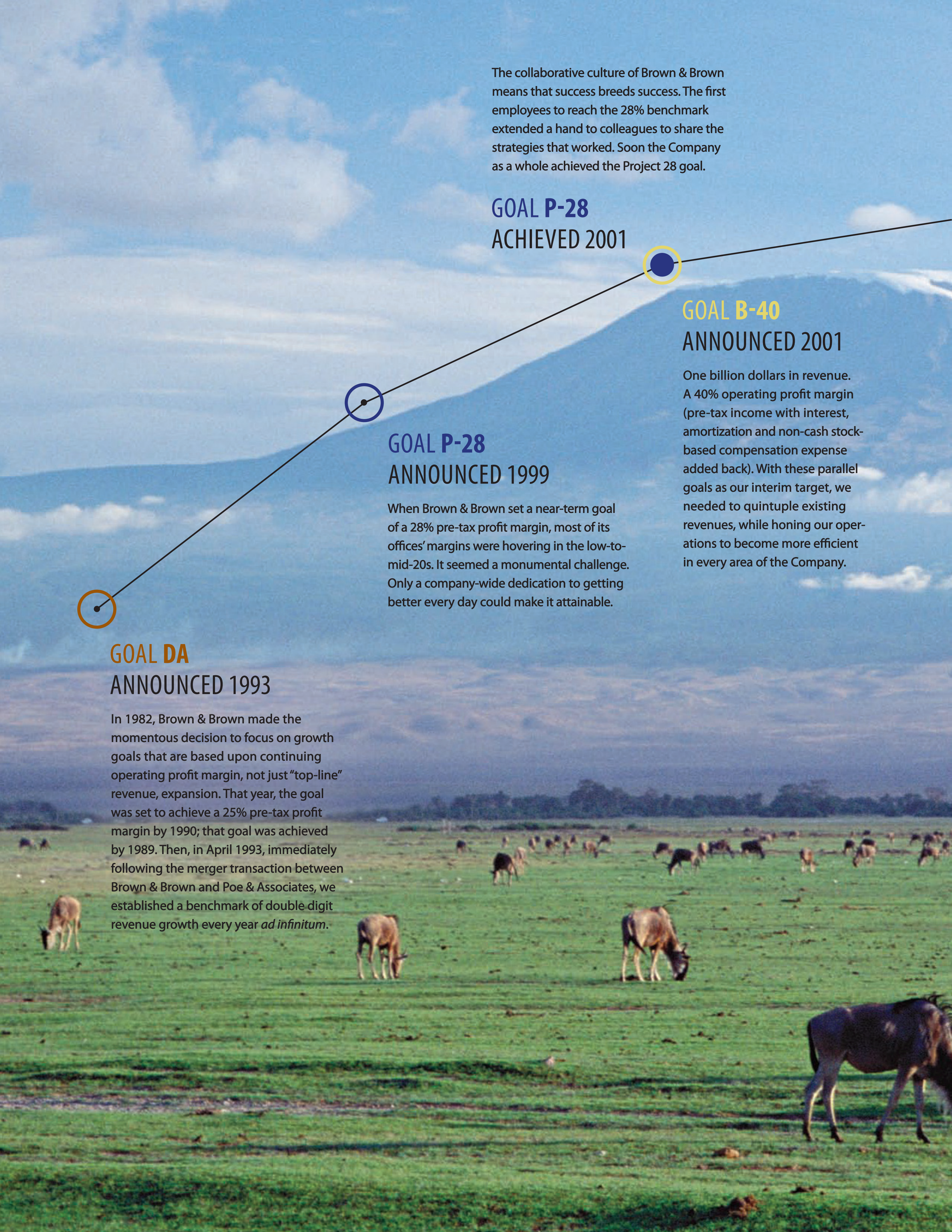
NEXT

BROWN & BROWN, INC. 2007 ANNUAL REPORT



GOAL **DA**
ANNOUNCED 1993

In 1982, Brown & Brown made the momentous decision to focus on growth goals that are based upon continuing operating profit margin, not just "top-line" revenue, expansion. That year, the goal was set to achieve a 25% pre-tax profit margin by 1990; that goal was achieved by 1989. Then, in April 1993, immediately following the merger transaction between Brown & Brown and Poe & Associates, we established a benchmark of double digit revenue growth every year *ad infinitum*.

GOAL **P-28**
ANNOUNCED 1999

When Brown & Brown set a near-term goal of a 28% pre-tax profit margin, most of its offices' margins were hovering in the low-to-mid-20s. It seemed a monumental challenge. Only a company-wide dedication to getting better every day could make it attainable.

GOAL **P-28**
ACHIEVED 2001

The collaborative culture of Brown & Brown means that success breeds success. The first employees to reach the 28% benchmark extended a hand to colleagues to share the strategies that worked. Soon the Company as a whole achieved the Project 28 goal.

GOAL **B-40**
ANNOUNCED 2001

One billion dollars in revenue. A 40% operating profit margin (pre-tax income with interest, amortization and non-cash stock-based compensation expense added back). With these parallel goals as our interim target, we needed to quintuple existing revenues, while honing our operations to become more efficient in every area of the Company.

NEXT

Just as the cheetah focuses on its prey, we are focusing on the next achievement. Agile and lean, Brown & Brown is a sustainable, unstoppable force ready to attack what is NEXT.

DEAR SHAREHOLDERS,

2007 was a very challenging year. The mettle and resilience of the Brown & Brown team was tested and stressed throughout the year as significant, rapid pricing reductions in property and casualty ("P&C") insurance occurred throughout the United States. During our combined 78 years in the insurance business, we have never experienced such a precipitous decline in new and renewal P&C premiums, particularly in the middle market. Excluding Florida and coastal Southeastern states, prices for middle market coverages were regularly 15%–30% below those of expiring policies. The cost of wind-related property coverage in coastal Southeastern areas (excluding Florida) started to drop in January 2007 by 15%–20% and by mid-year, reductions of 25%–55% were the order of the day. The premium reductions by risk-bearers were the direct result of record profits, which translated into burgeoning surpluses and virulent price competition – all enhanced by the fact that we experienced no major hurricanes in 2006 and 2007.

Now to Florida – in June 2007, the Governor and State Legislature made a number of changes relating to Citizens Property Insurance Corporation ("Citizens") (the state-controlled risk-bearer), resulting in pricing reductions for commercial habitational risks (apartments, condos and certain other properties) of approximately 50%. Citizens was of course flooded with accounts, both commercial and residential, as private insurance markets were unable to match these reduced rates. Citizens is a market for Brown & Brown as well as other licensed P&C agents in Florida – so our retail offices cancelled, rewrote and transferred large numbers of accounts to this market. Coverages with Citizens were more restrictive than those available through other markets, but the pricing in most cases was compelling. We are pleased to be able to save our insureds substantial amounts of premium dollars – and the good news (no hurricanes) is that by the end of 2007, some admitted and non-admitted markets were able to reduce prices to be competitive with Citizens and to provide a broader range of coverages. This development allowed some accounts to flow back to private insurers. Florida comprises approximately 38% of Brown & Brown's revenues. The result of the price reductions described above, in Florida and across the United States, was to dampen our top-line growth to 9.3% over 2006.

J. Hyatt Brown, CPCU, CLU
Chairman & Chief Executive Officer (left)

Jim W. Henderson, CPCU
Vice Chairman & Chief Operating Officer (right)

Yet notwithstanding the substantial headwinds of 2007, the Brown & Brown team produced very positive results for the year, as evidenced by the following:

1. Top-line revenues grew from $878 million to $960 million – a 9.3% increase.
2. EBITDA was 40.03% (earnings before interest, taxes, depreciation and amortization plus adding back of non-cash stock -based compensation).
3. Our earnings per share ("EPS") were $1.35 – an increase of 10.7%.
4. We acquired $108 million (annualized) of revenue representing 18 new offices.
5. We increased our annual dividend to shareholders by four cents (from 21 cents to 25 cents), a 19% increase. We have increased dividends every year since 1993.
6. We recruited 129 new people in 2007 to our organization that were not included in individual profit center budgets, but are subsidized corporately. This is the largest recruiting class in our history. Additionally, 101 of our producers and profit center leaders completed the rigorous sales course offered by "Brown & Brown University" – also a record.
7. We made $191 million in after-tax profits, up from $172 million in 2006, the 14th year of increased net income.

As we have continued to grow and expand, the success and reputation of our Company has had the effect of attracting larger numbers of high-quality merger and acquisition ("M&A") candidates. Jim is expanding his duties in 2008 to be responsible for all M&A activities including legal, due diligence, critical analysis and identification of and contacts with qualified candidates. He continues to turn over some direct reports, as he has in the past, in order to concentrate more time in this area. Jim, for years, has been very effective in bringing about several of our larger and more complex acquisitions. As in the past, all our Regional Leaders as well as Profit Center Leaders are continuously in discussions with various parties of interest.

Powell Brown's responsibilities as President continue to expand and now include business units from all operating divisions of the Company. His progression from producer, to manager, to leader over the past 13 years has given him the in-depth experience, perspective and instinct essential to his role. Powell has taken a very personal interest in the recruitment and training of our future leaders. Under his

On March 8, 2008, during Brown & Brown's annual National Sales Leaders' Conference, the meaning of the hieroglyphics on the stone featured on the back cover of the 2006 Annual Report was revealed. The four symbols stand for "Discover – Write – Our Ass Is On The Line – Infinity (Forever)"; effectively the Company's mantra since its inception.

direction, our internal sales training school, "Brown & Brown University," continues to pump out our top new producers and leaders.

Hyatt's plans continue to be the same as reported last year – transitioning out of the CEO role and becoming Non-Executive Chairman (subject to the Board's approval) in July 2009, with continued involvement in two areas of critical importance to the Company: mergers and acquisitions, and recruitment.

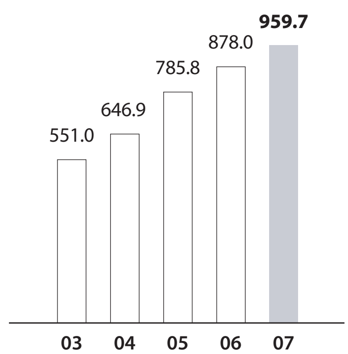
We expect 2008 will bring lots of new challenges, which create opportunities for the nimble! Thank you for your continued support.

J. Hyatt Brown, CPCU, CLU

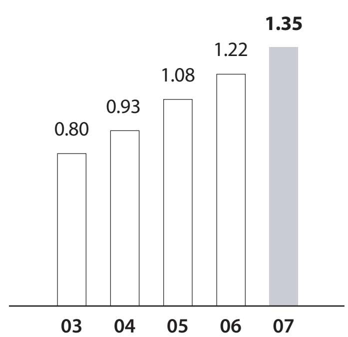
Chairman & Chief Executive Officer

Jim W. Henderson, CPCU

Vice Chairman & Chief Operating Officer



TOTAL REVENUES
in millions of dollars



NET INCOME PER SHARE
in dollars

J. Powell Brown, CPCU
President

MESSAGE FROM THE PRESIDENT

While 2007 did not see a major hurricane hit the U.S. mainland, our business was buffeted by the strong winds of a softening premium rate environment, continued governmental intervention in Florida, and a slowdown in the U.S. economy. However, even in light of these challenges, we endeavored to persevere. Ultimately, our success was driven by all of our talented people. Our team reacted quickly to this changing marketplace to the benefit of our clients.

We ended 2007 with 5,047 full-time equivalent employees. Each one of them drives our results. Our culture is one of performance and persistence; in short, a meritocracy. But the foundation of any winning group is great people. I would like to thank each and every Brown & Brown team member for all their consistent and invaluable contributions. Together we pushed closer to our current intermediate goal of one billion dollars of revenue and a 40% operating profit margin (pre-tax income with interest, amortization and non-cash stock-based compensation expense added back) ("B-40").

Many people have asked or wondered what July 2009 will look like.

As previously announced, our Chairman and Chief Executive Officer, Hyatt Brown, will retire as CEO after 50 years of leading our organization. However, Hyatt's definition of "retirement" and the *Merriam-Webster's Dictionary* version are very different. He will continue to be involved in acquisitions, recruiting people and selling new accounts. Furthermore, he will move his office next to Cory Walker's and from time to time offer his opinion on our numbers.

As Hyatt's role changes, I am honored, subject to final Board of Directors approval, to take on the responsibility of CEO of Brown & Brown in July 2009. I have had the good fortune to work for and with Jim Henderson for the past 13 years. Together with Jim as Vice Chairman and Chief Operating Officer, and the rest of the senior leadership team, we look forward to surpassing our current goal and then achieving our next goal: "2B."

J. Powell Brown, CPCU
President

A SHARED GOAL NETS UNIQUE RESULTS

Linda Downs, Executive Vice President for Leadership Development and Programs, recalls with a chuckle her role in announcing B-40 as the new interim goal for Brown & Brown in May 2001. At the annual sales meeting, she and other company leaders donned fatigues for a comic skit in front of employees. Their "field general" announced that with Project 28 accomplished, the next mission would be to reach $1 billion in sales while also operating at a profit margin of 40%. Faced with such a daunting challenge, Downs and her fellow "officers" promptly pretended to get sick in their helmets.

"But now that we're almost there, we realize we have always been about performing above expectations," Downs says. "The great thing about Brown & Brown is that we drive each other to succeed."

Downs enjoys the perspective of starting with the Company in 1980, when she was one of 35 employees for an agency with $2 million in revenues. She has a vantage point gained from seeing since that time several interim goals set and then achieved, all in the context of a culture of teamwork.

A relative newcomer to Brown & Brown, Bob Messina gained some familiarity with Brown & Brown's goal-oriented culture through his work with the Company while an owner at The Young Agency (now Brown & Brown Empire State℠, a division of Brown & Brown of New York, Inc.) in Syracuse, New York. Still, his first annual sales meeting as a member of the team was an eye-opener. Messina worked 13 years building his agency. When he sold his interest to Brown & Brown, all of his equity was converted to Brown & Brown stock. "That was my future," he says. At the 2001 Brown & Brown annual sales meeting, Messina, now Executive Vice President of Brown & Brown Empire State, got his first peek at B-40 when Downs and the others performed their skit. Messina says he was both amazed at the ambition of the new goal and excited about the possibility. "If you just imagined it could happen, you can see how inspiring that would be as a shareholder," he says. Then Chairman Hyatt Brown took the microphone and he said, "This is what we're going to do. We've set goals before and it's just a matter of time before we reach this one!"

With Project 28 accomplished, the next mission would be to reach $1 billion in revenue and a 40% operating profit margin.

LINDA DOWNS
Executive Vice President,
Leadership Development and Programs

Linda Downs says there is some risk when Brown & Brown sets a huge new interim goal, as it did when it set sights on $1 billion in revenue and a 40% operating profit margin (pre-tax income with interest, amortization and non-cash stock-based compensation expense added back). The Executive Vice President for Leadership Development and Programs has seen goals set and achieved during her 28 years with Brown & Brown and knows well about the reward too. "These high goals attract creative people. We drive each other to succeed. And we find out that if one can do it, we all can do it," she says.

BOB MESSINA
Brown & Brown Empire State
Executive Vice President
Syracuse, New York

It's all about believing in a goal, with failure not being an option. That, says Bob Messina, was the first step on the journey to B-40. Messina, Executive Vice President with Brown & Brown Empire State in Syracuse, New York, says it's important to focus on profitability while delivering top service to customers at the same time. These are some of Brown & Brown's core values that work every day and for the long haul.

"We have 171 offices that each marches to its own drummer, but are joined by one culture and that's very powerful," he says.

In Brown & Brown's culture, profitability works in tandem with working for the best interests of our customers. Our customers know we are dedicated to the long-term.

RICH FREEBOURN
Vice President, Mergers & Acquisitions

Rich Freebourn, Vice President, Mergers & Acquisitions, serves as something of a welcome wagon for Brown & Brown. He often arrives in the offices of an insurance agency that is in the final stages of being acquired by Brown & Brown. "The secret to doing a good job in the due diligence environment is to gain trust in just a few days," Freebourn says. "I kind of welcome the new employees into Brown & Brown, so I become a trusted inside advisor and introduce them to the culture. That can't be done without first gaining their trust."

BUILDING RELATIONSHIPS THROUGH INTEGRITY

It is a business cliché that the most important asset of an organization is its people. While that's certainly true at Brown & Brown, we wouldn't get very far if we didn't recruit and train people who have an innate understanding of how important our relationships are – relationships with our customers, our shareholders, our carriers, the financial community and their fellow employees. In 1988, Brown & Brown's leadership council honed this philosophy into a culture statement. A framed copy of it hangs in every Brown & Brown office throughout the country. "Brown & Brown is a lean, decentralized, highly competitive, profit-oriented sales and service organization comprised of people of the highest integrity and quality, bound together by clearly defined goals and prideful relationships."

Rich Freebourn, Vice President, Mergers & Acquisitions, says after more than two decades with the company the importance of fostering prideful relationships is second nature to him. "Relationships built on integrity provide the fire for everything we do in our business," Freebourn says. "From our customers, to our employees, to our intermediaries, people want to do business with the people they trust."

In Brown & Brown's culture, profitability works in tandem with working for the best interests of our customers. Our customers know we are dedicated to the long-term. Everyone knows "get rich quick" schemes don't work. We must also approach our customers' challenges with solutions that will work today, tomorrow and next year.

Doing our best for our customers demands recruiting the best talent we can find to deliver superior service. When a new talent is brought into the fold at Brown & Brown, mentors help the incoming employee discover what success looks like. New employees are likely to be taught a simple-sounding formula – if they are honest, likeable and know the product, then competitiveness will take over from there.

The decentralized business model at Brown & Brown allows our talented people to make their competitiveness work for our clients, by putting agents at the local level at their service. It is the lift each of these relationships provides that propels Brown & Brown to its collective goals. We know our clients have aspirations too. We are committed to helping them reach those goals.

WE WORK HARDER, SMARTER, THEN MEASURE OUR SUCCESS

Goal-setting is a technique used by the best athletes, the most successful business people and achievers of all types. With clear goals, one can do things never thought possible. Years ago, it was considered impossible for anyone to run a mile in under four minutes. But as a young man from England got close to the four-minute barrier in the 1950s, he decided with measured, deliberate training he could do it. Roger Bannister charted a careful course, even enlisting two friends to set the early pace for him on the day he broke the record.

Setting a goal that seems just beyond reach. Creating a measurable plan to achieve it. Enlisting trusted associates to push you to perform even better than you thought possible.

These are familiar themes at Brown & Brown, where we draw inspiration from the cheetah – the fastest animal on solid ground.

In 1982, Brown & Brown established its first corporate goal – to increase revenues by 15% every year. Modest though that goal may seem now, it set the Company on a course to double its revenues every five years. Once attained, we knew we could repeat the feat and named our goal Double Again (DA) – the result we would get by increasing revenues 15% over five years.

While growing the top line was satisfying in itself, Brown & Brown understood that it was in business to make a profit. And at a time when it was considered a job well-done for an insurance agency to operate at a profit margin approaching 20%, Brown & Brown determined that if its team could just operate a bit more efficiently with each day, increase its quickness over the competition to start each morning, the Company could reach the then-unheard-of level of 28% pre-tax profit margin. We were determined this milestone would be reached while revenues continued to grow. Through teamwork and knowledge sharing, our employees who neared or reached the goals of Project 28 helped teach their colleagues how it could be done. And on the eve of achieving Project 28, we set a new interim goal that some thought impossible – B-40: $1 billion in revenue with an operating profit margin of 40% (pre-tax income with interest, amortization and non-cash stock-based compensation expense added back). We are now on the cusp of reaching this remarkable achievement. Stay tuned for the announcement of our new goal. After all, B-40 is just another step on the journey.

KAREN WAGNER

Brown & Brown Insurance of Arizona, Inc.
Vice President, Commercial and Professional Lines Leader
Phoenix, Arizona

Karen Wagner (left), Commercial and Professional Lines Leader for Brown & Brown's Phoenix, Arizona, profit center, says it's the culture of constant improvement and individual challenge that gives her confidence each new interim goal will be achieved. "Each person in each department is responsible for both the top and bottom line," she says. Wagner always asks herself certain key questions: "How can we improve the workflow? How can we improve efficiency?" She also has answers, such as increasing automation and training a new crop of tech-savvy people. "They are the next generation, and they will be great producers for us," she says.

In 1982, Brown & Brown established its first corporate goal – to increase revenues by 15% every year.

LAVERNE WICKS

Brown & Brown of Florida, Inc.
Profit Center Leader and Executive Vice President
Ft. Myers, Florida

LaVerne Wicks (right) has enough hardware hanging on his office wall to show he knows a thing or two about Brown & Brown culture. Wicks, Profit Center Leader in Fort Myers, Florida, is a lifetime member of Brown & Brown's Tangle B Club, a recognition reserved for the Company's best of the best. "It's about consistency, always getting up every day, like the cheetah, you have to get up and get your meal. Or in our case, you have to go find business to continue to grow."

We want the kind of person who has the self-discipline to try to make today better than yesterday and this year better than last year.

ERIC ANDERSON

Brown & Brown of Indiana, Inc.
Profit Center Leader and Executive Vice President
Indianapolis, Indiana

Since his first day with the Company in 2003, Eric Anderson knew his job was to help Brown & Brown reach its interim goal of $1 billion in revenue and a 40% operating profit margin. The Profit Center Leader of Brown & Brown's Indianapolis, Indiana, office says that coming into a company with so many high achievers striving to such a lofty goal was a little intimidating at first. Now, he has no doubt about achieving whatever's next. "It could be $2 billion or $5 billion," Eric says. "It's all believable to me."

