BREAKING BARRIERS

2013 ANNUAL REPORT


H
BIG IS *TOO BIG?*
Can any wave be *too big?*

Is there a limit to how **FAR** or **HIGH** or **FAST** we can go?

Whenever we as humans have reached a new height of achievement in any endeavor and it appears as though a boundary has been drawn in the sand, always… *always*… there is an intrepid explorer or artist or athlete or statesman or scientist who decides, at that moment, that he or she will break down that barrier and draw a new line in the sand.

Everything that has ever been done had never been done until somebody did it.

MOUNT EVEREST

Breaking Barriers®

Dear Shareholders,

2013 was a barrier-breaking record year for our Company, with 13.6% revenue growth and 17.5% earnings per share (EPS) growth. We increased our dividends for the twentieth consecutive year and our net income grew by $33.1 million to $217.1 million. We grew our core commissions and fees revenue organically by 6.7% which generated $75.6 million of new organic growth dollars - a record for our firm and we believe a true testament to our team's commitment to serving our clients.

None of this would be possible without our 6,992 teammates across America and in Bermuda and London, who strive every day to deliver the best solutions for our clients. To our teammates, I thank you for everything you do for our team. Without your hard work and dedication, these results would be unattainable. I am very proud of each of you and am honored to work with you and for you.

This year witnessed the formation of the National Retail Council (NRC), a select group of 16 Retail Division leaders through whom all of our 104 retail offices report. The intent of the NRC is to disperse oversight responsibilities for Retail Division offices so that those in charge are fully in touch with the enterprises they help to guide. We believe this leadership structure is the most conducive to the enhancement of organic growth in our largest division. 2013 also marked significant growth in this division, via our acquisition of Beecher Carlson Holdings, Inc., which brought us high-quality teammates, leadership and business, and strengthened our large-account capabilities as well as adding to our programs management and captive management operations in our National Programs Division.

As we continue to evolve from a billion-dollar company to our next intermediate goal of "$2B," we think about growing our business organically and profitably – increasing our free cash annually, recruiting, rewarding and protecting our teammates and investing in high-quality organizations that fit culturally. As we have increased revenues 35% over the past three years, we have continued to focus on four operating principles that we believe are fundamental to our success:

"I am very proud of each of you and am honored to work with you and for you."

It is the highest point on the Earth's surface, and until May 29, 1953 it had never felt the footsteps of human beings. On that day Sir Edmund Hillary and his Sherpa guide Tenzing Norgay (shown to the left) reached the summit utilizing equipment that may have been state-of-the-art at the time, but extremely rudimentary when compared to today's high-tech gear. Most importantly, they broke a barrier and proved that humans could reach the top of the world.

1) Strive to do what is in our clients' best interests each and every time;

2) Recruit, reward, and enhance the best people for the Brown & Brown team;

3) Work closely with our carrier partners to provide optimal solutions to our clients; and

4) Support the communities that we serve.

To our shareholders, although we are measured by a 13-week scorecard each quarter, we think about our culture and investments long-term. We appreciate your support and interest in Brown & Brown. Please know we are committed to delivering profitable growth and generating more free cash to reinvest in our business. We will continue to work tirelessly to "break barriers" on behalf of our clients, and for the sake of you, our shareholders, as we move toward our intermediate goals and beyond.

Regards,

J. Powell Brown, CPCU
President and Chief Executive Officer

breaking BARRIERS

On May 6th 1954, Roger Bannister did what no human had ever done before: **ran a mile in less than four minutes**, barely beating his main rival John Landry. This was a barrier that seemed unbreakable, through a century of trying and through more than a dozen Olympics and thousands of competitive track meets worldwide.

It all begins with the individual; when someone decides,

"I'm going to do that!"

From the ground up. One teammate at a time.

"I didn't even know what insurance was. I was planning to go into law, but saw the earning potential in the insurance industry. So, I checked it out. I actually learned about Brown & Brown from interviewing with the competition. At least two other companies said they didn't offer training like B&B does. I still thank them for helping me make my decision!"

– **Jeffrey Harrison,**
originally from Marlton, NJ, now working in the Ft. Lauderdale office.

"I studied risk management and insurance in college at Ole Miss and interviewed with Brown & Brown at a career fair. The training B&B provides really attracted me to the company. They are committed to helping me become more knowledgeable and successful in my craft."

– **Hannah Parker,** *originally from Mobile, AL, now working in the Tampa office.*

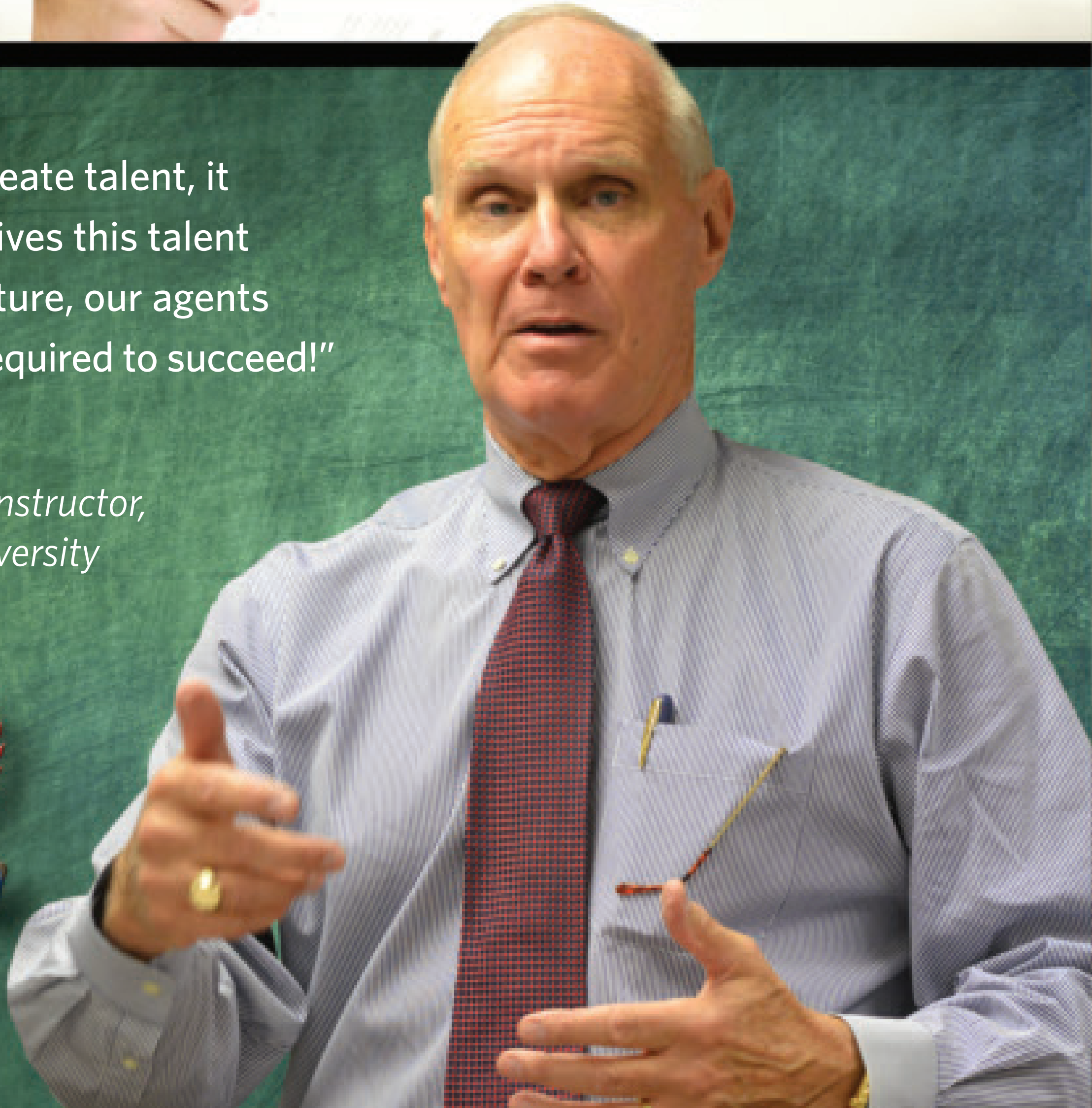
At the end of the day, it is the one-to-one interactions between our individual team members and their clients that make the difference—the meetings, the phone calls, the Tweets, texts and emails that take place virtually every minute of the day in the far corners of our enterprises.

These touchpoints—too numerous to mention—are where we build our company. We know and understand that. That's why we recruit, train, nurture and reward the best and brightest in our industry. We find those individuals with the unique mixture of brains, ambition, instincts, savvy, people skills and commitment to customer satisfaction that it takes to be on our team. Then we train them at "Brown & Brown University", an institution we believe to be "best-in-class" in our industry.

Brown & Brown University FL #23 Class

"This class doesn't create talent, it identifies it. Then it gives this talent structure. With structure, our agents gain the confidence required to succeed!"

– **Tom Finwall,** *P&C Instructor, Brown & Brown University*



"I was in elementary education, teaching school, and I needed a better opportunity to make money and provide for my family. I spoke with several recruiters, but chose Brown & Brown because being 34 and starting a new career I knew that the path through Brown & Brown University was the best in the business."

– **Kyle Bloemers,**
graduate of Hope College in Holland, MI, now working in the West Palm Beach office.

No one was entirely sure what would happen if a flying object moved faster than the speed of sound. Flying a Bell X-1 Jet, 1947 Airforce Captain Chuck Yeager put all of those fears to rest when he reached a top recorded speed of Mach 0.997 (339 m/s, 1,221 km/h), which many believed actually exceeded Mach 1, a feat known as breaking the sound barrier.

BREAKING BARRIERS

The decentralized operational model fostered by Brown & Brown allows each of our local profit centers to chart its own course and build its own success. Corporate leaders are there to provide guidance and knowledge when asked, but we realize that the local team members live in their communities, know the decision-makers, and understand the unique characteristics of people and businesses who live and work there. That's why it is important that we support local efforts, but not dictate a rigid corporate structure that inhibits the personalized approach critical to success in each territory.

"I came in here with a law degree and not one day of experience in the insurance industry. But I was welcomed as a member of this great team and have learned—and continue to learn—so much."

– **Angela Lopez,**
Operations Manager,
Brown & Brown Insurance Services of California, Inc., Orange County;
Anaheim, California

IN THE TRENCHES.
ONE PROFIT CENTER AT A TIME.

Sales contests are one way not only to increase books of business but also to build morale and camaraderie. Here the B&B Nevada team of *(pictured left to right)* Michael Enzenbacher, Vice President – Las Vegas Division; Brian Cruden, Executive Vice President; and Charles Litwin, Underwriter-Marketing Manager, go over details for their 2013 incentive trip.

Brown & Brown of Florida, Inc.

Daytona Beach, FL

The Daytona Beach team broke a significant barrier in 2013 by posting nearly $5 million in new business. The successes were a combination of aggressive new sales efforts and, perhaps most importantly, transforming long-term relationships into new business. "We had growth from clients we have been servicing for 20 or more years," explains Brian Lindahl, Senior Vice President – Daytona Beach Division. "It is a testament to the people here who, year in and year out, have provided such outstanding service to these important clients that they entrusted their new business opportunities to our team."

"Everybody stepped up to the plate," adds Alan Florez, Executive Vice President – Daytona Beach Division. "This was a year where everything came together. We are fortunate to have a multitude of professionals who have cultivated relationships that allow us to build a reputation in the marketplace. This puts us in a great position to seize the opportunities when they arise."

Vice President – Daytona Beach Division Tim Soriano adds to those sentiments. "It was a combination of hard work, opportunities, discipline, leadership, camaraderie and competition. We literally have sales contests inside of sales contests, and this year it all paid off."

"Simply, it was teamwork. Everybody pulled together. It's about finding the best program for the client and then providing the highest level of service. And it takes everyone on the team to make that happen."

– **Julie Freidus,** *Vice President – Daytona Beach Division*

Pictured below (left to right):
Julie Freidus, Vice President – Daytona Beach Division; Tim Soriano, Vice President – Daytona Beach Division; Julie Young, Vice President/Marketing Manager – Daytona Beach Division; Brian Lindahl, Senior Vice President – Daytona Beach Division; and Pam Thompson, Senior Vice President – Daytona Beach Division

Brown & Brown Insurance Services of California, Inc., Orange County

Anaheim, CA

According to Tim Casey, Executive Vice President of B&B in Orange County, the Southern California marketplace is by far the most competitive he has experienced during his 13 years with the company. Over the last seven years, the profit center has built a “dynamic team” of people from diverse walks of life and has fostered an environment of trust and collaboration internally between departments. As a result, the profit center was able to break several barriers in 2013: $8.9 million in revenues, a 30% operating profit and more than $1.1 million in new business.

Pictured above (left to right):
Allison Magda, *Sales Manager;*
Angela Lopez, *Operations Manager;*
Tim Casey, *Executive Vice President*;
Nicole Skvarca, *Regional Operations Supervisor; and*
Helen Vits, *Employee Benefits Department Head of Sales*

"Our model is geared towards developing a business plan with a client and then executing that plan. We believe the key to success in keeping clients long-term is to outline goals and expectations on an annual basis and to deliver results."

– **Tim Casey,**
Executive Vice President of Brown & Brown Insurance Services of California, Inc., Orange County

"A lot of agencies are driven by quoting. We don't do that. Through our affiliation with Brown & Brown we have great relationships with carriers and we work with them to develop strategies and tactics that get the job done for our clients."

– **Allison Magda,**
Sales Manager

Brown & Brown Insurance of Nevada, Inc.

Las Vegas, NV

"It was our market dominance as the state's largest broker in the health and welfare space plus B&B's top ten position in the brokerage business that got us in the door. A major player like Wynn is not going to go with a local yokel. But our internal talent is what closed the deal."

– **Brian Cruden,**
Executive Vice President, Brown & Brown Insurance of Nevada, Inc.

The leadership team of B&B Las Vegas has only been in place since May of 2012, but it didn't take them long to break a huge barrier and write the benefits program for Wynn Resorts, one of the Strip's most iconic fixtures. It took a combination of local knowledge and hard work plus the power of the Brown & Brown name to seal the deal.

Brian Cruden, Executive Vice President of Brown & Brown Insurance of Nevada, Inc., went on to point out that their approach included a total recalibration of the way Wynn approaches their health and welfare issues and the creation of a business plan that addressed these challenges in innovative ways.

"We helped them re-engineer the way to think about human capital. It is about solutions, not price."

Pictured below (left to right):
Georges Maalouf, Executive Vice President – Las Vegas Division; Susan Coles, Operations Manager; Dave Lester, Vice President; Clara Cruden, Vice President Client Services; and Brian Cruden, Executive Vice President

The Infinite Barrier

Operators of the Hubble telescope recently aimed its lens at a dark spot in space known as Abell 2744 and held it there. Days later, photos began to arrive, depicting the deepest-ever observations of space. Residing within these deep fields were thousands of galaxies from 3.5 billion to more than 12 billion light years from earth.

BREAKING BARRIERS

CORPORATE WIDE.

It was, perhaps, the first impossible dream of early humans; the ability to become a bird, to spread wings and take to the sky. Of course, first with the hot air balloon and later with the airplane, we were able to shake loose the chains of gravity. But even the most audacious dreamer would struggle to conceive that one day we would glimpse galaxies billions of light-years away.

The Hubble telescope is an inspiring symbol of the power of dreams and the astonishing teamwork that it takes to achieve them. The world-changing success of the Hubble consumes the talents, vision and dedication of thousands of people: from the metallurgists who designed the tiniest bolts that hold the telescope together, to the chemists who created materials that could withstand the rigors of space, to the programmers who devised the software, to the engineers and scientists whose collective genius lifted this awesome device into space, to the operators and analysts who follow and interpret its discoveries.

Coalescing the individual and company strengths with a vibrant, driven corporate culture.

What you believe in is what you become.

Brown & Brown is committed to achieving new levels of customized client solutions and exemplary customer service. It is not about big ideas. It is about hundreds of small ideas, manifesting themselves every day between those we serve and those who serve them. To innovate. To experiment. To occasionally fail. To ultimately succeed and rewrite history. This is a drive that propels great companies to greater heights, and it is embedded in the culture of Brown & Brown Insurance. We refuse to be ordinary. We reject those who say, “It can’t be done.” We are an “intra-preneurial” company comprised of people who have built their businesses from the ground up.

And we **BREAK BARRIERS** every day.

Brown & Brown of Garden City, Inc.
dba Sobel Affiliates

Garden City, NY

In 2004, the Sobel Affiliates agency broke the century barrier and celebrated its 100th Anniversary. Three years later Alan and Michael Labadorf, the great grandsons of the founder, decided to sell to Brown & Brown. The result? Greater growth and higher profitability than at any time in the company's history—indeed a win-win for the agency and for B&B.

"It couldn't have been a better fit," says Neil Unger, Senior Vice President. "Other than some changes in our systems, we are still managed by the same team, and we are allowed to do things our way. You couldn't ask more from a merger."

"When I first learned of the merger my initial thought was disappointment. I mean, it had been run by five generations of the same family. But Brown & Brown helps you focus on positive changes without getting in your way. These have made us much stronger."

– **Gigi Cabasso**
Senior Vice President

"It took a long time to get me to come to the table. I didn't want to sell and then just go off to Florida and play golf. The Brown & Brown decentralized model which encourages entrepreneurial initiative clinched the deal for me. It could not have worked out better."

– **Michael Labadorf**
Executive Vice President

"We have benefited from the best practices, depth of experience and wider strengths with carriers that Brown & Brown brought to us. And then there is the whole culture. It is positive, innovative and dynamic. It was the best decision we ever made."

– **Alan Labadorf**
Managing Director

Brown & Brown of Washington, Inc.

Seattle, WA

Corporate culture —the sharing of values, vision, ethics and best practices— is a cornerstone of Brown & Brown's success. Our decentralized operations model requires special efforts when previously independent firms combine their expertise, reputations and teams to form a new and stronger Brown & Brown organization. And by its very nature, the merger process creates cultural barriers that need to be broken down.

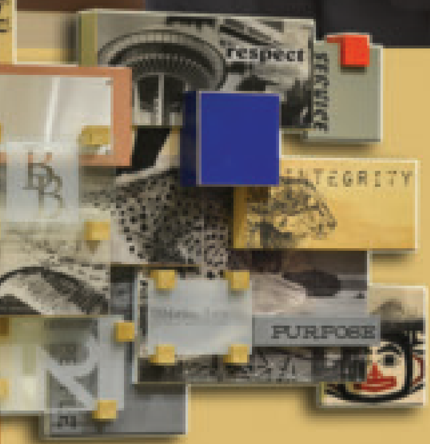
In Seattle, five different teams embarked on a shared journey to break down these barriers and build a unified commitment to core values. It began with a wedding cake, the layers of which each represented one of the five merging entities. It went on to open discussion forums where teammates could sort through anxieties, unknowns and corporate differences.

From there the process evolved into the creation of artwork denoting the combining of our shared cultural values, the development of Vision Maps to clearly define the common direction, and other office décor to promote our B&B culture. The very space in which the teams would work was designed around the idea of working as teams in open and fluid spaces: low walls, lots of light, common spaces for teammates to work and gather together. A modern, fresh look and feel, attractive to new generations.

"Each company came from high-walled cubes and offices that tended to isolate team members from one another. We decided to position people by teams of specialty—no more walls—where they could share information. We literally broke down barriers."

– **Christina Buchholz,** *Employee Benefits Leader*

Pictured below (left to right): *Karen Blonden, Accounting Leader; Ronaldo Manalo, Sales Leader; Sharon Deuman, Operations Director; Kelly Chavez, Benefits Operations Leader; Melanie Van Gelder, Tribal Leader; Jeff Ogard, Personal Lines Leader; Tracy Johnson, Leadership Development; Christina Buchholz, Employee Benefits Leader; and Alex Bogaard, Executive Vice President.*



Pictured above (left to right):
Alex Bogaard, Tracy Johnson and Christina Buchholz.

