchased customer accounts of approximately \$5,107,000 and non-compete agreements of approximately \$993,000. In addition, the Service's report included a dispute regarding the timing at which the Company's payments made pursuant to certain indemnity agreements would be deductible for tax reporting purposes.

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In 1994 and 1995, the Company reached a settlement with the Service on all disputed items. The agreement resulted in the payment of approximately \$349,000, which reduced the recorded reserve. As such, with all disputed items settled, the Company recorded a \$451,000 reduction in the general tax reserve, which is recorded as a reduction to the 1995 current income tax provision.

Note 10 Employee Benefit Plans

The Company maintains a defined benefit pension plan covering substantially all previous Poe & Associates, Inc. employees with one or more years of service. The benefits are based on years of service and compensation during the period of employment. Annual contributions are made in conformance with minimum funding requirements and maximum deductible limitations. During 1994, the defined benefit pension plan was converted to a cash balance plan. The impact of this change on the plan costs and plan liabilities was not material. On April 1, 1995, the defined benefit pension plan was amended to freeze the accrual of further benefits. The impact of this amendment on the defined benefit pension plan's liabilities was not material.

The plan's funded status and amounts recognized in the Company's consolidated balance sheets are as follows:

| (in thousands)  | December 31, |            |
|---|--------------|------------|
|   | 1997         | 1996       |
| Actuarial present value of benefit obligations:   |              |            |
| Accumulated benefit obligations, including vested benefits of \$2,475 in 1997 and \$2,524 in 1996           | \$ (2,475)   | \$ (2,524) |
| Projected benefit obligations for service rendered to date  | \$ (2,475)   | \$ (2,524) |
| Plan assets at fair value, principally consisting of a group annuity contract                               | 2,605        | 2,667      |
| Excess of plan assets over projected benefit obligations  | 130          | 143        |
| Unrecognized net excess of plan assets under previously accrued but unfunded pension costs, to be amortized | 494          | 572        |
| Net prepaid pension costs   | \$ 624       | \$ 715     |

The following assumptions were used in determining the actuarial present value of the benefit obligations and pension costs for the years ended December 31, 1997, 1996 and 1995: discount rate of 7.5%; long-term rate for compensation increase of 3.5%; and long-term rate of return on plan assets of 6.5% for 1997 and 8.0% for 1995 and 1996.

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Pension costs included in the Company's consolidated statements of income are comprised of the following:

| (in thousands)                | 1997  | 1996  | 1995   |
|-------------------------------|-------|-------|--------|
| Service cost                  | \$ 40 | \$ 36 | \$ 63  |
| Interest cost                 | 192   | 177   | 215    |
| Actual return on assets       | (173) | (83)  | (318)  |
| Net amortization and deferral | 31    | (97)  | 166    |
| Net pension cost              | \$ 90 | \$ 33 | \$ 126 |

The Company has an Employee Savings Plan (401(k)) under which substantially all employees with more than 30 days of service are eligible to participate. Under this plan, the Company makes matching contributions, subject to a maximum of 2.5% of each participant's salary. Further, the Company provides for a discretionary profit sharing contribution for all eligible employees. The Company's contributions to the plan totaled \$1,753,000 in 1997, \$1,510,000 in 1996 and \$1,334,000 in 1995.

#### Note 11 Stock-Based Compensation and Incentive Plans

##### Stock Option Plans

The Company has adopted stock option plans which provide for the granting of options to purchase shares of the Company's stock to key employees who contribute materially to the success and profitability of the Company. The Company accounts for these plans under Accounting Principles Board Opinion No. 25 (OAPB 250), under which no compensation expense has been recognized. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), which is effective for fiscal years beginning after December 15, 1995. SFAS 123 allows companies to continue following the accounting guidance of APB 25, but requires pro-forma disclosure of net income and earnings per share for the effects on compensation expense had the accounting guidance of SFAS 123 been adopted. The pro-forma disclosures are required only for options granted subsequent to December 31, 1994. The Company granted no options in 1995, 1996 or 1997.