READY FOR WHAT IS NEXT

Brown & Brown's path to growth is paved, in part, through acquiring agencies across the country that show potential to become a vital part of our future. The qualities we look for include profitability and lines of business that will complement and strengthen our portfolio of products and services.

Even more important is the potential of the people who will contribute to the growth of our team and become our representatives in their communities. It is through our decentralized organization that we are able to stay agile at the local level to best serve our clients, while offering the considerable resources of the sixth-largest insurance intermediary in the nation and the world.

Eric Anderson, Profit Center Leader and Executive Vice President of Brown & Brown of Indiana, Inc., in Indianapolis, joined our team five years ago when we acquired the Anderson Group – insurance is in his blood.

"Almost every meal I've had in my life is from the insurance business, and I've never been so excited," Anderson says. "We heard during the acquisition that 'you don't want to do business with Brown & Brown because they eat their young.' But the truth is, they grow their young."

Newcomers to Brown & Brown soon learn that the opportunity for increased income and personal growth is sitting right in front of them. If they can supply the tenacity, determination and discipline, their colleagues will supply experience and strategic direction.

"The Company's leaders aren't asking us to do something that they haven't done or won't do," Anderson says. "What you find is we have great leaders who will pull you up, they don't push you."

Brown & Brown has long used a recruiting strategy of identifying top talent, based more on the glint in their eye and confidence in their stride than the pedigree of their sheepskin. We want the kind of person who has the self-discipline to try to make today better than yesterday and this year better than last year.

Anderson says people in his office pore over monthly reports, comparing themselves against their own past performance and the performance of other Brown & Brown profit centers.

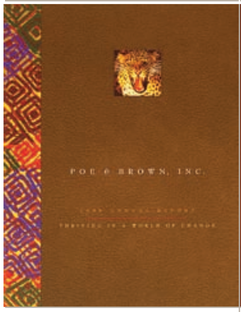
After reviewing the monthly reports, Brown & Brown offices across the country compare their results with each other, and the phones ring off the hook at the best-performing locations, which are mined for tips for improvement.

The results ripple throughout the 171 Brown & Brown offices.

"It gives us an urgency to do better every day," Anderson says.

THE BROWN & BROWN, INC. ANNUAL REPORT 1996 – 2006

1996



Theme:
THRIVING IN A WORLD OF CHANGE

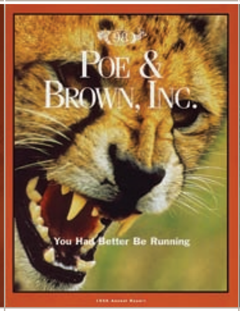
A cheetah peered from the cover of the annual report for the first time. The adoption of the speedy mascot was inspired by an African parable that says the survival of the cheetah and the gazelle means each must wake up running every morning.

1997

Theme:
EXCELLING IN A WORLD OF CHANGE

A stylized version of the cheetah makes its appearance with a slogan even more confident about change than the year before. Change would soon come.

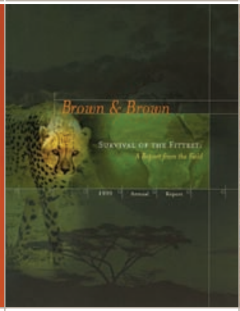
1998



Theme:
YOU HAD BETTER BE RUNNING

The Company's return to its historic "Brown & Brown" name is announced with a close-up photograph of an in-your-face cheetah. The fang-bearing image emphasizes the Company's renewed commitment to run a bit faster every day in the face of a softening market.

1999



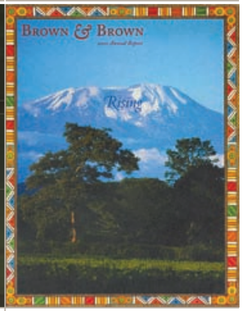
Theme:
SURVIVAL OF THE FITTEST

A very menacing cheetah, presumably displeased at a tough economic environment for the insurance industry, stalks this cover to underscore the "Survival of the Fittest" theme.

Back Cover Theme:
FOR OUR COMPETITION, THE SCENERY NEVER CHANGES

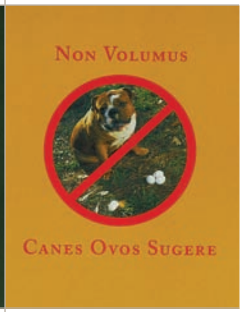
For the first time the back cover is used to deliver a message to competitors. Some of those competitors didn't like the backside view. Too bad.

2000



Theme:
RISING

Mount Kilimanjaro rises from the plains in Tanzania, symbolizing the rising fortunes of Brown & Brown. The iconic cheetah takes a rare sabbatical.



Back Cover Theme:
NON VOLUMUS CANES OVOS SUGERE

Analysts asked for the English translation, which is: "No Egg-Sucking Dogs." Not everyone understood the old Southern expression. "Egg-Sucking Dog" is not a compliment.

> “This report is about the heart and soul of this organization, not just a recitation of what happened and some tangible buildings. It’s about people. We are 97% people and 3% capital.”
>
> J. Hyatt Brown

2001

Theme:
BROWN & BROWN IS A LEAN, DECENTRALIZED ORGANIZATION

Wrapped in Old Glory, the cheetah returns, along with the Company’s carefully crafted 32-word culture statement. Each Profit Center displays a framed copy of the statement.

Back Cover Theme:
NOSTRUM POSTERIOUS EST ONUM LINICUS

A glyph looks like the letter “w” sitting on a short horizontal line. “Nostrum posterious est onum linicus,” says the caption. Translation: “Our ass is on the line.”

2002

Theme:
BUILT TO LAST

This cover imagery asserts that the Company is as permanent as a pyramid and solid as a dollar, in case there were any doubters out there.

Back Cover Theme:
BROWN & BROWN, AN AMERICAN MERITOCRACY

The American Meritocracy shield makes its back cover debut, announcing that Brown & Brown is a place where people rise and fall on their own merits.

2003

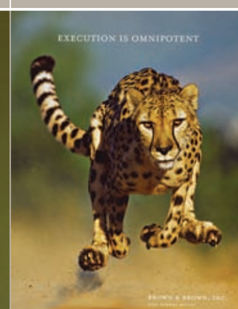
Theme:
ASSIDUOUS ATTENTION TO DETAIL

This intense-looking cheetah has his prey in sight below illustrating the Company’s redoubling of commitment to profitability in the face of a softening market.

Back Cover Theme:
BROWN & BROWN IS A LEAN, DECENTRALIZED ORGANIZATION

The stylized cheetah makes its first nose-to-tail cover appearance. Inset type across its flank reveals a new interim goal for Brown & Brown: “B-40 and Beyond.”

2004



Theme:
EXECUTION IS OMNIPOTENT

This focused cheetah appears ready to leap off the cover. Howard Buffet, benefactor to a cheetah preserve and son of investor Warren Buffet, shot the remarkable photograph.

Back Cover Theme:
BROWN & BROWN, AN AMERICAN MERITOCRACY®

A statement from the chairman makes clear that his company’s model is not for the uncommitted or undisciplined. The cheetah and American Meritocracy shield are combined.

2005

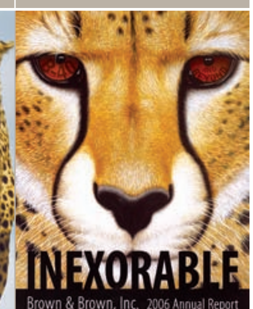
Theme:
ETERNAL VIGILANCE IS SURVIVAL

These two attentive cheetahs, photographed in Tanzania, are on the hunt. For them vigilance means survival. Eternal vigilance is also the key to Brown & Brown’s survival.

Back Cover Theme:
THE PLAINS OF HESITATION

This sobering quote from George W. Cecil, under the pseudonym of William A. Lawrence, serves as a reminder that seizing opportunity and avoiding mistakes requires daily diligence.

2006



Theme:
INEXORABLE

This close-up of a cheetah is more than first meets the eye. Close inspection reveals a “B-40” in the left eye, “And Beyond” in the right one.

Back Cover Theme:
HIEROGLYPHICS

This rock, unveiled in 2007 was deciphered this year. The four symbols stand for “Discover – Write – Our Ass Is On The Line – Infinity.” The Company’s unfailing mantra.

HIGHLIGHTS

Key acquisitions during 2007 included:

- **ALCOS, Inc.**
  Sterling Heights, MI
- **BLT, Inc. dba Springdale Insurance**
  Springdale, AR
- **Curzi Insurance Agency**
  Bethlehem, PA
- **Dalton Insurance Agency, LLC**
  Glassboro, NJ
- **Grinspec, Inc.**
  New Providence, NJ
- **Independent Insurance Associates, Inc.**
  New Orleans, LA
- **Island Risk Management Associates, Inc.**
  Huntington Station, NY
- **JP Morgan Insurance Agency, Inc.**
  Newark, DE
- **Lloyd Bennett & Company, Inc.**
  Duluth, GA
- **Marcello Agency, Inc.**
  Lockport, LA
- **Muirfield Insurance, Inc.**
  Lexington, KY
- **Professional Risk Managers**
  White Plains, NY
- **Security Insurance, Inc. II**
  Nashville, TN
- **Shapiro Insurance, Inc.**
  Tallahassee, FL
- **Sobel Affiliates, Inc.**
  Garden City, NY
- **Tavor Corp.**
  Denville, NJ
- **Turner & Associates Insurance**
  Tecumseh, OK
- **United Employers Insurance Agency**
  Houston, TX
- **Weilage Benefit Specialists**
  Louisville, KY
- **Williams & Graves, Inc.**
  Rome, NY
- **Wittner National Group**
  St. Petersburg, FL

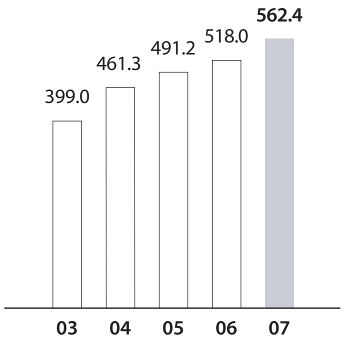
THE RETAIL DIVISION'S total revenue growth rate was **8.6%** in 2007.

The Retail Division operates through 101 profit centers in 29 states, employing over 650 licensed insurance agents, supported by experienced and knowledgeable customer service personnel. This Division offers a broad range of insurance products and services to commercial, public entity, professional, association and individual customers. A major bright spot in the year was our success in attracting a large number of superior agencies, as well as established, professional individual agents, to join our Company.

2007 was a tough year throughout the insurance market place. Not only was business impacted by a slowing economy but of greater effect was a large drop in insurance rates in general. This made it necessary to write considerably more new business in order to offset the reduced revenues which resulted from current business being renewed at much lower premiums than the expiring policies. Two significant factors affecting rates were a considerable softening of rates in coastal areas, including wind coverage, due to back-to-back years with no hurricanes hitting the U.S. mainland; and the fall-off in construction business both residential and commercial, resulting from the bottoming out of the housing market due in part to the troubles in the sub-prime lending market.

Despite the deterioration of market conditions throughout the year, our Retail Division continued to perform at a superior level – a fact evidenced by the Division's 9.3% increase in income before income taxes. Much of this success was, as always, attributable to our ability to maintain strong relationships with our many markets – both regional and national – and to provide our clients with high quality service. In Florida, this often meant cancelling and rewriting policies to place customers in the state-run Citizens Property Insurance Corporation ("Citizens") in order for them to take advantage of the lower rates offered by that carrier. The result is that we experienced a reasonable increase in net sales.

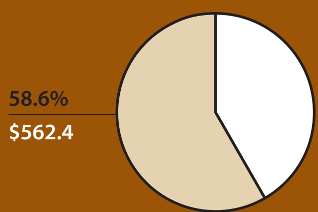
Our success has always been a direct result of our people and in 2007 this continued to be the case. We experienced extremely positive results from graduates of our internal insurance training school, "Brown & Brown University" (B&BU). The ongoing success of B&BU is proven year in and year out as the number of these individuals who achieve the upper levels of sales success – that is, membership in our National Sales Leaders "Tangle B Club" – continues to grow. The recruitment, training and nurturing of good employees, both agents and support personnel, continues to be a critical element in our continued success.



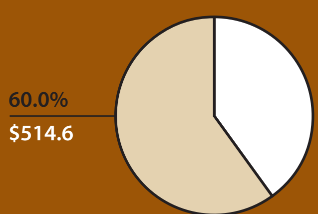
DIVISION TOTAL REVENUES
in millions of dollars

RETAIL OFFICE LOCATIONS

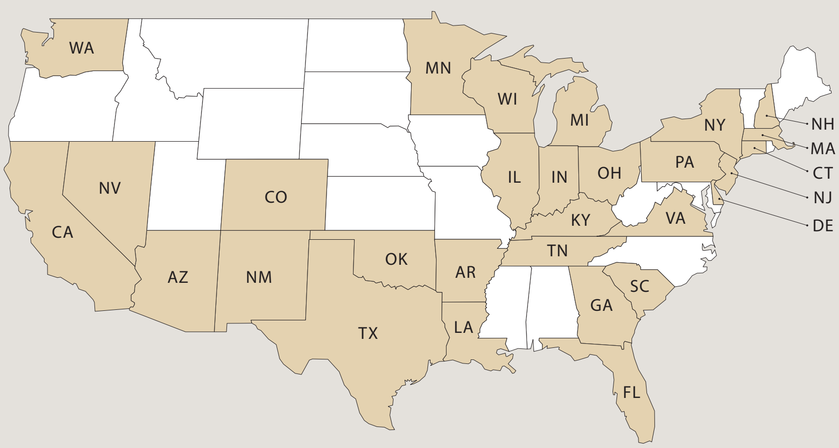
Arizona	Illinois	New Hampshire	Tennessee
Arkansas	Indiana	New Jersey	Texas
California	Kentucky	New Mexico	Virginia
Colorado	Louisiana	New York	Washington
Connecticut	Massachusetts	Ohio	Wisconsin
Delaware	Michigan	Oklahoma	
Florida	Minnesota	Pennsylvania	
Georgia	Nevada	South Carolina	

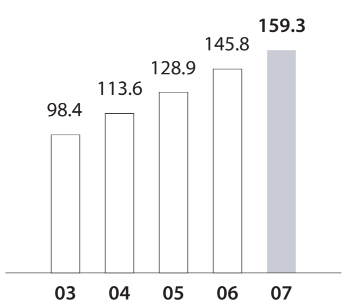


CONTRIBUTION TO TOTAL REVENUE
dollars in millions



CONTRIBUTION TO
CORE COMMISSIONS AND FEES
dollars in millions





DIVISION INCOME
BEFORE INCOME TAXES
in millions of dollars

AS A DIRECT RESULT

of the efforts of our agents and their talented internal support teams, the Retail Division's 2007 income before income taxes

grew by 9.3%.

THE WHOLESALE BROKERAGE DIVISION'S total revenues were $178.9 million in 2007.

The Wholesale Brokerage Division markets and sells excess and surplus commercial and persional insurance and reinsurance, primarily through independent agents and brokers.

During 2007 we were very pleased to experience yet another excellent class of acquisitions, including Evergreen Re, which provides consulting services for over $3 billion in pharmacy spending annually and is the nation's largest health plan reinsurance broker. Evergreen Re provides health plans, physician groups and other managed healthcare organizations vital information as well as unique best-of-class solutions and services. The Combined Group, which operates as managing general agencies that market, underwrite and administer risks for insurance underwriting companies, also joined us in 2007. Their primary focus is in the areas of Texas non-subscriber (Workers Compensation "Opt-Out" insurance) and small account standard lines and excess and surplus property, liability and package lines of business utilizing its proprietary web-based **Quote*Express*** system. The McFall General Agency, which joined Hull & Company, represents our initial entry into the state of Oregon and also gives us a new presence in the State of Washington.

During March, 2008, we announced our initial expansion into the international marketplace with the formation and opening of a London-based Wholesale Brokerage subsidiary, Decus Insurance Brokers, Limited (D.I.B.). The goal of Decus Insurance Brokers is to act as a traditional UK-based insurance intermediary for the distribution of non-investment insurance contracts throughout North America. Its four divisions will be Property Brokerage, Casualty Brokerage, Professional Liability Brokerage and Binding Authority Programs.

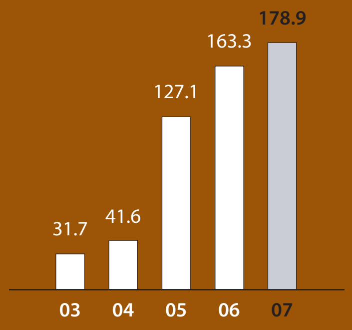
This Division was no different from the Retail Division when it comes to the impact of falling rates and the slowing of the U.S. economy in general. There has been a dramatic market softening in all product areas. As with Retail, the governmental intervention in Florida is also causing significant downward pressure on pricing. The impact is being felt throughout all facets of our business.

The specialized wholesale coverages available through the Division include professional and general liability for the healthcare industry; programs for the construction industry, oilfield and marine contractors, and long-haul truckers; restaurant and liquor liability; coverages for the amateur and professional sports industries and the entertainment field in general; social services providers; and directors' and officers' liability for condominium and residential associations and other entities.

HIGHLIGHTS

Key acquisitions during 2007 included:

- **Bollinger (PRM & MSM)**
  Princeton, NJ
- **The Combined Group, Incorporated**
  Carrollton, TX
- **Evergreen Re, Incorporated**
  Stuart, FL
- **McFall General Agency, Inc.**
  Portland, OR

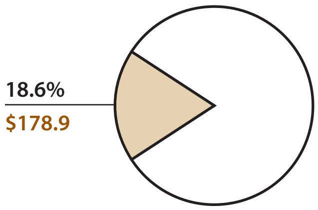


DIVISION TOTAL REVENUES

in millions of dollars

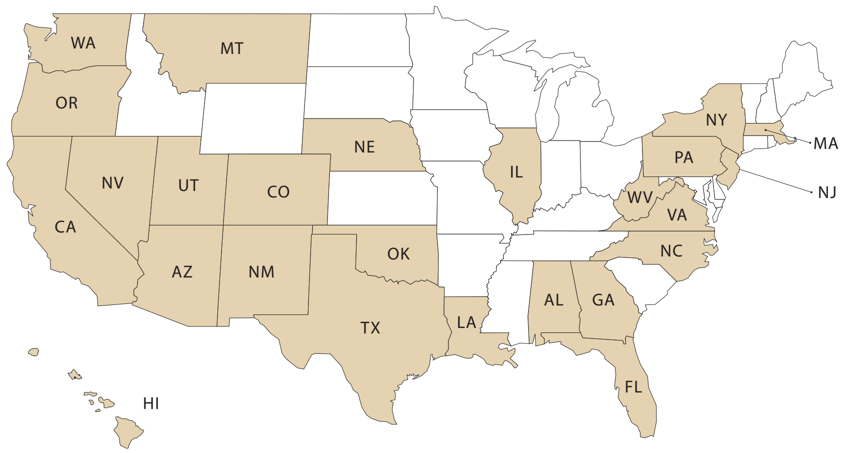
WHOLESALE BROKERAGE DIVISION OFFICE LOCATIONS

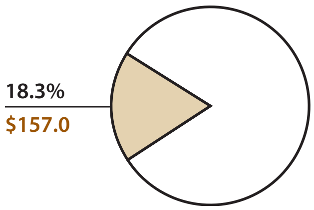
- Alabama
- Arizona
- California
- Colorado
- Florida
- Georgia
- Hawaii
- Illinois
- Louisiana
- Massachusetts
- Montana
- Nebraska
- Nevada
- New Jersey
- New Mexico
- New York
- North Carolina
- Oklahoma
- Oregon
- Pennsylvania
- Texas
- Utah
- Virginia
- Washington
- West Virginia



CONTRIBUTION TO TOTAL REVENUE

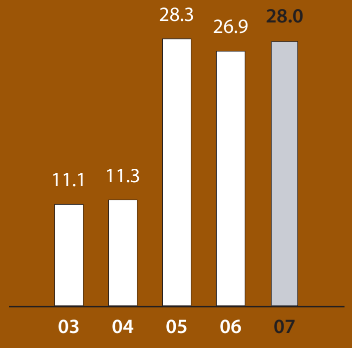
dollars in millions





CONTRIBUTION TO CORE COMMISSIONS AND FEES

dollars in millions



DIVISION INCOME BEFORE INCOME TAXES

in millions of dollars

THE NATIONAL PROGRAMS' total revenues for 2007 were **$157.5 million**.

The National Programs Division manages or administers over 50 different programs, with insurance carrier authority to provide a broad spectrum of insurance products and services to our clients. In most cases our insurance carriers have delegated the underwriting and claim handling to our offices. These programs are delivered through nationwide networks of independent agents and via targeted products and services designated for specific industries, trade groups, professions, public entities and market niches.

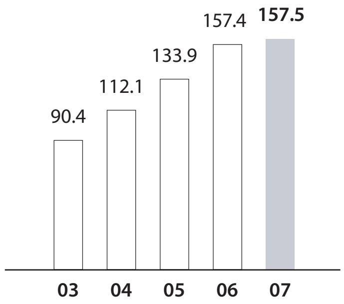
In 2007, our 39-year-old specialized program for dentists, the Professional Protector Plan®, which is endorsed by 20 state dental societies, was once again recognized as the largest writer of dental professional liability insurance in the United States. The program currently insures over 28,000 dentists nationally.