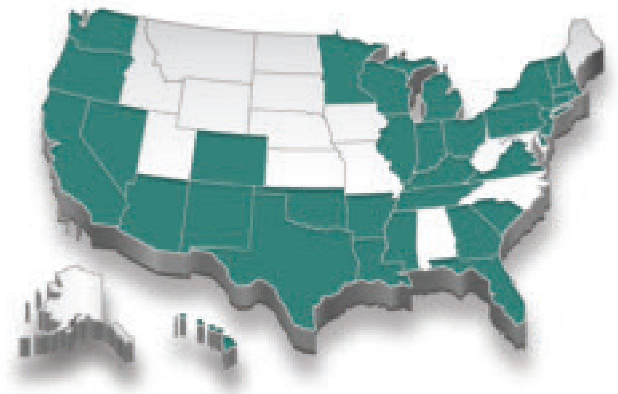
"We came together, all of us, as a team to identify not what made us different, but rather our common values and aspirations. We each understand that our combined and individual successes are based on the merits of our choices, dedication, attitudes, and performances. We play to win. When we don't, we work hard to improve. When we win, we celebrate the 'we'. "

– **Alex Bogaard**
Executive Vice President of
Brown & Brown of Washington, Inc.

"To promote teamwork, when Brown & Brown initiated the "InterZone Sales Contest", we developed an intra-office contest for our people. We wanted them to have an opportunity to be rewarded for their efforts – just as we reward the Sales Team."

– **Tracy Johnson,** *Leadership Development (HR) Leader*

Total revenues for 2013 were **$728.3 million,** a **13.0% increase** over 2012.

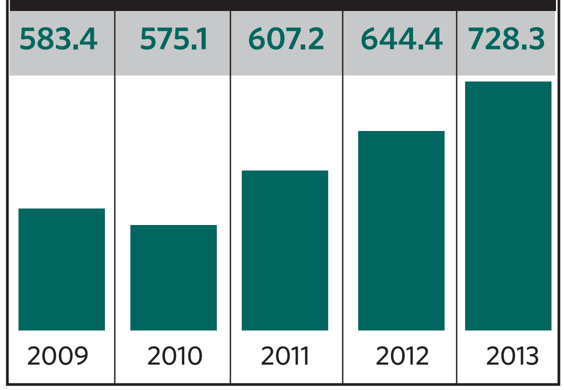


RETAIL DIVISION OFFICE LOCATIONS

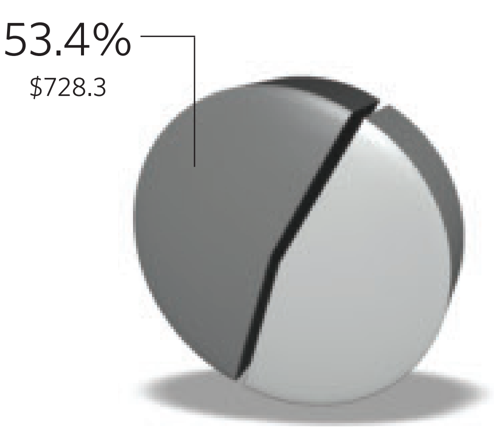
Arizona
Arkansas
California
Colorado
Connecticut
Delaware
Florida
Georgia
Hawaii
Illinois
Indiana
Kentucky
Louisiana
Massachusetts
Michigan
Minnesota
Mississippi
Nevada
New Hampshire
New Jersey
New Mexico
New York
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
Tennessee
Texas
Vermont
Virginia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

Outside US
Bermuda
Cayman Islands

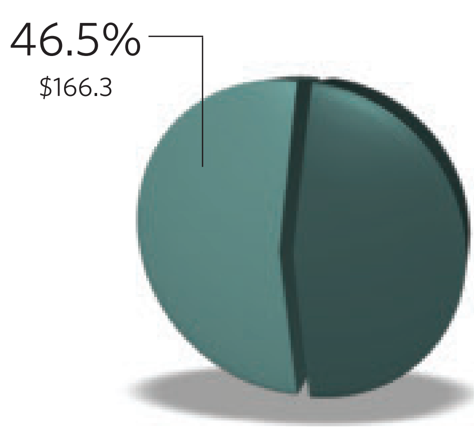
DIVISION TOTAL REVENUES
(dollars in millions)



CONTRIBUTION TO TOTAL REVENUES
(dollars in millions)



CONTRIBUTION TO INCOME BEFORE INCOME TAXES
(dollars in millions)



During 2013 our 104 Retail profit centers, with 150+ locations spread across 36 states and staffed by 3,500 + insurance professionals, were responsible for generating 53.4% of Brown & Brown's total revenues. Our core organic commissions and fees revenue grew each quarter (1.5% annualized), operating profit margin[(1)] increased by 20 basis points to 32.5%, and profit-sharing contingent commissions and guaranteed supplemental commissions (GSC) grew by 23.6%.

The principal categories of insurance we sell include property insurance relating to physical damage to property and resultant interruption of business or extra expense caused by fire, windstorm or other perils; casualty insurance relating to legal liabilities, workers' compensation, and commercial and private passenger automobile coverages; and fidelity and surety bonds. Additionally, we sell and service group and individual life, accident, disability, health, hospitalization, medical and dental insurance.

A landmark strategic change was instituted by Retail Division President Charlie Lydecker in 2013, with the creation of the National Retail Council ("NRC"). This 16-member group of Retail leaders oversees all facets of recruitment, training, retention, sales and operations of every Retail profit center. Each office is the responsibility of one of the NRC members thus offering significantly increased contact and guidance. Meeting as needed, but not less often than every 60 days, the NRC provides a forum for the sharing of ideas and solutions across the entire retail space, while also ensuring we have the "right people in the right seats" throughout the country.

We continue to seek out and attract the highest quality individuals as evidenced by the successes of our 177 newly hired producers in our Property & Casualty and Employee Benefits ranks (excludes those producers joining us via acquisition). Our pipeline of talent principally comes from our close relationships with professors and counselors at several major universities. That talent is then systematically developed within Brown & Brown through our comprehensive educational and training network of "B&B University." This rigorous two-year training program prepares graduates to excel in the technical world of insurance intermediaries.

On July 1, 2013, we completed the largest acquisition in our history with the purchase of the $106 million-revenue Beecher Carlson operations, headquartered in Atlanta, Georgia. Our new teammates' sophisticated large-account focus is expected to provide an excellent adjunct to many of our existing clients' expanding insurance requirements. The combination of Beecher Carlson's unique analytical tools in the hands of its experienced staff and our current retail market presence creates a compelling opportunity. Regional Vice President and Profit Center Leader Steve Denton's position on the NRC will facilitate a rapid and effective coalescing of these resources.

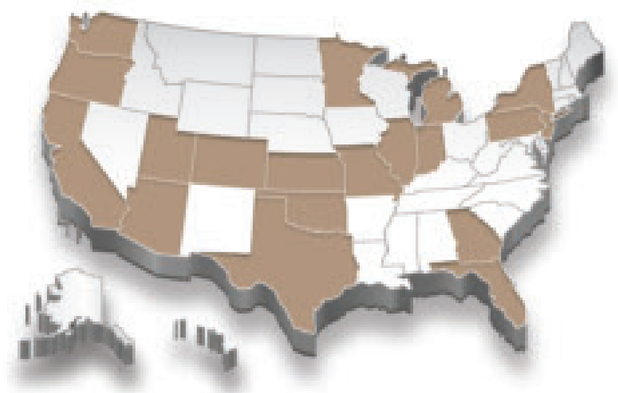
Healthcare coverage issues continue to be in the forefront of our clients' minds. B&B's National Employee Benefits Committee, headed by Pattysue Rauh, CPA, remains committed to educating our insurance professionals on all aspects of current regulations while closely monitoring pending legislation. The Brown & Brown Insurance Employee Benefits Marketplace℠ is a fully operational and extremely valuable healthcare exchange facility for the thousands of employees of our clients. The third annual company-wide Benefits Symposium, another opportunity for the sharing of creative ideas amongst our Benefits professionals, who currently handle $225 million, or 31% of our annual Retail revenue, will be held in April 2014.

A heightened focus on our insurance carrier partners has already been fostered through the formation of the NRC. Each NRC member has a defined geographic concentration which enhances the ability of regional and national insurance carriers to target specific, common client needs. With decentralization continuing to be our overarching mantra, we are now able to be better understood and compensated by the insurance carrier community.

(1) Income before income taxes plus interest expense, amortization, and change in estimated acquisition earn-out payables; divided by total revenues.

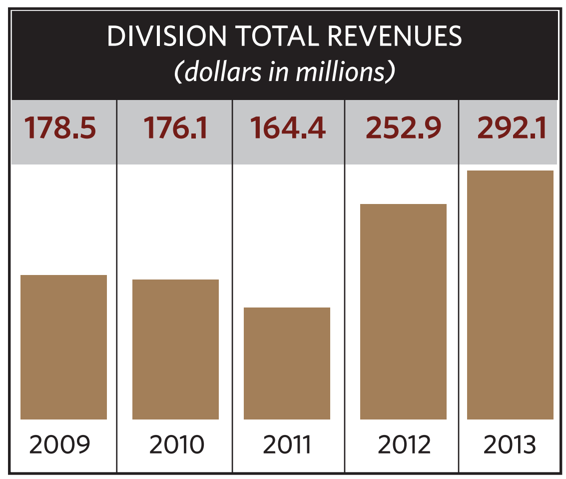
The
NATIONAL PROGRAMS DIVISION

Total revenues for 2013 were **$292.1 million,** a **15.5% increase** over 2012.

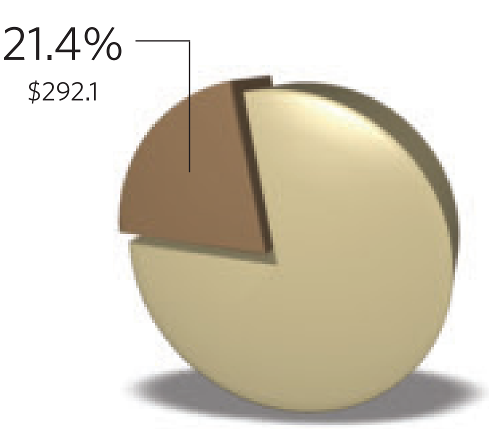


NATIONAL PROGRAMS DIVISION OFFICE LOCATIONS

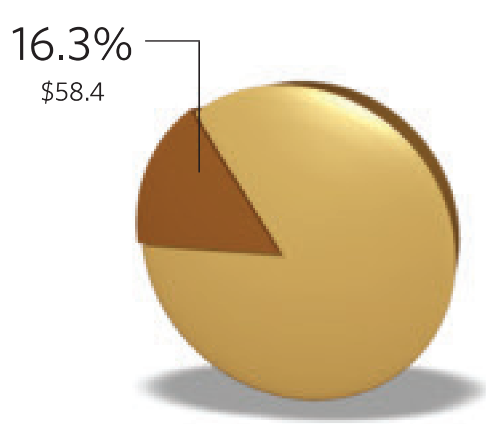
Arizona
California
Colorado
Florida
Georgia
Illinois
Indiana
Kansas
Michigan
Minnesota
Missouri
New Jersey
New York
Oklahoma
Oregon
Pennsylvania
Texas
Utah
Washington



CONTRIBUTION TO TOTAL REVENUES
(dollars in millions)



CONTRIBUTION TO INCOME BEFORE INCOME TAXES
(dollars in millions)



Our National Programs Division can be viewed as two broad groups: Professional Programs and Property/Casualty Programs. This Division manages or administers more than 50 different programs that provide a broad spectrum of insurance products and services to our clients.

In most cases, the insurance carriers that underwrite the programs have delegated underwriting and, in many instances, claims-handling authority to our programs operations. These programs are generally distributed through nationwide networks of independent agents and offer targeted products and services designed for specific industries, trade groups, professions, public entities and market niches. Basically, they can be broken down into four categories:

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

Professional Programs provides professional liability and related package insurance products for certain professionals. Professional Programs tailors insurance products to the needs of a particular professional group; negotiates policy forms and coverage with an insurance company; and, in certain cases, secures the formal or informal endorsement of the product by a professional association or sponsoring company.

Professional groups that Professional Programs services include dentists, lawyers, accountants, optometrists, opticians, insurance agents, financial advisors, registered representatives, securities broker-dealers, benefit administrators, real estate brokers, real estate title agents and escrow agents.

Commercial Programs markets targeted products and services to specific industries, trade groups, public and quasi-public entities and market niches. Most of our special programs are marketed and sold through independent agents, however some are marketed and sold directly to insured customers.

Public Entity-Related Programs focus on providing various insurance programs specifically for cities, municipalities, school boards and quasi-governmental agencies. These insurance coverages can range from providing fully insured programs to establishing risk retention insurance pools to excess and facultative specific coverages.

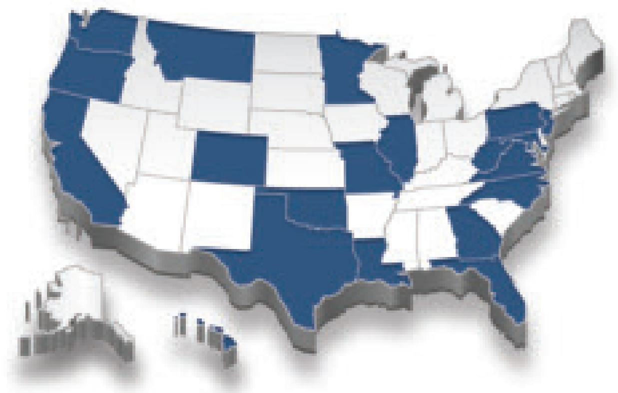
Arrowhead General Insurance Agency, Inc. ("Arrowhead") is a national insurance program manager and one of the largest general agents in the property and casualty insurance industry in the United States. Based in San Diego, California, Arrowhead acts as a "virtual insurer" by providing outsourced product development, marketing, underwriting, actuarial, compliance and claims and other administrative services for more than 20 insurance carrier partners. While Arrowhead has full underwriting authority from its carrier partners, it does not assume any underwriting risk. Arrowhead also provides third-party claims administration services through its subsidiary, American Claims Management, Inc.

Brown & Brown has been in the program business since the 1970's, and today we are one of the largest program operators in the United States. At the start of 2000, the National Programs Division's total revenues were approximately $32.6 million, or 13.7% of our consolidated revenues, whereas today, the Division's total revenues are $292.1 million, or 21.4% of our consolidated revenues. We steadily grew the Programs Division since 2000, both organically, as well as through acquisitions, by attracting at least one program operator to join us in eight of the last twelve years. We acquired Cal-Surance in 2002, our Washington State public entity pool manager in 2003, Proctor Financial in 2004, and American Specialty in 2005, and with our January 2012 acquisition of Arrowhead, we have fortified our position.

Other outstanding programs in this Division provide insurance coverages and insurance solutions for: coastal and inland high-value condominiums and apartments; dry cleaners, linen supply and uniform rental companies; commercial and private shippers for small packages and parcels; and clients in professional sports, motor sports, amateur sports and the entertainment industry.

The
Wholesale Brokerage Division

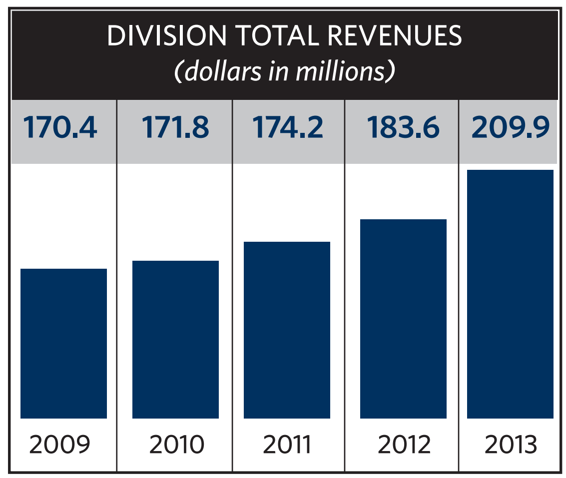
Total revenues for 2013 were **$209.9 million,** a **14.4% increase** over 2012.



WHOLESALE BROKERAGE DIVISION OFFICE LOCATIONS

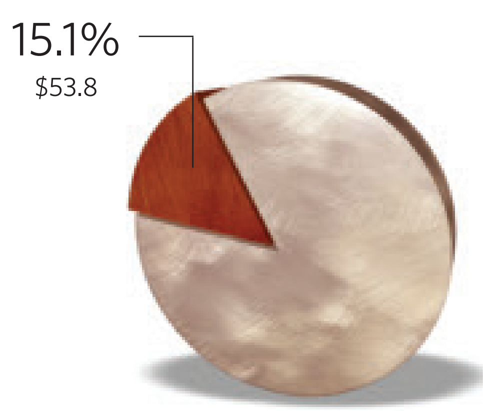
California
Colorado
Florida
Georgia
Hawaii
Illinois
Louisiana
Maryland
Minnesota
Missouri
Montana
New Jersey
North Carolina
Oklahoma
Oregon
Pennsylvania
Texas
Virginia
Washington
West Virginia

Outside US
London, England



CONTRIBUTION TO TOTAL REVENUES
(dollars in millions)

CONTRIBUTION TO INCOME BEFORE INCOME TAXES
(dollars in millions)



Our Wholesale Brokerage Division markets excess and surplus commercial and personal insurance products to retail insurance agencies, and reinsurance products and services to insurance companies throughout the United States. Our Wholesale Brokerage Division can be categorized into two broad groups: (1) Brokerage operations and (2) Binding Authority operations.

BROKERAGE OPERATIONS

Our Brokerage operations represent various U.S. and U.K. surplus lines insurance companies, and certain of our offices are also Lloyd's of London correspondents. Generally, our brokers focus on either property coverages or casualty coverages, such as general liability, product liability or professional liability coverages.

BINDING AUTHORITY OPERATIONS

Our Binding Authority operations represent admitted insurance companies for smaller agencies that do not otherwise have access to certain insurance company representation. Our Binding Authority teams have contracts with specialty lines companies that give us the authority to directly quote and issue policies. To be successful in this business, over a long period of time, we have to think like insurance company underwriters by understanding the risks and determining the appropriate premiums to be charged for such risks. It is our combined market product, expertise and quick turnaround times that enable us to meet our goal of efficiently binding accounts with the best coverages and at the most competitive prices available.

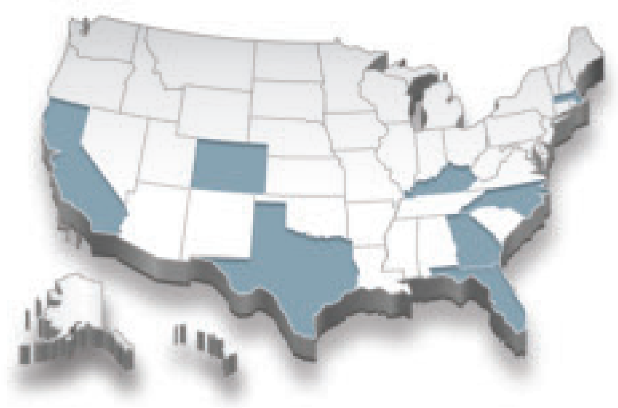
The newest addition to our Binding Authority team is Texas Security General Agency, Inc. ("Texas Security"), who joined us in September 2012. Texas Security is located in San Antonio and provides insurance services for over 2500 agents in the state of Texas. At the time of the acquisition, 85% of Texas Security's business was focused on providing E&S personal lines coverage through multiple binding authority contracts, primarily via small premium transactions.

Since joining Brown & Brown, Texas Security has found multiple synergies that have allowed them to grow the commercial lines segment of their business. Using markets that were made available to them after joining B&B, the commercial lines segment has grown from just under $400,000 in net revenue to over $1.1 million, with continued growth expected in 2014. This growth has been fueled by increased market presence in the commercial property, casualty, and transportation segments, despite moderating rates. Texas Security has also found increased name recognition in the insurance marketplace since joining B&B, which has helped with recruiting talented people as well as selling insurance.

Our Binding Authority operations have consistently broken barriers of growth and profitability, and for 2013, these operations represented 57% of the Division's total revenues. The success of Binding Authority has been evident even through years of rate volatility, market changes and economic downturns, and is driven by a long history of strong carrier relationships and some of the best retail agents nationwide. Binding Authority is high-volume, fast-paced business, so it is imperative to have underwriters and brokers with a strong work ethic who are well-seasoned with experience and strong relationships to quickly provide what is needed for the retail agents on every single account. Our brokers strive to communicate constantly with their independent agents to ensure there is full awareness of the markets and products available.

