

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 001-13619

BROWN & BROWN, INC.

(Exact name of Registrant as specified in its charter)

Florida

(State or other jurisdiction of
incorporation or organization)

**220 South Ridgewood Avenue,
Daytona Beach, FL**

(Address of principal executive offices)



59-0864469

(I.R.S. Employer
Identification Number)

32114

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.10 Par Value	BRO	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the Registrant's common stock, \$0.10 par value, outstanding as of July 28, 2020 was 282,813,879.

BROWN & BROWN, INC.

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, “we,” “Brown & Brown” or the “Company”), makes “forward-looking statements” within the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report, including those relating to the potential effects of the COVID-19 pandemic (“COVID-19”) on the Company’s business, operations, financial performance and prospects. You can identify these statements by forward-looking words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “estimate,” “plan” and “continue” or similar words. We have based these statements on our current expectations about potential future events. Although we believe the expectations expressed in the forward-looking statements included in this Quarterly Report on Form 10-Q and the reports, statements, information and announcements incorporated by reference into this report are based upon reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Further, statements about the effects of COVID-19 on our business, operations, financial performance and prospects may constitute forward-looking statements and are subject to the risk that the actual impacts may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond our control, including the scope and duration of COVID-19, actions taken by governmental authorities in response to the COVID-19, and the direct and indirect impact of the COVID-19 on our customers, insurance carriers, third parties and us. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include but are not limited to the following items, in addition to those matters described in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”:

- COVID-19 and the resulting governmental and societal responses, the severity and duration of COVID-19, and the resulting impact on the U.S. economy, the global economy, and the Company’s business, liquidity, customers, insurance carriers and third parties;
- The inability to retain or hire qualified employees, as well as the loss of any of our executive officers or other key employees;
- Acquisition-related risks that could negatively affect the success of our growth strategy, including the possibility that we may not be able successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations, and expand into new markets;
- A cybersecurity attack or any other interruption in information technology and/or data security and/or outsourcing relationships;
- The requirement for additional resources and time to adequately respond to dynamics resulting from rapid technological change;
- Changes in data privacy and protection laws and regulations or any failure to comply with such laws and regulations;
- The loss of or significant change to any of our insurance company relationships, which could result in additional expense, loss of market share or material decrease in our profit-sharing contingent commissions, guaranteed supplemental commissions or incentive commissions;
- Adverse economic conditions, natural disasters, or regulatory changes in states where we have a high concentration of our business;
- The inability to maintain our culture or a change in management, management philosophy or our business strategy;
- Risks facing us in our Services Segment, including our third-party claims administration operations, that are distinct from those we face in our insurance intermediary operations;
- Our failure to comply with any covenants contained in our debt agreements;
- The possibility that covenants in our debt agreements could prevent us from engaging in certain potentially beneficial activities;
- Changes in estimates, judgments or assumptions used in the preparation of our financial statements;
- Improper disclosure of confidential information;
- The limitations of our system of disclosure and internal controls and procedures in preventing errors or fraud, or in informing management of all material information in a timely manner;
- The potential adverse effect of certain actual or potential claims, regulatory actions or proceedings on our businesses, results of operations, financial condition or liquidity;
- Changes in the U.S.-based credit markets that might adversely affect our business, results of operations and financial condition;
- The significant control certain existing shareholders have over the Company;

- Risks related to our international operations, which may require more time and expense than our domestic options to achieve or maintain profitability;
- Risks associated with the current interest rate environment and to the extent we use debt to finance our investments, changes in interest rates will affect our cost of capital and net investment income;
- Disintermediation within the insurance industry, including increased competition from insurance companies, technology companies and the financial services industry, as well as the shift away from traditional insurance markets;
- Changes in current U.S. or global economic conditions;
- Effects related to pandemics, epidemics, or outbreaks of infectious diseases;
- Conditions that result in reduced insurer capacity;
- Quarterly and annual variations in our commissions that result from the timing of policy renewals and the net effect of new and lost business production;
- The possibility that one of the financial institutions we use fails or is taken over by the U.S. Federal Deposit Insurance Corporation (FDIC);
- Uncertainty in our business practices and compensation arrangements due to potential changes in regulations;
- Regulatory changes that could reduce our profitability or growth by increasing compliance costs, technology compliance, restricting the products or services we may sell, the markets we may enter, the methods by which we may sell our products and services, or the prices we may charge for our services and the form of compensation we may accept from our customers, carriers and third-parties;
- Intangible asset risk, including the possibility that our goodwill may become impaired in the future;
- A decrease in demand for liability insurance as a result of tort reform litigation;
- Changes in our credit ratings;
- Volatility in our stock price; and
- Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (“SEC”) filings.