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Under its stock option plans, the Company may grant future options for up to 285,745 shares of the Company's stock to employees and directors. Options previously granted under the plans equaled the market price of the stock at the date of grant and vest over a five-year period. The following schedule summarizes the stock option transactions from 1995 through 1997 pertaining to these plans:

|                                | Number of Option Shares | Per Share Option Price |
|--------------------------------|-------------------------|------------------------|
| Outstanding, January 1, 1995   | 86,380                  | \$ 7.60                |
| Exercised                      | (60,399)                | 7.60                   |
| Canceled                       | (10,601)                | 7.60                   |
| Outstanding, December 31, 1995 | 15,380                  | 7.60                   |
| Exercised                      | (9,323)                 | 7.60                   |
| Outstanding, December 31, 1996 | 6,057                   | 7.60                   |
| Exercised                      | (5,729)                 | 7.60                   |
| Outstanding, December 31, 1997 | 328                     | \$ 7.60                |

All of the 328 options outstanding at December 31, 1997 have a remaining contractual life of 1 year and are fully-vested and exercisable.

##### Employee Stock Purchase Plan

The Company has adopted an employee stock purchase plan ("the Stock Purchase Plan"), which allows for substantially all employees to subscribe to purchase shares of the Company's stock at 85% of the lesser of the market value of such shares at the beginning or end of each annual subscription period. The total number of shares available for issuance under the Stock Purchase Plan as of December 31, 1997, was 250,000. As of December 31, 1997, 43,007 shares remained authorized and reserved for future issuance under this Plan.

The Company accounts for the Stock Purchase Plan under APB 25, under which no compensation expense has been recognized. Had compensation expense for the Stock Purchase Plan been determined consistent with SFAS 123, it would have had an immaterial effect on the Company's net income and earnings per share for the years ended December 31, 1997, 1996 and 1995.

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Stock Performance Plan

Effective January 1, 1996, the Company adopted a stock performance plan, under which up to 400,000 shares of the Company's stock ("Performance Stock") may be awarded to key employees contingent on the employees' years of service with the Company and other criteria established by the Company's Compensation Committee. Shares must be granted, awarded and vested before participants take full title to Performance Stock. Of the grants currently outstanding, specified portions will be awarded based on increases in the market value of the Company's common stock from the initial price specified by the Company. Awards vest on the earlier of: (i) 15 years of continuous employment with the Company from the date shares are granted to the participant; (ii) attainment of age 64; (iii) death or disability of the participant. Dividends are paid on awarded and unvested Performance Stock and participants may exercise voting privileges on such shares. At December 31, 1997, 248,520 shares had been granted under the plan at initial stock prices ranging from \$22.75 to \$27.50. As of December 31, 1997, 1,200 shares had been awarded. The compensation element for Performance Stock is equal to the fair market value of the shares at the date of award and is expensed over the vesting period. Compensation expense related to this Plan totaled \$175,000 in 1997.

Note 12 Supplemental Disclosures of Cash Flow Information

The Company's significant non-cash investing and financing activities and cash payments for interest and income taxes are as follows:

| (in thousands)   | Year ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 1997                    | 1996     | 1995     |
| Unrealized appreciation (depreciation) of available-for-sale securities net of tax effect of \$149 for 1997, \$1,136 for 1996 and \$(317) for 1995 | \$ 233                  | \$ 1,675 | \$ (505) |
| Notes payable issued for purchased customer accounts   | 1,878                   | 6,074    | 1,535    |
| Notes received on the sale of fixed assets and customer accounts   | 187                     | 280      | -        |
| Cash paid during the year for:   |                         |          |          |
| Interest   | 603                     | 891      | 896      |
| Income taxes   | 11,193                  | 10,609   | 9,107    |

Note 13 Business Concentrations

Substantially all of the Company's premiums receivable from



customers and premiums payable to insurance companies arise from policies sold on behalf of insurance companies. The Company, as broker and agent, typically collects premiums, retains its commission, and remits the balance to the insurance companies. A significant portion of business written by the Company is for customers located in Florida. Accordingly, the occurrence of adverse economic conditions or an adverse regulatory climate in Florida could have a material adverse effect on the Company's business, although no such conditions have been encountered in the past.