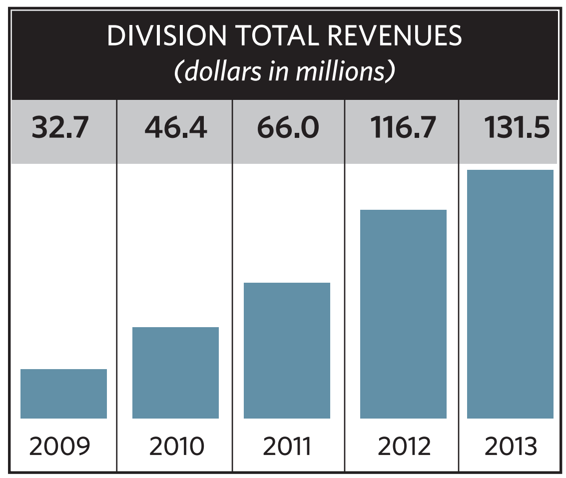
Our Binding Authority operations never settle for average. We constantly seek to have the best carriers with the best products. We need to have more insurance underwriting capacity and more products than our competitors. Our goal is to be the top performer with our insurance company partners so that they can provide the best risk solutions for every one of our clients.

Total revenues for 2013 were **$131.5 million,** a **12.6% increase** over 2012.

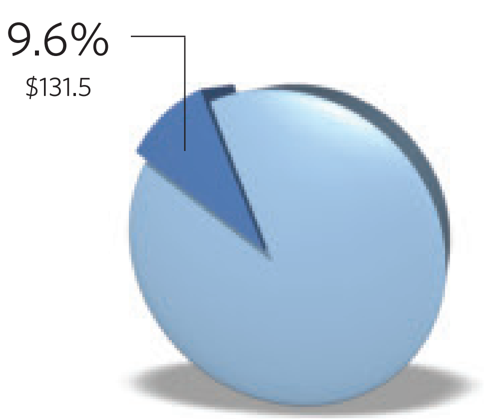


SERVICES DIVISION OFFICE LOCATIONS

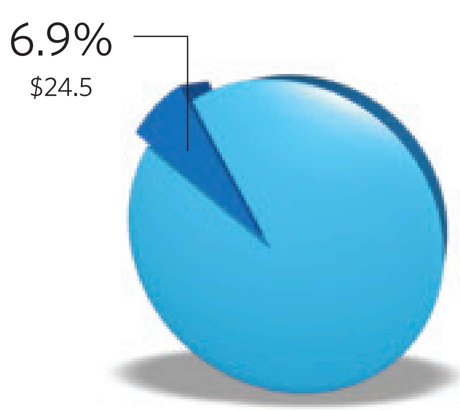
California
Colorado
Florida
Georgia
Kentucky
Massachusetts
North Carolina
Texas



CONTRIBUTION TO TOTAL REVENUES
(dollars in millions)



CONTRIBUTION TO INCOME BEFORE INCOME TAXES
(dollars in millions)



Our continued focus is to provide high-quality back-office services to our ever expanding client base, primarily to many of our insurance carrier partners.

The Services Division is comprised of: USIS, Inc. ("USIS®"); Preferred Governmental Claim Solutions, Inc. ("PGCS®"); AmeriSys®, a division of USIS.; NuQuest/Bridge Pointe® and Protocols®; The Advocator Group℠; Colonial Claims Corporation ("Colonial Claims"); American Claims Management, Inc. ("ACM"); and ICA, LP ("ICA"). These operations provide clients with third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services and Social Security disability and Medicare advocacy services. Unlike our other three divisions, the Services Division's total revenues are primarily derived from fees.

Our newest acquisition in the Services Division is ICA, which joined us in December 2013. ICA provides comprehensive claims management solutions for both personal and commercial lines of insurance. ICA is a national service provider for daily and catastrophe claims, vendor management, TPA operations and staff augmentation. Their claims services also include first notice of loss, fast track, field appraisals, quality control and consulting. ICA also offers training and educational opportunities to independent adjusters nationwide in our regional training facilities.

ACM, which accounts for 28.5% of the 2013 divisional total revenues and 9.5% of the 2013 divisional operating profits(1), is a national third-party administrator which provides insurance claims handling and related services, primarily related to commercial and personal lines claims. ACM handles all aspects of the claims administration process including claims adjusting, administration, subrogation, litigation, and data management services. ACM currently provides claims administration services for all the programs in which our Arrowhead operations are involved.

The Advocator Group accounts for 21.0% of the 2013 divisional total revenues and 20.7% of the 2013 divisional operating profits(1). Founded in 2002, The Advocator Group is dedicated to helping individuals apply for and obtain Social Security Disability Insurance (SSDI). Advocating for over 10,000 individuals each year, the organization's mission is to help preserve or improve the financial well-being and quality of life of clients. The Advocator Group partners with long-term disability insurance carriers, employers and third-party administrators to ensure a seamless transition and coordination of ongoing disability benefits. Aevo Insurance Services, LLC, a subsidiary of The Advocator Group, provides health plan selection and enrollment assistance for Medicare beneficiaries. In addition, Adeo Solutions, a division of The Advocator Group, offers second injury fund reimbursement and other services to the workers' compensation insurance market.

Colonial Claims, which accounts for 18.1% of the 2013 divisional total revenues and 40.2% of the 2013 divisional operating profits(1), is one of the premier catastrophe adjusting companies in the nation, with the ability to deal with losses associated with all perils and major catastrophes. For the last 20 years, Colonial Claims has led the nation yearly in volume of National Flood Insurance Program claims adjusted. Additionally, many of Colonial Claims' cadre of adjusters have liability and environmental adjusting experience. In the course of its history, Colonial Claims has represented more than 100 property and casualty and surplus lines insurance carriers.

USIS and PGCS, which account for 18.4% of the 2013 divisional total revenues and 10.0% of the 2013 divisional operating profits(1), provides comprehensive risk management and third-party administration services for insurance entities and self-funded or fully-insured workers' compensation and liability plans.

AmeriSys, a division of USIS, is a licensed and certified provider of medical management and managed care programs specifically designed for workers' compensation insurance programs and plans. Services provided as components of these programs include case management; utilization review and management; client access to custom developed medical provider networks (PPOs); and return-to-work programs and initiatives. AmeriSys works hard for and with their customers providing the services and resources needed to best contain medical costs while preserving patient satisfaction, all in an effort to assist occupationally ill or injured employees to stay or promptly return to their work. In addition, beginning in the last quarter of 2013 AmeriSys became the provider for the State of Florida medical management program.

NuQuest/Bridge Pointe and Protocols, which account for 14.0% of the 2013 divisional total revenues and 19.6% of the 2013 divisional operating profits(1), provide a full suite of Medicare Secondary Payer compliance-related services, including Medicare set-aside services, medical cost projection services, Medicare conditional payment resolution and professional administration of settlement funds, to more than 300 insurance carriers, third-party administrators, self-insured employers and claimants nationwide. These entities assist with enforcement of the Medicare Secondary Payer Statute ("MSP"), which is intended to ensure that Medicare does not make primary payment to health care providers when another responsible payer exists. Medicare's enforcement rights under the MSP continue to be strengthened, most recently by a new federal law that has resulted in increased opportunities with workers' compensation, liability insurance (including self-insurance) and no-fault claims.

(1) Income before income taxes plus interest expense, amortization, and changes in estimated acquisition earn-out payables.

Board of Directors

J. Hyatt Brown
CPCU, CLU
Chairman
Brown & Brown, Inc.

J. Powell Brown
CPCU
President & Chief Executive Officer
Brown & Brown, Inc.

Samuel P. Bell, III, Esq.
Of Counsel to the law firm of Pennington, Moore, Wilkinson, Bell & Dunbar, P.A.
Acquisition Committee; Compensation Committee, Chairman

Wendell S. Reilly *Samuel P. Bell, III, Esq.* *Toni Jennings* *H. Palmer Proctor, Jr.* *Bradley Currey, Jr.* *J. Hyatt Brown*

Hugh M. Brown
Founder and former President &
Chief Executive Officer, BAMSI, Inc.
Audit Committee; Nominating/Corporate Governance Committee

Bradley Currey, Jr.
Former Chairman &
Chief Executive Officer,
Rock-Tenn Company
Acquisition Committee; Nominating/Corporate Governance Committee

Theodore J. Hoepner
Former Vice Chairman,
SunTrust Bank Holding Company
Acquisition Committee; Audit Committee, Chairman; Compensation Committee

James S. Hunt
Former Executive Vice President
and Chief Financial Officer,
Walt Disney Parks and Resorts Worldwide
Audit Committee; Compensation Committee

Toni Jennings
Chairman, Jack Jennings & Sons;
Former Lieutenant Governor,
State of Florida
Compensation Committee; Nominating/Corporate Governance Committee

Timothy R. M. Main
Managing Director, Evercore Group LLC
Acquisition Committee

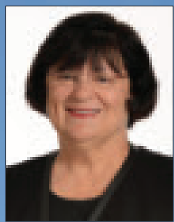
H. Palmer Proctor, Jr.
President/Director, Fidelity Bank
Acquisition Committee; Audit Committee

Wendell S. Reilly
Managing Partner,
Grapevine Partners, LLC
Acquisition Committee, Chairman; Nominating/Corporate Governance Committee

Chilton D. Varner
Partner, King & Spalding LLP
Lead Director; Compensation Committee; Nominating/Corporate Governance Committee, Chairman

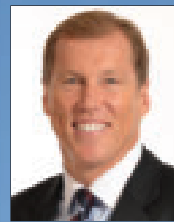
J. Powell Brown *Hugh M. Brown* *James S. Hunt* *Chilton D. Varner* *Theodore J. Hoepner* *Timothy R. M. Main*

Leadership Overview



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

C. Roy Bridges
CIC
Regional President



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

J. Scott Penny
CIC
Chief Acquisitions Officer & Regional President

Anthony T. Strianese
Regional President

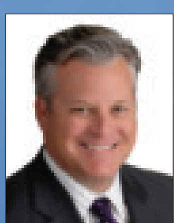
Sam R. Boone, Jr.
Regional Executive Vice President

Kenneth R. Masters
Regional Executive Vice President

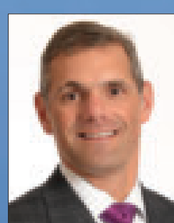
Chris L. Walker
Regional Executive Vice President

P. Barrett Brown
Regional Vice President

Kathy Colangelo
CIC, ASLI
Regional Vice President



Steve Denton
Regional Vice President



Nicholas J. Dereszynski
CEBS, CIC
Regional Vice President

Anthony M. Grippa
Regional Vice President

Thomas K. Huval
CIC
Regional Vice President

Richard A. Knudson
CIC
Regional Vice President

Executive Officers

J. Powell Brown
CPCU
President & Chief Executive Officer

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

C. Roy Bridges
CIC
Regional President

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CPCU, CIC, AIM
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Kenneth R. Masters
Regional Executive Vice President

Chris L. Walker
Regional Executive Vice President

Cory T. Walker
CPCU, CIC, ARM, CRM
Senior Vice President, Treasurer & Chief Financial Officer *

R. Andrew Watts
Executive Vice President, Treasurer & Chief Financial Officer **

Robert W. Lloyd, Esq.
CIC
Vice President and General Counsel

Laurel L. Grammig, Esq.
CIC, CRM
Vice President, Corporate Secretary & Chief Compliance and Regulatory Officer

Richard Freebourn, Sr.
CPCU, CIC
Vice President, Internal Operations

** Until his retirement from the Company March 4, 2014*
*** Since March 4, 2014*

Index to Financials

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

GENERAL

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

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

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

We attempt to foster a strong, decentralized sales culture with a goal of consistent, sustained growth over the long term.

We increased revenues every year from 1993 to 2013, with the exception of 2009, when our revenues dropped 1.0%. Our revenues grew from $95.6 million in 1993 to $1.4 billion in 2013, reflecting a compound annual growth rate of 14.2%. In the same 20 year period, we increased net income from $8.0 million to $217.1 million in 2013, a compound annual growth rate of 17.9%.

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

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

This growth trend has continued into 2013 with our consolidated internal revenue growth rate of 6.7%. Additionally, each of our four divisions recorded positive internal revenue growth for each quarter in 2013 except for the Services Division in the fourth quarter. The decline in the core organic commissions and fees revenues in the fourth quarter of 2013 for the Services Division was the result of the significant revenue recorded at our Colonial Claims operation in the fourth quarter of 2012 attributable to Superstorm Sandy for which no comparable revenues occurred in the fourth quarter of 2013. In the event that the gradual increases in insurance premium rates and insurable exposure units that occurred in 2013 continue into 2014, we expect to see continued positive quarterly internal revenue growth rates on a year-over-year basis for 2014, excluding the impact relating to our Colonial Claims operation. In the first quarter of 2013, Colonial Claims earned claims fees of $17.2 million as a direct result of the continued significant claims activity from Superstorm Sandy. Absent another major flooding event, we estimate Colonial Claims revenues for the first quarter of 2014 to be less than $1.0 million.

We also earn "profit-sharing contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but which may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 4.4% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are typically included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" excludes profit-sharing contingent commissions and guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In contrast, the term "core organic commissions and fees" is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). "Core organic commissions and fees" are reported in this manner in order to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes attributable to (i) net new and lost accounts, (ii) net changes in our clients' exposure units, and (iii) net changes in insurance premium rates. The net changes in each of these three components can be determined for each of our customers. However, because our agency management accounting systems do not aggregate such data, it is not reportable. Core organic commissions and fees can reflect either "positive" growth with a net increase in revenues, or "negative" growth with a net decrease in revenues.

Beginning a few years ago, five to six national insurance companies replaced their loss-ratio based profit-sharing contingent commission agreements with new guaranteed fixed-base agreements, referred to as "Guaranteed Supplemental Commissions" ("GSCs"). For 2013, only four national insurance companies still used GSCs in lieu of loss-ratio based profit-sharing contingent commissions. Since GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2013, we accrued and earned $8.3 million of GSCs during 2013, most of which will be collected in the first quarter of 2014. For the twelve-month periods ended December 31, 2013, 2012 and 2011, we earned $8.3 million, $9.1 million and $12.1 million, respectively, of GSCs.

Fee revenues relate to fees negotiated in lieu of commissions, which are recognized as services are rendered. Fee revenues have historically been generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services, and (2) our National Programs and Wholesale Brokerage Divisions, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies. These services are provided over a period of time, typically one year. However, in conjunction with our July 1, 2013 acquisition of Beecher Carlson, which has a primary focus on large retail customers that generally pay us fees directly, the fee revenues in our Retail Division for 2013 have increased by nearly $40.0 million to $73.0 million. For 2014, we expect the total fees in our Retail Division to be approximately $110.0 million. Fee revenues, on a consolidated basis, as a percentage of our total commissions and fees, represented 26.6% in 2013, 21.7% in 2012 and 16.4% in 2011.

Historically, investment income has consisted primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. As a result of the bank liquidity and solvency issues in the United States in the last quarter of 2008, we moved substantial amounts of our cash into non-interest bearing checking accounts so that they would be fully insured by the Federal Deposit Insurance Corporation ("FDIC") or into money-market investment funds (a portion of which is FDIC insured) of SunTrust and Wells Fargo, two large national banks. Effective January 1, 2013, the FDIC ceased providing insurance guarantees on non-interest bearing checking accounts and since that time we have invested in both interest bearing and non-interest bearing checking accounts. Investment income also includes gains and losses realized from the sale of investments. Other income primarily reflects net gains on sales of customer accounts and fixed assets, but will also include sub-rental income, legal settlements and other miscellaneous income.

CURRENT YEAR COMPANY OVERVIEW

2013 was a strong year for revenue growth and continued the positive trends that began in 2012. After the five-year period extending from 2007 to 2011, in which we experienced negative internal growth in our core organic commissions and fees revenue which we believe was a direct result of the general weakness of the economy, we achieved a positive internal revenue growth of 2.6% in 2012, and 6.7% in 2013.

The net growth in core organic commissions and fees in 2013 of $75.6 million is a significant improvement over the comparable growth in 2012 of $24.9 million and the net lost revenues of $21.5 million in 2011. Of the $75.6 million growth in the 2013 core organic commissions and fees, $38.1 million was generated by two new programs at our Arrowhead operation, the automobile aftermarket program and the non-standard auto program, and from our Colonial Claims operation as a result of the significant claims activity attributable to Superstorm Sandy. The remaining growth in the core organic commissions and fees revenue is principally attributable to rising insurance premium rates, and increasing insurance exposure units as a result of a gradually improving U. S. economy.

We continue to be successful in acquiring insurance operations that we believe are strategic in growing our business Divisions. In each of the last two years, we completed acquisitions with aggregate revenues in excess of $142.8 million: nine acquisitions in 2013 with estimated revenues of $142.8 million, and 20 acquisitions in 2012 with estimated revenues of $149.6 million. For 2014, we are continuing this trend with the announced acquisition of Wright Insurance Group, with estimated annualized revenues of $120.0 million, which is expected to close on or around April 1, 2014.

Income before income taxes in 2013 increased over 2012 by 17.3%, or $52.8 million, to $357.6 million. However, that net increase of $52.8 million includes $14.3 million of income before income taxes related to new acquisitions that were stand-alone offices, and therefore, income before income taxes from offices that existed in the same time periods of 2013 and 2012 (including the new acquisitions that "folded in" to those offices) increased by $38.5 million. The net increase of $38.5 million related primarily to: (1) net new business, (2) a $2.6 million benefit from a change in estimated acquisition earn-out payables, and (3) a one-time $6.8 million bonus earned in 2012 by our Retail Division commissioned producers as a result of a special program for those whose 2012 production exceeded their 2011 production by at least five percent. These net increases were partially off-set by a $6.6 million increase in non-cash stock-based compensation primarily due to new grants issued in July 2013. Therefore, excluding these items, income before income taxes from those offices that existed in the same time periods of 2013 and 2012 (including the new acquisitions that "folded in" to those offices) increased by $37.7 million.

ACQUISITIONS

Approximately 38,500 independent insurance agencies are estimated to be operating currently in the United States. Part of our continuing business strategy is to attract high-quality insurance intermediaries to join our operations. From 1993 through 2013, we acquired 449 insurance intermediary operations, excluding acquired books of business (customer accounts).

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

(in millions, except for number of acquisitions)

	Number of Acquisitions		Estimated Annual Revenues	Net Cash Paid	Notes Issued	Other Payable	Liabilities Assumed	Recorded Earn-out Payable	Aggregate Purchase Price
	Asset	Stock							
2013	8	1	$ 142.8	$ 408.1	$ ——	$ 0.5	$ 106.1	$ 5.1	$ 519.8
2012	19	1	$ 149.6	$ 483.9	$ 0.1	$ 25.4	$ 136.7	$ 21.5	$ 667.6
2011	37	1	$ 88.7	$ 167.4	$ 1.2	$ ——	$ 15.7	$ 30.5	$ 214.8

On July 1, 2013, we completed the acquisition of Beecher Carlson Holdings, Inc. ("Beecher Carlson"), an insurance and risk management broker with operations that include retail brokerage, program management and captive management. The aggregate purchase price for Beecher Carlson was $469.3 million, including $364.3 million of cash payments and the assumption of $105.0 million of liabilities. Beecher Carlson was acquired primarily to expand Brown & Brown's Retail and National Programs businesses, and to attract and hire high-quality individuals.

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

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

On January 15, 2014, as previously announced, we entered into an agreement to acquire The Wright Insurance Group, LLC ("Wright"), with estimated annualized revenues of $120.0 million. This transaction is expected to close on or around April 1, 2014. Wright's operations include a national flood insurance program, government-sponsored insurance programs and proprietary national and regional programs. The total net consideration to be paid for the ownership interests of Wright is $602.5 million in addition to contingent consideration of up to $37.5 million if Wright completes certain agreed-upon acquisitions prior to closing. The transaction is subject to customary closing conditions, including Hart-Scott-Rodino approval and other related regulatory approvals.