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

PART I — FINANCIAL INFORMATION

ITEM 1 — Financial Statements (Unaudited)

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

<i>(in thousands, except per share data)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
REVENUES				
Commissions and fees	\$ 598,157	\$ 572,932	\$ 1,294,660	\$ 1,190,395
Investment income	333	1,525	1,495	2,606
Other income, net	316	762	1,147	1,498
Total revenues	598,806	575,219	1,297,302	1,194,499
EXPENSES				
Employee compensation and benefits	346,515	309,610	696,139	642,447
Other operating expenses	75,568	98,050	182,700	186,833
(Gain)/loss on disposal	(31)	(1,016)	(291)	(511)
Amortization	26,741	25,954	53,132	52,146
Depreciation	6,168	5,666	12,189	11,701
Interest	13,809	16,293	29,100	31,491
Change in estimated acquisition earn-out payables	635	(2,860)	(10,322)	(1,650)
Total expenses	469,405	451,697	962,647	922,457
Income before income taxes	129,401	123,522	334,655	272,042
Income taxes	32,617	30,929	85,471	65,553
Net income	\$ 96,784	\$ 92,593	\$ 249,184	\$ 206,489
Net income per share:				
Basic	\$ 0.34	\$ 0.33	\$ 0.88	\$ 0.73
Diluted	\$ 0.34	\$ 0.33	\$ 0.88	\$ 0.73
Dividends declared per share	\$ 0.085	\$ 0.080	\$ 0.170	\$ 0.160

See accompanying Notes to Condensed Consolidated Financial Statements.