During the year we commenced a new niche program with the start of the Wedding Protector Plan℠. Its success is growing with over 1,200 wedding events covered during the first year. At the same time we started development on several new programs which should add to our success in 2008.

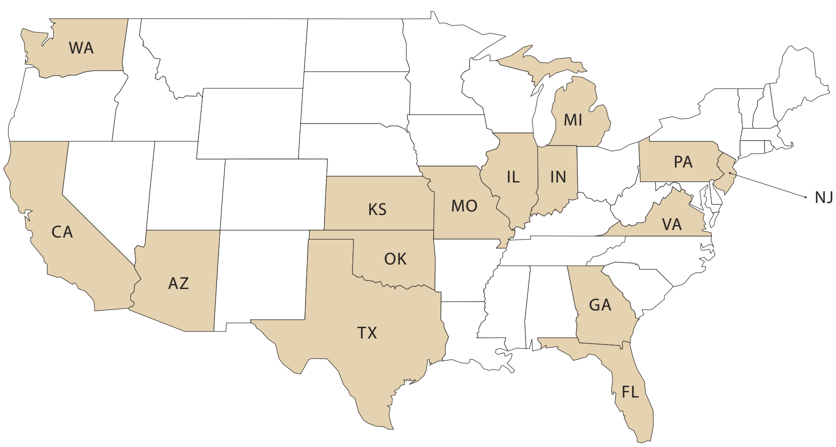
These programs are complemented by other leading programs such as our 34-year-old Lawyer's Protector Plan®, 32-year-old Optometric Protector Plan®, and our 100,000-member-strong Insurance Agent's E&O program. We also offer niche programs for the general aviation industry, and sports and entertainment, which represent just a few of the specialty programs our insurance carriers and clients know we can deliver in a professional manner.

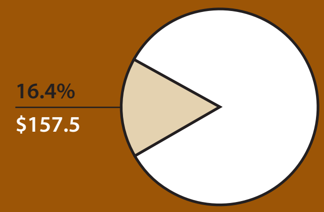
NATIONAL PROGRAMS OFFICE LOCATIONS

Arizona	Illinois	Missouri	Texas
California	Indiana	New Jersey	Virginia
Florida	Kansas	Oklahoma	Washington
Georgia	Michigan	Pennsylvania	

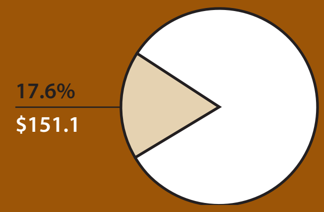


DIVISION TOTAL REVENUES
in millions of dollars

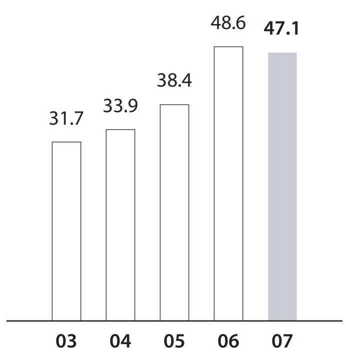




CONTRIBUTION TO TOTAL REVENUE
dollars in millions



CONTRIBUTION TO
CORE COMMISSIONS AND FEES
dollars in millions



DIVISION INCOME
BEFORE INCOME TAXES
in millions of dollars

THE SERVICES DIVISION'S total revenue growth rate for 2007 was 8.5%.

The Services Division is comprised of USIS, Inc., Preferred Governmental Claim Solutions (PGCS), NuQuest/Bridge Pointe and AmeriSys. The Division provides 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. Unlike our other three divisions, the Services Division's revenues are primarily generated from fees, which means the soft market does not impact all of the division's products. During 2008 we are expecting USIS to expand into several other southeastern states.

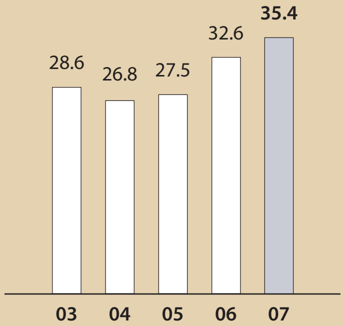
Events affecting the Division's revenues during 2007 included the increased federal enforcement of the Medicare Secondary Payer Statute and the sharp decline in worker's compensation rates in Florida. Additionally, in late 2007 USIS's largest third-party administration client took its benefits administration in-house, which will further challenge the Division in 2008.

NuQuest/Bridge Pointe, provides a full suite of Medicare Secondary Payer compliance-related services. The market exists as a result Medicare's continued enforcement of the Medicare Secondary Payer Statute, which is intended to ensure that Medicare does not make primary payment when another responsible payer exists. NuQuest/Bridge Pointe provides services to over 300 insurance carriers, third party administrators, self insured employers and claimants nationwide. Services include Medicare Set-Aside Services, Medical Cost Projection Services, Medicare Conditional Payment Resolution and Professional Administration of settlement funds. Several new services were added in 2007 to further solidify its reputation as a one-source provider of Medicare Secondary Payer compliance-related services.

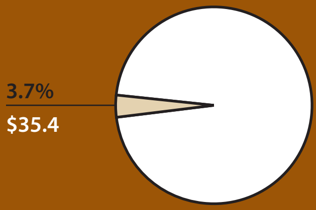
AmeriSys provides certified and non-certified medical management and managed care programs for Workers' Compensation Insurance Plans. Services include Case Management; Utilization Review and Management; client access to custom-developed medical provider networks (PPOs); and Return-to-Work programs and initiatives. As medical costs consume an ever-larger portion of the workers' compensation claim dollar, AmeriSys provides its customers with the systems and programs necessary to contain those costs, while ensuring continued patient satisfaction and prompt return-to-work.

SERVICES OFFICE LOCATIONS

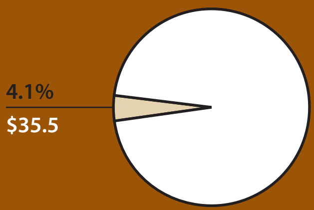
Florida



DIVISION TOTAL REVENUES
in millions of dollars

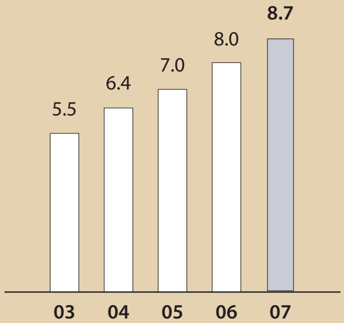


CONTRIBUTION TO TOTAL REVENUE
dollars in millions



CONTRIBUTION TO CORE COMMISSIONS AND FEES
dollars in millions

INCOME
before income taxes of
$8.7 MILLION



DIVISION INCOME BEFORE INCOME TAXES
in millions of dollars

KENNETH D. KIRK
Regional President

Ken is the Regional President responsible for the management and development of a substantial part of Brown & Brown's operations west of the Mississippi.

THOMAS E. RILEY
CPA, CPCU, CMA, CIC
Regional President

Tom is Regional President responsible for certain Company operations in South Florida, New Jersey, Pennsylvania and Virginia. He joined Brown & Brown in 1990 as Chief Financial Officer after 10 years with Ernst & Young.

LINDA S. DOWNS
CPCU, AIA
Executive Vice President, Leadership Development and Programs

Linda is Executive Vice President responsible for the Company's Leadership Development Department, Quality Control Department and Security Committees. She is also responsible for the Program Division operations in Tampa, FL and St. Louis, MO.

C. ROY BRIDGES
CIC
Regional Executive Vice President

Roy is Regional Executive Vice President and responsible for operations on the west coast of Florida and in Arkansas, Louisiana, Oklahoma, Tennessee and Austin, Texas.

CHARLES H. LYDECKER
CPCU, CIC, AIM
Regional Executive Vice President

Charlie is Regional Executive Vice President responsible for certain retail offices in Florida, Georgia, South Carolina, Texas and Virginia.

KENNETH MASTERS
Regional Executive Vice President

Ken was elected Regional Executive Vice President in January 2007. He joined Brown & Brown in 2002 when the current CalSurance subsidiary was acquired. Ken joined CalSurance in 1994 and was named President in 1999. He is responsible for several Program Divisions operations.

MICHAEL PASCHKE
Regional Executive Vice President

Mike was elected a Regional Executive Vice President in July 2007. His responsibilities include mergers and acquisitions and recruiting as well as overseeing offices in Seattle and Tacoma, WA and Tucson, Prescott and Phoenix, AZ.

J. SCOTT PENNY
CIC
Regional Executive Vice President

Scott is a Regional Executive Vice President and responsible for operations in the upper Midwest and portions of the Northeast. He joined Brown & Brown in 1989 as an Account Executive Trainee and has held progressively more responsible positions since that time.

ANTHONY STRIANESE
Regional Executive Vice President

Tony was elected a Regional Executive Vice President in July 2007. He is responsible for Peachtree Risk Brokers and the Company's new London, England operation, as well as overseeing several other Brown & Brown wholesale brokerage operations.

BOARD OF DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

A) WENDELL S. REILLY
Managing Partner,
Grapevine Partners, LLC
Audit Committee; Nominating/Corporate Governance Committee

B) SAMUEL P. BELL, III, ESQ.
Partner in the law firm of
Pennington, Moore, Wilkinson,
Bell & Dunbar, P.A.
Acquisition Committee

C) THEODORE J. HOEPNER
Former Vice Chairman, SunTrust
Bank Holding Company
Acquisition Committee, Chairman; Compensation Committee; Nominating/Corporate Governance Committee

D) TONI JENNINGS
Former Lieutenant Governor,
State of Florida, Former President,
Jack Jennings & Sons
Audit Committee; Compensation Committee

E) HUGH M. BROWN
Founder and former President &
Chief Executive Officer, BAMSI, Inc.
Audit Committee, Chairman; Nominating/Corporate Governance Committe

F) J. POWELL BROWN, CPCU
President, Brown & Brown, Inc.

G) J. HYATT BROWN, CPCU, CLU
Chairman & Chief Executive Officer,
Brown & Brown, Inc.

H) JIM W. HENDERSON, CPCU
Vice Chairman & Chief Operating
Officer, Brown & Brown, Inc.

I) CHILTON D. VARNER
Partner in the law firm of
King & Spalding, LLP
Compensation Committee, Chairman; Nominating/Corporate Governance Committee

J) BRADLEY CURREY, JR.
Former Chairman & Chief Executive
Officer, Rock-Tenn Company
Nominating/Corporate Governance Committee, Chairman; Audit Committee; Acquisition Committee

K) JAN E. SMITH
President, Jan Smith and Company
Compensation Committee; Nominating/Corporate Governance Committee; Acquisition Committee

L) JOHN R. RIEDMAN
Chairman, Riedman Corporation

M) DAVID H. HUGHES
Former Chairman,
Hughes Supply, Inc.
Compensation Committee; Nominating/Corporate Governance Committe

EXECUTIVE OFFICERS

J. HYATT BROWN, CPCU, CLU
Chairman & Chief Executive Officer

JIM W. HENDERSON, CPCU
Vice Chairman &
Chief Operating Officer

J. POWELL BROWN, CPCU
President

KENNETH D. KIRK
Regional President

THOMAS E. RILEY, CPA, CPCU, CMA, CIC
Regional President

LINDA S. DOWNS, CPCU, AIA
Executive Vice President,
Leadership Development

C. ROY BRIDGES, CIC
Regional Executive Vice President

CHARLES H. LYDECKER, CPCU, CIC, AIM
Regional Executive Vice President

KENNETH MASTERS
Regional Executive Vice President

MICHAEL PASCHKE
Regional Executive Vice President

J. SCOTT PENNY, CIC
Regional Executive Vice President

ANTHONY STRIANESE
Regional Executive Vice President

CORY T. WALKER, CPCU, CIC, ARM, CRM
Senior Vice President, Treasurer
& Chief Financial Officer

LAUREL L. GRAMMIG, ESQ., CIC
Vice President, Secretary &
General Counsel

RICHARD FREEBOURN, SR., CPCU, CIC
Vice President, Mergers &
Acquisitions

THOMAS M. DONEGAN, JR., ESQ., CIC
Vice President, Assistant Secretary &
Chief Acquisitions Counsel

ROBERT W. LLOYD, ESQ., CIC
Vice President & Chief
Litigation Officer

The mission of the De Wildt Cheetah and Wildlife Trust is to ensure the long-term survival of predators, specifically the cheetah and wild dog, in their natural environment.

Located in Pretoria, South Africa, the De Wildt Cheetah Centre was established in 1971 with the aim of breeding endangered species. Over the years, over 750 cheetah cubs have been born at De Wildt – a dramatic contrast to the days when the cheetah population of South Africa was estimated at a mere 700.

While the cheetah project was the base from which the Centre launched its conservation efforts, it soon widened to include other rare and endangered animals such as the wild dog, brown hyena, serval, suni antelope, blue and red duiker, bontebok, riverine rabbit and vultures – including the very rare Egyptian vulture. Many of these have been successfully bred for later reintroduction into the wild, thus helping to repopulate areas where such species have disappeared or are no longer abundant.

To achieve its mission, the De Wildt Cheetah and Wildlife Trust has an extensive community outreach and education program and a strategic breeding plan. The Trust conducts research on wildlife disease and nutrition, and in South Africa it has implemented a national plan for the conservation of free-roaming cheetah. Brown & Brown is proud to be a benefactor of the De Wildt Cheetah and Wildlife Centre.

To make a donation, please contact De Wildt at cheetah@dewildt.org.za. Or mail a tax-deductible donation to the Foundation in the USA to:
Carson Springs Wildlife Foundation,
8528 East County Road 225
Gainesville, Florida 32609.

Index to Financials

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. All share and per share information has been restated to give effect to a two-for-one common stock split that became effective November 28, 2005.

We are a diversified insurance agency, wholesale brokerage and services organization headquartered in Daytona Beach and Tampa, Florida. Since 1993, our stated corporate objective has been to increase our net income per share by at least 15% every year. We have increased revenues from $95.6 million in 1993 (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to $959.7 million in 2007, a compound annual growth rate of 17.9%. In the same period, we increased net income from $8.0 million (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to $191.0 million in 2007, a compound annual growth rate of 25.4%. Since 1993, excluding the historical impact of poolings, our pre-tax margins (income before income taxes and minority interest divided by total revenues) improved in all but one year, and in that year, the pre-tax margin was essentially flat. These improvements have resulted primarily from net new business growth (new business production offset by lost business), revenues generated by acquisitions, continued operating efficiencies and for 2007, the sale of our investment in Rock-Tenn Company. Unlike our prior year's results, our revenue growth in 2007 was driven primarily by the acquisition of 41 agency entities and several books of business (customer accounts) generating total annualized revenues of approximately $108.3 million.

Our commissions and fees revenue is comprised of commissions paid by insurance companies and fees paid directly by customers. Commission revenues generally represent a percentage of the premium paid by the insured and are materially affected by fluctuations in both premium rate levels charged by insurance companies and the insureds' underlying "insurable exposure units," which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, sales and payroll levels) so as to determine what premium to charge the insured. These premium rates are established by insurance companies based upon many factors, including reinsurance rates paid by insurance carriers, none of which we control.

Beginning in 1986 and continuing through 1999, commission revenues were adversely influenced by a consistent decline in premium rates resulting from intense competition among property and casualty insurance companies for market share. This condition of a prevailing decline in premium rates, commonly referred to as a "soft market," generally resulted in flat to reduced commissions on renewal business. The effect of this softness in rates on our commission revenues was somewhat offset by our acquisitions and net new business production. As a result of increasing "loss ratios" (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2003, the increases in premium rates began to decline, and in certain lines of insurance, premium rates decreased.

In 2004, as general premium rates continued to moderate, the insurance industry experienced the worst hurricane season since 1992 (when Hurricane Andrew hit south Florida). The insured losses from the 2004 hurricane season were absorbed relatively easily by the insurance industry and the general insurance premium rates continued to soften during 2005. During the third quarter of 2005, the insurance industry experienced the worst hurricane season ever recorded. As a result of the significant losses incurred by the insurance carriers as the result of these hurricanes, the insurance premium rates in 2006 increased on coastal property, primarily in the southeastern region of the United States. In the other regions of the United States, the insurance premium rates, in general, declined during 2006.

In addition to significant insurance pricing declines in the State of Florida, as previously discussed, the insurance premium rates continued a gradual decline during 2007 in most of the other regions of the United States. One industry segment that was especially hit hard during 2007 was the home building industry in Southern California, and to a lesser extent Nevada, Arizona and Florida. We have a wholesale brokerage operation that focus on placing property and casualty insurance products for that home building segment and a program operation that places errors and omissions professional liability coverages for title agents. Both of these operations' revenues were negatively impacted by these national economic trends.

The volume of business from new and existing insured customers, fluctuations in insurable exposure units and changes in general economic and competitive conditions further impact our revenues. For example, the increasing costs of litigation settlements and awards have caused some customers to seek higher levels of insurance coverage. Conversely, level rates of inflation or general declines in economic activity could limit increases in the values of insurable exposure units. Historically, our revenues have continued to grow as a result of an intense focus on net new business growth and acquisitions, however 2007 was highlighted by very substantial governmental involvement in the Florida insurance marketplace that resulted in a substantial loss of revenues (see the Florida Insurance Overview below for further discussion of Citizens and its effect on our results of operations). We anticipate that results of operations will continue to be influenced by these competitive and economic conditions in 2007.

We also earn "profit-sharing contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on underwriting results and other aforementioned considerations for the prior year(s). Over the last three years profit-sharing contingent commissions have averaged approximately 5.8% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are primarily included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" excludes profit-sharing contingent commissions and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. Recently, three national insurance companies announced the replacement of the current loss-ratio based profit-sharing contingent commission calculation with a more guaranteed fixed-based methodology, referred to as "Guaranteed Supplemental Commissions" ("GSC"). Since these new GSC are not subject to the uncertainty of loss-ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2007, $6.6 million was accrued for GSC earned during 2007, but which will not be collected until the first quarter of 2008.

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

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

Florida Insurance Overview

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

In August 2002, the Florida Legislature created "Citizens Property Insurance Corporation" ("Citizens"), to be the "insurer of last resort" in Florida and therefore charged insurance rates that were higher than the general private insurance marketplace. In each of 2004 and 2005, four major hurricanes made landfall in Florida, and as a result of the significant insurance property losses, the insurance rates increased in 2006. To counter the increased property insurance rates, the State of Florida instructed Citizens to essentially cut their property insurance rates in half beginning in January 2007. By state law, Citizens has guaranteed their rates through January 1, 2009. Therefore, Citizens became the most competitive risk-bearer on commercial habitational coastal property exposures, such as condominiums, apartments, and certain assisted living facilities. Additionally, Citizens became the only insurance market for certain homeowner policies throughout Florida. By the end of 2007, Citizens was the largest single underwriter of coastal property in Florida.

Since Citizens became the main direct competitor against the risk-bearer of our Florida Intercoastal Underwriters ("FIU") condominium program and the excess and surplus lines insurers represented by our wholesale brokerage segment such as our Hull & Company subsidiary, these programs suffered the largest amount of revenue loss to Citizens during 2007. Citizens' impact on our Florida Retail Division was less than on our National Program and Wholesale Brokerage Divisions, because to our Retail Offices, Citizens was now simply another risk-bearer with which to write business, although at slightly lower commission rates and a greater difficulty in placing coverage. For 2008, the insurance rates charged by Citizens are expected to be similar to their 2007 rates and therefore, the sequential year impact of Citizens' rates may not be as significant as they were on our 2007 results.

In the second half of 2007, the standard insurance companies started to become more competitive in the casualty (liability) business, including workers' compensation business. The rates in the Florida casualty business began to reduce as much as 20%-25% compared with 2006 rates. These competitive rates are likely to continue for at least the first half of 2008.

Current Year Company Overview

For us, 2007 was a year unlike any previous ones. For the first time since we began tracking internal revenue growth rates in 1997, we completed the year with a negative internal growth rate. Last year also consisted of four straight quarters of negative internal growth. Our total commissions and fees decreased $27.9 million or (3.4)% in 2007 and this decrease is primarily attributed to the continued "soft" insurance marketplace in the United States, the governmental involvement in the Florida insurance marketplace and the negative impact of the economy on the home-building industry. Offsetting the negative internal revenue growth was a very successful year of 41 acquisitions (including books of business) with estimated annual revenues of $108.3 million, of which $67.7 million is reflected in our 2007 revenues.

During 2007, we also recorded an $18.7 million gain on the sale of our investment in Rock-Tenn Company, which we owned for over 25 years. Additionally, during the year we recognized $13.5 million in gains on the sale of various books of business (customer accounts). The sales of these accounts were related to individual circumstances in various offices and are not indicative of any expected trends. Finally, we settled an ongoing Internal Revenue Service ("IRS") examination of our tax years 2004–2006 for the payment of $1.1 million in interest.

Acquisitions

During 2007, we acquired the assets and assumed certain liabilities of 38 insurance intermediary operations, the stock of three insurance intermediaries and several books of business (customer accounts). The aggregate purchase price was $241.4 million, including $207.9 million of net cash payments, the issuance of $13.0 million in notes payable and the assumption of $20.5 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $108.3 million.

During 2006, we acquired the assets and assumed certain liabilities of 32 insurance intermediary operations and several books of business (customer accounts). The aggregate purchase price was $155.9 million, including $138.7 million of net cash payments, the issuance of $3.7 million in notes payable and the assumption of $13.5 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $56.4 million.

During 2005, we acquired the assets and assumed certain liabilities of 32 insurance intermediary operations and several books of business (customer accounts). The aggregate purchase price was $288.6 million, including $244.0 million of net cash payments, the issuance of $38.1 million in notes payable and the assumption of $6.5 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $125.9 million.