For the years ended December 31, 1997 and 1996, approximately 20% and 22%, respectively, of the Company's revenues were from insurance policies underwritten by one insurance company. Should this carrier seek to terminate its arrangement with the Company, the Company believes alternative insurance companies are available to underwrite the business, although some additional expense and loss of market share would at least initially result. No other insurance company accounts for as much as five percent of the Company's revenues.

#### Note 14 Reinsurance Indemnity

Whiting National Insurance Company ("Whiting"), the Company's former risk-bearing subsidiary, ceased underwriting operations in early 1985, and in 1988 entered into liquidation under the supervision of the New York State Insurance Department ("Department"). Since then, the handling of Whiting's affairs has been the responsibility of the Department.

In 1979, the Company agreed to indemnify a ceding insurer should Whiting fail to perform under a reinsurance contract. As a result, the Company is directly responsible for the management and adjudication of claims outstanding under that indemnification contract. The Company has historically estimated that certain recoveries related to the indemnity were available to it from the Whiting liquidation. While none of the underlying facts or applicable law as to the Company's rights or creditor priority had changed, the liquidation activities proceeded more slowly than anticipated, making realization of those recoveries uncertain. As a result, in 1992 those estimated recoveries were written off and reserves associated with the underlying indemnity obligation were bolstered because of adverse loss developments. Reserves are periodically revised based on developments to date, the Company's estimates of the outcome of this matter, and the Company's experience in contesting and settling this matter. As the scope of the liability or recovery becomes better defined, there will be changes in the estimates of future costs or recoveries. Management of the Company does not believe that any such changes will have a material effect on the Company's financial condition or results of operations.

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Report of Independent Certified  
Public Accountants

To the Board of Directors of Poe & Brown, Inc.

We have audited the accompanying consolidated balance sheets of Poe & Brown, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Poe & Brown, Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Orlando, Florida  
January 19, 1998

EXHIBIT 22

POE & BROWN, INC.  
SUBSIDIARIES

Florida Corporations:

Arch-Holmes Insurance, Inc.  
Brown & Brown, Inc. - d/b/a Poe & Brown Benefits, Poe & Brown  
Financial Advisers,  
United Self Insured Services, Poe & Brown Insurance  
Madoline Corporation  
Poe 1991, Inc.  
Underwriters Services, Inc.  
W.F. Poe Associates, Inc.

Foreign Corporations:

A.G. General Agency, Inc. (TX)  
P & O of Texas, Inc. (TX)  
P&B PHYSICIANplans, Inc. (CT)  
Poe & Associates of Illinois, Inc. (IL) - d/b/a Insurance  
Administration Center  
Poe & Brown of Arizona, Inc. (AZ) - d/b/a Poe & Brown of  
Prescott, Poe & Brown of Tucson  
Poe & Brown of California, Inc. (CA)  
Poe & Brown of Colorado, Inc. (CO)  
Poe & Brown of Connecticut, Inc. (CT)  
Poe & Brown of Georgia, Inc. (GA)  
Poe & Brown Insurance Benefits, Inc. (TX)  
Poe & Brown Metro, Inc. (NJ)  
Poe & Brown of North Carolina, Inc. (NC)  
Poe & Brown of Pennsylvania, Inc. (PA)  
Poe & Brown of Texas, Inc. (TX)  
Shanahan, McGrath & Bradley, Inc. (AZ)  
Thim Insurance Agency, Inc. (AZ)

Indirect Subsidiaries:

America Underwriting Management, Inc. (FL)  
DSD Insurance Agency, Inc. (AZ)  
Ernest Smith Insurance Agency, Inc. (FL)  
Farr Insurance, Inc. (FL)  
Florida Intracoastal Underwriters, Limited Co. (FL) (limited  
company)  
Halcyon Underwriters, Inc. (FL)  
The Homeowner Association Risk Purchasing Group, Inc. (AZ)  
Hotel-Motel Insurance Group, Inc. (FL)  
Jordan, Roberts & Company (FL)  
MacDuff America, Inc. (FL)  
MacDuff Pinellas Underwriters, Inc. (FL)  
MacDuff Underwriters, Inc. (FL) - d/b/a Roehrig & MacDuff  
Nevada Apartment Insurance (NV)  
Poe & Brown of Nevada, Inc. (NV)

Exhibit 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
of Poe & Brown, Inc.