CRITICAL ACCOUNTING POLICIES

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

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

REVENUE RECOGNITION

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

BUSINESS COMBINATIONS AND PURCHASE PRICE ALLOCATIONS

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

All of our business combinations initiated after June 30, 2001 have been accounted for using the purchase method. In connection with these acquisitions, we record the estimated value of the net tangible assets purchased and the value of the identifiable intangible assets purchased, which typically consist of purchased customer accounts and non-compete agreements. Purchased customer accounts include the physical records and files obtained from acquired businesses that contain information about insurance policies, customers and other matters essential to policy renewals. However, they primarily represent the present value of the underlying cash flows expected to be received over the estimated future renewal periods of the insurance policies comprising those purchased customer accounts. The valuation of purchased customer accounts involves significant estimates and assumptions concerning matters such as cancellation frequency, expenses and discount rates. Any change in these assumptions could affect the carrying value of purchased customer accounts. Non-compete agreements are valued based on their duration and any unique features of particular agreements. Purchased customer accounts and non-compete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and intangible assets is assigned to goodwill and is not amortized.

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

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

INTANGIBLE ASSETS IMPAIRMENT

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

Management assesses the recoverability of our goodwill on an annual basis, and assesses the recoverability of our amortizable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) significant decline in our market capitalization. If the recoverability of these assets is unlikely because of the existence of one or more of the above-referenced factors, an impairment analysis is performed. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2013 and determined that the fair value of goodwill exceeded the carrying value of such assets. Additionally, there have been no impairments recorded for amortizable intangible assets for the years ended December 31, 2013, 2012 and 2011.

NON-CASH STOCK-BASED COMPENSATION

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

LITIGATION CLAIMS

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

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

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

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

(in thousands, except percentages)	2013	Percent Change	2012	Percent Change	2011
REVENUES					
Core commissions and fees	**$ 1,295,977**	14.1 %	$ 1,136,252	19.5 %	$ 950,685
Profit-sharing contingent commissions	**51,251**	17.3 %	43,683	1.1 %	43,198
Guaranteed supplemental commissions	**8,275**	(9.5)%	9,146	(24.3)%	12,079
Investment income	**638**	(19.9)%	797	(37.1)%	1,267
Other income, net	**7,138**	(29.7)%	10,154	60.8 %	6,313
Total revenues	**1,363,279**	13.6 %	1,200,032	18.4 %	1,013,542
EXPENSES					
Employee compensation and benefits	**683,000**	12.2 %	608,506	19.6 %	508,675
Non-cash stock-based compensation	**22,603**	42.5 %	15,865	41.7 %	11,194
Other operating expenses	**195,677**	12.2 %	174,389	21.0 %	144,079
Amortization	**67,932**	6.9 %	63,573	16.1 %	54,755
Depreciation	**17,485**	13.7 %	15,373	24.1 %	12,392
Interest	**16,440**	2.1 %	16,097	13.9 %	14,132
Change in estimated acquisition earn-out payables	**2,533**	78.6 %	1,418	NMF[1]	(2,206)
Total expenses	**1,005,670**	12.3 %	895,221	20.5 %	743,021
Income before income taxes	**$ 357,609**	17.3 %	$ 304,811	12.7 %	$ 270,521
Net internal growth rate – core commissions and fees	**6.7%**		2.6%		(2.4)%
Employee compensation and benefits ratio	**50.1%**		50.7%		50.2%
Other operating expenses ratio	**14.4%**		14.5%		14.2%
Capital expenditures	**$ 16,366**		$ 24,028		$ 13,608
Total assets at December 31	**$ 3,649,508**		$ 3,128,058		$ 2,607,011

[1] *NMF=Not a meaningful figure*

COMMISSIONS AND FEES

Commissions and fees, including profit-sharing contingent commissions and GSCs, increased $166.4 million, or 14.0% in 2013. Profit-sharing contingent commissions and GSCs increased $6.7 million or 12.7% in 2013 to $59.5 million, due primarily to $4.7 million, $0.6 million, and $1.3 million increases in profit-sharing contingent commissions and GSCs in our Retail, National Programs and Wholesale Brokerage Divisions, respectively. Core commissions and fees revenue in 2013 increased $159.7 million, of which approximately $91.5 million represented core commissions and fees from acquisitions that had no comparable revenues in 2012. After taking into account divested business of $7.4 million, the remaining net increase of $75.6 million, representing net new business, reflects a 6.7% internal growth rate for core organic commissions and fees.

Commissions and fees, including profit-sharing contingent commissions and GSCs, increased $183.1 million, or 18.2% in 2012. Profit-sharing contingent commissions and GSCs decreased $2.4 million or 4.4% in 2012 to $52.8 million, due primarily to $4.1 million and $1.2 million reductions in profit-sharing contingent commissions and GSCs in our Retail and Wholesale Brokerage Divisions, respectively; but these reductions were partially offset by a $3.2 million increase in our National Programs Division. Core commissions and fees revenue increased $185.6 million, of which approximately $171.4 million represented core commissions and fees from acquisitions that had no comparable revenues in 2011. After taking into account divested business of $10.7 million, the remaining net increase of $24.9 million, representing net new business, reflects a 2.6% internal growth rate for core organic commissions and fees.

INVESTMENT INCOME

Investment income decreased to $0.6 million in 2013, compared with $0.8 million in 2012, mainly due to lower average daily invested balances in 2013 than in 2012. Investment income of $0.8 million in 2012 was down $0.5 million as compared with 2011, mainly due to lower average daily invested balances in 2012 than in 2011.

OTHER INCOME, NET

Other income for 2013 reflected income of $7.1 million, compared with $10.2 million in 2012 and $6.3 million in 2011. We recognized gains of $3.1 million, $4.3 million and $2.3 million from sales of books of business (customer accounts) in 2013, 2012, and 2011, respectively. Although we are not in the business of selling books of business, we periodically will sell an office or a book of business because it does not produce reasonable margins or demonstrate a potential for growth, or for other reasons related to the particular assets in question. Other income also included $1.6 million, $3.6 million and $1.3 million in 2013, 2012, and 2011, respectively, paid to us in connection with settlements of litigation against former employees for violation of restrictive covenants contained in their employment agreements with us. Additionally, we recognized non-recurring gains, rental income and sales of software services of $2.4 million, $2.3 million and $2.3 million in 2013, 2012, and 2011, respectively.

EMPLOYEE COMPENSATION AND BENEFITS

Employee compensation and benefits expense increased, approximately 12.2% or $74.5 million in 2013. However, that net increase included $37.6 million of new compensation costs related to new acquisitions that were stand-alone offices. Therefore, employee compensation and benefits from those offices that existed in the same time periods of 2013 and 2012 (including the new acquisitions that "folded in" to those offices) increased by $36.9 million. The employee compensation and benefit increases from these offices were primarily related to increases in staff and management salaries of $16.6 million, new salaried producers of $4.7 million, profit center and other related bonuses of $3.4 million, compensation to our commissioned producers of $5.7 million, health insurance costs of $1.8 million, payroll-related taxes of $3.7 million, and other net expenses of $1.0 million.

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

Employee compensation and benefits expense as a percentage of total revenues decreased in 2013 to 50.1% as compared to 50.7% for 2012 and 50.2% for 2011. We had 6,992 full-time equivalent employees at December 31, 2013, compared with 6,438 at December 31, 2012 and 5,557 at December 31, 2011. Of the net increase of 554 full-time equivalent employees at December 31, 2013 over the prior year-end, an increase of 374 was attributable to acquisitions, thus reflecting a net increase of 180 employees in the offices existing at both year-ends.

NON-CASH STOCK-BASED COMPENSATION

We have an employee stock purchase plan, and grant stock options and non-vested stock awards to our employees. Compensation expense for all share-based awards is recognized in the financial statements based upon the grant-date fair value of those awards. For 2013, 2012 and 2011, the non-cash stock-based compensation expense incorporates the costs related to each of our four stock-based plans as explained in Note 11 of the Notes to the Consolidated Financial Statements.

Non-cash stock-based compensation increased 42.5%, or $6.7 million in 2013 over 2012, primarily as a result of new non-vested stock awards granted on July 1, 2013 under our Stock Incentive Plan ("SIP"). Most of these SIP grants will typically vest in four to seven years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated earnings per share growth at certain levels by us, over three-to five-year measurement periods. Some SIP grants will vest after five years of service.

Non-cash stock-based compensation increased 41.7%, or $4.7 million in 2012 over 2011, as a result of new grants under our Stock Incentive Plan ("SIP"). These SIP grants will typically vest in four to ten years, subject to the achievement of certain performance criteria by grantees, and the achievement of consolidated earnings per share growth at certain levels by us, over three-to five-year measurement periods.

OTHER OPERATING EXPENSES

As a percentage of total revenues, other operating expenses represented 14.4% in 2013, 14.5% in 2012, and 14.2% in 2011.

Other operating expenses in 2013 increased $21.3 million over 2012, of which $12.5 million was related to acquisitions that joined as stand-alone offices. Therefore, other operating expenses attributable to offices that existed in the same periods in both 2013 and 2012 (including the new acquisitions that "folded in" to those offices) increased by $8.8 million. Of the $8.8 million increase, $2.0 million related to increased data processing and software licensing expense, $2.0 million related to increased inspection and consulting fees, $1.6 million related to increased accounting and advisory fees, $0.9 million related to increased employee sales meeting costs, and $2.9 million related to other various, net cost increases. These increased costs were partially offset by a decrease of $0.6 million for legal, claims and litigation expenses.

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

AMORTIZATION

Amortization expense increased $4.4 million, or 6.9%, in 2013, and $8.8 million, or 16.1%, in 2012. The increases in 2013 and 2012 were due to the amortization of additional intangible assets as a result of acquisitions completed in those years.

DEPRECIATION

Depreciation increased 13.7% in 2013, and 24.1% in 2012. The increases in 2013 and 2012 were due primarily to the addition of fixed assets as a result of recent acquisitions.

INTEREST EXPENSE

Interest expense increased $0.3 million, or 2.1%, in 2013, and $2.0 million, or 13.9%, in 2012. The 2013 and 2012 increases were due primarily to the additional debt borrowed in connection with our acquisitions of Beecher Carlson in 2013 and Arrowhead in 2012.

CHANGE IN ESTIMATED ACQUISITION EARN-OUT PAYABLES

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

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

As of December 31, 2013, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3). The resulting net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, 2013, 2012, and 2011 were as follows:

(in thousands)	**2013**	2012	2011
Change in fair value on estimated acquisition earn-out payables	**$ 570**	$ (1,051)	$ (4,043)
Interest expense accretion	**1,963**	2,469	1,837
Net change in earnings from estimated acquisition earn-out payables	**$ 2,533**	$ 1,418	$ (2,206)

The fair values of the estimated earn-out payables were increased in 2013 since certain acquisitions performed at higher levels than estimated on our original projections. The fair values of the estimated earn-out payables were reduced in 2012 and 2011 since certain acquisitions did not perform at the level estimated based on our original projections. An acquisition is considered to be performing well if its operating profit exceeds the level needed to reach the minimum purchase price. However, a reduction in the estimated acquisition earn-out payable can occur even though the acquisition is performing well, if it is not performing at the level contemplated by our original estimate.

As of December 31, 2013, the estimated acquisition earn-out payables equaled $43,058,000, of which $6,312,000 was recorded as accounts payable and $36,746,000 was recorded as other non-current liability. As of December 31, 2012, the estimated acquisition earn-out payables equaled $52,987,000, of which $10,164,000 was recorded as accounts payable and $42,823,000 was recorded as other non-current liability.

INCOME TAXES

The effective tax rate on income from operations was 39.3% in 2013, 39.6% in 2012, and 39.4% in 2011. The lower effective annual tax rates are primarily the result of lower average effective state income tax rates.

RESULTS OF OPERATIONS — SEGMENT INFORMATION

As discussed in Note 15 of the Notes to Consolidated Financial Statements, we operate four reportable segments or divisions: the Retail, National Programs, Wholesale Brokerage, and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses result from completed acquisitions within a given division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. As such, in evaluating the operational efficiency of a division, management emphasizes the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of total employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

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

The internal growth rates for our core organic commissions and fees for the three years ended December 31, 2013, 2012 and 2011, by Division, are as follows:

(in thousands, except percentages)	For the Year Ended December 31,				Less		
2013	**2013**	2012	Total Net Change	Total Net Growth %	Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Retail (1)	**$ 699,571**	$ 611,156	$ 88,415	14.5%	$ 79,455	$ 8,960	1.5%
National Programs	**271,772**	233,261	38,511	16.5%	7,099	31,412	13.5%
Wholesale Brokerage	**193,601**	168,151	25,450	15.1%	4,332	21,118	12.6%
Services	**131,033**	116,247	14,786	12.7%	657	14,129	12.2%
Total core commissions and fees	**$ 1,295,977**	$1,128,815	$ 167,162	14.8%	$ 91,543	$ 75,619	6.7%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2013 and 2012 is as follows:

(in thousands)	For the Year Ended December 31, 2013	2012
Total core commissions and fees	**$ 1,295,977**	$1,128,815
Profit-sharing contingent commissions	**51,251**	43,683
Guaranteed supplemental commissions	**8,275**	9,146
Divested business	**——**	7,437
Total commissions and fees	**$ 1,355,503**	$1,189,081

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

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2012 and 2011 is as follows:

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

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

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Consolidated Statements of Income for the years ended December 31, 2011 and 2010 is as follows:

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

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

RETAIL DIVISION

The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. Approximately 89.9% of the Retail Division's commissions and fees revenue is commission-based. Because most of our other operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions, net of related compensation, which we receive will be reflected in our pre-tax income.

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

(in thousands, except percentages)	2013	Percent Change	2012	Percent Change	2011
REVENUES					
Core commissions and fees	**$ 700,767**	13.0 %	$ 619,975	6.7 %	$ 581,125
Profit-sharing contingent commissions	**17,543**	36.6 %	12,843	(12.8)%	14,736
Guaranteed supplemental commissions	**6,849**	(0.6)%	6,890	(24.3)%	9,105
Investment income	**82**	(24.1)%	108	5.9 %	102
Other income, net	**3,083**	(33.2)%	4,613	116.5 %	2,131
Total revenues	**728,324**	13.0 %	644,429	6.1 %	607,199
EXPENSES					
Employee compensation and benefits	**363,332**	11.3 %	326,574	7.5 %	303,841
Non-cash stock-based compensation	**9,055**	59.4 %	5,680	(7.1)%	6,114
Other operating expenses	**113,159**	14.8 %	98,532	(0.2)%	98,745
Amortization	**38,052**	9.9 %	34,639	3.8 %	33,373
Depreciation	**5,847**	12.9 %	5,181	2.7 %	5,046
Interest	**34,407**	29.2 %	26,641	(3.8)%	27,688
Change in estimated acquisition earn-out payables	**(1,844)**	NMF[(1)]	1,968	NMF[(1)]	(5,415)
Total expenses	**562,008**	12.6 %	499,215	6.4 %	469,392
Income before income taxes	**$ 166,316**	14.5 %	$ 145,214	5.4 %	$ 137,807
Net internal growth rate – core organic commissions and fees	**1.5%**		1.5%		(3.9)%
Employee compensation and benefits ratio	**49.9%**		50.7%		50.0 %
Other operating expenses ratio	**15.5%**		15.3%		16.3 %
Capital expenditures	**$ 6,847**		$ 5,732		$ 6,102
Total assets at December 31	**$ 2,992,087**		$ 2,420,759		$ 2,155,413

(1) *NMF=Not a meaningful figure*

The Retail Division's total revenues in 2013 increased 13.0%, or $83.9 million, over the same period in 2012, to $728.3 million. Profit-sharing contingent commissions and GSCs in 2013 increased $4.7 million, or 23.6%, over 2012, to $24.4 million, primarily due to improved loss ratios resulting in increased profitability for insurance companies in 2013. The $80.8 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately $79.5 million related to core commissions and fees revenue from acquisitions that had no comparable revenues in 2012; (ii) a decrease of $7.5 million related to commissions and fees revenue recorded in 2012 from business divested during 2013; and (iii) the remaining net increase of $9.0 million primarily related to net new business. The Retail Division's internal growth rate for core organic commissions and fees revenue was 1.5% for 2013, and was driven by slightly increasing insurable exposure units in most areas of the United States, and slight increases in general insurance premium rates.

Income before income taxes for 2013 increased 14.5%, or $21.1 million, over the same period in 2012, to $166.3 million. This increase was primarily due to net new business, the increase in profit-sharing contingent commissions, and continued improved efficiencies relating to compensation and employee benefits and certain other operating expenses, but which was partially off-set by a $1.5 million reduction in other income primarily due to gains on the sale of books of businesses in 2012. These increases were also enhanced by changes in estimated acquisition earn-out payables of $3.8 million, but partially offset by a net increase in the inter-company interest expense allocation of $7.8 million. The continued improved efficiencies relating to compensation and employee benefits, and certain other operating expenses resulted mainly from such costs increasing at a lower rate than our growth in net new business. However, a portion of the improved ratio of employee compensation and benefits to total revenues was the result of the $6.8 million of bonus compensation related to a special one-time bonus in 2012 which was not repeated in 2013.

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

Income before income taxes for 2012 increased 5.4%, or $7.4 million, over the same period in 2011, to $145.2 million. Included in the $7.4 million net increase in income before income taxes is another $7.4 million net expense increase in change in estimated acquisition earn-out payables and a $0.3 million net expense increase from amortization, depreciation and inter-company interest changes. Excluding these items and the $4.1 million decrease in profit-sharing contingent commissions and GSCs, income before income taxes for 2012 increased $19.2 million over 2011, of which $8.7 million originated from new acquisitions that were stand-alone operations, and $10.5 million was generated by offices in existence in both 2011 and 2012. Of the $10.5 million increase from existing offices, $8.7 million ($1.4 million of fold-in acquired revenues) was attributed to organic growth of core commissions and fees, $5.6 million cost savings from other operating expenses, $0.5 reduction in non-cash stock-based compensation, but partially offset by $4.9 million increase in compensation and employee benefits. The $4.9 million net increase in compensation and employee benefits was primarily due to the one-time producer bonuses of $6.8 million paid to commissioned producers whose 2012 production exceeded their 2011 production by at least five percent, which was partially offset by a reduction of approximately $2.0 million less staff salaries. The $5.6 million reduction in other operating expenses was primarily related to reductions in occupancy/office rents, legal and claims settlements, insurance expense, and data processing costs.

NATIONAL PROGRAMS DIVISION

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

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

(in thousands, except percentages)	**2013**	Percent Change	2012	Percent Change	2011
REVENUES					
Core commissions and fees	**$ 271,772**	16.5 %	$ 233,261	56.7 %	$ 148,842
Profit-sharing contingent commissions	**19,265**	4.7 %	18,392	22.4 %	15,029
Guaranteed supplemental commissions	**(23)**	(108.3)%	276	(42.6)%	481
Investment income	**19**	(5.0)%	20	— %	—
Other income, net	**1,097**	10.4 %	994	NMF(1)	75
Total revenues	**292,130**	15.5 %	252,943	53.8 %	164,427
EXPENSES					
Employee compensation and benefits	**132,948**	20.5 %	110,362	63.4 %	67,560
Non-cash stock-based compensation	**4,604**	24.2 %	3,707	177.5 %	1,336
Other operating expenses	**53,001**	19.8 %	44,248	88.4 %	23,486
Amortization	**14,593**	4.7 %	13,936	79.4 %	7,770
Depreciation	**5,399**	17.4 %	4,600	56.6 %	2,937
Interest	**24,014**	(6.5)%	25,674	NMF(1)	1,381
Change in estimated acquisition earn-out payables	**(808)**	(24.8)%	(1,075)	111.6 %	(508)
Total expenses	**233,751**	16.0 %	201,452	93.8 %	103,962
Income before income taxes	**$ 58,379**	13.4 %	$ 51,491	(14.8)%	$ 60,465
Net internal growth rate – core organic commissions and fees	**13.5%**		0.8%		(3.0)%
Employee compensation and benefits ratio	**45.5%**		43.6%		41.1%
Other operating expenses ratio	**18.1%**		17.5%		14.3%
Capital expenditures	**$ 4,473**		$ 9,633		$ 1,968
Total assets at December 31	**$ 1,335,911**		$ 1,183,191		$ 680,251

(1) *NMF=Not a meaningful figure*

The National Programs Division's total revenues in 2013 increased $39.2 million to $292.1 million, a 15.5% increase over 2012. Profit-sharing contingent commissions and GSCs in 2013 increased $0.6 million over 2012, due primarily to a $3.7 million increase in profit-sharing contingent commissions received by Florida Intracoastal Underwriters, Limited Company ("FIU"), but which was partially offset by a decrease of $3.5 million at Proctor Financial, Ins, ("Proctor"). The $38.5 million net increase in core commissions and fees resulted from the following factors: (i) an increase of approximately $7.1 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in 2012; and (ii) the remaining net increase of $31.4 million primarily related to net new business. Therefore, the National Programs Division's internal growth rate for core organic commissions and fees revenue was 13.5% for 2013. Of the $31.4 million of net new business, $27.7 million related to a net increase in commissions and fees revenue from our Arrowhead operations.