Critical Accounting Policies

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

We believe that, of our significant accounting 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. At that date, 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 by known circumstances. Subsequent commission adjustments are recognized upon notification from the insurance companies. Profit-sharing contingent commissions from insurance companies are recognized when determinable, which is when such commissions are received, or when officially notified. Fee revenues are recognized as services are rendered.

BUSINESS COMBINATIONS AND PURCHASE PRICE ALLOCATIONS

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

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," 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 noncompete agreements. Purchased customer accounts partially 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. Noncompete agreements are valued based on the duration and any unique features of each specific agreement. Purchased customer accounts and noncompete 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 no longer amortized, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142").

INTANGIBLE ASSETS IMPAIRMENT

Effective January 1, 2002, we adopted SFAS No. 142, which requires that goodwill be subject to at least an annual assessment for impairment by applying a fair-value based test. Amortizable intangible assets are amortized over their useful lives and are subject to lower-of-cost-or-market impairment testing. SFAS No. 142 requires us to compare the fair value of each reporting unit with its carrying value 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 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 revenues, and earnings before interest, income taxes, depreciation and amortization ("EBITDA").

Management assesses the recoverability of our goodwill on an annual basis, and of our amortizable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value 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, 2007 and identified no impairment as a result of the evaluation.

NON-CASH STOCK-BASED COMPENSATION

The Company grants stock options and non-vested stock awards (previously referred to as "restricted stock") to its employees, officers and directors. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), for its stock-based compensation plans. Among other things, SFAS 123R requires that compensation expense for all share-based awards be recognized in the financial statements based upon the grant-date fair value of those awards.

RESERVES FOR LITIGATION

We are subject to numerous litigation claims that arise in the ordinary course of business. In accordance with SFAS No. 5, "Accounting for Contingencies," 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 inside 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 impact our net income.

DERIVATIVE INSTRUMENTS

In 2002, we entered into one derivative financial instrument — an interest rate exchange agreement, or "swap" — to manage the exposure to fluctuations in interest rates on our $90 million variable rate debt. As of December 31, 2006, we maintained this swap agreement, whereby we pay a fixed rate on the notional amount to a bank and the bank pays us a variable rate on the notional amount equal to a base London InterBank Offering Rate ("LIBOR"). We have assessed this derivative as a highly effective cash flow hedge, and accordingly, changes in the fair market value of the swap are reflected in other comprehensive income. The fair market value of this instrument is determined by quotes obtained from the related counter-parties in combination with a valuation model utilizing discounted cash flows. The valuation of this derivative instrument is a significant estimate that is largely affected by changes in interest rates. As of December 31, 2007 this interest rate swap agreement expired in conjunction with the final payment on the related $90 million variable rate debt.

NEW ACCOUNTING PRONOUNCEMENTS

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

Results of Operations for the Years Ended December 31, 2007, 2006 and 2005

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):

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	$ 857,027	4.1 %	$ 823,615	11.2 %	$ 740,567
Profit-sharing contingent commissions	57,623	40.4 %	41,048	17.4 %	34,976
Investment income	30,494	165.7 %	11,479	74.5 %	6,578
Other income, net	14,523	680.0 %	1,862	(49.5)%	3,686
Total revenues	959,667	9.3 %	878,004	11.7 %	785,807
EXPENSES					
Employee compensation and benefits	444,101	9.7 %	404,891	8.0 %	374,943
Non-cash stock-based compensation	5,667	4.6 %	5,416	62.3 %	3,337
Other operating expenses	131,371	3.9 %	126,492	19.8 %	105,622
Amortization	40,436	10.8 %	36,498	9.8 %	33,245
Depreciation	12,763	12.9 %	11,309	12.4 %	10,061
Interest	13,802	3.3 %	13,357	(7.7)%	14,469
Total expenses	648,140	8.4 %	597,963	10.4 %	541,677
Income before income taxes	$ 311,527	11.2 %	$ 280,041	14.7 %	$ 244,130
Net internal growth rate — core commissions and fees	(3.4)%		4.0%		3.1%
Employee compensation and benefits ratio	46.3%		46.1%		47.7%
Other operating expenses ratio	13.7%		14.4%		13.4%
Capital expenditures	$ 30,643		$ 14,979		$ 13,426
Total assets at December 31	$1,960,659		$1,807,952		$1,608,660

COMMISSIONS AND FEES

Commissions and fees revenue, including profit-sharing contingent commissions, increased 5.8% in 2007, 11.5% in 2006 and 21.5% in 2005. Profit-sharing contingent commissions increased $16.6 million to $57.6 million in 2007 and $6.1 million to $41.0 million in 2006, primarily as a result of a better than average year for insurance companies' loss ratios. Core commissions and fees revenue decreased (3.4%) in 2007 and increased 4.0% in 2006 and 3.1% in 2005, when excluding commissions and fees revenue generated from acquired operations and also from divested operations. The 2007 decrease of 3.4% represents $27.9 million of net lost core commission and fees revenue, of which $23.0 million is related to our various operations impacted by the Florida insurance marketplace, $6.2 million is related to our operation that serves the home-building industry in southern California, with our remaining operations at a minimal aggregate revenue growth.

INVESTMENT INCOME

Investment income increased to $30.5 million in 2007, compared with $11.5 million in 2006 and $6.6 million in 2005. The increase in 2007 over 2006 of $19.0 million was primarily due to the sale of our investment in Rock-Tenn Company which we owned for over 25 years, for a net gain of $18.7 million. The increase in 2006 over 2005 was primarily the result of higher investment yields earned with higher average available cash balances.

OTHER INCOME, NET

Other income consists primarily of gains and losses from the sale and disposition of assets. In 2007, gains of $13.7 million were recognized from the sale of books of business (customer accounts) as compared with $1.1 million and $2.7 million in 2006 and 2005, respectively. Although we are not in the business of selling books of businesses (customer accounts), we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth. Even though the sales of customer accounts were unusually high during 2007, we do not believe that it is indicative of a future trend.

EMPLOYEE COMPENSATION AND BENEFITS

Employee compensation and benefits increased approximately 9.7% or $39.2 million in 2007, of which $33.5 million was related to acquisitions that were stand-alone offices. Of the remaining $5.7 million, the majority related to the average annual 3.5% salary increase given to non-producer employees. Additionally, during 2007, $1.6 million of the increase related to a funding true-up to the 2006 employee profit-sharing contribution. Employee compensation and benefits increased approximately 8.0% in 2006 and 19.3% in 2005, primarily as a result of acquisitions and an increase in commissions paid on net new business. Employee compensation and benefits as a percentage of total revenues were

46.1% in 2006 and 47.7% in 2005, reflecting a gradual improvement in personnel efficiencies as revenues grow. We had 5,047 full-time equivalent employees at December 31, 2007, compared with 4,733 at December 31, 2006 and 4,540 at December 31, 2005. Of the 314 net increase in full-time equivalent employees at December 31, 2007 over the prior year-end, 508 were from the acquisitions that were stand-alone offices, thus resulting in a net reduction of 194 employees in the offices existing at both year-ends.

NON-CASH STOCK-BASED COMPENSATION

The Company grants stock options and non-vested stock awards to its employees, officers and directors. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment ("SFAS 123R"), for its stock-based compensation plans. Among other things, SFAS 123R requires that compensation expense for all share-based awards be recognized in the financial statements based upon the grant-date fair value of those awards.

Prior to January 1, 2006, the Company accounted for stock-based compensation using the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"), and related interpretations, and disclosure requirements established by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transitions and Disclosures ("SFAS 148"). Under APB No. 25, no compensation expense was recognized for either stock options issued under the Company's stock compensation plans or for stock purchased under the Company's 1990 Employee Stock Purchase Plan ("ESPP"). The pro forma effects on net income and earnings per share for stock options and ESPP awards were instead disclosed in a footnote to the financial statements. Compensation expense was previously recognized for awards of non-vested stock, based upon the market value of the common stock on the date of award, on a straight-line basis over the requisite service period with the effect of forfeitures recognized as they occurred. As such the 2005 non-cash stock-based compensation expense of $3.3 million was solely related to the Performance Stock Plan ("PSP") grants under APB 25.

For 2007 and 2006, the non-cash stock-based compensation under SFAS 123R incorporates costs related to each of our three stock-based plans as explained in Note 11 to the consolidated financial statements.

Since the last significant company-wide grants of PSP shares occurred in January 2003 and that the five-year period for the related shares to become "awarded" expired in January 2008 as did the "unawarded" shares, we expect to grant new PSP shares to deserving office leaders and producers in February 2008. Additionally, we may issue incentive stock options ("ISO") to certain corporate leaders. The expected annual cost of these additional PSP and ISO grants is expected to be between $1.5 million and $2.5 million.

OTHER OPERATING EXPENSES

As a percentage of total revenues, other operating expenses was 13.7% in 2007, 14.4% in 2006 and 13.4% in 2005. Other operating expenses in 2007 increased $4.9 million over the 2006 amount which also included a one-time $5.8 million payment to the State of Florida described below, therefore having an effective increase in cost of $10.7 million. The intermediaries acquired in 2007 that were not combined with existing company offices and became stand-alone offices, accounted for $11.1 million of the $10.7 million net increase. Thus, excluding the effects of acquisitions, the 2007 Other Operating expenses were slightly less than 2006.

For 2006, legal and professional fee expenses increased $1.7 million over the amount expended in 2005. The increase in legal and professional fee expenses was primarily the result of the various ongoing investigations and litigation relating to agent and broker compensation, including profit-sharing contingent commissions, by state regulators and, to a lesser extent, by the requirements of compliance with the Sarbanes-Oxley Act of 2002. Additionally, in 2006 a total of $5.8 million was paid to State of Florida regulatory authorities and other parties, which concluded the State of Florida's investigation of compensation paid to us (See Note 13). Excluding the impact of these increased legal and professional fee expenses and settlement payments, other operating expenses declined as a percentage of total revenues each year from 2005 to 2006, which is attributable to the effective cost containment measures brought about by our initiative designed to identify areas of excess expense. This decrease is also due to the fact that, in a net internal revenue growth environment, certain significant other operating expenses such as office rent, office supplies, data processing, and telephone costs, increase at a slower rate than commissions and fees revenue during the same period.

AMORTIZATION

Amortization expense increased $3.9 million, or 10.8% in 2007, $3.3 million, or 9.8% in 2006, and $11.1 million, or 50.1% in 2005. The increases in 2007 and 2006 were due to the amortization of additional intangible assets as a result of acquisitions completed in those years.

DEPRECIATION

Depreciation increased 12.9% in 2007, 12.4% in 2007 and 12.9% in 2005. These increases were primarily due to the purchase of new computers, related equipment and software, corporate aircraft and the depreciation of fixed assets associated with acquisitions completed in those years.

INTEREST EXPENSE

Interest expense increased $0.4 million or 3.3%, in 2007 over 2006 primarily as a result of the additional $25.0 million that was borrowed in December 2006 but which was partially offset by the $12.9 reduction in the term loan balance due to the normal quarterly principal payments. Interest expense decreased $1.1 million, or 7.7%, in 2006 over 2005 as a result of lower average debt balances due to the normal quarterly principal payments.

INCOME TAXES

The effective tax rate on income from operations was 38.7% in 2007, 38.5% in 2006 and 38.3% in 2005. The higher effective tax rate in 2007 and 2006, compared with 2005, was primarily the result of increased amounts of business conducted in states having higher state tax rates and a $1.1 million settlement payment to the U.S. Internal Revenue Service ("IRS") in 2007. During 2007, the IRS concluded their audit of our 2004-2006 tax years in which they disputed our method of recognizing profit-sharing contingent commissions for tax purposes. We recognize profit-sharing contingent commissions when determinable, which is when such commissions are received, however, the IRS believes that we should estimate those monies as of each December 31. We agreed to resolve this dispute for a $1.1 million payment of interest and our agreement 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 31. 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 with that balance reversing by the following March 31 when the related profit-sharing contingent commissions are recognized for financial accounting purposes.

Results of Operations — Segment Information

As discussed in Note 16 of the Notes to Consolidated Financial Statements, we operate in four reportable segments: the Retail, Wholesale Brokerage, National Programs and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses are the result of acquisitions within a given division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. As such, in evaluating the operational efficiency of a division, management places emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of total employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

The internal growth rates for our core commissions and fees for the three years ended December 31, 2007, 2006 and 2005, by divisional units are as follows (in thousands, except percentages):

2007

	For the years ended December 31, 2007	2006	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Florida Retail	$175,330	$175,205	$ 125	0.1 %	$ 3,108	$ (2,983)	(1.7)%
National Retail	242,762	202,763	39,999	19.7 %	40,808	(809)	(0.4)%
Western Retail	95,357	101,386	(6,029)	(5.9)%	436	(6,465)	(6.4)%
Total Retail[(1)]	513,449	479,354	34,095	7.1 %	44,352	(10,257)	(2.1)%
Wholesale Brokerage	156,978	151,278	5,700	3.8 %	15,221	(9,521)	(6.3)%
Professional Programs	42,348	40,867	1,481	3.6 %	423	1,058	2.6 %
Special Programs	108,747	113,141	(4,394)	(3.9)%	5,357	(9,751)	(8.6)%
Total National Programs	151,095	154,008	(2,913)	(1.9)%	5,780	(8,693)	(5.6)%
Services	35,505	32,561	2,944	9.0 %	2,328	616	1.9 %
Total Core Commissions and Fees	$857,027	$817,201	$39,826	4.9 %	$67,681	$(27,855)	(3.4)%

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 16 which includes corporate and consolidation items.

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, 2007 and 2006 is as follows (in thousands, except percentages):

	For the years ended December 31, 2007	2006
Total core commissions and fees	$857,027	$817,201
Profit-sharing contingent commissions	57,623	41,048
Divested business	—	6,414
Total commission and fees	$914,650	$864,663

2006

	For the years ended December 31, 2006	2005	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Florida Retail	$175,885	$155,741	$20,144	12.9 %	$ 493	$19,651	12.6 %
National Retail	206,661	198,033	8,628	4.4 %	11,417	(2,789)	(1.4)%
Western Retail	103,222	103,951	(729)	(0.7)%	4,760	(5,489)	(5.3)%
Total Retail(1)	485,768	457,725	28,043	6.1 %	16,670	11,373	2.5 %
Wholesale Brokerage	151,278	120,889	30,389	25.1 %	25,616	4,773	3.9 %
Professional Programs	40,867	41,930	(1,063)	(2.5)%	43	(1,106)	(2.6)%
Special Programs	113,141	90,933	22,208	24.4 %	9,255	12,953	14.2 %
Total National Programs	154,008	132,863	21,145	15.9 %	9,298	11,847	8.9 %
Services	32,561	26,565	5,996	22.6 %	4,496	1,500	5.6 %
Total Core Commissions and Fees	$823,615	$738,042	$85,573	11.6 %	$56,080	$29,493	4.0 %

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 16 which includes corporate and consolidation items

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, 2006 and 2005 is as follows (in thousands, except percentages):

	For the years ended December 31, 2006	2005
Total core commissions and fees	$823,615	$738,042
Profit-sharing contingent commissions	41,048	34,976
Divested business	—	2,525
Total commission and fees	$864,663	$775,543

2005

	For the years ended December 31, 2005	2004	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Florida Retail	$155,973	$140,895	$ 15,078	10.7 %	$ 5,694	$9,384	6.7%
National Retail	201,112	182,098	19,014	10.4 %	20,540	(1,526)	(0.8)%
Western Retail	104,879	107,529	(2,650)	(2.5)%	2,699	(5,349)	(5.0)%
Total Retail(1)	461,964	430,522	31,442	7.3 %	28,933	2,509	0.6 %
Wholesale Brokerage	120,889	38,080	82,809	217.5 %	73,317	9,492	24.9 %
Professional Programs	41,861	42,463	(602)	(1.4)%	715	(1,317)	(3.1)%
Special Programs	89,288	66,601	22,687	34.1 %	17,155	5,532	8.3 %
Total National Programs	131,149	109,064	22,085	20.2 %	17,870	4,215	3.9 %
Services	26,565	24,334	2,231	9.2 %	—	2,231	9.2 %
Total Core Commissions and Fees	$740,567	$602,000	$138,567	23.0 %	$120,120	$18,447	3.1 %

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 16 which includes corporate and consolidation items

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, 2005 and 2004 is as follows (in thousands, except percentages):

	For the years ended December 31, 2005	2004
Total core commissions and fees	$740,567	$602,000
Profit-sharing contingent commissions	34,976	30,652
Divested business	—	5,615
Total commission and fees	$775,543	$638,267

RETAIL DIVISION

The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. More than 96.1% of the Retail Division's commissions and fees revenue are commission-based. Since the majority of our other operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions that we receive will be reflected in our pre-tax income. The Retail Division's commissions and fees revenue accounted for 63.1% of our total consolidated commissions and fees revenue in 2005 but declined to 59.9% in 2007, mainly due to continued acquisitions in the National Programs and Wholesale Brokerage Divisions.

Financial information relating to Brown & Brown's Retail Division is as follows (in thousands, except percentages):

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	$ 514,639	5.8%	$ 486,419	5.5 %	$ 461,236
Profit-sharing contingent commissions	33,399	11.1%	30,070	6.1 %	28,330
Investment income	260	87.1%	139	(12.6)%	159
Other income, net	14,140	NMF%	1,361	(7.9)%	1,477
Total revenues	562,438	8.6%	517,989	5.5 %	491,202
EXPENSES					
Employee compensation and benefits	263,056	8.5%	242,469	4.0 %	233,124
Non-cash stock-based compensation	3,243	9.0%	2,976	35.4 %	2,198
Other operating expenses	88,359	6.5%	82,966	2.3 %	81,063
Amortization	21,659	12.2%	19,305	(0.3)%	19,368
Depreciation	5,723	1.8%	5,621	(0.4)%	5,641
Interest	21,094	11.6%	18,903	(9.7)%	20,927
Total expenses	403,134	8.3%	372,240	2.7 %	362,321
Income before income taxes	$ 159,304	9.3%	$ 145,749	13.1 %	$ 128,881
Net internal growth rate — core commissions and fees	(2.1)%		2.5%		0.6%
Employee compensation and benefits ratio	46.8 %		46.8%		47.5%
Other operating expenses ratio	15.7 %		16.0%		16.5%
Capital expenditures	$ 5,816		$ 5,952		$ 6,186
Total assets at December 31	$1,356,772		$1,103,107		$1,002,781

The Retail Division's total revenues in 2007 increased $44.4 million to $562.4 million, a 8.6% increase over 2006. Of this increase, approximately $34.1 million was the net growth in core commissions and fees, however, $44.4 million was from acquisitions for which there were no comparable revenues in 2006; and therefore, $10.3 million was lost on a "same-store sales" basis resulting in a negative internal growth rate of 2.1%. The majority of the negative internal growth resulted from continued competitive insurance pricing in the western United States. However, the most competitive pricing in the second half of the 2007 year occurred in Florida, and this insurance pricing environment is likely to continue for at least the first half of 2008.

Income before income taxes in 2007 increased $13.6 million from 2006, of which $13.7 million was from an historically high amount of gains from the sales of books of business (customer accounts). Even though the sales of customer accounts were higher than normal during 2007, we do not believe that it is indicative of a future trend. The remaining decrease was due the reduced earnings from the negative growth in core commissions and fees, but offset by earnings from acquisitions.

The Retail Division's total revenues in 2006 increased $26.8 million to $518.0 million, a 5.5% increase over 2005. Of this increase, approximately $16.7 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2005. The remaining increase was primarily due to net new business growth. The Retail Division's net internal growth rate in core commissions and fees revenue was 2.5% in 2006, excluding revenues recognized in 2006 from new acquisitions and the 2005 commissions and fees revenue from divested business. The net internal growth rate of core commissions and fees revenue for the Retail Division in 2005 was 0.6%. The increase in the net internal growth rate from core commission and fees from 2005 to 2006 primarily reflects increased premium rates for coastal property in the southeastern part of the United States, but offset by lower insurance premium rates in most other parts of the country.

Income before income taxes in 2006 increased $16.9 million to $145.7 million, a 13.1% increase over 2005. This increase was due to revenues from acquisitions, a positive net internal growth rate and the continued focus on holding our general expense growth rate to a lower percentage than our revenue growth rate.