As independent certified public accountants, we hereby consent to the incorporation of our report dated January 19, 1998, included or incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statements (File Nos. 33-1900, 33-76, 2-61019, 33-41204, 33-41825 and 333-14925).

ARTHUR ANDERSEN LLP

Orlando, Florida  
March 24, 1998

Exhibit 24a

POWER OF ATTORNEY

The undersigned constitutes and appoints Laurel L. Grammig and William A. Zimmer, or either of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the 1997 Annual Report on Form 10-K for Poe & Brown, Inc., and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/S/ BRADLEY CURREY, JR.

\_\_\_\_\_  
Bradley Currey, Jr.

Dated: January 16, 1998

POWER OF ATTORNEY

The undersigned constitutes and appoints Laurel L. Grammig and William A. Zimmer, or either of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the 1997 Annual Report on Form 10-K for Poe & Brown, Inc., and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/S/ J. HYATT BROWN

\_\_\_\_\_  
J. Hyatt Brown

Dated: January 16, 1998

POWER OF ATTORNEY

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/S/ DAVID H. HUGHES

\_\_\_\_\_  
David H. Hughes

Dated: January 16, 1998

POWER OF ATTORNEY

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confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/S/ JAN E. SMITH

\_\_\_\_\_  
Jan E. Smith

Dated: January 16, 1998

POWER OF ATTORNEY

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/S/ KENNETH E. HILL

\_\_\_\_\_  
Kenneth E. Hill

Dated: January 16, 1998

POWER OF ATTORNEY

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purposes as he might or could in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/S/ JIM W. HENDERSON

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Jim W. Henderson

Dated: January 16, 1998

POWER OF ATTORNEY

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/S/ THEODORE J. HOEPNER

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Theodore J. Hoepner

Dated: January 16, 1998

POWER OF ATTORNEY

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attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/S/ SAMUEL P. BELL, III

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Samuel P. Bell, III

Dated: January 16, 1998

POWER OF ATTORNEY

The undersigned constitutes and appoints Laurel L. Grammig and James L. Olivier, or either of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the 1997 Annual Report on Form 10-K for Poe & Brown, Inc., and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/S/ WILLIAM A. ZIMMER

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William A. Zimmer

Dated: January 16, 1998

EXHIBIT 24b

CERTIFIED RESOLUTIONS OF THE BOARD OF DIRECTORS

The undersigned, Laurel L. Grammig, hereby certifies that she is the duly elected, qualified and acting Secretary of Poe & Brown, Inc., a Florida corporation (the "Company"), and that the following resolutions were adopted by the Board of Directors of the Company at a special meeting held on February 20, 1998.

RESOLVED, that the draft of the Company's 1997 Annual Report on Form 10-K submitted to the Directors prior to this meeting is hereby approved in form and substance, subject to any revisions, additions, deletions or insertions deemed necessary or appropriate by Laurel L. Grammig, the Company's Vice President, Secretary and General Counsel, and that the Chief Executive Officer and the Chief Financial Officer are hereby authorized to sign the Form 10-K on behalf of the Company, either personally or through a power of attorney, and to cause the Form 10-K to be filed with the Securities and Exchange Commission in accordance with the rules promulgated by the Commission;

FURTHER RESOLVED, that the appropriate officers of the Company are hereby authorized and directed to take all actions they deem necessary or appropriate, including the payment of any necessary filing fees, to carry out the intent of the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned Secretary of the Company has executed this Certificate this 24th day of March, 1998.

/S/ LAUREL L. GRAMMIG

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Laurel L. Grammig  
Secretary

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