Income before income taxes for 2013 increased 13.4% or $6.9 million, over the same period in 2012, to $58.4 million. This net increase was primarily due to the new automobile aftermarket and the non-standard auto programs at our Arrowhead subsidiary. Even though these programs increased the total operating profit dollars for the Division, the ratios of employee compensation and benefits, and other operating expenses as a percentage to total revenues increased over the prior year was due to the fact that these programs operated at a higher cost factor than the average program operated in 2012.

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

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

WHOLESALE BROKERAGE DIVISION

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

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

(in thousands, except percentages)	2013	Percent Change	2012	Percent Change	2011
REVENUES					
Core commissions and fees	**$ 193,601**	15.1 %	$ 168,182	7.4 %	$ 156,664
Profit-sharing contingent commissions	**14,443**	16.0 %	12,448	(7.3)%	13,433
Guaranteed supplemental commissions	**1,449**	(33.9)%	2,192	(10.5)%	2,450
Investment income	**22**	— %	22	(35.3)%	34
Other income, net	**392**	(45.6)%	721	(54.3)%	1,577
Total revenues	**209,907**	14.4 %	183,565	5.4 %	174,158
EXPENSES					
Employee compensation and benefits	**98,144**	12.4 %	87,293	5.2 %	82,974
Non-cash stock-based compensation	**2,039**	53.5 %	1,328	(10.4)%	1,482
Other operating expenses	**36,589**	9.3 %	33,486	6.7 %	31,379
Amortization	**11,550**	2.4 %	11,280	2.2 %	11,032
Depreciation	**2,794**	2.8 %	2,718	4.8 %	2,594
Interest	**2,565**	(35.5)%	3,974	(47.0)%	7,495
Change in estimated acquisition earn-out payables	**2,404**	NMF[1]	131	(81.0)%	691
Total expenses	**156,085**	11.3 %	140,210	1.9 %	137,647
Income before income taxes	**$ 53,822**	24.1 %	$ 43,355	18.7 %	$ 36,511
Net internal growth rate – core organic commissions and fees	**12.6%**		6.1%		2.4%
Employee compensation and benefits ratio	**46.8%**		47.6%		47.6%
Other operating expenses ratio	**17.4%**		18.2%		18.0%
Capital expenditures	**$ 1,931**		$ 3,383		$ 2,658
Total assets at December 31	**$ 927,825**		$ 837,364		$ 712,212

[1] *NMF=Not a meaningful figure*

The Wholesale Brokerage Division's total revenues for 2013 increased 14.4%, or $26.3 million, over the same period in 2012, to $209.9 million. Profit-sharing contingent commissions and GSCs for 2013 increased $1.3 million over the same period of 2012. The $25.4 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately $4.3 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2012; and (ii) the remaining net increase of $21.1 million primarily related to net new business and continued increases in premium rates on many lines of insurance, but primarily on coastal property. As such, the Wholesale Brokerage Division's internal growth rate for core organic commissions and fees revenue was 12.6% for 2013.

Income before income taxes for 2013 increased 24.1%, or $10.5 million over the same period in 2012 to $53.8 million, primarily due to net new business, an increase in profit-sharing contingent commissions, and a net reduction in the inter-company interest expense allocation of $1.4 million, but then partially offset by a $2.3 million expense in the form of a change in estimated acquisition earn-out payables.

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

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

SERVICES DIVISION

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

Unlike our other segments, nearly all of the Services Division's 2013 commissions and fees revenue was generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division is as follows:

(in thousands, except percentages)	**2013**	Percent Change	2012	Percent Change	2011
REVENUES					
Core commissions and fees	**$ 131,033**	12.7 %	$ 116,247	79.2 %	$ 64,875
Profit-sharing contingent commissions	**—**	— %	—	— %	—
Guaranteed supplemental commissions	**—**	— %	—	— %	—
Investment income	**1**	— %	1	(99.2)%	128
Other income, net	**455**	(6.8)%	488	(49.6)%	969
Total revenues	**131,489**	12.6 %	116,736	76.9 %	65,972
EXPENSES					
Employee compensation and benefits	**62,908**	6.2 %	59,235	71.7 %	34,494
Non-cash stock-based compensation	**755**	26.5 %	597	171.4 %	220
Other operating expenses	**27,885**	6.5 %	26,180	125.2 %	11,626
Amortization	**3,698**	0.5 %	3,680	44.8 %	2,541
Depreciation	**1,623**	27.0 %	1,278	116.6 %	590
Interest	**7,321**	(14.9)%	8,602	49.7 %	5,746
Change in estimated acquisition earn-out payables	**2,781**	605.8 %	394	(87.0)%	3,026
Total expenses	**106,971**	7.0 %	99,966	71.6 %	58,243
Income before income taxes	**$ 24,518**	46.2 %	$ 16,770	117.0 %	$ 7,729
Net internal growth rate – core organic commissions and fees	**12.2%**		8.6%		1.3%
Employee compensation and benefits ratio	**47.8%**		50.7%		52.3%
Other operating expenses ratio	**21.2%**		22.4%		17.6%
Capital expenditures	**$ 1,811**		$ 2,519		$ 689
Total assets at December 31	**$ 277,652**		$ 238,430		$ 166,060

The Services Division's total revenues for 2013 increased 12.6%, or $14.8 million, over 2012, to $131.5 million. Of the $14.8 million net increase in core commissions and fees revenue: (i) an increase of approximately $0.7 million related to the core commissions and fees revenue from the TPA business acquired as part of the Arrowhead acquisition, that had no comparable revenues in the same period of 2012; and (ii) net new business of $14.1 million, of which $13.0 million was due to our Colonial Claims operation and the impact of the significant flood claims resulting from the 2012 Superstorm Sandy. As such, the Services Division's internal growth rate for core organic commissions and fees revenue was 12.2% for 2013.

Income before income taxes in 2013 increased 46.2%, or $7.7 million, over 2012, to $24.5 million, primarily due to net new business from our Colonial Claims operation. Additionally, this net increase was enhanced by a $1.3 million reduction in inter-company interest expense, but partially offset by a $2.4 million expense from changes in estimated earn-out payables.

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

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

OTHER

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

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents of $203.0 million at December 31, 2013 reflected a decrease of $16.9 million from the $219.8 million balance at December 31, 2012. During 2013, $389.4 million of cash was provided from operating activities. Also during this period, $367.7 million of cash was used for acquisitions, $15.5 million was used for acquisition earn-out payments, $16.4 million was used for additions to fixed assets, $30.0 million was provided from proceeds received on new long-term debt, and $53.5 million was used for payment of dividends.

Our cash and cash equivalents of $219.8 million at December 31, 2012 reflected a decrease of $66.5 million from the $286.3 million balance at December 31, 2011. During 2012, $220.3 million of cash was provided from operating activities. Also during this period, $425.1 million of cash was used for acquisitions, $13.5 million was used for acquisition earn-out payments, $24.0 million was used for additions to fixed assets, $200.0 million was provided from proceeds received on new long-term debt, and $49.5 million was used for payment of dividends.

Our cash and cash equivalents of $286.3 million at December 31, 2011 reflected an increase of $13.3 million from the $273.0 million balance at December 31, 2010. During 2011, $237.5 million of cash was provided from operating activities. Also during this period, $166.1 million of cash was used for acquisitions, $8.8 million was used for acquisition earn-out payments, $13.6 million was used for additions to fixed assets, $102.1 million was used for payments on long-term debt and $46.5 million was used for payment of dividends. Additionally, in the third quarter of 2011, we borrowed $100.0 million on our Master Agreement to fund the repayment of our $100.0 million of Series A Senior Notes that matured on September 15, 2011.

On January 9, 2012, we completed the acquisition of Arrowhead for a total cash purchase price of $397.0 million, subject to certain adjustments and potential earn-out payments of up to $5 million in the aggregate following the third anniversary of the acquisition's closing date. We financed the acquisition through various modified and new credit facilities.

On July 1, 2013, we completed the acquisition of Beecher Carlson Holding, Inc. for a total cash purchase price of $364.2 million, subject to certain adjustments. We financed the acquisition through various modified and new credit facilities.

Our ratio of current assets to current liabilities (the "current ratio") was 1.02 and 1.34 at December 31, 2013 and 2012, respectively.

CONTRACTUAL CASH OBLIGATIONS

As of December 31, 2013, our contractual cash obligations were as follows:

(in thousands)	Total	Less Than 1 Year	1–3 Years	4–5 Years	After 5 Years
Long-term debt	$ 480,000	$ 100,000	$ 280,000	$ 100,000	$ —
Other liabilities	42,653	15,612	14,262	4,978	7,801
Operating leases	174,486	34,972	59,216	38,224	42,074
Interest obligations	38,327	13,294	17,345	7,688	—
Unrecognized tax benefits	391	—	391	—	—
Maximum future acquisition contingency payments	130,584	24,167	100,325	6,092	—
Total contractual cash obligations	$ 866,441	$ 188,045	$ 471,539	$ 156,982	$ 49,875

DEBT

In July 2004, we completed a private placement of $200.0 million of unsecured senior notes (the "Notes"). The $200.0 million was divided into two series: (1) Series A, which closed on September 15, 2004, for $100.0 million due in 2011 and bore interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for $100.0 million due in 2014 and bearing interest at 6.08% per year. We have used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. On September 15, 2011, the $100.0 million of Series A Notes were redeemed on their normal maturity date. As of December 31, 2013 and December 31, 2012, there was an outstanding balance on the Notes of $100.0 million.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). On September 30, 2009, we and the Purchaser amended the Master Agreement to extend the term of the agreement until August 20, 2012. The Purchaser also purchased Notes issued by us in 2004. The Master Agreement provides for a $200.0 million private uncommitted "shelf" facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, $25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. On September 15, 2011, and pursuant to a Confirmation of Acceptance, dated January 21, 2011 (the "Confirmation"), in connection with the Master Agreement, $100.0 million in Series E Senior Notes due September 15, 2018, with a fixed interest rate of 4.50% per year, were issued. The Series E Senior Notes were issued for the sole purpose of retiring the Series A Senior Notes. As of December 31, 2013 and December 31, 2012, there was an outstanding debt balance of $150.0 million attributable to notes issued under the provisions of the Master Agreement. The Master Agreement expired on September 30, 2012 and was not extended.

On October 12, 2012, we entered into a Master Note Facility Agreement (the "New Master Agreement") with another national insurance company (the "New Purchaser"). The New Purchaser also purchased Notes issued by us in 2004. The New Master Agreement provides for a $125.0 million private uncommitted "shelf" facility for the issuance of unsecured senior notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The New Master Agreement includes various covenants, limitations and events of default similar to the Master Agreement. At December 31, 2013 and December 31, 2012, there were no borrowings against this facility.

On June 12, 2008, we entered into an Amended and Restated Revolving Loan Agreement dated as of June 3, 2008 (the "Prior Loan Agreement"), with a national banking institution, amending and restating the Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), to, among other things, increase the lending commitment to $50.0 million (subject to potential increases up to $100.0 million) and to extend the maturity date from December 20, 2011, to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $75.0 million. After a series of amendments that provided covenant exceptions for additional notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $20.0 million. The Revolving Agreement was amended and restated by the SunTrust Revolver (as defined in the below paragraph).

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

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

The maturity date for the JPM Bridge Facility was February 3, 2012, at which time all outstanding principal and unpaid interest would have been due. On January 26, 2012, we entered into a term loan agreement (the "JPM Agreement") with JPMorgan that provided for a $100.0 million term loan (the "JPM Term Loan"). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver's amount outstanding was reduced to zero. At December 31, 2013 and December 31, 2012, there were no borrowings against the SunTrust Revolver.

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

On July 1, 2013, in conjunction with the Beecher acquisition, we entered into: (1) a revolving loan agreement (the "Wells Fargo Agreement") with Wells Fargo Bank, N.A. that provides for a $50.0 million revolving line of credit (the "Wells Fargo Revolver") and (2) a term loan agreement (the "Bank of America Agreement") with Bank of America, N.A. ("Bank of America") that provides for a $30.0 million term loan (the "Bank of America Term Loan").

The maturity date for the Wells Fargo Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. The Wells Fargo Revolver may be increased by up to $50.0 million (bringing the total available to $100.0 million). The calculation of interest and fees for the Wells Fargo Agreement is generally based on our funded debt-to-EBITDA ratio. Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the Wells Fargo Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the Wells Fargo Revolver are unsecured and the Wells Fargo Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers. The Wells Fargo Revolver was drawn down in the amount of $30.0 million on July 1, 2013. There were no borrowings against the Wells Fargo Revolver as of December 31, 2013.

The maturity date for the Bank of America Term Loan is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. The calculation of interest for the Bank of America Agreement is generally based on our fixed charge coverage ratio. Interest is charged at a rate equal to the Alternative Base Rate or 1.00% to 1.40% above the Adjusted LIBOR Rate, each as more fully described in the Bank of America Agreement. Fees include an up-front fee. Initially, until Bank of America received our September 30, 2013 quarter end financial statements, the applicable margin for Adjusted LIBOR Rate advances was 1.50%. The obligations under the Bank of America Term Loan are unsecured and the Bank of America Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers. The Bank of America Term Loan was funded in the amount of $30.0 million on July 1, 2013. As of December 31, 2013 there was an outstanding balance of $30.0 million.

The 30-day LIBOR and Adjusted LIBOR Rate as of December 31, 2013 were 0.16% and 0.19%, respectively.

The Notes, the Master Agreement, the SunTrust Agreement, the JPM Agreement and the Bank of America Agreement require that we maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of December 31, 2013 and December 31, 2012.

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

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with the SunTrust Revolver, the New Master Agreement, and the Wells Fargo Revolver will be sufficient to satisfy our normal liquidity needs through at least the end of 2014. These liquidity needs include the total net consideration of $602.5 million to be paid for the ownership interests of Wright (in addition, contingent consideration of up to $37.5 million may be payable if Wright completes certain agreed-upon acquisitions prior to closing). We currently anticipate financing this transaction with a combination of cash and proceeds from one or more existing or new credit facilities. We may seek to raise additional capital through either the private or public debt markets to increase our cash and debt capacity. Additionally, we believe that funds generated from future operations will be sufficient to satisfy our normal liquidity needs, including the required annual principal payments on our long-term debt.

Historically, much of our cash has been used for acquisitions. If additional acquisition opportunities should become available that exceed our current cash flow, we believe that given our relatively low debt-to-total-capitalization ratio, we would be able to raise additional capital through either the private or public debt markets. This incurrence of additional debt, however, could negatively impact our capital structure and liquidity. In addition, if we are unable to raise as much additional debt as we want, or at all, we could issue additional equity to finance an acquisition which could have a dilutive effect on our current shareholders.

Consolidated Statements of Income

(in thousands, except per share data)	2013	Year Ended December 31, 2012	2011
REVENUES			
Commissions and fees	**$ 1,355,503**	$ 1,189,081	$ 1,005,962
Investment income	**638**	797	1,267
Other income, net	**7,138**	10,154	6,313
Total revenues	**1,363,279**	1,200,032	1,013,542
EXPENSES			
Employee compensation and benefits	**683,000**	608,506	508,675
Non-cash stock-based compensation	**22,603**	15,865	11,194
Other operating expenses	**195,677**	174,389	144,079
Amortization	**67,932**	63,573	54,755
Depreciation	**17,485**	15,373	12,392
Interest	**16,440**	16,097	14,132
Change in estimated acquisition earn-out payables	**2,533**	1,418	(2,206)
Total expenses	**1,005,670**	895,221	743,021
Income before income taxes	**357,609**	304,811	270,521
Income taxes	**140,497**	120,766	106,526
Net income	**$ 217,112**	$ 184,045	$ 163,995
Net income per share:			
Basic	**$ 1.50**	$ 1.28	$ 1.15
Diluted	**$ 1.48**	$ 1.26	$ 1.13
Weighted average number of shares outstanding:			
Basic	**141,033**	139,364	138,582
Diluted	**142,624**	142,010	140,264
Dividends declared per share	**$ 0.3700**	$ 0.3450	$ 0.3250

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(in thousands, except per share data)	At December 31, 2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 202,952**	$ 219,821
Restricted cash and investments	**250,009**	164,564
Short-term investments	**10,624**	8,183
Premiums, commissions and fees receivable	**395,915**	302,725
Deferred income taxes	**29,276**	24,408
Other current assets	**39,260**	39,811
Total current assets	**928,036**	759,512
Fixed assets, net	**74,733**	74,337
Goodwill	**2,006,173**	1,711,514
Amortizable intangible assets, net	**618,888**	566,538
Other assets	**21,678**	16,157
Total assets	**$ 3,649,508**	$ 3,128,058
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	**$ 534,360**	$ 406,704
Premium deposits and credits due customers	**80,959**	32,867
Accounts payable	**34,158**	48,524
Accrued expenses and other liabilities	**157,400**	79,593
Current portion of long-term debt	**100,000**	93
Total current liabilities	**906,877**	567,781
Long-term debt	**380,000**	450,000
Deferred income taxes, net	**291,704**	237,630
Other liabilities	**63,786**	65,314
Commitments and contingencies (Note 13)		
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued and outstanding 145,419 at 2013 and 143,878 at 2012	**14,542**	14,388
Additional paid-in capital	**371,960**	335,872
Retained earnings	**1,620,639**	1,457,073
Total shareholders' equity	**2,007,141**	1,807,333
Total liabilities and shareholders' equity	**$ 3,649,508**	$ 3,128,058

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands, except per share data)	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2011	142,795	$ 14,279	$ 286,997	$ 1,205,061	$ 7	$ 1,506,344
Net income				163,995		163,995
Common stock issued for employee stock benefit plans	545	55	18,859			18,914
Income tax benefit from exercise of stock benefit plans			916			916
Common stock issued to directors	12	1	287			288
Cash dividends paid ($0.3250 per share)				(46,494)		(46,494)
Balance at December 31, 2011	143,352	14,335	307,059	1,322,562	7	1,643,963
Net income and comprehensive income				184,045		184,045
Net unrealized holding gain on available-for-sale securities					(7)	(7)
Common stock issued for employee stock benefit plans	501	50	19,549			19,599
Income tax benefit from exercise of stock benefit plans			8,659			8,659
Common stock issued to directors	25	3	605			608
Cash dividends paid ($0.3450 per share)				(49,534)		(49,534)
Balance at December 31, 2012	143,878	14,388	335,872	1,457,073	—	1,807,333
Net income				217,112		217,112
Common stock issued for employee stock benefit plans	1,541	154	33,730			33,884
Income tax benefit from exercise of stock benefit plans			2,358			2,358
Cash dividends paid ($0.37 per share)				(53,546)		(53,546)
Balance at December 31, 2013	**145,419**	**$ 14,542**	**$ 371,960**	**$ 1,620,639**	**$ —**	**$ 2,007,141**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 217,112**	$ 184,045	$ 163,995
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	**67,932**	63,573	54,755
Depreciation	**17,485**	15,373	12,392
Non-cash stock-based compensation	**22,603**	15,865	11,194
Change in estimated acquisition earn-out payables	**2,533**	1,418	(2,206)
Deferred income taxes	**32,247**	32,723	30,328
Income tax benefit from exercise of shares from the stock benefit plans	**(2,358)**	(8,659)	(916)
Net gain on sales of investments, fixed assets and customer accounts	**(2,806)**	(4,105)	(1,890)
Payments on acquisition earn-outs in excess of original estimated payables	**(2,788)**	(4,086)	(1,369)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:			
Restricted cash and investments (increase)	**(85,445)**	(34,029)	(6,941)
Premiums, commissions and fees receivable (increase)	**(40,729)**	(11,312)	(20,570)
Other assets (increase) decrease	**(2,583)**	2,145	(7,322)
Premiums payable to insurance companies increase (decrease)	**61,624**	(4,651)	9,447
Premium deposits and credits due customers increase	**41,049**	2,506	1,277
Accounts payable increase (decrease)	**5,180**	36,505	(2,807)
Accrued expenses and other liabilities increase (decrease)	**70,872**	(43,059)	3,975
Other liabilities (decrease)	**(12,554)**	(23,937)	(5,811)
Net cash provided by operating activities	**389,374**	220,315	237,531
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets	**(16,366)**	(24,028)	(13,608)
Payments for businesses acquired, net of cash acquired	**(367,712)**	(425,054)	(166,055)
Proceeds from sales of fixed assets and customer accounts	**5,886**	14,095	3,686
Purchase of investments	**(18,102)**	(11,167)	(12,698)
Proceeds from sales of investments	**15,662**	10,654	12,950
Net cash used in investing activities	**(380,632)**	(435,500)	(175,725)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on acquisition earn-outs	**(15,491)**	(13,539)	(8,843)
Proceeds from long-term debt	**30,000**	200,000	100,000
Payments on long-term debt	**(93)**	(1,227)	(102,072)
Borrowings on revolving credit facilities	**31,863**	100,000	—
Payments on revolving credit facilities	**(31,863)**	(100,000)	—
Income tax benefit from exercise of shares from the stock benefit plans	**2,358**	8,659	916
Issuances of common stock for employee stock benefit plans	**12,445**	13,305	8,667
Repurchase of stock benefit plan shares for employee to fund tax withholdings	**(1,284)**	(8,963)	(659)
Cash dividends paid	**(53,546)**	(49,534)	(46,494)
Net cash (used in) provided by financing activities	**(25,611)**	148,701	(48,485)
Net (decrease) increase in cash and cash equivalents	**(16,869)**	(66,484)	13,321
Cash and cash equivalents at beginning of year	**219,821**	286,305	272,984
Cash and cash equivalents at end of year	**$ 202,952**	$ 219,821	$ 286,305