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):

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	$156,978	3.8 %	$151,278	25.1 %	$120,889
Profit-sharing contingent commissions	18,311	129.2 %	7,990	71.9 %	4,648
Investment income	2,927	(27.1)%	4,017	151.2 %	1,599
Other income (loss), net	726	NMF %	61	(365.2)%	(23)
Total revenues	178,942	9.5 %	163,346	28.5 %	127,113
EXPENSES					
Employee compensation and benefits	87,500	11.5 %	78,459	32.0 %	59,432
Non-cash stock-based compensation	791	52.4 %	519	216.5 %	164
Other operating expenses	31,522	10.3 %	28,582	44.3 %	19,808
Amortization	9,237	14.2 %	8,087	42.6 %	5,672
Depreciation	2,715	30.8 %	2,075	61.5 %	1,285
Interest	19,188	2.3 %	18,759	50.7 %	12,446
Total expenses	150,953	10.6 %	136,481	38.1 %	98,807
Income before income taxes	$ 27,989	4.2 %	$ 26,865	(5.1)%	$ 28,306
Net internal growth rate — core commissions and fees	(6.3)%		3.9%		24.9%
Employee compensation and benefits ratio	48.9 %		48.0%		46.8%
Other operating expenses ratio	17.6 %		17.5%		15.6%
Capital expenditures	$ 2,835		$ 2,085		$ 1,969
Total assets at December 31	$640,931		$618,374		$476,653

Total revenues in 2007 increased $15.6 million over 2006, of which $10.3 million was from increased profit-sharing contingent commissions and $5.7 million from core commissions and fees. Profit-sharing contingent commissions increased as a result of higher insurance company profitability resulting from the increased premium rates during 2006 as well as new profit-sharing contingent commissions from operations acquired in 2006. Of the net increase in core commissions and fees of $5.7 million, approximately $15.2 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2006. The Wholesale Brokerage Division's net internal growth rate for core commissions and fees revenue in 2007 was (6.3)% or $9.5 million less revenues than in 2006, excluding core commissions and fees revenue recognized in 2007 from new acquisitions. The negative internal growth rate for the Wholesale Brokerage Division was primarily the result of the continuation of lost revenues from the same wholesale operations that had the most significant loss of revenues in 2006. One of those operations, which focuses on home-building construction accounts in the western region of the United States, lost $6.2 million as a result of the continued slow-down in economic activity in that region during the year as well as lower insurance premium rates. The other significantly affected operation was the Florida-based wholesale brokerage operations of Hull & Company, which lost $5.8 million of revenues in 2007 as a result of the competitive rate environment created by Citizens. Offsetting some of the lost business in Florida due to Citizens, we did have revenue growth in our binding authority operations and our reinsurance intermediary, Axiom Re.

Income before income taxes in 2007 increased $1.1 million to $28.0 million, a 4.2% increase over 2006. This increase is attributable in part to the fact that the 2007 loss from our reinsurance intermediary was $2.1 million less than in 2006, and higher earnings from our binding authority operations mainly driven by higher profit-sharing contingent commissions. Offsetting these increases, our operation that focuses on home building construction accounts in the western region of the United States had $2.9 million less income before income taxes than it earned in 2006, due to the reduction of revenues mentioned above.

Total revenues in 2006 increased $36.2 million to $163.3 million, a 28.5% increase over 2005. Of this increase, approximately $25.6 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2005. The Wholesale Brokerage Division's net internal growth rate for core commissions and fees revenue in 2006 was 3.9%, excluding core commissions and fees revenue recognized in 2006 from new acquisitions. The weaker internal growth rate than in recent years for the Wholesale Brokerage Division was primarily the result of lower revenues from two of our operations. One of those operations, which focuses on home-building construction accounts in the western region of the United States, experienced a slow-down in economic activity during the year as well as lower insurance premium rates. The second operation was the personal lines wholesale brokerage arm of Hull & Company which had significant premium capacity restrictions on placing coastal property coverage with their insurance carriers, which was not the case in 2005.

Income before income taxes in 2006 decreased $1.4 million to $26.9 million, a 5.1% decrease over 2005. This decrease is attributable in part to Axiom Re and Delaware Valley Underwriting Agency operations acquired in 2006, which had an aggregate loss before income taxes of $4.0 million as a result of initial transitional issues and net lost business. Additionally, our operation that focuses on home-building construction accounts in the western region of the United States had income before income taxes of $3.0 million less than it earned in 2005, due to the reduction of revenues mentioned above. Offsetting these losses were net increases in income before income taxes from our other wholesale brokerage operations.

NATIONAL PROGRAMS DIVISION

The National Programs Division is comprised of two units: Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents; and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public and quasi-public entities and market niches. Like the Retail 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):

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	$151,095	(1.9)%	$154,008	17.4 %	$131,149
Profit-sharing contingent commissions	5,913	97.9 %	2,988	49.5 %	1,998
Investment income	513	18.8 %	432	17.7 %	367
Other income, net	27	35.0 %	20	(95.2)%	416
Total revenues	157,548	0.1 %	157,448	17.6 %	133,930
EXPENSES					
Employee compensation and benefits	62,755	3.4 %	60,692	11.9 %	54,238
Non-cash stock-based compensation	801	53.2 %	523	45.7 %	359
Other operating expenses	25,084	(3.6)%	26,014	27.4 %	20,414
Amortization	9,039	3.7 %	8,718	7.6 %	8,103
Depreciation	2,757	15.5 %	2,387	19.5 %	1,998
Interest	9,977	(5.5)%	10,554	1.2 %	10,433
Total expenses	110,413	1.4 %	108,888	14.0 %	95,545
Income before income taxes	$ 47,135	(2.9)%	$ 48,560	26.5 %	$ 38,385
Net internal growth rate — core commissions and fees	(5.6)%		8.9%		3.9%
Employee compensation and benefits ratio	39.8 %		38.5%		40.5%
Other operating expenses ratio	15.9 %		16.5%		15.2%
Capital expenditures	$ 1,831		$ 3,750		$ 3,067
Total assets at December 31	$570,295		$544,272		$445,146

Total revenues in 2007 were essentially flat compared with 2006 due to the netting of different programs, some of which had very good growth and another of which lost nearly half of its revenues in 2007. Approximately $5.8 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2006. The National Program Division's net internal growth rate for core commissions and fees revenue was (5.6)% representing $8.7 million of lost revenues, excluding core commissions and fees revenue recognized in 2007 from new acquisitions. As previously discussed, when Citizens began to compete aggressively in Florida on January 1, 2007, it had the greatest impact on our condominium program at our Florida Intracoastal Underwriters ("FIU") profit center. In 2007, FIU lost $13.4 million of core commissions and fees of the $27.2

million of total core commissions and fees that it had earned in 2006. Most of our other programs, including our lawyers and dentist professional liability programs, our public entity business, our sports and entertainment programs and our Proctor Financial operation, all had positive internal growth. Since Citizen's impact on the insurance rates in Florida and on FIU has completed a full twelve-month period, and that Citizens' 2007 insurance rates are guaranteed through January 1, 2009, we do not believe that the Citizens' impact in 2008 will be as significant to FIU as it was in 2007.

Income before income taxes in 2007 decreased only $1.4 million from 2006. However, excluding the $3.0 million paid to the State of Florida regulatory authorities and other parties in 2006 that was allocated to National Programs, the net decrease was $4.4 million. Of that decrease, $10.7 million was attributable to FIU, which was offset by increased earnings from the 2007 acquisitions and the programs that had positive internal growth.

Total revenues in 2006 increased $23.5 million to $157.5 million, a 17.6% increase over 2005. Of this increase, approximately $9.3 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2005. The National Program Division's net internal growth rate for core commissions and fees revenue was 8.9%, excluding core commissions and fees revenue recognized in 2006 from new acquisitions. The majority of the internally generated growth in the 2006 core commissions and fees revenue was primarily related to increasing insurance premium rates in our condominium program at FIU profit center that occurred as a result of the 2005 and 2004 hurricane seasons as well as strong growth in the public entity business and the Proctor Financial operation.

Income before income taxes in 2006 increased $10.2 million to $48.6 million, a 26.5% increase over 2005, of which the majority related to the revenues derived from acquisitions completed in 2006 and the increased earnings at FIU. Additionally, in 2006 a total of $5.8 million was paid to State of Florida regulatory authorities and other parties, which concluded the State of Florida's investigation of compensation paid to us (See Note 13). Of the $5.8 million, $3.0 million was allocated to other operating expenses in National Programs.

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. Unlike our other segments, approximately 98.6% of the Services Division's 2007 commissions and fees revenue is generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division is as follows (in thousands, except percentages):

	2007	Percent Change	2006	Percent Change	2005
REVENUES					
Commissions and fees	$35,505	9.0 %	$32,561	22.6 %	$26,565
Profit-sharing contingent commissions	—	—	—	—	—
Investment income	31	(31.1)%	45	—	—
Other (loss) income net	(144)	(100.0)%	—	(100.0)%	952
Total revenues	35,392	8.5 %	32,606	18.5 %	27,517
EXPENSES					
Employee compensation and benefits	19,416	7.0 %	18,147	16.5 %	15,582
Non-cash stock-based compensation	139	17.8 %	118	(3.3)%	122
Other operating expenses	5,467	8.0 %	5,062	16.7 %	4,339
Amortization	462	34.7 %	343	697.7 %	43
Depreciation	534	0.2 %	533	22.5 %	435
Interest	719	63.4 %	440	NMF %	4
Total expenses	26,737	8.5 %	24,643	20.1 %	20,525
Income before income taxes	$ 8,655	8.7 %	$ 7,963	13.9 %	$ 6,992
Net internal growth rate — core commissions and fees	1.9%		5.6%		9.2%
Employee compensation and benefits ratio	54.9%		55.7%		56.6%
Other operating expenses ratio	15.4%		15.5%		15.8%
Capital expenditures	$ 318		$ 588		$ 350
Total assets at December 31	$41,233		$32,554		$18,766

Total revenues in 2007 increased $2.8 million over 2006, of which approximately $2.3 million related to core commissions and fees revenue from an acquisition for which there was no comparable revenues in 2006. The Services Division's net internal growth rate for core commissions and fees revenue was 1.9% in 2007, excluding the 2006 core commissions and fees revenue from acquisitions and divested business. The positive net internal growth rates from core commissions and fees revenue primarily reflect the net new business growth from our Medicare secondary payer statute compliance-related services. The commissions and fees from our workers' compensation and public and quasi-public entity TPA business was essentially flat in 2007 compared with 2006; however, in September 2007, one of our largest clients took the majority of its claims-paying services in-house, which will result in approximately $400,000 less revenues per month through August 2008.

Income before income taxes in 2007 increased $0.7 million over 2006, primarily due to strong net new business growth in our Medicare secondary payer statute compliance-related services.

Total revenues in 2006 increased $5.1 million to $32.6 million, a 18.5% increase over 2005. Of this increase, approximately $4.5 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2005. In 2006, other income was $0 compared with the 2005 other income of $1.0 million which was due to the sale of a medical TPA operation in 2004. The Services Division's net internal growth rate for core commissions and fees revenue was 5.6% in 2006, excluding the 2005 core commissions and fees revenue from acquisitions and divested business. The positive net internal growth rates from core commissions and fees revenue primarily reflect the strong net new business growth from our workers' compensation claims and public and quasi-public entity TPA businesses.

Income before income taxes in 2006 increased $1.0 million to $8.0 million, a 13.9% increase over 2005, primarily due to strong net new business growth and the acquisitions of an operation in the Medicare secondary payer statute compliance-related services.

OTHER

As discussed in Note 16 of the Notes to Consolidated Financial Statements, the "Other" column in the Segment Information table includes any income and expenses not allocated to reportable segments, and corporate-related items, including the inter-company interest expense charge to the reporting segment. During 2007 we sold all of our shares of The Rock-Tenn Company and recorded a total gain of $18.7 million.

Quarterly Operating Results

The following table sets forth our quarterly results for 2007 and 2006:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				
Total revenues	**$258,513**	**$246,644**	**$237,284**	**$217,226**
Income before income taxes	**$ 98,102**	**$ 84,496**	**$ 75,435**	**$ 53,494**
Net income	**$ 59,727**	**$ 52,012**	**$ 46,216**	**$ 33,004**
Net income per share:				
Basic	**$ 0.43**	**$ 0.37**	**$ 0.33**	**$ 0.23**
Diluted	**$ 0.42**	**$ 0.37**	**$ 0.33**	**$ 0.23**
2006				
Total revenues	$ 230,582	$ 220,807	$ 211,965	$ 214,650
Income before income taxes	$ 81,436	$ 70,967	$ 65,565	$ 62,073
Net income	$ 50,026	$ 44,431	$ 40,270	$ 37,623
Net income per share:				
Basic	$ 0.36	$ 0.32	$ 0.29	$ 0.27
Diluted	$ 0.36	$ 0.32	$ 0.29	$ 0.27

Liquidity and Capital Resources

Our cash and cash equivalents of $38.2 million at December 31, 2007 reflected a decrease of $50.2 million from the $88.5 million balance at December 31, 2006. During 2007, $215.3 million of cash was provided from operating activities. Also during this period, $212.3 million of cash was used for acquisitions, $30.6 million was used for additions to fixed assets, $29.1 million was used for payments on long-term debt and $35.1 million was used for payment of dividends.

Our cash and cash equivalents of $88.5 million at December 31, 2006 reflected a decrease of $12.1 million from the $100.6 million balance at December 31, 2005. During 2006, $225.2 million of cash was provided from operating activities. Also during this period, $143.7 million of cash was used for acquisitions, $15.0 million was used for additions to fixed assets, $87.4 million was used for payments on long-term debt and $29.3 million was used for payment of dividends.

Our cash and cash equivalents of $100.6 million at December 31, 2005 reflected a decrease of $87.5 million from the $188.1 million balance at December 31, 2004. During 2005, $215.1 million of cash was provided from operating activities. Also during this period, $262.2 million of cash was used for acquisitions, $13.4 million was used for additions to fixed assets, $16.1 million was used for payments on long-term debt and $23.6 million was used for payment of dividends.

Our ratio of current assets to current liabilities (the "current ratio") was 1.06 and 1.10 at December 31, 2007 and 2006, respectively.

As of December 31, 2007, our contractual cash obligations were as follows:

CONTRACTUAL CASH OBLIGATIONS

(in thousands)	Total	Less Than 1 Year	1–3 Years	4–5 Years	After 5 Years
Long-term debt	$239,147	$ 11,443	$ 2,645	$100,059	$125,000
Capital lease obligations	79	76	3	—	—
Other long-term liabilities	13,635	11,229	320	428	1,658
Operating leases	95,055	24,553	38,242	19,298	12,962
Interest obligations	73,214	13,123	26,156	18,936	14,999
Unrecognized tax benefits	507	—	507	—	—
Maximum future acquisition contingency payments	226,206	120,985	68,332	36,889	—
Total contractual cash obligations	$647,843	$181,409	$136,205	$175,610	$154,619

In July 2004, we completed a private placement of $200.0 million of unsecured senior notes (the "Notes"). The $200.0 million is divided into two series: Series A, for $100.0 million due in 2011 and bearing interest at 5.57% per year; and Series B, for $100.0 million due in 2014 and bearing interest at 6.08% per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. We have used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of December 31, 2007 and 2006 there was an outstanding balance of $200.0 million on the Notes.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). The Purchaser 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 (10) years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default currently customary for similar facilities for similar borrowers. The initial issuance of notes under the Master Facility occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per annum. On February 1, 2008 we issued $25 million in Series D Senior Notes due January 15, 2015 with a fixed interest rate of 5.37% per annum.

Also on December 22, 2006, we entered into a Second Amendment to Amended and Restated Revolving and Term Loan Agreement (the "Second Term Amendment") and a Third Amendment to Revolving Loan Agreement (the "Third Revolving Amendment") with a national banking institution, amending the existing Amended and Restated Revolving and Term Loan Agreement dated January 3, 2001 (the "Term Agreement") and the existing Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), respectively. The amendments provide covenant exceptions for the Notes issued or to be issued under the Master Agreement, and relaxed or deleted certain other covenants. In the case of the Third Amendment to Revolving Loan Agreement, the lending commitment was reduced from $75.0 million to $20.0 million, the maturity date was extended from September 30, 2008 to December 20, 2011, and the applicable margins for advances and the availability fee were reduced. Based on the Company's funded debt to EBITDA ratio, the applicable margin for Eurodollar advances changed from a range of LIBOR plus 0.625% to 1.625% to a range of LIBOR plus 0.450% to 0.875%. The applicable margin for base rate advances changed from a range of LIBOR plus 0.00% to 0.125% to the Prime Rate less 1.000%. The availability fee changed from a range of 0.175% to 0.250% to a range of 0.100% to 0.200%. The 90-day LIBOR was 4.70% and 5.36% as of December 31, 2007 and 2006, respectively. The prime rate was 7.25% and 8.25% as of December 31, 2007 and 2006, respectively. There were no borrowings against this facility at December 31, 2007 or 2006.

In January 2001, we entered into a $90.0 million unsecured seven-year term loan agreement with a national banking institution, bearing an interest rate based upon the 30-, 60- or 90-day LIBOR plus 0.50% to 1.00%, depending upon Brown & Brown's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. The 90-day LIBOR was 4.70% and 5.36% as of December 31, 2007 and 2006, respectively. The loan was fully funded on January 3, 2001 and was to be repaid in equal quarterly installments of $3,200,000 through December 2007. As of December 31, 2007 the outstanding balance had been paid in full.

All four of these credit agreements require that we maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of December 31, 2007 and 2006.

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

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with our Master Agreement and the Revolving Agreement described above, will be sufficient to satisfy our normal liquidity needs through at least the end of 2008. Additionally, we believe that funds generated from future operations will be sufficient to satisfy our normal liquidity needs, including the required annual principal payments on our long-term debt.

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

In December 2001, a universal "shelf" registration statement that we filed with the Securities and Exchange Commission (SEC) covering the public offering and sale, from time to time, of an aggregate of up to $250 million of debt and/or equity securities, was declared effective. The net proceeds from the sale of such securities could be used to fund acquisitions and for general corporate purposes, including capital expenditures, and to meet working capital needs. A common stock follow-on offering of 5,000,000 shares in March 2002 was made pursuant to this "shelf" registration statement. As of December 31, 2007, approximately $90.0 million of the universal "shelf" registration remains available. If we needed to publicly raise additional funds, we may need to register additional securities with the SEC.

Consolidated Statements of Income

(in thousands, except per share data)	Year Ended December 31, 2007	2006	2005
REVENUES			
Commissions and fees	$914,650	$864,663	$775,543
Investment income	30,494	11,479	6,578
Other income, net	14,523	1,862	3,686
Total revenues	959,667	878,004	785,807
EXPENSES			
Employee compensation and benefits	444,101	404,891	374,943
Non-cash stock-based compensation	5,667	5,416	3,337
Other operating expenses	131,371	126,492	105,622
Amortization	40,436	36,498	33,245
Depreciation	12,763	11,309	10,061
Interest	13,802	13,357	14,469
Total expenses	648,140	597,963	541,677
Income before income taxes	311,527	280,041	244,130
Income taxes	120,568	107,691	93,579
Net income	$190,959	$172,350	$150,551
Net income per share:			
Basic	$ 1.36	$ 1.23	$ 1.09
Diluted	$ 1.35	$ 1.22	$ 1.08
Weighted average number of shares outstanding:			
Basic	140,476	139,634	138,563
Diluted	141,257	141,020	139,776
Dividends declared per share	$ 0.25	$ 0.21	$ 0.17

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(in thousands, except per share data)	At December 31, 2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 38,234	$ 88,490
Restricted cash and investments	254,404	242,187
Short-term investments	2,892	2,909
Premiums, commissions and fees receivable	240,680	282,440
Deferred income taxes	17,208	—
Other current assets	33,964	32,180
Total current assets	587,382	648,206
Fixed assets, net	62,327	44,170
Goodwill	846,433	684,521
Amortizable intangible assets, net	443,224	396,069
Investments	355	15,826
Other assets	20,938	19,160
Total assets	$1,960,659	$1,807,952
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$ 394,034	$ 435,449
Premium deposits and credits due customers	41,211	33,273
Accounts payable	18,760	17,854
Accrued expenses	90,599	86,009
Current portion of long-term debt	11,519	18,082
Total current liabilities	556,123	590,667
Long-term debt	227,707	226,252
Deferred income taxes, net	65,736	49,721
Other liabilities	13,635	11,967
Commitments and contingencies (Note 13)		
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued and outstanding 140,673 at 2007 and 140,016 at 2006	14,067	14,002
Additional paid-in capital	231,888	210,543
Retained earnings	851,490	695,656
Accumulated other comprehensive income, net of related income tax effect of $8 at 2007 and $5,359 at 2006	13	9,144
Total shareholders' equity	1,097,458	929,345
Total liabilities and shareholders' equity	$1,960,659	$1,807,952

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, 2005	138,318	$ 13,832	$ 180,364	$ 425,662	$ 4,467	$ 624,325
Net income				150,551		150,551
Net unrealized holding loss on available-for-sale securities					(512)	(512)
Net gain on cash-flow hedging derivative					491	491
Comprehensive income						150,530
Common stock issued for employee stock benefit plans	1,057	105	12,769			12,874
Common stock issued to directors	8	1	180			181
Cash dividends paid ($0.17 per share)				(23,566)		(23,566)
Balance at December 31, 2005	139,383	13,938	193,313	552,647	4,446	764,344
Net income				172,350		172,350
Net unrealized holding gain on available-for-sale securities					4,697	4,697
Net gain on cash-flow hedging derivative					1	1
Comprehensive income						177,048
Common stock issued for employee stock benefit plans	624	62	16,372			16,434
Income tax benefit from exercise of stock options			604			604
Common stock issued to directors	9	2	254			256
Cash dividends paid ($0.21 per share)				(29,341)		(29,341)
Balance at December 31, 2006	140,016	14,002	210,543	695,656	9,144	929,345
Net income				**190,959**		**190,959**
Net unrealized holding gain on available-for-sale securities less amounts realized from sales in the current year					**(9,093)**	**(9,093)**
Net loss on cash-flow hedging derivative					**(38)**	**(38)**
Comprehensive income						**181,828**
Common stock issued for employee stock benefit plans	**647**	**64**	**16,495**			**16,559**
Income tax benefit from exercise of stock options			**4,564**			**4,564**
Common stock issued to directors	**10**	**1**	**286**			**287**
Cash dividends paid ($0.25 per share)				**(35,125)**		**(35,125)**
Balance at December 31, 2007	**140,673**	**$14,067**	**$231,888**	**$851,490**	**$ 13**	**$1,097,458**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2007	2006	2005
Cash flows from operating activities:			
Net income	$ 190,959	$ 172,350	$ 150,551
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	40,436	36,498	33,245
Depreciation	12,763	11,309	10,061
Non-cash stock-based compensation	5,667	5,416	3,337
Deferred income taxes	325	11,480	10,642
Net gain on sales of investments, fixed assets and customer accounts	(30,944)	(781)	(2,478)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:			
Restricted cash and investments (increase)	(12,217)	(12,315)	(82,389)
Premiums, commissions and fees receivable decrease (increase)	45,059	(23,564)	(84,058)
Other assets decrease (increase)	6,357	(6,301)	1,072
Premiums payable to insurance companies (decrease) increase	(53,119)	27,314	153,032
Premium deposits and credits due customers increase (decrease)	6,723	(754)	1,754
Accounts payable increase (decrease)	533	(3,561)	4,377
Accrued expenses increase	2,913	8,441	14,854
Other liabilities (decrease) increase	(115)	(318)	1,088
Net cash provided by operating activities	215,340	225,214	215,088
Cash flows from investing activities:			
Additions to fixed assets	(30,643)	(14,979)	(13,426)
Payments for businesses acquired, net of cash acquired	(212,303)	(143,737)	(262,181)
Proceeds from sales of fixed assets and customer accounts	6,713	1,399	2,362
Purchases of investments	(2,695)	(211)	(299)
Proceeds from sales of investments	21,715	119	896
Net cash used in investing activities	(217,213)	(157,409)	(272,648)
Cash flows from financing activities:			
Proceeds from long-term debt	—	25,000	—
Payments on long-term debt	(29,142)	(87,432)	(16,117)
Borrowings on revolving credit facility	26,320	40,000	50,000
Payments on revolving credit facility	(26,320)	(40,000)	(50,000)
Income tax benefit from exercise of stock options	4,564	604	—
Issuances of common stock for employee stock benefit plans	11,320	11,274	9,717
Cash dividends paid	(35,125)	(29,341)	(23,566)
Net cash (used in) provided by financing activities	(48,383)	(79,895)	(29,966)
Net (decrease) increase in cash and cash equivalents	(50,256)	(12,090)	(87,526)
Cash and cash equivalents at beginning of year	88,490	100,580	188,106
Cash and cash equivalents at end of year	$ 38,234	$ 88,490	$ 100,580

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 is comprised of two units — Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designated for specific industries, trade groups, governmental entities and market niches; 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.