See accompanying notes to consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

PRINCIPLES OF CONSOLIDATION

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

REVENUE RECOGNITION

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is billed to the customer, whichever is later. Commission revenues related to installment billings at the Company's subsidiary, Arrowhead General Insurance Agency, Inc. ("Arrowhead"), are recorded on the later of the effective date of the policy or the first installment billing. At those dates, the earnings process has been completed, and Brown & Brown can reliably estimate the impact of policy cancellations for refunds and establish reserves accordingly. The reserve for policy cancellations is based upon historical cancellation experience adjusted for known circumstances. The policy cancellation reserve was $8,010,000 and $7,174,000 at December 31, 2013 and 2012, respectively, and it is periodically evaluated and adjusted as necessary. Subsequent commission adjustments are recognized upon receipt of notification from the insurance companies. Commission revenues are reported net of commissions paid to sub-brokers or co-brokers. Profit-sharing contingent commissions from insurance companies are recognized when determinable, which is when such commissions, or official notification of the amount of such commissions is received. Fee income is recognized as services are rendered.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH AND INVESTMENTS, AND PREMIUMS, COMMISSIONS AND FEES RECEIVABLE

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

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

INVESTMENTS

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

FIXED ASSETS

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

GOODWILL AND AMORTIZABLE INTANGIBLE ASSETS

The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and amortizable intangible assets is assigned to goodwill. While goodwill is not amortizable, it is subject to assessment at least annually, and more frequently in the presence of certain circumstances, for impairment by application of a fair value-based test. The Company compares the fair value of each reporting unit with its carrying amount to determine if there is potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of earnings before interest, income taxes, depreciation, amortization and change in estimated acquisition earn-out payables ("EBITDAC"), or on a discounted cash flow basis. Brown & Brown completed its most recent annual assessment as of November 30, 2013 and determined that the fair value of goodwill exceeded the carrying value of such assets. In addition, as of December 31, 2013, there are no accumulated impairment losses.

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

The carrying value of amortizable intangible assets attributable to each business or asset group comprising Brown & Brown is periodically reviewed by management to determine if there are events or changes in circumstances that would indicate that its carrying amount may not be recoverable. Accordingly, if there are any such changes in circumstances during the year, Brown & Brown assesses the carrying value of its amortizable intangible assets by considering the estimated future undiscounted cash flows generated by the corresponding business or asset group. Any impairment identified through this assessment may require that the carrying value of related amortizable intangible assets be adjusted; however, no impairments were recorded for the years ended December 31, 2013, 2012 and 2011.

INCOME TAXES

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

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

NET INCOME PER SHARE

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

Basic EPS is computed based on the weighted average number of common shares (including participating securities) issued and outstanding during the period. Diluted EPS is computed based on the weighted average number of common shares issued and outstanding plus equivalent shares, assuming the exercise of stock options. The dilutive effect of stock options is computed by application of the treasury-stock method. The following is a reconciliation between basic and diluted weighted average shares outstanding for the years ended December 31:

(in thousands, except per share data)	**2013**	2012	2011
Net income	**$ 217,112**	$ 184,045	$ 163,995
Net income attributable to unvested awarded performance stock	**(5,446)**	(5,313)	(5,099)
Net income attributable to common shares	**$ 211,666**	$ 178,732	$ 158,896
Weighted average basic number of common shares outstanding	**144,662**	143,507	143,029
Less unvested awarded performance stock included in weighted average basic share outstanding	**(3,629)**	(4,143)	(4,447)
Weighted average number of common shares outstanding for basic earnings per common share	**141,033**	139,364	138,582
Dilutive effect of stock options	**1,591**	2,646	1,682
Weighted average number of shares outstanding	**142,624**	142,010	140,264
Net income per share:			
Basic	**$ 1.50**	$ 1.28	$ 1.15
Diluted	**$ 1.48**	$ 1.26	$ 1.13

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of Brown & Brown's financial assets and liabilities, including cash and cash equivalents, restricted cash and investments, investments, premiums, commissions and fees receivable, premiums payable to insurance companies, premium deposits and credits due customers and accounts payable, at December 31, 2013 and 2012, approximate fair value because of the short-term maturity of these instruments. The carrying amount of Brown & Brown's long-term debt approximates fair value at December 31, 2013 and 2012 because the related coupon rate approximates the current market rate.

STOCK-BASED COMPENSATION

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

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

NOTE 2 BUSINESS COMBINATIONS

ACQUISITIONS IN 2013

During 2013, Brown & Brown acquired the assets and assumed certain liabilities of ten insurance intermediaries, all of the stock of one insurance intermediary and a book of business (customer accounts). The aggregate purchase price of these acquisitions was $519,794,000, including $408,072,000 of cash payments, the issuance of $552,000 in other payables, the assumption of $106,079,000 of liabilities and $5,091,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract high-quality personnel. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one—to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

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

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company's Condensed Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period, as defined in Accounting Standards Codification ("ASC") Topic 805—*Business Combinations*.

For 2013, several adjustments were made within the permitted measurement period that resulted in a reduction to the aggregate purchase price of the applicable acquisition of $504,000, including $18,000 of cash payments, an increase of $117,000 in other payables, the assumption of $82,000 of liabilities and the reduction of $721,000 in recorded earn-out payables.

The following table summarizes the aggregate purchase price allocation made as of the date of each acquisition for current year acquisitions and adjustment made during the measurement period for prior year acquisitions:

(in thousands) Name	Business Segment	2013 Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-out Payable	Net Assets Acquired	*Maximum Potential Earn-out Payable*
The Rollins Agency, Inc.	Retail	June 1	$ 13,792	$ 50	$ 2,321	$ 16,163	*$ 4,300*
Beecher Carlson Holdings, Inc.	Retail; National Programs	July 1	364,256	—	—	364,256	—
ICA, Inc.	Services	December 31	19,770	—	727	20,497	*5,000*
Other	Various	Various	10,254	502	2,043	12,799	*7,468*
Total			$ 408,072	$ 552	$ 5,091	$ 413,715	*$ 16,768*

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

(in thousands)	Rollins	Beecher	ICA	Other	Total
Cash	$ —	$ 40,360	$ —	$ —	$ 40,360
Other current assets	393	57,632	—	1,573	59,598
Fixed assets	30	1,786	75	24	1,915
Goodwill	12,697	265,174	12,377	5,696	295,944
Purchased customer accounts	3,878	101,565	7,917	5,623	118,983
Non-compete agreements	31	2,758	21	76	2,886
Other assets	—	—	107	1	108
Total assets acquired	17,029	469,275	20,497	12,993	519,794
Other current liabilities	(866)	(80,090)	—	(194)	(81,150)
Deferred income taxes, net	—	(22,764)	—	—	(22,764)
Other liabilities	—	(2,165)	—	—	(2,165)
Total liabilities assumed	(866)	(105,019)	—	(194)	(106,079)
Net assets acquired	$ 16,163	$ 364,256	$ 20,497	$ 12,799	$ 413,715

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

Goodwill of $295,944,000 was allocated to the Retail, National Programs, Wholesale Brokerage and Services Divisions in the amounts of $257,196,000, $27,091,000, ($812,000) and $12,469,000, respectively. Of the total goodwill of $295,944,000, $41,663,000 is currently deductible for income tax purposes and $249,190,000 is non-deductible. The remaining $5,091,000 relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2013 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through December 31, 2013, included in the Condensed Consolidated Statement of Income for the twelve months ended December 31, 2013, were $63,797,000 and $872,000, respectively. If the acquisitions had occurred as of the beginning of the period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	For the Year Ended December 31,	
(in thousands, except per share data)	**2013**	2012
Total revenues	**$ 1,439,918**	$ 1,329,262
Income before income taxes	**$ 373,175**	$ 329,291
Net income	**$ 226,562**	$ 198,826
Net income per share:		
Basic	**$ 1.57**	$ 1.39
Diluted	**$ 1.55**	$ 1.36
Weighted average number of shares outstanding:		
Basic	**141,033**	139,634
Diluted	**142,624**	142,010

ACQUISITIONS IN 2012

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

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

The acquisitions made in 2012 have been accounted for as business combinations and are as follows:

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

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

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

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

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

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

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

ACQUISITIONS IN 2011

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

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

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

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

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

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

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

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

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

The results of operations for the acquisitions completed during 2011 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through December 31, 2011 included in the Condensed Consolidated Statement of Income for the twelve months ended December 31, 2011 were $40,291,000 and $7,223,000, respectively. If the acquisitions had occurred as of the beginning of the comparable prior annual reporting period, the Company's estimated results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED) *(in thousands, except per share data)*	For the Year Ended December 31, 2011	 2010
Total revenues	$ 1,058,142	$ 1,059,857
Income before income taxes	$ 283,404	$ 291,944
Net income	$ 171,805	$ 177,464
Net income per share:		
Basic	$ 1.20	$ 1.25
Diluted	$ 1.19	$ 1.23
Weighted average number of shares outstanding:		
Basic	138,582	137,924
Diluted	140,264	139,318

For acquisitions consummated prior to January 1, 2009, additional consideration paid to sellers as a result of purchase price earn-out provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by the Company in 2013 as a result of these adjustments totaled $873,000, all of which was allocated to goodwill. Of the $873,000 net additional consideration paid, $873,000 was issued in other payables. The net additional consideration paid by the Company in 2012 as a result of these adjustments totaled $2,907,000, all of which was allocated to goodwill. Of the $2,907,000 net additional consideration paid, $2,907,000 was paid in cash.

As of December 31, 2013, the maximum future contingency payments related to all acquisitions totaled $130,584,000, all of which relates to acquisitions consummated subsequent to January 1, 2009.

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

As of December 31, 2013, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3). The resulting additions, payments, and net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, were as follows:

(in thousands)	For the Year Ended December 31, 2013	2012	2011
Balance as of the beginning of the period	**$ 52,987**	$ 47,715	$ 29,608
Additions to estimated acquisition earn-out payables	**5,816**	21,479	30,525
Payments for estimated acquisition earn-out payables	**(18,278)**	(17,625)	(10,212)
Subtotal	**40,525**	51,569	49,921
Net change in earnings from estimated acquisition earn-out payables:			
Change in fair value on estimated acquisition earn-out payables	**570**	(1,051)	(4,043)
Interest expense accretion	**1,963**	2,469	1,837
Net change in earnings from estimated acquisition earn-out payables	**2,533**	1,418	(2,206)
Balance as of December 31	**$ 43,058**	$ 52,987	$ 47,715

Of the $43,058,000 estimated acquisition earn-out payables as of December 31, 2013, $6,312,000 was recorded as accounts payable and $36,746,000 was recorded as other non-current liabilities. Of the $52,987,000 in estimated acquisition earn-out payables as of December 31, 2012, $10,164,000 was recorded as accounts payable and $42,823,000 was recorded as other non-current liabilities.

NOTE 3 GOODWILL

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

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2012	$ 823,573	$ 149,802	$ 273,783	$ 76,311	$ 1,323,469
Goodwill of acquired businesses	58,148	289,378	14,271	31,750	393,547
Goodwill disposed of relating to sales of businesses	(5,502)	—	—	—	(5,502)
Balance as of December 31, 2012	876,219	439,180	288,054	108,061	1,711,514
Goodwill of acquired businesses	257,196	27,964	(812)	12,469	296,817
Goodwill disposed of relating to sales of businesses	(2,158)	—	—	—	(2,158)
Balance as of December 31, 2013	**$ 1,131,257**	**$ 467,144**	**$ 287,242**	**$ 120,530**	**$ 2,006,173**

NOTE 4 AMORTIZABLE INTANGIBLE ASSETS

Amortizable intangible assets at December 31 consisted of the following:

(in thousands)	2013				2012			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (Years)
Purchased customer accounts	**$ 1,120,719**	**$ (505,137)**	**$ 615,582**	**14.9**	$1,005,031	$ (439,623)	$ 565,408	14.9
Non-compete agreements	**28,115**	**(24,809)**	**3,306**	**7.0**	25,320	(24,190)	1,130	7.2
Total	**$ 1,148,834**	**$ (529,946)**	**$ 618,888**		$1,030,351	$ (463,813)	$ 566,538	

Amortization expense recorded for amortizable intangible assets for the years ended December 31, 2013, 2012 and 2011 was $67,932,000, $63,573,000 and $54,755,000, respectively.

Amortization expense for amortizable intangible assets for the years ending December 31, 2014, 2015, 2016, 2017 and 2018 is estimated to be $71,306,000, $70,017,000, $65,479,000, $62,767,000, and $57,442,000, respectively.

NOTE 5 INVESTMENTS

Investments at December 31 consisted of the following:

(in thousands)	2013 Carrying Value		2012 Carrying Value	
	Current	*Non-Current*	*Current*	*Non-Current*
Certificates of deposit and other securities	**$ 10,624**	**$ 16**	$ 8,183	$ 16

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

(in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses
2013	**$ 15,662**	**$ ——**	**$ ——**
2012	$ 10,654	$ 13	$ ——
2011	$ 12,950	$ 124	$ ——

NOTE 6 FIXED ASSETS

Fixed assets at December 31 consisted of the following:

(in thousands)	2013	2012
Furniture, fixtures and equipment	**$ 149,170**	$ 141,844
Leasehold improvements	**21,231**	18,889
Land, buildings and improvements	**3,815**	3,902
Total cost	**174,216**	164,635
Less accumulated depreciation and amortization	**(99,483)**	(90,298)
Total	**$ 74,733**	$ 74,337

Depreciation and amortization expense for fixed assets amounted to $17,485,000 in 2013, $15,373,000 in 2012, and $12,392,000 in 2011.

NOTE 7 ACCRUED EXPENSES AND OTHER LIABILITIES

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

(in thousands)	2013	2012
Accrued bonuses	**$ 70,272**	$ 12,668
Accrued compensation and benefits	**35,145**	19,943
Accrued rent and vendor expenses	**19,235**	16,972
Reserve for policy cancellations	**8,010**	7,174
Accrued interest	**3,324**	3,295
Other	**21,414**	19,541
Total	**$ 157,400**	$ 79,593

NOTE 8 LONG-TERM DEBT

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

(in thousands)	2013	2012
Unsecured senior notes	**$ 480,000**	$ 450,000
Acquisition notes payable	**——**	93
Revolving credit facility	**——**	——
Total debt	**480,000**	450,093
Less current portion	**(100,000)**	(93)
Long-term debt	**$ 380,000**	$ 450,000

In July 2004, the Company completed a private placement of $200.0 million of unsecured senior notes (the "Notes"). The $200.0 million was divided into two series: (1) Series A, which closed on September 15, 2004, for $100.0 million due in 2011 and bore interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for $100.0 million due in 2014 and bearing interest at 6.08% per year. The Company has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. On September 15, 2011, the $100.0 million of Series A Notes were redeemed on their normal maturity date. As of December 31, 2013 and December 31, 2012, there was an outstanding balance on the Notes of $100.0 million.

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). On September 30, 2009, the Company and the Purchaser amended the Master Agreement to extend the term of the agreement until August 20, 2012. The Purchaser also purchased Notes issued by the Company in 2004. The Master Agreement provides for a $200.0 million private uncommitted "shelf" facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, $25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. On September 15, 2011, and pursuant to a Confirmation of Acceptance, dated January 21, 2011 (the "Confirmation"), in connection with the Master Agreement, $100.0 million in Series E Senior Notes due September 15, 2018, with a fixed interest rate of 4.50% per year, were issued. The Series E Senior Notes were issued for the sole purpose of retiring the Series A Senior Notes. As of December 31, 2013 and December 31, 2012, there was an outstanding debt balance of $150.0 million attributable to notes issued under the provisions of the Master Agreement. The Master Agreement expired on September 30, 2012 and was not extended.

On October 12, 2012, the Company entered into a Master Note Facility Agreement (the "New Master Agreement") with another national insurance company (the "New Purchaser"). The New Purchaser also purchased Notes issued by us in 2004. The New Master Agreement provides for a $125.0 million private uncommitted "shelf" facility for the issuance of unsecured senior notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The New Master Agreement includes various covenants, limitations and events of default similar to the Master Agreement. At December 31, 2013 and December 31, 2012, there were no borrowings against this facility.

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement dated as of June 3, 2008 (the "Prior Loan Agreement"), with a national banking institution, amending and restating the Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), to, among other things, increase the lending commitment to $50.0 million (subject to potential increases up to $100.0 million) and to extend the maturity date from December 20, 2011, to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $75.0 million. After a series of amendments that provided covenant exceptions for additional notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $20.0 million. The Revolving Agreement was amended and restated by the SunTrust Revolver (as defined in the below paragraph).

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

The maturity date for the SunTrust Term Loan and the SunTrust Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. Both the SunTrust Term Loan and the SunTrust Revolver may be increased by up to $50.0 million (bringing the total available to $150.0 million for the SunTrust Term Loan and $100.0 million for the SunTrust Revolver). The calculation of interest and fees for the SunTrust Agreement is generally based on the Company's funded debt-to-EBITDA ratio.

Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the SunTrust Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the SunTrust Term Loan and SunTrust Revolver are unsecured and the SunTrust Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers and that are substantially similar to those contained in the Prior Loan Agreement.

The maturity date for the JPM Bridge Facility was February 3, 2012, at which time all outstanding principal and unpaid interest would have been due. On January 26, 2012, the Company entered into a term loan agreement (the "JPM Agreement") with JPMorgan that provided for a $100.0 million term loan (the "JPM Term Loan"). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver's amount outstanding was reduced to zero. At December 31, 2013 and December 31, 2012, there were no borrowings against the SunTrust Revolver.

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

On July 1, 2013, in conjunction with the acquisition of Beecher Carlson Holdings, Inc., the Company entered into: (1) a revolving loan agreement (the "Wells Fargo Agreement") with Wells Fargo Bank, N.A. that provides for a $50.0 million revolving line of credit (the "Wells Fargo Revolver") and (2) a term loan agreement (the "Bank of America Agreement") with Bank of America, N.A. ("Bank of America") that provides for a $30.0 million term loan (the "Bank of America Term Loan").

The maturity date for the Wells Fargo Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. The Wells Fargo Revolver may be increased by up to $50.0 million (bringing the total available to $100.0 million). The calculation of interest and fees for the Wells Fargo Agreement is generally based on our funded debt-to-EBITDA ratio. Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the Wells Fargo Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the Wells Fargo Revolver are unsecured and the Wells Fargo Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers. The Wells Fargo Revolver was drawn down in the amount of $30.0 million on July 1, 2013. There were no borrowings against the Wells Fargo Revolver as of December 31, 2013.

The maturity date for the Bank of America Term Loan is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. The calculation of interest for the Bank of America Agreement is generally based on our fixed charge coverage ratio. Interest is charged at a rate equal to the Alternative Base Rate or 1.00% to 1.40% above the Adjusted LIBOR Rate, each as more fully described in the Bank of America Agreement. Fees include an up-front fee. Initially, until Bank of America received our September 30, 2013 quarter end financial statements, the applicable margin for Adjusted LIBOR Rate advances was 1.50%. The obligations under the Bank of America Term Loan are unsecured and the Bank of America Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers. The Bank of America Term Loan was funded in the amount of $30.0 million on July 1, 2013. As of December 31, 2013 there was an outstanding balance of $30.0 million.

The 30-day LIBOR and Adjusted LIBOR Rate as of December 31, 2013 were 0.16% and 0.19%, respectively.

The Notes, the Master Agreement, the SunTrust Agreement and the JPM Agreement require the Company to maintain certain financial ratios and comply with certain other covenants. The Company was in compliance with all such covenants as of December 31, 2013 and 2012.

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

Interest paid in 2013, 2012 and 2011 was $16,501,000, $16,090,000 and $15,571,000, respectively.

At December 31, 2013, maturities of long-term debt were $100,000,000 in 2014, $25,000,000 in 2015, $255,000,000 in 2016, $0 in 2017 and $100,000,000 in 2018.

NOTE 9 INCOME TAXES

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

(in thousands)	**2013**	2012	2011
Current:			
Federal	**$ 94,007**	$ 75,522	$ 65,461
State	**13,438**	11,852	10,084
Foreign	**805**	669	638
Total current provision	**108,250**	88,043	76,183
Deferred:			
Federal	**28,469**	27,348	27,212
State	**3,723**	5,375	3,131
Foreign	**55**	—	—
Total deferred provision	**32,247**	32,723	30,343
Total tax provision	**$ 140,497**	$ 120,766	$ 106,526

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

	2013	2012	2011
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal income tax benefit	**3.5**	4.3	3.5
Non-deductible employee stock purchase plan expense	**0.3**	0.3	0.3
Non-deductible meals and entertainment	**0.3**	0.3	0.3
Other, net	**0.2**	(0.3)	0.3
Effective tax rate	**39.3%**	39.6%	39.4%

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

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

(in thousands)	**2013**	2012
Current deferred tax assets:		
Deferred profit-sharing contingent commissions	**$ 9,713**	$ 9,490
Net operating loss carryforwards	**8,408**	5,786
Accruals and reserves	**11,155**	9,132
Total current deferred tax assets	**$ 29,276**	$ 24,408

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

(in thousands)	2013	2012
Non-current deferred tax liabilities:		
Fixed assets	$ 11,651	$ 12,427
Intangible assets	306,009	245,020
Total non-current deferred tax liabilities	317,660	257,447
Non-current deferred tax assets:		
Deferred compensation	22,598	13,576
Net operating loss carryforwards	3,843	6,658
Valuation allowance for deferred tax assets	(485)	(417)
Total non-current deferred tax assets	25,956	19,817
Net non-current deferred tax liability	$ 291,704	$ 237,630

Income taxes paid in 2013, 2012 and 2011 were $110,191,000, $80,622,000, and $75,403,000, respectively.

At December 31, 2013, Brown & Brown had net operating loss carryforwards of $22,135,000 and $94,561,000 for federal and state income tax reporting purposes, respectively, portions of which expire in the years 2014 through 2033. The federal carryforward is derived from insurance operations acquired by Brown & Brown in 2001 and 2013. The majority of the federal net operating loss carryforward resulted from the 2013 stock acquisition of Beecher Carlson Holdings, Inc. The state carryforward amount is derived from the operating results of certain subsidiaries and from the 2012 and 2013 stock acquisitions of Arrowhead General Insurance Agency Superholding Corp and Beecher Carlson Holdings, Inc.

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

(in thousands)	2013	2012	2011
Unrecognized tax benefits balance at January 1	$ 294	$ 806	$ 656
Gross increases for tax positions of prior years	232	222	257
Gross decreases for tax positions of prior years	—	(409)	—
Settlements	(135)	(325)	(107)
Unrecognized tax benefits balance at December 31	$ 391	$ 294	$ 806

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2013 and 2012, the Company had approximately $121,000 and $79,000 of accrued interest and penalties related to uncertain tax positions, respectively.

The total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized was $391,000 as of December 31, 2013 and $294,000 as of December 31, 2012. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

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

The Company is subject to taxation in the United States and various state jurisdictions. The Company is also subject to taxation in the United Kingdom. In the United States, federal returns for fiscal years 2011 through 2013 remain open and subject to examination by the Internal Revenue Service. The Company files and remits state income taxes in various states where the Company has determined it is required to file state income taxes. The Company's filings with those states remain open for audit for the fiscal years 2008 through 2013. In the United Kingdom, the Company's filings remain open for audit for the fiscal years 2012 and 2013.

The Company's wholly owned subsidiary, Arrowhead General Insurance Agency Superholding Corp, is currently undergoing an Internal Revenue Service review of its federal corporate income tax filings for the tax years ended December 31, 2010, December 31, 2011 and the short period ended January 9, 2012. The Company's 2008 through 2011 State of Colorado tax returns are currently under audit. In addition the Company has been notified by the State of Oregon regarding audits of all Oregon state tax returns for the period 2009 through 2012. Additionally, the Company has been notified by the State of Michigan regarding a review and audit of state tax returns for the period 2009 through 2011.

NOTE 10 EMPLOYEE SAVINGS PLAN

The Company has an Employee Savings Plan (401(k)) in which substantially all employees with more than 30 days of service are eligible to participate. Under this plan, Brown & Brown makes matching contributions, of up to 2.5% of each participant's annual compensation. Further, the Plan authorizes the Company to make a discretionary profit-sharing contribution each year, which equaled 1.5% of each eligible employee's compensation in each of the past three years. The Company's contributions to the plan totaled $14,819,000 in 2013, $14,266,000 in 2012, and $11,866,000 in 2011.

NOTE 11 STOCK-BASED COMPENSATION

PERFORMANCE STOCK PLAN

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

At December 31, 2013, 5,549,882 shares had been granted under the PSP. As of December 31, 2013, 75,435 shares had not met the first condition for vesting, 2,295,852 shares had met the first condition of vesting and had been awarded, and 3,178,595 shares had satisfied both conditions of vesting and had been distributed to participants. Of the shares that have not vested as of December 31, 2013, the initial stock prices ranged from $4.25 to $25.68.

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

A summary of PSP activity for the years ended December 31, 2013, 2012 and 2011 is as follows:

		Weighted-Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2011	$	7.32	5,791,854	3,391,519	2,400,335
Granted	$	——	——	——	——
Awarded	$	9.56	——	447,154	(447,154)
Vested	$	6.01	(106,490)	(106,490)	——
Forfeited	$	9.48	(753,552)	(386,914)	(366,638)
Outstanding at December 31, 2011	$	8.08	4,931,812	3,345,269	1,586,543
Granted	$	——	——	——	——
Awarded	$	8.09	——	7,743	(7,743)
Vested	$	3.29	(877,224)	(877,224)	——
Forfeited	$	13.06	(363,566)	(81,283)	(282,283)
Outstanding at December 31, 2012	$	8.72	3,691,022	2,394,505	1,296,517
Granted	$	——	——	——	——
Awarded	$	10.25	——	122,021	(122,021)
Vested	$	4.01	(119,364)	(119,364)	——
Forfeited	$	8.73	(1,200,371)	(101,310)	(1,099,061)
Outstanding at December 31, 2013	**$**	**8.62**	**2,371,287**	**2,295,852**	**75,435**

The total fair value of PSP grants that vested during each of the years ended December 31, 2013, 2012 and 2011 was $3,729,000, $23,034,000 and $2,384,000, respectively.

STOCK INCENTIVE PLAN

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

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

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

In 2012, 814,545 shares were granted under the SIP, primarily related to the Arrowhead acquisition. As of December 31, 2012, no shares had met the first condition for vesting.

In 2013, 3,719,974 shares were granted under the SIP. Of the shares granted in 2013, 891,399 shares will vest upon the grantees' completion of between three and seven years of service with the Company, and because grantees have the right to vote the shares and receive dividends immediately after the date of grant these shares are considered awarded and outstanding under the two-class method. As of December 31, 2013, no shares had met the first condition for vesting.

Additionally, non-employee members of the Board of Directors received shares annually issued pursuant to the SIP as part of their annual compensation. A total of 36,919 SIP shares were issued to these directors in 2011 and 2012, of which 11,682 were issued in January 2011, 12,627 in January 2012, and 12,610 in December 2012. The shares issued in December 2012 were issued at that earlier time rather than in January 2013 pursuant to action of the Board of Directors. No additional shares were granted or issued to the non-employee members of the Board of Directors in 2013.

At December 31, 2013, 2,207,098 shares were available for future grants, of which 318,134 are reserved for grants with PSP-type vesting conditions.

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

A summary of SIP activity for the years ended December 31, 2013, 2012 and 2011 is as follows:

		Weighted-Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2011	$	12.62	192,245	38,449	153,796
Granted	$	23.94	2,375,892	——	2,375,892
Awarded	$	11.41	——	(1,041)	1,041
Vested	$	——	——	——	——
Forfeited	$	23.94	(90,080)	——	(90,080)
Outstanding at December 31, 2011	$	23.06	2,478,057	37,408	2,440,649
Granted	$	22.59	814,545	——	814,545
Awarded	$	——	——	——	——
Vested	$	——	——	——	——
Forfeited	$	23.62	(135,291)	——	(135,291)
Outstanding at December 31, 2012	$	22.91	3,157,311	37,408	3,119,903
Granted	$	31.95	3,719,974	——	3,719,974
Awarded	$	30.71	——	966,215	(966,215)
Vested	$	——	——	——	——
Forfeited	$	23.88	(271,184)	(7,906)	(263,278)
Outstanding at December 31, 2013	**$**	**27.96**	**6,606,101**	**995,717**	**5,610,384**

EMPLOYEE STOCK PURCHASE PLAN

The Company has a shareholder-approved Employee Stock Purchase Plan ("ESPP") with a total of 12,000,000 authorized shares of which 1,246,838 were available for future subscriptions as of December 31, 2013. Employees of the Company who regularly work more than 20 hours per week are eligible to participate in the ESPP. Participants, through payroll deductions, may allot up to 10% of their compensation, to a maximum of $25,000, to purchase Company stock between August 1st of each year and the following July 31st (the "Subscription Period") at a cost of 85% of the lower of the stock price as of the beginning or end of the Subscription Period.

The Company estimates the fair value of an ESPP share option as of the beginning of the Subscription Period as the sum of: (1) 15% of the quoted market price of the Company's stock on the day prior to the beginning of the Subscription Period, and (2) 85% of the value of a one-year stock option on the Company stock using the Black-Scholes option-pricing model. The estimated fair value of an ESPP share option as of the Subscription Period beginning in August 2013 was $8.36. The fair values of an ESPP share option as of the Subscription Periods beginning in August 2012 and 2011, were $5.84 and $4.27, respectively.

For the ESPP plan years ended July 31, 2013, 2012 and 2011, the Company issued 487,672, 562,748 and 488,052 shares of common stock, respectively. These shares were issued at an aggregate purchase price of $10,456,000, or $21.44 per share, in 2013, $9,302,000, or $16.53 per share, in 2012, and $8,048,000, or $16.49 per share, in 2011.

For the five months ended December 31, 2013, 2012 and 2011 (portions of the 2013-2014, 2012-2013 and 2011-2012 plan years), 222,526, 246,164, and 230,481 shares of common stock (from authorized but unissued shares), respectively, were subscribed to by ESPP participants for proceeds of approximately $5,937,000, $5,278,000 and $3,810,000, respectively.

INCENTIVE STOCK OPTION PLAN

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

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

A summary of stock option activity for the years ended December 31, 2013, 2012 and 2011 is as follows:

Stock Options	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term *(in years)*	Aggregate Intrinsic Value *(in thousands)*
Outstanding at January 1, 2011	1,875,170	$ 17.53	5.4	$ 17,147
Granted	——	$ ——		
Exercised	(52,589)	$ 18.48		
Forfeited	(438,044)	$ 17.28		
Expired	——	$ ——		
Outstanding at December 31, 2011	1,384,537	$ 17.58	4.4	$ 14,587
Granted	——	$ ——		
Exercised	(645,745)	$ 16.64		
Forfeited	——	$ ——		
Expired	——	$ ——		
Outstanding at December 31, 2012	738,792	$ 18.39	4.9	$ 8,891
Granted	——	$ ——		
Exercised	(115,847)	$ 17.56		
Forfeited	——	$ ——		
Expired	——	$ ——		
Outstanding at December 31, 2013	**622,945**	**$ 18.55**	**4.1**	**$ 7,289**
Ending vested and expected to vest at December 31, 2013	622,945	$ 18.55	4.1	$ 7,289
Exercisable at December 31, 2013	422,945	$ 18.48	4.2	$ 5,460
Exercisable at December 31, 2012	162,792	$ 17.82	4.0	$ 1,243
Exercisable at December 31, 2011	396,985	$ 18.16	5.4	$ 1,774

The following table summarizes information about stock options outstanding at December 31, 2013:

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life *(years)*	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$22.06	12,000	1.0	$ 22.06	——	$ 22.06
$18.48	610,945	4.2	$ 18.48	422,945	$ 18.48
Total	622,945	4.1	$ 18.55	422,945	$ 18.48

The total intrinsic value of options exercised, determined as of the date of exercise, during the years ended December 31, 2013, 2012 and 2011 was $1,558,000, $5,780,000 and $333,000, respectively. The total intrinsic value is calculated as the difference between the exercise price of all underlying awards and the quoted market price of the Company's stock for all in-the-money stock options at December 31, 2013, 2012 and 2011, respectively.

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

SUMMARY OF NON-CASH STOCK-BASED COMPENSATION EXPENSE

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

(in thousands)	2013	2012	2011
Stock Incentive Plan	**$ 15,934**	$ 9,288	$ 5,320
Employee Stock Purchase Plan	**3,538**	2,856	2,126
Performance Stock Plan	**2,310**	2,612	2,661
Incentive Stock Option Plan	**821**	1,109	1,087
Total	**$ 22,603**	$ 15,865	$ 11,194

SUMMARY OF UNRECOGNIZED COMPENSATION EXPENSE

As of December 31, 2013, there was approximately $133.9 million of unrecognized compensation expense related to all non-vested share-based compensation arrangements granted under the Company's stock-based compensation plans. That expense is expected to be recognized over a weighted-average period of 6.9 years.

NOTE 12 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

(in thousands)	2013	2012	2011
Other payable issued for purchased customer accounts	**$ 1,425**	$ 25,439	$ ——
Notes payable issued or assumed for purchased customer accounts	**$ ——**	$ 59	$ 1,603
Estimated acquisition earn-out payables and related charges	**$ 5,091**	$ 21,479	$ 30,525
Notes received on the sale of fixed assets and customer accounts	**$ 1,108**	$ 967	$ 8,166

NOTE 13 COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

Brown & Brown leases facilities and certain items of office equipment under non-cancelable operating lease arrangements expiring on various dates through 2042. The facility leases generally contain renewal options and escalation clauses based upon increases in the lessors' operating expenses and other charges. Brown & Brown anticipates that most of these leases will be renewed or replaced upon expiration. At December 31, 2013, the aggregate future minimum lease payments under all non-cancelable lease agreements were as follows:

(in thousands)		
2014	$	34,972
2015		31,386
2016		27,830
2017		22,209
2018		16,015
Thereafter		42,074
Total minimum future lease payments	$	174,486

Rental expense in 2013, 2012 and 2011 for operating leases totaled $42,992,000, $39,810,000, and $34,951,000, respectively.

LEGAL PROCEEDINGS

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

The Company's accruals for legal matters that were probable and estimable were not material at December 31, 2013 and 2012. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could adversely impact the Company's operating results, cash flows and overall liquidity. The Company maintains third-party insurance policies to provide coverage for certain legal claims, in an effort to mitigate its overall exposure to unanticipated claims or adverse decisions. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters. Based on the A. M. Best ratings of these third-party insurers, management does not believe there is a substantial risk of an insurer's material nonperformance related to any current insured claims.

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

NOTE 14 QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly operating results for 2013 and 2012 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013				
Total revenues	**$ 335,012**	**$ 325,792**	**$ 359,310**	**$ 343,165**
Total expenses	**$ 235,521**	**$ 239,571**	**$ 263,855**	**$ 266,723**
Income before income taxes	**$ 99,491**	**$ 86,221**	**$ 95,455**	**$ 76,442**
Net income	**$ 60,131**	**$ 52,007**	**$ 57,749**	**$ 47,225**
Net income per share:				
Basic	**$ 0.42**	**$ 0.36**	**$ 0.40**	**$ 0.32**
Diluted	**$ 0.41**	**$ 0.36**	**$ 0.39**	**$ 0.32**
2012				
Total revenues	$ 302,486	$ 290,916	$ 303,800	$ 302,830
Total expenses	$ 219,696	$ 219,771	$ 222,151	$ 233,603
Income before income taxes	$ 82,790	$ 71,145	$ 81,649	$ 69,227
Net income	$ 49,433	$ 42,471	$ 49,504	$ 42,637
Net income per share:				
Basic	$ 0.34	$ 0.30	$ 0.34	$ 0.30
Diluted	$ 0.34	$ 0.29	$ 0.34	$ 0.29

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

NOTE 15 SEGMENT INFORMATION

Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers; the National Programs Division, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities, and market niches; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers; and the Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, Social Security disability and Medicare benefits advocacy services and catastrophe claims adjusting services.

Brown & Brown conducts all of its operations within the United States of America, except for one wholesale brokerage operation based in London, England, and retail operations in Bermuda and the Cayman Islands. These operations earned $12.2 million, $9.7 million and $9.1 million of total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Long-lived assets held outside of the United States during each of these three years were not material.

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

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

	Year Ended December 31, 2013					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$ 728,324	$ 292,130	$ 209,907	$ 131,489	$ 1,429	$ 1,363,279
Investment income	$ 82	$ 19	$ 22	$ 1	$ 514	$ 638
Amortization	$ 38,052	$ 14,593	$ 11,550	$ 3,698	$ 39	$ 67,932
Depreciation	$ 5,847	$ 5,399	$ 2,794	$ 1,623	$ 1,822	$ 17,485
Interest expense	$ 34,407	$ 24,014	$ 2,565	$ 7,321	$ (51,867)	$ 16,440
Income before income taxes	$ 166,316	$ 58,379	$ 53,822	$ 24,518	$ 54,574	$ 357,609
Total assets	$ 2,992,087	$ 1,335,911	$ 927,825	$ 277,652	$ (1,883,967)	$ 3,649,508
Capital expenditures	$ 6,847	$ 4,743	$ 1,931	$ 1,811	$ 1,034	$ 16,366

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

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

NOTE 16 SUBSEQUENT EVENT

On January 15, 2014, Brown & Brown entered into a merger agreement (the "Agreement") to acquire The Wright Insurance Group, LLC ("Wright"). Immediately upon the consummation of the merger, Wright's equity interests will be converted into the rights to receive cash equal, collectively, to $602.5 million. This amount is composed of cash payments of $587.5 million for the Programs Business, $7.5 million for Wright National Flood Insurance Company ("WNFIC") and $7.5 million for WNFIC statutory surplus. In addition, Wright's equityholders may receive additional consideration of up to $37.5 million in cash in the event of the closing of certain acquisition transactions by Wright and its affiliates (or, after the closing of the acquisition of Wright, by the Company and its affiliates) prior to July 15, 2015.