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 revenue is 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. At that date, 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 by known circumstances. The policy cancellation reserve was $8,339,000 and $7,432,000 at December 31, 2007 and 2006, respectively, and is periodically evaluated and adjusted as necessary. Subsequent commission adjustments are recognized upon 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 are received, or when officially notified. 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 ("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 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 companies. Accordingly, as reported in the Consolidated Balance Sheets, "premiums" are receivable from insureds. Unremitted net insurance premiums are held in a fiduciary capacity until disbursed by Brown & Brown. Brown & Brown invests these unremitted funds only in cash, money market accounts, tax-free variable-rate demand bonds and commercial paper held for a short term, and reports such amounts as restricted cash on the Consolidated Balance Sheets. In certain states where Brown & Brown operates, the use and investment alternatives for these funds are regulated by various state agencies. 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 receivable from insurance companies. "Fees" are primarily receivables due from customers.

INVESTMENTS

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

As of December 31, 2006, Brown & Brown's marketable equity securities principally represented a long-term investment of 559,970 shares of common stock in Rock-Tenn Company. Brown & Brown's Chief Executive Officer serves on the board of directors of Rock-Tenn Company. During 2007, Brown & Brown sold its investment in Rock Tenn for an $18,664,000 million gain in excess of our original cost basis. As of December 31, 2007, Brown & Brown's remaining marketable equity securities were valued at less than $50,000.

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

Net unrealized holding gains on available-for-sale securities included in accumulated other comprehensive income reported in shareholders' equity were $13,000 at December 31, 2007 and $9,106,000 at December 31, 2006, net of deferred income taxes of $8,000 and $5,337,000, respectively.

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 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 now subject to at least an annual assessment for impairment by applying a fair-value based test. Amortizable intangible assets are amortized over their economic lives and are subject to lower-of-cost-or-market impairment testing. 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 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 revenues and earnings before interest, income taxes, depreciation and amortization ("EBITDA"). Brown & Brown completed its most recent annual assessment as of November 30, 2007 and identified no impairment as a result of the evaluation.

Amortizable intangible assets are stated at cost, less accumulated amortization, and consist of purchased customer accounts and noncompete agreements. Purchased customer accounts and noncompete agreements are being 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 intangibles attributable to each division comprising Brown & Brown is periodically reviewed by management to determine if the facts and circumstances suggest that they may be impaired. In the insurance agency and wholesale brokerage industry, it is common for agencies or customer accounts to be acquired at a price determined as a multiple of either their corresponding revenues or EBITDA. Accordingly, Brown & Brown assesses the carrying value of its intangible assets by comparison of a reasonable multiple applied to either corresponding revenues or EBITDA, as well as considering the estimated future cash flows generated by the corresponding division. Any impairment identified through this assessment may require that the carrying value of related intangible assets be adjusted; however, no impairments have been recorded for the years ended December 31, 2007 and 2006.

DERIVATIVES

Until December 2007, Brown & Brown utilized a derivative financial instrument to reduce interest rate risk. Brown & Brown does not hold or issue derivative financial instruments for trading purposes. In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which was subsequently amended by SFAS Nos. 137, 138 and 149. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities. These standards require that an entity recognize all derivatives as either assets or liabilities in its balance sheet and measure those instruments at fair value. Changes in the fair value of those instruments will be reported in earnings or other comprehensive income, depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative, and the resulting effect on the consolidated financial statements, will depend on the derivative's hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of cash flows as compared to changes in the fair value of the liability being hedged. As of December 31, 2007, the interest rate exchange, or "swap", agreement expired in conjunction with the final payment of the related term loan agreement.

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

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

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

	Year Ended December 31,		
(in thousands, except per share data)	2007	2006	2005
Net income	$190,959	$172,350	$150,551
Weighted average number of common shares outstanding	140,476	139,634	138,563
Dilutive effect of stock options using the treasury stock method	781	1,386	1,213
Weighted average number of shares outstanding	141,257	141,020	139,776
Net income per share:			
Basic	$ 1.36	$ 1.23	$ 1.09
Diluted	$ 1.35	$ 1.22	$ 1.08

All share and per share amounts in the consolidated financial statements have been restated to give effect to the two-for-one common stock split effected by Brown & Brown on November 28, 2005. The stock split was effected as a stock dividend.

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, 2007 and 2006, 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, 2007 and 2006 since the related coupon rate approximates the current market rate. Brown & Brown's one interest rate swap agreement is reported at its fair value as of December 31, 2006. As of December 31, 2007, this interest rate swap agreement expired at the time the related term loan agreement was paid off.

NEW ACCOUNTING PRONOUNCEMENT

Accounting for Uncertainty in Income Taxes — In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes — An interpretation of FASB Statement 109 ("FIN 48"). FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Effective January 1, 2007, the Company adopted the provisions of FIN 48 and there was no significant effect on the financial statements.

As of January 1, 2007, the Company provided a liability in the amount of $591,022 of unrecognized tax benefits related to various federal and state income tax matters. Of this amount, $591,022 would impact the Company's effective tax rate if recognized. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next 12 months.

The Company is no longer subject to US Federal Income Tax examination by tax authorities for the years before 2004. The Company and its subsidiaries' state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2002 through 2006. During the fourth quarter of 2007, the Internal Revenue Service ("IRS") completed the examination of the Company's US Federal Income Tax Return for 2004, 2005 and 2006. In addition, in the fourth quarter, the Department of Revenue for the State of Florida completed an examination of for the tax years ended December 31, 2003 through 2005.

The Company recognizes accrued interest and penalties related to uncertain tax positions in federal and state income tax expense. During 2007, the Company accrued and paid $1,386,000 of interest and penalties related to the settlement of the Company's 2004, 2005 and 2006 federal income tax audit. This amount includes $65,600 in interest and penalties related to the adoption of FIN 48 in the first quarter of 2007.

Fair Value Measurements — In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 establishes a framework for the measurement of assets and liabilities that uses fair value and expands disclosures about fair value measurements. SFAS 157 will apply whenever another GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for all interim periods within those fiscal years. Accordingly, the Company will be required to adopt SFAS 157 in the first quarter of 2008. The Company is currently evaluating the impact that the adoption of SFAS 157 will have, if any, on its consolidated financial statements and notes thereto.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact this standard may have on its financial position and results of operations.

Business Combinations — In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141R"). SFAS 141R requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. Transaction costs will be expensed as incurred. SFAS 141R also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141R amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The Company expects to adopt SFAS 141R on January 1, 2009 and is currently assessing the potential impact that the adoption could have on the Company's financial statements.

Noncontrolling Interests in Consolidated Financial Statements — In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"), an amendment of Accounting Research Bulletin ("ARB")

No. 51 ("ARB 51"). SFAS 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for, and reporting of, transactions between the reporting entity and holders of such noncontrolling interests. Under SFAS 160, noncontrolling interests are considered equity and should be reported as an element of consolidated equity. Net income will encompass the total income of all consolidated subsidiaries and there will be separate disclosure on the face of the income statement of the attribution of that income between the controlling and noncontrolling interests; increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008, and earlier application is prohibited. SFAS 160 is required to be adopted prospectively, except for reclassify noncontrolling interests to equity, separate from the parent's shareholders' equity, in the consolidated statement of financial position and recasting consolidated net income (loss) to include net income (loss) attributable to both the controlling and noncontrolling interests, both of which are required to be adopted retrospectively. Since all of our subsidiaries are 100% owned, we do not expect the adoption of SFAS 160 will have a significant impact to our financial statements.

Stock-Based Compensation — The Company grants stock options and non-vested stock awards (previously referred to as "restricted stock") to its employees, officers and directors. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment ("SFAS 123R"), for its stock-based compensation plans. Among other things, SFAS 123R requires that compensation expense for all share-based awards be recognized in the financial statements based upon the grant-date fair value of those awards over the vesting period.

Prior to January 1, 2006, the Company accounted for stock-based compensation using the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"), and related interpretations, and disclosure requirements established by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), as amended by SFAS No. 148, Accounting for Stock-Based Compensation — Transitions and Disclosures ("SFAS 148").

Under APB No. 25, no compensation expense was recognized for either stock options issued under the Company's stock compensation plans or for stock purchased under the Company's 1990 Employee Stock Purchase Plan ("ESPP"). The pro forma effects on net income and earnings per share for stock options and ESPP stock purchases were instead disclosed in a footnote to the financial statements. Compensation expense was previously recognized for awards of non-vested stock, based upon the market value of the common stock on the date of award, on a straight-line basis over the requisite service period with the effect of forfeitures recognized as they occurred.

The following table represents the pro forma information for the years ended December 31, 2005 (as previously disclosed) under the Company's stock compensation plans had the compensation cost for the stock options and common stock purchased under the ESPP been determined based on the fair value at the grant-date consistent with the method prescribed by SFAS No. 123R:

(in thousands, except per share data)	Year Ended December 31, 2005
Net income as reported	$150,551
Total stock-based employee compensation cost included in the determination of net income, net of related income tax effects	2,061
Total stock-based employee compensation cost determined under fair value method for all awards, net of related income tax effects	(5,069)
Pro forma net income	$147,543
Net income per share:	
Basic, as reported	$ 1.09
Basic, pro forma	$ 1.06
Diluted, as reported	$ 1.08
Diluted, pro forma	$ 1.06

The Company has adopted SFAS 123R using the modified-prospective transition method. Under this transition method, compensation cost recognized for the years ended December 31, 2007 and 2006 includes:

- Compensation cost for all share-based awards (expected to vest) granted prior to, but not yet vested as of, January 1, 2006, based upon grant-date fair value estimated in accordance with the original provisions of SFAS 123; and
- Compensation cost for all share-based awards (expected to vest) granted during the years ended December 31, 2007 and 2006, based upon grant-date fair value estimated in accordance with the provisions of SFAS 123R.

Results for prior periods have not been restated.

Upon adoption of SFAS 123R, the Company continued to use the Black-Scholes valuation model for valuing all stock options and shares purchased under 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 will be recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period. The cumulative effect of changing from recognizing compensation expense for non-vested stock awards as forfeitures occurred to recognizing compensation expense for non-vested awards net of estimated forfeitures was not material.

The adoption of SFAS 123R had the following effect on the Company for the years ended December 31, 2007 and 2006:

	Year Ended December 31,	
(in thousands)	2007	2006
Non-cash stock-based compensation	$17	$(564)
Increase (decrease) in:		
Provisions for income taxes	$ 7	$(217)
Net income	$10	$(347)
Basic earnings per share	$—	$ —
Diluted earnings per share	$—	$ —
Deferred tax liability (asset)	$ 7	$(217)

In addition, prior to the adoption of SFAS 123R, the Company presented tax benefits resulting from the exercise of stock options as operating cash flows in the statement of cash flows. SFAS 123R requires that tax benefits associated with share-based payments be classified under financing activities in the statement of cash flows. This change in presentation in the accompanying Consolidated Statement of Cash Flows has reduced net operating cash flows and increased net financing cash flows by $4,564,000 and $604,000 for the years ended December 31, 2007 and 2006, respectively.

See Note 11 for additional information regarding the Company's stock-based compensation plans and the assumptions used to calculate the fair value of stock-based awards.

NOTE 2 Business Combinations

ACQUISITIONS IN 2007

During 2007, Brown & Brown acquired the assets and assumed certain liabilities of 38 insurance intermediaries, the stock of three insurance intermediaries and several books of business (customer accounts). The aggregate purchase price of these acquisitions was $241,437,000, including $207,934,000 of net cash payments, the issuance of $13,001,000 in notes payable and the assumption of $20,502,000 of liabilities. Substantially all of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and obtain the services of quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to intangible assets. Acquisitions are initially recorded at preliminary fair values. Subsequently, the Company completes the final fair value allocations and any adjustments to assets or liabilities acquired are recorded in the current period.

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

(in thousands) Name	Business Segment	2007 Date of Acquisition	Net Cash Paid	Notes Payable	Recorded Purchase Price
ALCOS, Inc	Retail	March 1	$ 30,916	$ 3,563	$ 34,479
Grinspec, Inc.	Retail	April 1	31,952	—	31,952
Sobel Affilates Inc.	Retail	April 1	33,057	—	33,057
The Combined Group, Inc, et al	Wholesale Brokerage	August 1	24,059	—	24,059
Evergreen Re, Incorporated	Wholesale Brokerage	December 1	11,021	2,000	13,021
Other	Various	Various	76,929	7,438	84,367
Total			$207,934	$13,001	$220,935

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

(in thousands)	ALCOS	Grinspec	Sobel	Combined	Evergreen	Other	Total
Fiduciary cash	$ 627	$ —	$ —	$ 2,686	$ —	$ 716	$ 4,029
Other current assets	1,224	669	286	—	—	1,310	3,489
Fixed assets	720	—	50	212	40	649	1,671
Goodwill	26,873	19,248	19,663	12,730	8,456	56,336	143,306
Purchased customer accounts	10,046	12,498	13,129	11,051	4,494	36,882	88,100
Noncompete agreements	130	—	31	66	31	459	717
Other Assets	115	—	—	—	—	10	125
Total assets acquired	39,735	32,415	33,159	26,745	13,021	96,362	241,437
Other current liabilities	(2,173)	(463)	(102)	(1,383)	—	(11,246)	(15,367)
Deferred income taxes	(3,083)	—	—	—	—	(749)	(3,832)
Other liabilities	—	—	—	(1,303)	—	—	(1,303)
Total liabilities assumed	(5,256)	(463)	(102)	(2,686)	—	(11,995)	(20,502)
Net assets acquired	$34,479	$31,952	$33,057	$24,059	$13,021	$ 84,367	$220,935

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

Goodwill of $143,306,000, of which $113,462,000 is expected to be deductible for income tax purposes, was assigned to the Retail, Wholesale Brokerage, National Programs and Service Divisions in the amounts of $116,566,000, $25,810,000, $483,000 and $447,000, respectively.

The results of operations for the acquisitions completed during 2007 have been combined with those of the Company since their respective acquisitions dates. If the acquisitions had occurred as of January 1, 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:

	Year Ended December 31,	
(in thousands, except per share data)	**2007**	2006
(UNAUDITED)		
Total revenues	**$1,017,711**	$991,673
Income before income taxes	**$ 330,525**	$315,223
Net income	**$ 202,605**	$194,001
Net income per share:		
Basic	**$ 1.44**	$ 1.39
Diluted	**$ 1.43**	$ 1.38
Weighted average number of shares outstanding:		
Basic	**140,476**	139,634
Diluted	**141,257**	141,020

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 2007 as a result of these adjustments totaled $18,995,000, of which $18,947,000 was allocated to goodwill and $48,000 to noncompete agreements. Of the $18,995,000 net additional consideration paid, $8,397,000 was paid in cash, $10,896,000 was issued in notes payable and $298,000 of net liabilities was forgiven. As of December 31, 2007, the maximum future contingency payments related to acquisitions totaled $226,206,000.

ACQUISITIONS IN 2006

During 2006, Brown & Brown acquired the assets and assumed certain liabilities of 32 entities. The aggregate purchase price of these acquisitions was $155,869,000, including $138,695,000 of net cash payments, the issuance of $3,696,000 in notes payable and the assumption of $13,478,000 of liabilities. Substantially all of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and obtain the services of quality individuals. Acquisition purchase prices are based primarily on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to goodwill.

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

(in thousands) Name	Business Segment	2006 Date of Acquisition	Net Cash Paid	Notes Payable	Recorded Purchase Price
Axiom Intermediaries, LLC	Wholesale Brokerage	January 1	$ 60,333	$ —	$ 60,333
Delaware Valley Underwriting Agency, Inc., et al (DVUA)	Wholesale Brokerage/National Programs	September 30	46,333	—	46,333
Other	Various	Various	32,029	3,696	35,725
Total			$138,695	$3,696	$142,391

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

(in thousands)	Axiom	DVUA	Other	Total
Fiduciary cash	$ 9,598	$ —	$ —	$ 9,598
Other current assets	445	7	567	1,019
Fixed assets	435	648	476	1,559
Purchased customer accounts	14,022	22,667	18,682	55,371
Noncompete agreements	31	52	581	664
Goodwill	45,600	24,942	17,107	87,649
Other assets	—	9	—	9
Total assets acquired	70,131	48,325	37,413	155,869
Other current liabilities	(9,798)	(1,843)	(1,496)	(13,137)
Other liabilities	—	(149)	(192)	(341)
Total liabilities assumed	(9,798)	(1,992)	(1,688)	(13,478)
Net assets acquired	$60,333	$46,333	$35,725	$142,391

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

Goodwill of $87,649,000, all of which is expected to be deductible for income tax purposes, was assigned to the Retail, Wholesale Brokerage, National Programs and Service Divisions in the amounts of $6,337,000, $67,984,000, $10,561,000 and $2,767,000, respectively.

The results of operations for the acquisitions completed during 2006 have been combined with those of the Company since their respective acquisitions dates. If the acquisitions had occurred as of January 1, 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:

	Year Ended December 31,	
(in thousands, except per share data)	2006	2005
(UNAUDITED)		
Total revenues	$902,345	$842,698
Income before income taxes	$288,643	$263,326
Net income	$177,644	$162,389
Net income per share:		
Basic	$ 1.27	$ 1.17
Diluted	$ 1.26	$ 1.16
Weighted average number of shares outstanding:		
Basic	139,634	138,563
Diluted	141,020	139,776

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 2006 as a result of these adjustments totaled $48,824,000, of which $49,221,000 was allocated to goodwill and $397,000 was a reduction of current assets. Of the $48,824,000 net additional consideration paid, $14,640,000 was paid in cash, $33,261,000 was issued in notes payable and $923,000 was assumed as net liabilities. As of December 31, 2006, the maximum future contingency payments related to acquisitions totaled $169,947,000.

NOTE 3 Goodwill

The changes in goodwill for the years ended December 31, are as follows:

(in thousands)	Retail	Wholesale Brokerage	National Programs	Service	Total
Balance as of January 1, 2006	$ 292,212	$ 137,750	$ 119,022	$ 56	$ 549,040
Goodwill of acquired businesses	38,681	72,115	23,307	2,767	136,870
Goodwill disposed of relating to sales of businesses	(1,389)	—	—	—	(1,389)
Balance as of December 31, 2006	329,504	209,865	142,329	2,823	684,521
Goodwill of acquired businesses	124,322	32,865	4,619	447	162,253
Goodwill disposed of relating to sales of businesses	(341)	—	—	—	(341)
Balance as of December 31, 2007	**$453,485**	**$242,730**	**$146,948**	**$3,270**	**$846,433**

NOTE 4 Amortizable Intangible Assets

Amortizable intangible assets at December 31 consisted of the following:

	2007				2006			
(in thousands)	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	$628,123	$(187,543)	$440,580	14.9	$541,967	$(149,764)	$392,203	14.9
Noncompete agreements	25,858	(23,214)	2,644	7.7	25,589	(21,723)	3,866	7.7
Total	$653,981	$(210,757)	$443,224		$567,556	$(171,487)	$396,069	

Amortization expense recorded for other amortizable intangible assets for the years ended December 31, 2007, 2006 and 2005 was $40,436,000, $36,498,000 and $33,245,000, respectively.