Under the Agreement, the merger is subject to certain closing conditions including the receipt of required regulatory approvals for the transaction (including the approval of antitrust authorities necessary to complete the acquisition). If the merger is not closed by July 15, 2014 (which may potentially be extended to October 15, 2014 if the only then-outstanding conditions are obtaining regulatory approvals), either party may terminate the agreement.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Brown & Brown, Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brown & Brown, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Certified Public Accountants
Jacksonville, Florida
February 28, 2014

Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of Brown & Brown, Inc. and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Beecher Carlson Holdings, Inc. and ICA, Inc. (collectively the "2013 Excluded Acquisitions"), which were acquired during 2013 and whose financial statements constitute 2.6% and 10.8% of net and total assets, respectively, 3.4% of revenues, and 2.2% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Accordingly, our audit did not include the internal control over financial reporting of the 2013 Excluded Acquisitions. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 28, 2014 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Certified Public Accountants
Jacksonville, Florida
February 28, 2014

Management's Report on Internal Control Over Financial Reporting

The management of Brown & Brown, Inc. and its subsidiaries ("Brown & Brown") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including Brown & Brown's principal executive officer and principal financial officer, Brown & Brown conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

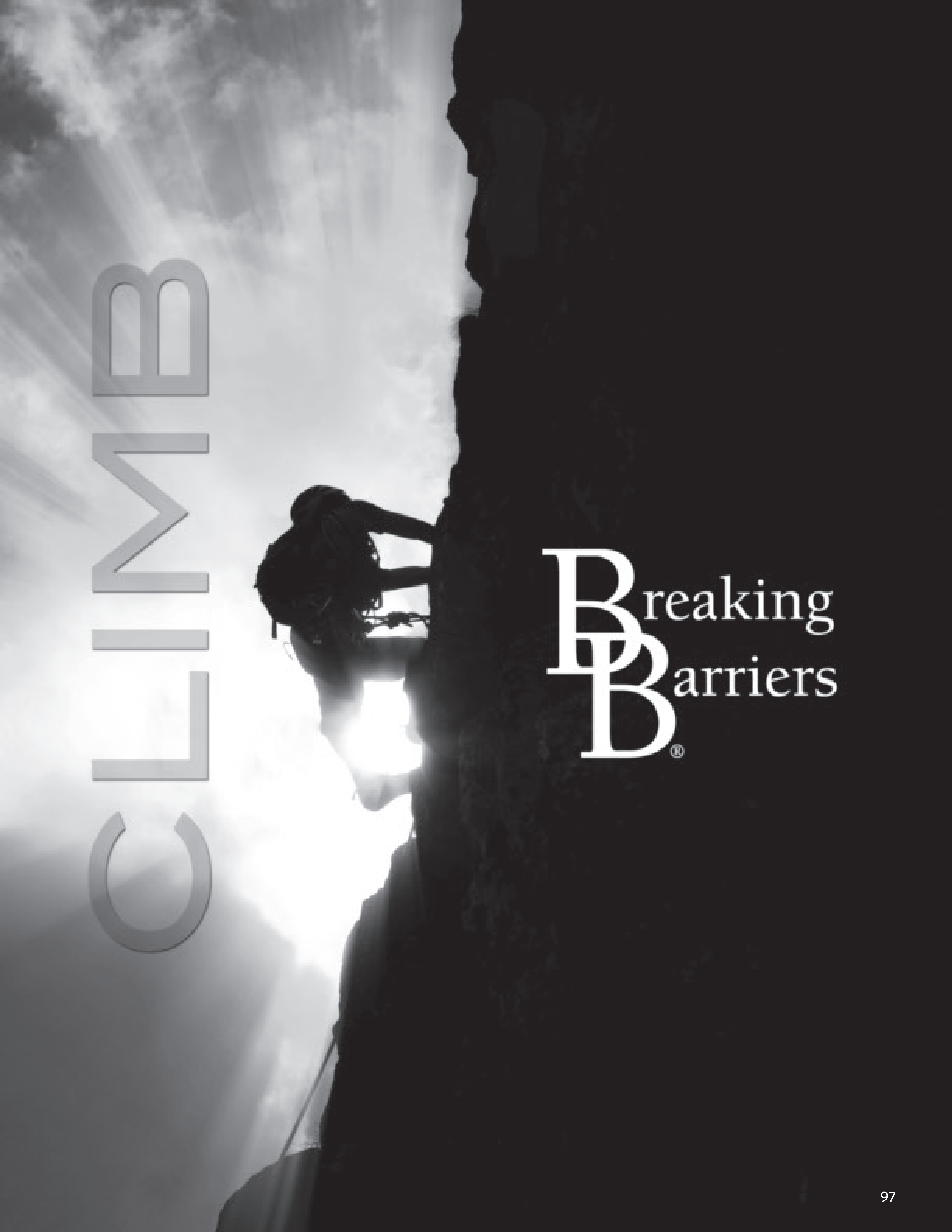
In conducting Brown & Brown's evaluation of the effectiveness of its internal control over financial reporting, Brown & Brown has excluded the following acquisitions completed by Brown & Brown during 2013: Beecher Carlson Holdings, Inc. and ICA, Inc. (collectively the "2013 Excluded Acquisitions"), which were acquired during 2013 and whose financial statements constitute 2.6% and 10.8% of net and total assets, respectively, 3.4% of revenues, and 2.2% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Refer to Note 2 to the Consolidated Financial Statements for further discussion of these acquisitions and their impact on Brown & Brown's Consolidated Financial Statements.

Based on Brown & Brown's evaluation under the framework in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that internal control over financial reporting was effective as of December 31, 2013. Management's internal control over financial reporting as of December 31, 2013 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Brown & Brown, Inc.
Daytona Beach, Florida
February 28, 2014

J. Powell Brown
Chief Executive Officer

Cory T. Walker
Chief Financial Officer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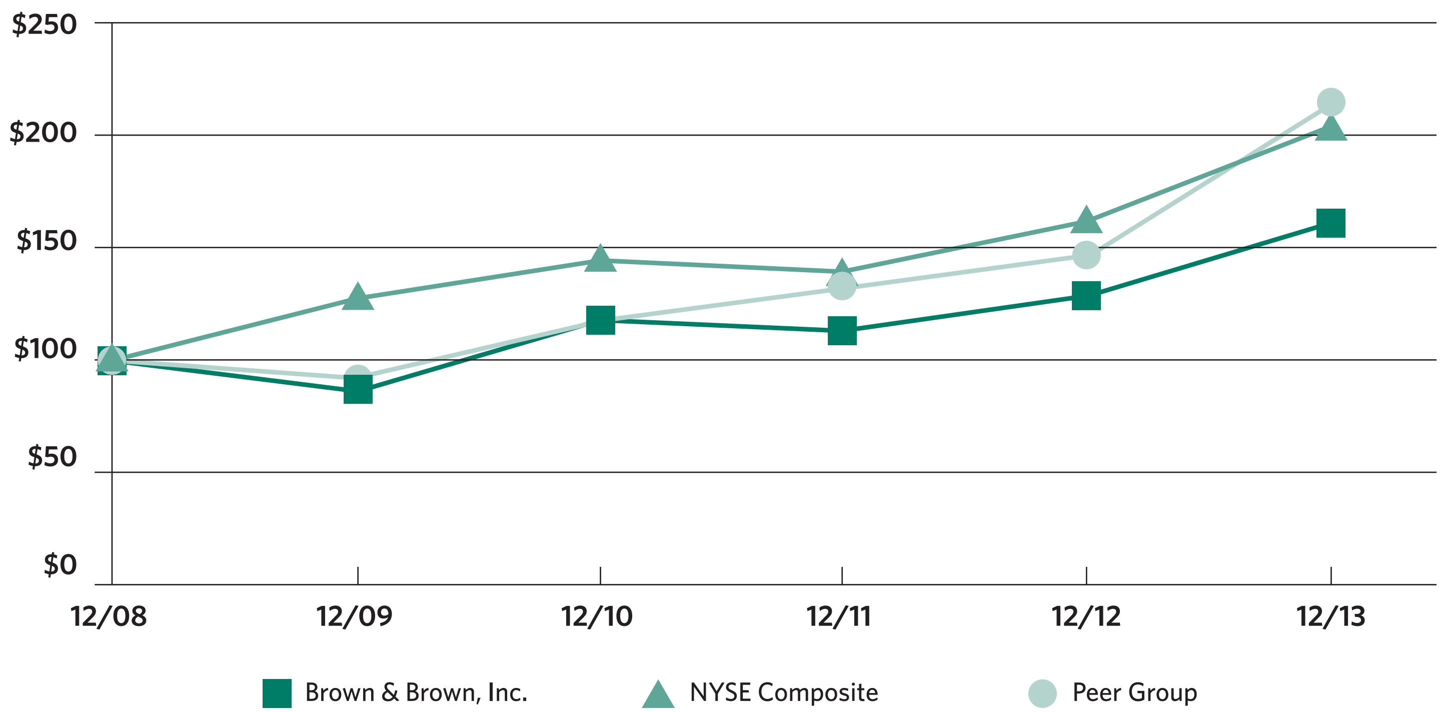
Performance Graph

The following graph is a comparison of five-year cumulative total stockholder returns for our common stock as compared with the cumulative total stockholder return for the NYSE Composite Index, and a group of peer insurance broker and agency companies (Aon plc, Arthur J. Gallagher & Co, Marsh & McLennan Companies, and Willis Group Holdings plc). The returns of each company have been weighted according to such companies' respective stock market capitalizations as of December 31, 2008 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed $100 investment on December 31, 2008, with all dividends reinvested.

Comparison of 5 Year Cumulative Total Return

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



	Year Ending					
Company/Index/Market	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Brown & Brown, Inc.	$ 100.00	$ 87.36	$ 118.22	$ 113.39	$ 129.32	$ 161.37
NYSE Composite Index	$ 100.00	$ 128.28	$ 145.46	$ 139.87	$ 162.23	$ 204.87
Peer Group	$ 100.00	$ 92.45	$ 117.98	$ 132.65	$ 147.18	$ 214.75

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

Ten-Year Financial Summary

(in thousands, except per share data, percentages and other information)	**2013**	2012	2011
REVENUES			
Commissions and fees	**$ 1,355,503**	$ 1,189,081	$ 1,005,962
Investment income	**638**	797	1,267
Other income, net	**7,138**	10,154	6,313
Total revenues	**1,363,279**	1,200,032	1,013,542
EXPENSES			
Employee compensation and benefits	**683,000**	608,506	508,675
Non-cash stock-based compensation	**22,603**	15,865	11,194
Other operating expenses	**195,677**	174,389	144,079
Amortization	**67,932**	63,573	54,755
Depreciation	**17,485**	15,373	12,392
Interest	**16,440**	16,097	14,132
Change in estimated acquisition earn-out payables	**2,533**	1,418	(2,206)
Total expenses	**1,005,670**	895,221	743,021
Income before income taxes	**357,609**	304,811	270,521
Income taxes	**140,497**	120,766	106,526
Net Income	**$ 217,112**	$ 184,045	$ 163,995
Employee compensation and benefits as % of total revenue	**50.1%**	50.7%	50.2%
Other operating expenses as % of total revenue	**14.4%**	14.5%	14.2%
EARNINGS PER SHARE INFORMATION			
Net income per share – diluted	**$ 1.48**	$ 1.26	$ 1.13
Weighted average number of shares outstanding – diluted	**142,624**	142,010	140,264
Dividends paid per share	**$ 0.3700**	$ 0.3450	$ 0.3250
YEAR-END FINANCIAL POSITION			
Total assets	**$ 3,649,508**	$ 3,128,058	$ 2,607,011
Long-term debt	**$ 380,000**	$ 450,000	$ 250,033
Total shareholders' equity	**$ 2,007,141**	$ 1,807,333	$ 1,643,963
Total shares outstanding	**145,419**	143,878	143,352
OTHER INFORMATION			
Number of full-time equivalent employees at year-end	**6,992**	6,438	5,557
Total revenues per average number of employees (2)	**$ 203,020**	$ 191,729 (3)	$ 186,949
Stock price at year-end	**$ 31.39**	$ 25.46	$ 22.63
Stock price earnings multiple at year-end (4)	**21.2**	20.2	20.0
Return on beginning shareholders' equity (5)	**12%**	11%	11%

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

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

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

Year Ended December 31

2010	2009	2008	2007	2006	2005	2004
$ 966,917	$ 964,863	$ 965,983	$ 914,650	$ 864,663	$ 775,543	$ 638,267
1,326	1,161	6,079	30,494(1)	11,479	6,578	2,715
5,249	1,853	5,492	14,523	1,862	3,686	5,952
973,492	967,877	977,554	959,667	878,004	785,807	646,934
487,820	484,680	485,783	444,101	404,891	374,943	314,221
6,845	7,358	7,314	5,667	5,416	3,337	2,625
135,851	143,389	137,352	131,371	126,492	105,622	84,927
51,442	49,857	46,631	40,436	36,498	33,245	22,146
12,639	13,240	13,286	12,763	11,309	10,061	8,910
14,471	14,599	14,690	13,802	13,357	14,469	7,156
(1,674)	—	—	—	—	—	—
707,394	713,123	705,056	648,140	597,963	541,677	439,985
266,098	254,754	272,498	311,527	280,041	244,130	206,949
104,346	101,460	106,374	120,568	107,691	93,579	78,106
$ 161,752	$ 153,294	$ 166,124	$ 190,959	$ 172,350	$ 150,551	$ 128,843
50.1%	50.1%	49.7%	46.3%	46.1%	47.7%	48.6%
14.0%	14.8%	14.1%	13.7%	14.4%	13.4%	13.1%
$ 1.12	$ 1.08	$ 1.17	$ 1.35	$ 1.22	$ 1.08	$ 0.93
139,318	137,507	136,884	136,357	135,886	135,033	133,994
$ 0.3125	$ 0.3025	$ 0.2850	$ 0.2500	$ 0.2100	$ 0.1700	$ 0.1450
$ 2,400,814	$ 2,224,226	$ 2,119,580	$ 1,960,659	$ 1,807,952	$ 1,608,660	$ 1,249,517
$ 250,067	$ 250,209	$ 253,616	$ 227,707	$ 226,252	$ 214,179	$ 227,063
$ 1,506,344	$ 1,369,874	$ 1,241,741	$ 1,097,458	$ 929,345	$ 764,344	$ 624,325
142,795	142,076	141,544	140,673	140,016	139,383	138,318
5,286	5,206	5,398	5,047	4,733	4,540	3,960
$ 185,568	$ 182,549	$ 187,181	$ 196,251	$ 189,368	$ 184,896	$ 173,046
$ 23.94	$ 17.97	$ 20.90	$ 23.50	$ 28.21	$ 30.54	$ 21.78
21.4	16.6	17.9	17.4	23.1	28.3	23.4
12%	12%	15%	21%	23%	24%	26%

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

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

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

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

BROWN & BROWN, INC.

Shareholder Information

Corporate Offices

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

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

Outside Counsel

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

Corporate Information and Shareholder Services

The Company has included, as Exhibits 31.1 and 31.2, and 32.1 and 32.2 to its Annual Report on Form 10-K for the fiscal year 2013 filed with the Securities and Exchange Commission, certificates of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the Company's public disclosure. The Company has also submitted to the New York Stock Exchange a certificate from its Chief Executive Officer certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

A copy of the Company's 2013 Annual Report on Form 10-K will be furnished without charge to any shareholder who directs a request in writing to:

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

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

Annual Meeting

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

May 7, 2014
9:00 a.m. (EDT)
The Shores Resort
2637 South Atlantic Avenue
Daytona Beach, Florida 32118

Transfer Agent and Registrar

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

Independent Registered Public Accounting Firm

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

Stock Listing

The New York Stock Exchange Symbol: BRO

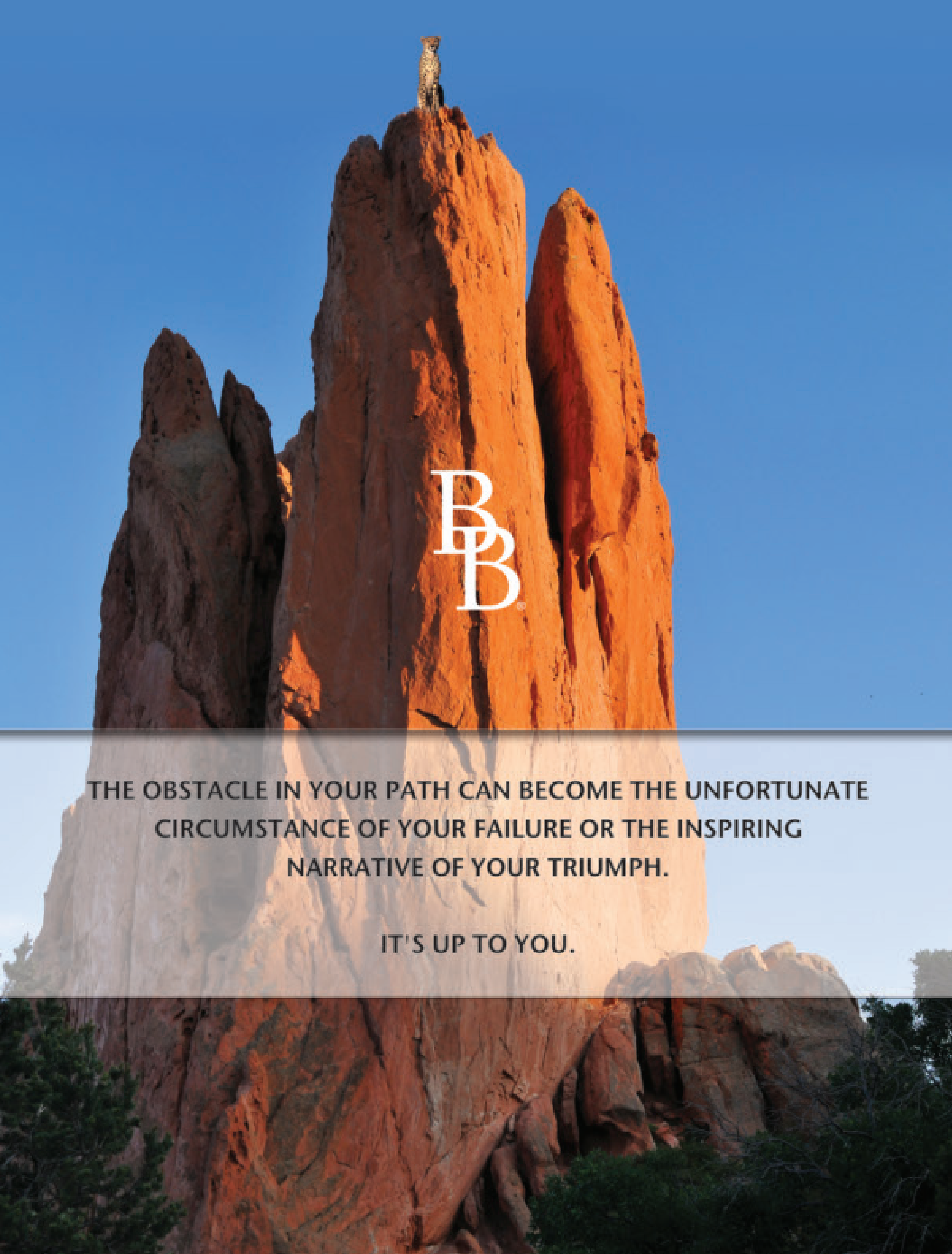
Approximate number of shareholders of record as of February 19, 2014, was 1,204. Closing price per share on that date was $29.78.

Market Price of Common Stock

	Stock Price Range		Cash Dividends per Common Share
	High	Low	
2013			
1st Quarter	$ 32.08	$ 25.31	$ 0.09
2nd Quarter	$ 33.24	$ 30.00	$ 0.09
3rd Quarter	$ 35.13	$ 30.55	$ 0.09
4th Quarter	$ 33.69	$ 27.76	$ 0.10
2012			
1st Quarter	$ 25.00	$ 21.85	$ 0.085
2nd Quarter	$ 27.32	$ 23.42	$ 0.085
3rd Quarter	$ 28.17	$ 24.71	$ 0.085
4th Quarter	$ 27.31	$ 24.88	$ 0.09

Additional Information

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


THE OBSTACLE IN YOUR PATH CAN BECOME THE UNFORTUNATE CIRCUMSTANCE OF YOUR FAILURE OR THE INSPIRING NARRATIVE OF YOUR TRIUMPH.
IT'S UP TO YOU.