Amortization expense for other amortizable intangible assets for the years ending December 31, 2008, 2009, 2010, 2011 and 2012 is estimated to be $42,505,000, $42,037,000, $41,358,000, $39,936,000, and $39,320,000, respectively.

NOTE 5 Investments

Investments at December 31 consisted of the following:

	2007 Carrying Value		2006 Carrying Value	
(in thousands)	Current	Non-Current	Current	Non-Current
Available-for-sale marketable equity securities	$ 46	$ —	$ 240	$15,181
Non-marketable equity securities and certificates of deposit	2,846	355	2,669	645
Total investments	$2,892	$355	$2,909	$15,826

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

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable equity securities:				
2007	$ 25	$ 21	$—	$ 46
2006	$550	$14,871	$—	$15,421

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

(in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses
2007	$21,715	$18,733	$(780)
2006	$ 119	$ 25	$ —
2005	$ 896	$ 87	$ —

As of December 31, 2006, the Company's largest security investment was 559,970 common stock shares of Rock-Tenn Company, a New York Stock Exchange listed company, which the Company owned for more than 25 years. The Company's investment in Rock-Tenn Company accounted for 81% of the total value of available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit as of December 31, 2006. During 2007, the Board of Directors authorized the sale of the Company's investment in Rock-Tenn Company, and the Company realized a gain in excess of the Company's original cost basis of $18,664,000. As of December 31, 2007, Brown & Brown has no remaining shares of Rock-Tenn Company.

NOTE 6 Fixed Assets

Fixed assets at December 31 consisted of the following:

(in thousands)	2007	2006
Furniture, fixtures and equipment	$112,413	$ 90,146
Leasehold improvements	12,393	10,590
Land, buildings and improvements	491	487
Total cost	125,297	101,223
Less accumulated depreciation and amortization	(62,970)	(57,053)
Total	$ 62,327	$ 44,170

Depreciation and amortization expense amounted to $12,763,000 in 2007, $11,309,000 in 2006 and $10,061,000 in 2005.

NOTE 7 Accrued Expenses

Accrued expenses at December 31 consisted of the following:

(in thousands)	2007	2006
Accrued bonuses	$41,182	$42,426
Accrued compensation and benefits	19,702	16,213
Reserve for policy cancellations	8,339	7,432
Accrued rent and vendor expenses	8,302	7,937
Accrued interest	4,488	4,524
Other	8,586	7,477
Total	$90,599	$86,009

NOTE 8 Long-Term Debt

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

(in thousands)	2007	2006
Unsecured Senior Notes	$225,000	$225,000
Acquisition notes payable	14,025	6,310
Revolving credit facility	—	—
Term loan agreements	—	12,857
Other notes payable	201	167
Total debt	239,226	244,334
Less current portion	(11,519)	(18,082)
Long-term debt	$227,707	$226,252

In July 2004, the Company completed a private placement of $200.0 million of unsecured senior notes (the "Notes"). The $200.0 million is divided into two series: Series A, for $100.0 million due in 2011 and bearing interest at 5.57% per year; and Series B, for $100.0 million due in 2014 and bearing interest at 6.08% per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. Brown & Brown has used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of December 31, 2007 and 2006, there was an outstanding balance of $200.0 million on the Notes.

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). The Purchaser also purchased Notes issued by the Company in 2004. The Master Agreement provides for a $200.0 million private uncommitted "shelf" facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten (10) years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per annum.

Also on December 22, 2006, the Company entered into a Second Amendment to Amended and Restated Revolving and Term Loan Agreement (the "Second Term Amendment") and a Third Amendment to Revolving Loan Agreement (the "Third Revolving Amendment") with a national banking institution, amending the existing Amended and Restated Revolving and Term Loan Agreement dated January 3, 2001 (the "Term Agreement") and the existing Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), respectively. The amendments provided covenant exceptions for the notes issued or to be issued under the Master Agreement, and relaxed or deleted certain other covenants. In the case of the Third Revolving Amendment, the lending commitment was reduced from $75.0 million to $20.0 million, the maturity date was extended from September 30, 2008 to December 20, 2011, and the applicable margins for advances and the availability fee were reduced. Based on the Company's funded debt to EBITDA ratio, the applicable margin for Eurodollar advances changed from a range of London Interbank Offering Rate ("LIBOR") LIBOR plus 0.625% to 01.625% to a range of LIBOR plus 0.450% to 0.875%. The applicable margin for base rate advances changed from a range of LIBOR plus 0.00% to 0.125% to the Prime Rate less 1.000%. The availability fee changed from a range of 0.175% to 0.250% to a range of 0.100% to 0.200%. The 90-day LIBOR was 4.70% and 5.36% as of December 31, 2007 and 2006, respectively. The prime rate was 7.5% and 8.25% as of December 31, 2007 and 2006, respectively. There were no borrowings against this facility at December 31, 2007 or 2006.

In January 2001, Brown & Brown entered into a $90.0 million unsecured seven-year Term Agreement with a national banking institution, bearing an interest rate based upon the 30-, 60- or 90-day LIBOR plus 0.50% to 1.00%, depending upon Brown & Brown's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization and non-cash stock grant compensation. The 90-day LIBOR was 4.70% and 5.36% as of December 31, 2007 and 2006, respectively. The loan was fully funded on January 3, 2001 and was to be repaid in equal quarterly installments of $3,200,000 through December 2007. As of December 31, 2007 the outstanding balance had been paid in full.

All four of these credit agreements require Brown & Brown to maintain certain financial ratios and comply with certain other covenants. Brown & Brown was in compliance with all such covenants as of December 31, 2007 and 2006.

To hedge the risk of increasing interest rates from January 2, 2002 through the remaining six years of its seven-year $90 million term loan, Brown & Brown entered into an interest rate swap agreement that effectively converted the floating rate LIBOR-based interest payments to fixed interest rate payments at 4.53%. This agreement did not affect the required 0.50% to 1.00% credit risk spread portion of the term loan. In accordance with SFAS No. 133, as amended, the fair value of the interest rate swap of approximately $37,000, net of related income taxes of approximately $22,000, was recorded in other assets as of December 31, 2006, with the related change in fair value reflected as other comprehensive income. Brown & Brown has designated and assessed the derivative as a highly effective cash flow hedge. As of December 31, 2007 the interest rate swap agreement expired in conjunction with the final payment on the related Term Agreement.

Acquisition notes payable represent debt incurred to former owners of certain insurance operations acquired by Brown & Brown. These notes and future contingent payments are payable in monthly, quarterly and annual installments through April 2011, including interest in the range from 0.0% to 9.0%.

Interest paid in 2007, 2006 and 2005 was $13,838,000, $14,136,000 and $13,726,000, respectively.

At December 31, 2007, maturities of long-term debt were $11,519,000 in 2008, $491,000 in 2009, $2,157,000 in 2010, $100,059,000 in 2011, $0 in 2012 and $125,000,000 in 2013 and beyond.

NOTE 9 Income Taxes

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

(in thousands)	2007	2006	2005
Current:			
Federal	$105,534	$ 83,792	$72,550
State	14,709	12,419	10,387
Total current provision	120,243	96,211	82,937
Deferred:			
Federal	(168)	9,139	8,547
State	493	2,341	2,095
Total deferred provision	325	11,480	10,642
Total tax provision	$120,568	$107,691	$93,579

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:

	2007	2006	2005
Federal statutory tax rate	35.0 %	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.2	3.4	3.3
Non-deductible employee stock purchase plan expense	0.4	0.4	—
Interest exempt from taxation and dividend exclusion	(0.5)	(0.3)	(0.2)
Other, net	0.6	—	0.2
Effective tax rate	38.7 %	38.5%	38.3%

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 and non-current deferred tax liabilities and assets as of December 31 are as follows:

(in thousands)	2007	2006
Current:		
Current deferred tax assets:		
Deferred contingent revenue	$17,208	$ —
Total current deferred tax assets	$17,208	$ —

(in thousands)	2007	2006
Non-current:		
Non-current deferred tax liabilities:		
Fixed assets	$ 3,783	$ 3,051
Net unrealized holding gain of available-for-sale securities	8	5,337
Prepaid insurance and pension	2,522	2,516
Net gain on cash-flow hedging derivative	—	22
Intangible assets	72,943	51,127
Total non-current deferred tax liabilities	79,256	62,053
Non current deferred tax assets:		
Deferred compensation	6,040	5,886
Accruals and reserves	6,881	6,310
Net operating loss carryforwards	829	634
Valuation allowance for deferred tax assets	(230)	(498)
Total non-current deferred tax assets	13,520	12,332
Net non-current deferred tax liability	$65,736	$49,721

Income taxes paid in 2007, 2006 and 2005 were $114,380,000, $102,761,000, and $77,143,000, respectively.

At December 31, 2007, Brown & Brown had net operating loss carryforwards of $406,000 and $21,807,000 for federal and state income tax reporting purposes, respectively, portions of which expire in the years 2008 through 2022. The federal carryforward was derived from insurance operations acquired by Brown & Brown in 2001. The state carryforward is derived from the operating results of certain subsidiaries.

We adopted the provision of Financial Standards Accounting Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes ("FIN 48") an interpretation of FASB Statement No. 109 on January 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for 2007 is as follows:

(in thousands)	
Unrecognized tax benefits balance at January 1, 2007	$ 591
Gross increases for tax positions of prior years	15,805
Gross decreases for tax positions of prior years	—
Settlements	(15,772)
Lapse of statute of limitations	(117)
Unrecognized tax benefits balance at December 31, 2007	$ 507

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2007 and December 31, 2007, we had approximately $157,000 and $128,000 of accrued interest related to uncertain tax positions, respectively.

During 2007, the IRS concluded their audit of our 2004-2006 tax years in which they disputed our method of recognizing profit-sharing contingent commissions for tax purposes. We recognize profit-sharing contingent commissions when determinable, which is when such commissions are received, however, the IRS believes that we should estimate those monies as of each December 31. We agreed to resolve this dispute for a $1.1 million payment of interest and our agreement 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 31. 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 with that balance reversing by the following March 31 when the related profit-sharing contingent commissions are recognized for financial accounting purposes.

NOTE 10 Employee Savings Plan

Brown & Brown has an Employee Savings Plan (401(k)) under which substantially all employees with more than 30 days of service are eligible to participate. Under this plan, Brown & Brown makes matching contributions, subject to a maximum of 2.5% of each participant's salary. Further, Brown & Brown provides for a discretionary profit-sharing contribution of 1.5% of the employee's salary for all eligible employees. Brown & Brown's contributions to the plan totaled $10,699,000 in 2007, $7,585,000 in 2006 and $7,762,000 in 2005.

NOTE 11 Stock-Based Compensation

PERFORMANCE STOCK PLAN

Brown & Brown has adopted and the shareholders have approved a performance stock plan, under which up to 14,400,000 shares of Brown & Brown's stock (Performance Stock, also referred to as PSP) may be granted to key employees contingent on the employees' future years of service with Brown & Brown and other criteria established by the Compensation Committee of Brown & Brown's Board of Directors. Before participants 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 initial grant price specified by Brown & Brown. Performance Stock that has satisfied the first vesting condition is considered to be "awarded shares." Awarded shares are included as issued and outstanding common stock shares and are included in the calculation of basic and diluted earnings per share. 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: (i) 15 years of continuous employment with Brown & Brown from the date shares are granted to the participants; (ii) attainment of age 64; or (iii) death or disability of the participant. At December 31, 2007, 6,149,820 shares had been granted under the plan at initial stock prices ranging from $1.90 to $30.55. As of December 31, 2007, 4,686,732 shares had met the first condition for vesting and had been awarded, and 574,864 shares had satisfied both conditions for vesting and had been distributed to the participants.

The Company uses a path-depended lattice model to estimate the fair value of PSP grants on the grant-date under SFAS 123R. A summary of PSP activity for the years ended December 31, 2007 and 2006 is as follows:

	Weighted-Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2006	$ 5.21	5,851,682	5,125,304	726,378
Granted	$18.48	262,260	868	261,392
Awarded	$11.99	—	291,035	(291,035)
Vested	$ 6.43	(28,696)	(28,696)	—
Forfeited	$ 5.93	(393,728)	(352,341)	(41,387)
Outstanding at December 31, 2006	$ 5.92	5,691,518	5,036,170	655,348
Granted	$15.74	323,495	—	323,495
Awarded	$ —	—	—	—
Vested	$ 5.33	(48,552)	(48,552)	—
Forfeited	$ 8.95	(391,505)	(300,886)	(90,619)
Outstanding at December 31, 2007	**$ 6.38**	**5,574,956**	**4,686,732**	**888,224**

The weighted average grant-date fair value of PSP grants for years ended December 31, 2007, 2006 and 2005 was $15.74, $18.48 and $14.39, respectively. The total fair market value of PSP grants that vested during each of the years ended December 31, 2007, 2006 and 2005 was $1,314,000, $862,000 and $1,581,000, respectively.

EMPLOYEE STOCK PURCHASE PLAN

The Company has a shareholder-approved Employee Stock Purchase Plan ("ESPP") with a total of 12,000,000 authorized shares and 4,536,970 available for future subscriptions. Employees of the Company who regularly work more than 20 hours per week are eligible to participate in the plan. Participants, through payroll deductions, may subscribe to purchase Company stock up to 10% of their compensation, to a maximum of $25,000, during each annual subscription period (August 1st to the following July 31st) at a cost of 85% of the lower of the stock price as of the beginning or ending of the stock subscription period.

For the plan year ended July 31, 2007, 2006 and 2005, the Company issued 490,213, 571,601 and 521,948 shares of common stock in the month of August 2007, 2006 and 2005, respectively. These shares were issued at an aggregate purchase price of $10,711,000 or $21.85 per share in 2007, $10,557,000 or $18.47 per share in 2006, and $9,208,000 or $17.64 per share in 2005.

For the five months ended December 31, 2007, 2006 and 2005 of the 2007-2008, 2006-2007 and 2005-2006 plan years, 233,427, 191,140 and 241,668 shares of common stock (from authorized but unissued shares), respectively, were subscribed to by participants for proceeds of approximately $4,664,000 $4,817,000 and $4,464,000, respectively.

INCENTIVE STOCK OPTION PLAN

On April 21, 2000, Brown & Brown adopted and the shareholders approved a qualified incentive stock option plan that provides for the granting of stock options to certain key employees for up to 4,800,000 shares of common stock. The objective of this plan is to provide additional performance incentives to grow Brown & Brown's pre-tax income in excess of 15% annually. The options are 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 under SFAS 123R, which is the same valuation technique previously used for pro forma disclosures under SFAS 123. The Company did not grant any options during the year ended December 31, 2007 and 2006, but did grant 12,000 shares during the year ended December 31, 2005. The weighted average fair value of the incentive stock options granted during 2005 estimated on the date of grant, using the Black-Scholes option-pricing model, was $8.51 per share. The fair value of these options granted was estimated on the date of grant using the following assumptions: dividend yield of 0.86%; expected volatility of 35.0%; risk-free interest rate of 4.5%; and an expected life of 6 years.

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, 2007, 2006 and 2005 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, 2005	2,073,028	$ 10.56	6.9	$ 36,580
Granted	12,000	$ 22.06		
Exercised	(68,040)	$ 4.84		
Forfeited	—	$ —		
Expired	—	$ —		
Outstanding at December 31, 2005	2,016,988	$ 10.83	5.9	$ 35,064
Granted	—	$ —		
Exercised	(123,213)	$ 6.11		
Forfeited	(8,000)	$ 15.78		
Expired	—	$ —		
Outstanding at December 31, 2006	1,885,775	$ 11.11	4.9	$ 32,241
Granted	—	$ —		
Exercised	(632,307)	$ 8.38		
Forfeited	—	$ —		
Expired	—	$ —		
Outstanding at December 31, 2007	**1,253,468**	**$12.49**	**4.3**	**$22,679**
Ending vested and expected to vest at December 31, 2007	**1,253,468**	**$12.49**	**4.3**	**$22,679**
Exercisable at December 31, 2007	**590,776**	**$ 8.68**	**3.3**	**$ 8,757**
Exercisable at December 31, 2006	1,185,067	$ 8.29	4.2	$ 23,607
Exercisable at December 31, 2005	783,672	$ 4.88	5.2	$ 18,281

The following table summarizes information about stock options outstanding at December 31, 2007:

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.84	382,792	2.3	$ 4.84	382,792	$ 4.84
$14.20	4,000	3.8	$14.20	4,000	$14.20
$15.78	854,676	5.2	$15.78	203,984	$15.78
$22.06	12,000	7.0	$22.06	—	—
Totals	1,253,468	4.3	$12.49	590,776	$ 8.68

The weighted average grant-date fair value of stock options granted during the year ended December 31, 2007, 2006 and 2005 was $0.00, $0.00 and $8.51, respectively. The total intrinsic value of options exercised, determined as of the date of exercise, during the years ended December 31, 2007, 2006 and 2005 was $12,675,000, $2,865,000 and $1,381,000, 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, 2007, 2006 and 2005.

There were 1,545,996 option shares available for future grant under this plan as of December 31, 2007.

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)	2007	2006	2005
Employee Stock Purchase Plan	$3,234	$3,049	$ —
Performance Stock Plan	2,016	1,874	3,337
Incentive Stock Option Plan	417	493	—
Total	$5,667	$5,416	$3,337

SUMMARY OF UNRECOGNIZED COMPENSATION EXPENSE

As of December 31, 2007, there was approximately $18.0 million of unrecognized compensation expense related to all non-vested share-based compensation arrangements granted under the Company's stock-based compensation plans. That expense is expected to be recognized over a weighted-average period of 9.1 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)	2007	2006	2005
Unrealized holding (loss) gain on available-for-sale securities, net of tax benefit of $5,328 for 2007; net of tax effect of $2,752 for 2006; and net of tax benefit of $300 for 2005	$ (9,093)	$ 4,697	$ (512)
Net (loss) gain on cash-flow hedging derivative, net of tax benefit of $22 for 2007, net of tax benefit of $0 for 2006; and net of tax effect of $289 for 2005	$ (38)	$ 1	$ 491
Notes payable issued or assumed for purchased customer accounts	$23,897	$36,957	$42,843
Notes received on the sale of fixed assets and customer accounts	$ 9,689	$ 2,715	$ 1,855

NOTE 13 Commitments and Contingencies

OPERATING LEASES

Brown & Brown leases facilities and certain items of office equipment under noncancelable operating lease arrangements expiring on various dates through 2017. 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, 2007, the aggregate future minimum lease payments under all noncancelable lease agreements were as follows:

(in thousands)	
2008	$24,553
2009	21,177
2010	17,065
2011	11,624
2012	7,674
Thereafter	12,962
Total minimum future lease payments	$95,055

Rental expense in 2007, 2006 and 2005 for operating leases totaled $33,381,000, $30,338,000 and $28,926,000, respectively.

LEGAL PROCEEDINGS

Governmental Investigations Regarding Compensation Practices

As disclosed in prior years, Brown & Brown, Inc. was one of more than ten insurance intermediaries named together with a number of insurance companies as defendants in putative class action lawsuits purporting to be brought on behalf of policyholders. Brown & Brown, Inc. initially became a defendant in certain of those actions in October and December of 2004. In February 2005, the Judicial Panel on Multi-District Litigation consolidated these cases, together with other putative class action lawsuits in which Brown & Brown, Inc. was not named as a party, to a single jurisdiction, the United States District Court, District of New Jersey, for pre-trial purposes. One of the consolidated actions, *In Re: Employee-Benefits Insurance Antitrust Litigation*, concerns employee benefits insurance and the other, styled *In Re: Insurance Brokerage Antitrust Litigation*, involves other lines of insurance. These two consolidated actions are collectively referred to in this report as the "Antitrust Actions." The complaints refer to an action, since settled, that was filed against Marsh & McLennan Companies, Inc. ("Marsh & McLennan"), the largest insurance broker in the world, by the New York State Attorney General in October 2004, and allege various improprieties and unlawful acts by the various defendants in the pricing and placement of insurance, including alleged manipulation of the insurance market by, among other things: "bid rigging" and "steering" clients to particular insurers based on considerations other than the clients' interests; alleged entry into unlawful tying arrangements pursuant to which the placement of primary insurance contracts was conditioned upon commitments to place reinsurance through a particular broker; and alleged failure to disclose contingent commission and other allegedly improper compensation and fee arrangements.

On April 5, 2007, the United States District Court, District of New Jersey, dismissed all claims alleging violations of federal law against all defendants, including the Company, in each of the Antitrust Actions, but allowed the plaintiffs leave to file an amended complaint by May 22, 2007. Subsequently, on May 21, 2007, the plaintiffs in the Antitrust Actions settled with the Company in exchange for the Company's agreement to waive its claims for sanctions and to reasonably cooperate with plaintiffs in the event that they seek additional information from the Company.

Since the New York State Attorney General filed the lawsuit referenced above against Marsh & McLennan in October 2004, governmental agencies in a number of states have looked or are looking into issues related to compensation practices in the insurance industry, and the Company has received and responded to written and oral requests for information and/or subpoenas seeking information related to this topic. To date, requests for information and/or subpoenas have been received from governmental agencies such as attorneys general or departments of insurance in the following states: Arkansas (Department of Insurance), Arizona (Department of Insurance), California (Department of Insurance), Connecticut (Office of Attorney General), Florida (Office of Attorney General, Department of Financial Services, and Office of Insurance Regulation), Illinois (Office of

Attorney General), Nevada (Department of Business & Industry, Division of Insurance), New Hampshire (Department of Insurance), New Jersey (Department of Banking and Insurance), New York (Office of Attorney General), North Carolina (Department of Insurance and Department of Justice), Oklahoma (Department of Insurance), Pennsylvania (Department of Insurance), South Carolina (Department of Insurance), Texas (Department of Insurance), Vermont (Department of Banking, Insurance, Securities & Healthcare Administration), Virginia (State Corporation Commission, Bureau of Insurance, Agent Regulation & Administration Division), Washington (Office of Insurance Commissioner) and West Virginia (Office of Attorney General). Agencies in Arizona, Virginia and Washington have concluded their respective investigations of subsidiaries of Brown & Brown, Inc. based in those states with no further action as to these entities.

As previously disclosed in our public filings, on December 8, 2006, Brown & Brown reached a settlement with the Florida government agencies identified above which terminated the joint investigation of those agencies with respect to Brown & Brown, Inc. and its subsidiaries. The settlement involved no finding of wrongdoing, no fines or penalties and no prohibition of profit-sharing compensation. Pursuant to the terms of the settlement, Brown & Brown, Inc. agreed to pay $1,800,000 to the investigating agencies to be distributed to Florida governmental entity policyholders of the Company plus $1,000,000 in attorneys' fees and costs associated with the investigation. Additionally, a Brown & Brown, Inc. subsidiary, Program Management Services Inc., doing business as Public Risk Underwriters®, agreed to pay $3,000,000 to the investigating agencies for distribution to a local government self-insurance fund. The affirmative obligations imposed under the settlement include continued enhanced disclosures to Florida policyholders concerning compensation received by Brown & Brown, Inc. and its subsidiaries.

Some of the other insurance intermediaries and insurance companies that have been subject to governmental investigations and/or lawsuits arising out of these matters have chosen to settle some such matters. Such settlements have involved the payment of substantial sums, as well as agreements to change business practices, including agreeing to no longer pay or accept profit-sharing contingent commissions.

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

As previously disclosed, in 2005 a committee comprised of independent members of the Board of Directors of Brown & Brown, Inc. (the "Special Review Committee") determined that maintenance of a derivative suit was not in the best interests of the Company, following an investigation in response to a December 2004 demand letter from counsel purporting to represent a current shareholder of Brown & Brown, Inc. (the "Demand Letter"). The Demand Letter sought the commencement of a derivative suit by Brown & Brown, Inc. against the Board of Directors and current and former officers and directors of Brown & Brown, Inc. for alleged breaches of fiduciary duty related to the Company's participation in contingent commission agreements. The Special Review Committee's conclusions were communicated to the purported shareholder's counsel and there has been limited communication since then. There can be no assurance that the purported shareholder will not further pursue his allegations or that any pursuit of any such allegations would not have a material adverse effect on the Company.

In response to the foregoing events, the Company also, on its own volition, engaged outside counsel to conduct a limited internal inquiry into certain sales and marketing practices of the Company, with special emphasis on the effects of profit-sharing contingent commission agreements on the placement of insurance products by the Company for its clients. The internal inquiry resulted in several recommendations being made in January 2006 regarding disclosure of compensation, premium finance charges, the retail-wholesale interface, fee-based compensation and direct incentives from insurance companies, and the Company has been evaluating such recommendations and has adopted or is in the process of adopting these recommendations. As a result of that inquiry, and in the process of preparing responses to some of the governmental agency inquiries referenced above, management of the Company became aware of a limited number of specific, unrelated instances of questionable conduct. These matters have been addressed and resolved, or are in the process of being addressed and resolved, on a case-by-case basis, and thus far the amounts involved in resolving such matters have not been, either individually or in the aggregate, material. However, there can be no assurance that the ultimate cost and ramifications of resolving these matters will not have a material adverse effect on the Company.

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

Other Proceedings

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

Among the above-referenced claims, and as previously described in the Company's public filings, there are several threatened and pending legal claims and lawsuits against Brown & Brown, Inc. and Brown & Brown Insurance Services of Texas, Inc. (BBTX), a subsidiary of Brown & Brown, Inc., arising out of BBTX's involvement with the procurement and placement of workers' compensation insurance coverage for entities including several professional employer organizations. One such action, styled *Great American Insurance Company, et al. v. The Contractor's Advantage, Inc., et al.*, Cause No. 2002-33960, pending in the 189th Judicial District Court in Harris County, Texas, asserts numerous causes of action, including fraud, civil conspiracy, federal Lanham Act and RICO violations, breach of fiduciary duty, breach of contract, negligence and violations of the Texas Insurance Code against BBTX, Brown & Brown, Inc. and other defendants, and seeks recovery of punitive or extraordinary damages (such as treble damages) and attorneys' fees.

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

NOTE 14 Business Concentrations

A significant portion of business written by Brown & Brown is for customers located in California, Florida, Georgia, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on Brown & Brown's business, although no such conditions have been encountered in the past.

For the year ended December 31, 2007, approximately 5.3% and 5.3% of Brown & Brown's total revenues were derived from insurance policies underwritten by two separate insurance companies, respectively. For the year ended December 31, 2006, approximately 5.3% and 4.9% of Brown & Brown's total revenues were derived from insurance policies underwritten by the same two separate insurance companies, respectively. For the year ended December 31, 2005, approximately 8.0% and 5.4% of Brown & Brown's total revenues were derived from insurance policies underwritten by the same two separate insurance companies, respectively. Should these insurance companies seek to terminate their arrangement with Brown & Brown, the Company believes that other insurance companies are available to underwrite the business, although some additional expense and loss of market share could possibly result. No other insurance company accounts for 5% or more of Brown & Brown's total revenues.

NOTE 15 Quarterly Operating Results (Unaudited)

Quarterly operating results for 2007 and 2006 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				
Total revenues	**$258,513**	**$246,644**	**$237,284**	**$217,226**
Total expenses	**$160,411**	**$162,148**	**$161,849**	**$163,732**
Income before income taxes	**$ 98,102**	**$ 84,496**	**$ 75,435**	**$ 53,494**
Net income	**$ 59,727**	**$ 52,012**	**$ 46,216**	**$ 33,004**
Net income per share:				
Basic	**$ 0.43**	**$ 0.37**	**$ 0.33**	**$ 0.23**
Diluted	**$ 0.42**	**$ 0.37**	**$ 0.33**	**$ 0.23**
2006				
Total revenues	$ 230,582	$ 220,807	$ 211,965	$ 214,650
Total expenses	$ 149,146	$ 149,840	$ 146,400	$ 152,577
Income before income taxes	$ 81,436	$ 70,967	$ 65,565	$ 62,073
Net income	$ 50,026	$ 44,431	$ 40,270	$ 37,623
Net income per share:				
Basic	$ 0.36	$ 0.32	$ 0.29	$ 0.27
Diluted	$ 0.36	$ 0.32	$ 0.29	$ 0.27

Quarterly financial information is affected by seasonal variations. The timing of profit-sharing contingent commissions, policy renewals and acquisitions may cause revenues, expenses and net income to vary significantly between quarters.

NOTE 16 Segment Information

Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, governmental, professional and individual customers; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers; the National Programs Division, which is comprised of two units — Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public and quasi-public entities, and market niches; and the Services Division, which provides insurance-related services, including third-party administration, consulting for the workers' compensation and employee benefit self-insurance markets, managed healthcare services and Medicare set-aside services. As of December 31, 2007, Brown & Brown conducted all of its operations within the United States of America.

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, 2007					
(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Other	Total
Total revenues	$ 562,438	$178,942	$157,548	$35,392	$ 25,347	$ 959,667
Investment income	260	2,927	513	31	26,763	30,494
Amortization	21,659	9,237	9,039	462	39	40,436
Depreciation	5,723	2,715	2,757	534	1,034	12,763
Interest expense	21,094	19,188	9,977	719	(37,176)	13,802
Income before income taxes	159,304	27,989	47,135	8,655	68,444	311,527
Total assets	1,356,772	640,931	570,295	41,233	(648,572)	1,960,659
Capital expenditures	5,816	2,835	1,831	318	19,843	30,643

	Year Ended December 31, 2006					
(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Other	Total
Total revenues	$ 517,989	$163,346	$157,448	$32,606	$ 6,615	$ 878,004
Investment income	139	4,017	432	45	6,846	11,479
Amortization	19,305	8,087	8,718	343	45	36,498
Depreciation	5,621	2,075	2,387	533	693	11,309
Interest expense	18,903	18,759	10,554	440	(35,299)	13,357
Income before income taxes	145,749	26,865	48,560	7,963	50,904	280,041
Total assets	1,103,107	618,374	544,272	32,554	(490,355)	1,807,952
Capital expenditures	5,952	2,085	3,750	588	2,604	14,979

	Year Ended December 31, 2005					
(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Other	Total
Total revenues	$ 491,202	$127,113	$133,930	$27,517	$ 6,045	$ 785,807
Investment income	159	1,599	367	—	4,453	6,578
Amortization	19,368	5,672	8,103	43	59	33,245
Depreciation	5,641	1,285	1,998	435	702	10,061
Interest expense	20,927	12,446	10,433	4	(29,341)	14,469
Income before income taxes	128,881	28,306	38,385	6,992	41,566	244,130
Total assets	1,002,781	476,653	445,146	18,766	(334,686)	1,608,660
Capital expenditures	6,186	1,969	3,067	350	1,854	13,426

NOTE 17 Subsequent Events

From January 1, 2008 through February 28, 2008, Brown & Brown acquired the assets and assumed certain liabilities of seven insurance intermediaries, two books of business (custom accounts) and the outstanding stock of one general insurance agency. The aggregate purchase price of these acquisitions was $71,080,000, including $65,918,000 of net cash payments, the issuance of $185,000 in notes payable and the assumption of $4,977,000 of liabilities. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and obtain high-quality individuals. Acquisition purchase prices are based primarily on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to intangible assets.

On February 1, 2008, we issued, under the Company's Master Agreement, $25.0 million in Series D Senior Notes payable on January 15, 2015, with a fixed interest rate of 5.37% per annum.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Brown & Brown and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at ALCOS, Inc., Grinspec, Inc., Sobel Affiliates Inc., The Combined Group, Inc, et al., Murfield Insurance, Inc., Security Insurance, Inc. II, Security Risk Managers, Inc., Professional Risk Managers, Inc., JPMorgan Insurance Agency, Inc., Island Risk Management Associates, Inc., Independent Insurance Associates, Inc., McFall General Agency, Inc., Dalton Insurance Agency, L.L.C., Evergreen Re, Incorporated and Turner & Associates Insurance Agency, Inc. (collectively the "2007 Excluded Acquisitions"), which were acquired during 2007 and whose financial statements constitute 16.6% and 11.8% of net and total assets, respectively, 4.2% of revenues, and 3.4% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at the 2007 Excluded Acquisitions. The Company's management is responsible for these financial statements, 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 Annual Assessment Report. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brown & Brown and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

Certified Public Accountants
Jacksonville, Florida
February 29, 2008

Management's Report on Internal Control Over Financial Reporting

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

In conducting Brown & Brown's evaluation of this effectiveness of its internal control over financial reporting, Brown & Brown has excluded the following acquisitions completed by Brown & Brown during 2007: ALCOS, Inc., Grinspec, Inc., Sobel Affiliates Inc., The Combined Group, Inc., et al., Murfield Insurance, Inc., Security Insurance, Inc. II, Security Risk Managers, Inc., Professional Risk Managers, Inc., JPMorgan Insurance Agency, Inc., Island Risk Management Associates, Inc., Independent Insurance Associates, Inc., McFall General Agency, Inc., Dalton Insurance Agency, L.L.C., Evergreen Re, Incorporated, and Turner & Associates Insurance Agency, Inc. Collectively, these acquisitions represented 16.6% and 11.8% of net and total assets as of December 31, 2007, 4.2% of total revenue and 3.4% of net income for the year ended. 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,* management concluded that internal control over financial reporting was effective as of December 31, 2007. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2007 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

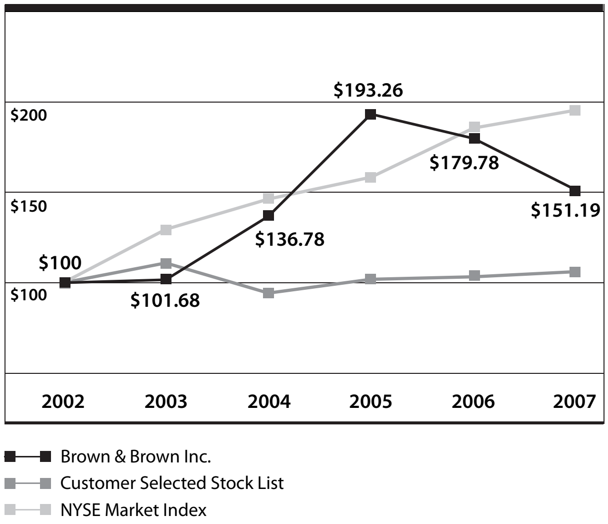
Brown & Brown, Inc.
Daytona Beach, Florida
February 29, 2008

J. Hyatt Brown
Chief Executive Officer

Cory T. Walker
Chief Financial Officer

Performance Graph

The following graph is a comparison of five-year cumulative total stockholder returns for our common stock as compared with the cumulative total stockholder return for the Standard & Poor's 500 Index, and a group of peer insurance broker and agency companies (Aon Corporation, Arthur J. Gallagher & Co, Hilb, Rogal and Hobbs Company, and Marsh & McLennan Companies, Inc.). The returns of each company have been weighted according to such companies' respective stock market capitalizations as of December 31, 2002 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed $100 investment on December 31, 2002, with all dividends reinvested.



	Fiscal Year Ending					
Company/Index/Market	2002	2003	2004	2005	2006	2007
Brown & Brown Inc.	100.00	101.68	136.78	193.26	179.78	151.19
Customer Selected Stock List	100.00	110.96	94.31	101.93	103.31	106.16
NYSE Market Index	100.00	129.55	146.29	158.37	185.55	195.46

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

Every morning in Africa
a Gazelle awakes.
It knows that it must run faster
than the fastest Cheetah
or it will be killed.

Every morning in Africa
a Cheetah awakes.
It knows that it must run faster
than the slowest Gazelle
or it will starve to death.

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

TEN-YEAR STATISTICAL SUMMARY

(in thousands, except per share data and Other Information)	**2007**	2006	2005	2004
REVENUES				
Commissions and fees	**$ 914,650**	$ 864,663	$ 775,543	$ 638,267
Investment income	**30,494**	11,479	6,578	2,715
Other income, net	**14,523**	1,862	3,686	5,952
Total revenues	**959,667**	878,004	785,807	646,934
EXPENSES				
Compensation and benefits	**444,101**	404,891	374,943	314,221
Non-cash stock-based compensation	**5,667**	5,416	3,337	2,625
Other operating expenses	**131,371**	126,492	105,622	84,927
Amortization expense	**40,436**	36,498	33,245	22,146
Depreciation expense	**12,763**	11,309	10,061	8,910
Interest expense	**13,802**	13,357	14,469	7,156
Total expenses	**648,140**	597,963	541,677	439,985
Income before income taxes and minority interest	**311,527**	280,041	244,130	206,949
Income taxes	**120,568**	107,691	93,579	78,106
Minority interest, net of tax	**–**	–	–	–
Net income	**$ 190,959**	$ 172,350	$ 150,551	$ 128,843
Compensation and benefits as % of total revenue	**46.3%**	46.1%	47.7%	48.6%
Operating expenses as % of total revenue	**13.7%**	14.4%	13.4%	13.1%
EARNINGS PER SHARE INFORMATION				
Net income per share – diluted	**$ 1.35**	$ 1.22	$ 1.08	$ 0.93
Weighted average number of shares outstanding – diluted	**141,257**	141,020	139,776	138,888
Dividends paid per share	**$ 0.2500**	$ 0.2100	$ 0.1700	$ 0.1450
YEAR-END FINANCIAL POSITION				
Total assets	**$1,960,659**	$ 1,807,952	$ 1,608,660	$ 1,249,517
Long-term debt	**$ 227,707**	$ 226,252	$ 214,179	$ 227,063
Shareholders' equity	**$1,097,458**	$ 929,345	$ 764,344	$ 624,325
Total shares outstanding	**140,673**	140,016	139,383	138,318
OTHER INFORMATION				
Number of full-time equivalent employees	**5,047**	4,733	4,540	3,960
Revenue per average number of employees	**$ 196,251**	$ 189,368	$ 184,896	$ 173,046
Book value per share	**$ 7.80**	$ 6.64	$ 5.48	$ 4.51
Stock price at year end (closing price)	**$ 23.50**	$ 28.21	$ 30.54	$ 21.78
Stock price earnings multiple	**17.41**	23.12	28.28	23.41
Return on beginning shareholders' equity	**21%**	23%	24%	26%

NOTE: Prior years have been restated to reflect the acquisitions of Daniel-James Insurance in 1998; Ampher-Ross and Signature Insurance Group in 1999; and Bowers, Schumann and Welch, The Flagship Group, WMH and Huffman & Associates, and Mangus Insurance & Bonding in 2000; The Huval Insurance Agency, Spencer & The Young Agency, Layne & Associates, Insurance Professionals Inc. and CompVantage, Finwall & Associates, The Connelly Insurance Group, The Benefits Group, Logan Insurance Agency,

Year Ended December 31,						
2004	2003	2002	2001	2000	1999	1998
638,267	$ 545,287	$ 452,289	$ 359,697	$ 258,309	$ 231,437	$ 211,722
2,715	1,428	2,945	3,686	4,887	3,535	4,350
5,952	4,325	508	1,646	2,209	2,551	718
646,934	551,040	455,742	365,029	265,405	237,523	216,790
314,221	268,372	224,755	187,653	149,836	131,270	119,879
2,625	2,272	3,823	1,984	483	1,263	732
84,927	74,617	66,554	56,815	44,372	41,893	41,228
22,146	17,470	14,042	15,860	9,226	8,343	6,329
8,910	8,203	7,245	6,536	6,158	5,892	5,216
7,156	3,624	4,659	5,703	1,266	1,360	1,233
439,985	374,558	321,078	274,551	211,341	190,021	174,617
206,949	176,482	134,664	90,478	54,064	47,502	42,173
78,106	66,160	49,271	34,834	20,146	18,331	16,179
–	–	2,271	1,731	1,125	900	848
128,843	$ 110,322	$ 83,122	$ 53,913	$ 32,793	$ 28,271	$ 25,146
48.6%	48.7%	49.3%	51.4%	56.5%	55.3%	55.3%
13.1%	13.5%	14.6%	15.6%	16.7%	17.6%	19.0%
0.93	$ 0.80	$ 0.61	$ 0.43	$ 0.26	$ 0.23	$ 0.20
138,888	137,794	136,086	126,444	124,182	123,310	123,048
0.1450	$ 0.1213	$ 0.1000	$ 0.0800	$ 0.0675	$ 0.0575	$ 0.0513
1,249,517	$ 865,854	$ 754,349	$ 488,737	$ 324,677	$ 286,416	$ 285,028
227,063	$ 41,107	$ 57,585	$ 78,195	$ 10,660	$ 10,905	$ 24,522
624,325	$ 498,035	$ 391,590	$ 175,285	$ 118,372	$ 100,355	$ 82,073
138,318	137,122	136,356	126,388	124,328	123,178	123,582
3,960	3,517	3,384	2,921	2,143	2,016	2,063
173,046	$ 159,699	$ 144,565	$ 144,166	$ 127,629	$ 116,461	$ 110,270
4.51	$ 3.63	$ 2.87	$ 1.39	$ 0.95	$ 0.81	$ 0.66
21.78	$ 16.31	$ 16.16	$ 13.65	$ 8.75	$ 4.79	$ 4.37
23.41	20.38	26.49	32.12	33.02	20.83	21.30
26%	28%	47%	46%	33%	34%	35%

and
&

Froehlich-Paulson-Moore, McKinnon & Mooney and Raleigh, Schwarz & Powell in 2001. All share and per-share information has been adjusted to give effect to the 3-for-2 common stock split which became effective February 27, 1998 and the 2-for-1 common stock splits which become effective August 23, 2000, November 21, 2001 and November 29, 2005, respectively.

Shareholder Information

CORPORATE OFFICES

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

3101 West Martin Luther King, Jr. Boulevard
Suite 400
Tampa, Florida 33607
(813) 222-4100

OUTSIDE COUNSEL

Cobb & Cole
150 Magnolia Avenue
Daytona Beach, Florida 32114

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 2007 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 2007 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.
3101 West Martin Luther King, Jr. Boulevard, Suite 400
Tampa, Florida 33607

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:

April 30, 2008
9:00 a.m. (ET)
The Shores Resort
2637 South Atlantic Avenue
Daytona Beach, Florida 32118

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
(866) 668-6550
email: investors@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 March 3, 2008 was 1,123. Closing price per share on that date was $17.91.

MARKET PRICE OF COMMON STOCK

	Stock Price Range		Cash Dividends per Share
	High	Low	
2007			
1st Quarter	**$29.02**	**$26.72**	**$0.0600**
2nd Quarter	**28.59**	**25.03**	**0.0600**
3rd Quarter	**29.15**	**24.65**	**0.0600**
4th Quarter	**27.71**	**23.10**	**0.0700**
2006			
1st Quarter	$ 33.23	$ 27.86	$ 0.0500
2nd Quarter	35.25	28.15	0.0500
3rd Quarter	32.50	27.06	0.0500
4th Quarter	30.77	28.00	0.0600

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.

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"MOTIVATION IS SIMPLE. YOU ELIMINATE THOSE WHO ARE NOT MOTIVATED."

–*Lou Holtz*

Brown & Brown, Inc. 2007 Annual Report