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<i>(in thousands, except per share data)</i>	June 30, 2020	December 31, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 623,240	\$ 542,174
Restricted cash and investments	438,964	420,801
Short-term investments	18,111	12,325
Premiums, commissions and fees receivable	1,080,896	942,834
Reinsurance recoverable	45,210	58,505
Prepaid reinsurance premiums	356,820	366,021
Other current assets	141,736	152,142
Total current assets	2,704,977	2,494,802
Fixed assets, net	174,376	148,627
Operating lease assets	190,322	184,288
Goodwill	4,023,298	3,746,094
Amortizable intangible assets, net	965,364	916,768
Investments	21,592	27,378
Other assets	121,129	104,864
Total assets	<u>\$ 8,201,058</u>	<u>\$ 7,622,821</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	\$ 1,205,604	\$ 1,014,317
Losses and loss adjustment reserve	45,210	58,505
Unearned premiums	356,820	366,021
Premium deposits and credits due customers	102,389	113,841
Accounts payable	195,793	99,960
Accrued expenses and other liabilities	289,960	337,717
Current portion of long-term debt	62,500	55,000
Total current liabilities	2,258,276	2,045,361
Long-term debt less unamortized discount and debt issuance costs	1,566,409	1,500,343
Operating lease liabilities	173,717	167,855
Deferred income taxes, net	323,558	328,277
Other liabilities	295,580	230,706
Shareholders' Equity:		
Common stock, par value \$0.10 per share; authorized 560,000 shares; issued 299,151 shares and outstanding 283,658 shares at 2020, issued 297,106 shares and outstanding 281,655 shares at 2019 - in thousands.	29,915	29,711
Additional paid-in capital	749,285	716,049
Treasury stock, at cost at 15,493 shares at 2020, 15,451 shares at 2019, respectively - in thousands	(537,672)	(536,243)
Retained earnings	3,341,990	3,140,762
Total shareholders' equity	3,583,518	3,350,279
Total liabilities and shareholders' equity	<u>\$ 8,201,058</u>	<u>\$ 7,622,821</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<u>Common Stock</u>		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
	Shares	Par Value				
<i>(in thousands, except per share data)</i>						
Balance at December 31, 2019	<u>297,106</u>	<u>\$ 29,711</u>	<u>\$ 716,049</u>	<u>\$ (536,243)</u>	<u>\$ 3,140,762</u>	<u>\$ 3,350,279</u>
Net income					152,400	152,400
Net unrealized holding (loss) gain on available-for-sale securities			194		99	293
Common stock issued for employee stock benefit plans	1,828	182	2,018			2,200
Purchase of treasury stock				(1,429)		(1,429)
Cash dividends paid (\$0.085 per share)					(23,902)	(23,902)
Balance at March 31, 2020	<u>298,934</u>	<u>\$ 29,893</u>	<u>\$ 718,261</u>	<u>\$ (537,672)</u>	<u>\$ 3,269,359</u>	<u>\$ 3,479,841</u>
Net income					96,784	96,784
Net unrealized holding (loss) gain on available-for-sale securities			384		(69)	315
Common stock issued for employee stock benefit plans	(73)	(7)	20,082			20,075
Common stock issued for agency acquisitions	274	27	9,973			10,000
Common stock issued to directors	16	2	585			587
Cash dividends paid (\$0.085 per share)					(24,084)	(24,084)
Balance at June 30, 2020	<u>299,151</u>	<u>\$ 29,915</u>	<u>\$ 749,285</u>	<u>\$ (537,672)</u>	<u>\$ 3,341,990</u>	<u>\$ 3,583,518</u>
Balance at December 31, 2018	<u>293,380</u>	<u>\$ 29,338</u>	<u>\$ 615,180</u>	<u>\$ (477,572)</u>	<u>\$ 2,833,622</u>	<u>\$ 3,000,568</u>
Net income					113,896	113,896
Net unrealized holding (loss) gain on available-for-sale securities			106			106
Common stock issued for employee stock benefit plans	2,465	246	5,963			6,209
Cash dividends paid (\$0.080 per share)					(22,348)	(22,348)
Balance at March 31, 2019	<u>295,845</u>	<u>\$ 29,584</u>	<u>\$ 621,249</u>	<u>\$ (477,572)</u>	<u>\$ 2,925,170</u>	<u>\$ 3,098,431</u>
Net income					92,593	92,593
Net unrealized holding (loss) gain on available-for-sale securities			205		(24)	181
Common stock issued for employee stock benefit plans	(54)	(5)	11,084			11,079
Purchase of treasury stock			20,000	(20,000)		—
Common stock issued to directors	28	3	877			880
Cash dividends paid (\$0.080 per share)					(22,533)	(22,533)
Balance at June 30, 2019	<u>295,819</u>	<u>\$ 29,582</u>	<u>\$ 653,415</u>	<u>\$ (497,572)</u>	<u>\$ 2,995,206</u>	<u>\$ 3,180,631</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	Six months ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 249,184	\$ 206,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	53,132	52,146
Depreciation	12,189	11,701
Non-cash stock-based compensation	30,087	24,128
Change in estimated acquisition earn-out payables	(10,322)	(1,650)
Deferred income taxes	(4,766)	(5,342)
Amortization of debt discount and disposal of deferred financing costs	1,066	988
Accretion (amortization) of discounts and premiums, investment	14	(12)
Net gain/(loss) on sales of investments, fixed assets and customer accounts	86	(346)
Payments on acquisition earn-outs in excess of original estimated payables	(576)	(267)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:		
Premiums, commissions and fees receivable (increase) decrease	(130,110)	(71,614)
Reinsurance recoverables (increase) decrease	13,295	(11,939)
Prepaid reinsurance premiums (increase) decrease	9,201	(5,674)
Other assets (increase) decrease	(2,691)	(22,122)
Premiums payable to insurance companies increase (decrease)	177,685	116,472
Premium deposits and credits due customers increase (decrease)	(12,103)	(12,003)
Losses and loss adjustment reserve increase (decrease)	(13,295)	12,123
Unearned premiums increase (decrease)	(9,201)	5,674
Accounts payable increase (decrease)	101,124	23,773
Accrued expenses and other liabilities increase (decrease)	(47,742)	(32,269)
Other liabilities increase (decrease)	442	15,447
Net cash provided by operating activities	416,699	305,703
Cash flows from investing activities:		
Additions to fixed assets	(35,938)	(35,174)
Payments for businesses acquired, net of cash acquired	(291,424)	(146,646)
Proceeds from sales of fixed assets and customer accounts	295	2,101
Purchases of investments	(3,031)	(9,265)
Proceeds from sales of investments	3,669	4,505
Net cash used in investing activities	(326,429)	(184,479)
Cash flows from financing activities:		
Payments on acquisition earn-outs	(6,902)	(6,997)
Proceeds from long-term debt	—	350,000
Payments on long-term debt	(27,500)	(22,500)
Deferred debt issuance costs	—	(3,701)
Borrowings on revolving credit facility	250,000	—
Payments on revolving credit facilities	(150,000)	(350,000)
Issuances of common stock for employee stock benefit plans	587	901
Repurchase shares to fund tax withholdings for non-cash stock-based compensation	(7,811)	(6,861)
Purchase of treasury stock	(1,429)	(20,000)
Settlement (prepayment) of accelerated share repurchase program	—	20,000
Cash dividends paid	(47,986)	(44,881)
Net cash provided by (used in) financing activities	8,959	(84,039)
Net increase in cash and cash equivalents inclusive of restricted cash	99,229	37,185
Cash and cash equivalents inclusive of restricted cash at beginning of period	962,975	777,596
Cash and cash equivalents inclusive of restricted cash at end of period	\$ 1,062,204	\$ 814,781

See accompanying Notes to Condensed Consolidated Financial Statements. Refer to Note 10 for the reconciliations of cash and cash equivalents inclusive of restricted cash and investments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 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 service organization that markets and sells insurance products and services, primarily in the property, casualty and employee benefits areas. Brown & Brown’s business is divided into four reportable segments. The Retail Segment provides a broad range of insurance products and services to commercial, public and quasi-public entities, professional and individual insured customers, and non-insurance risk-mitigating products through our automobile dealer services (“F&I”) businesses. The National Programs Segment, which acts as a managing general agent (“MGA”), provides professional liability and related package products for certain professionals, a range of insurance products for individuals, flood coverage, and targeted products and services designated for specific industries, trade groups, governmental entities and market niches, all of which are delivered through a nationwide network of independent agents, including Brown & Brown retail agents. The Wholesale Brokerage Segment markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers, as well as Brown & Brown retail agents. The Services Segment provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers’ compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services and claims adjusting services.

NOTE 2 Basis of Financial Reporting

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of recurring accruals) necessary for a fair presentation have been included. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes thereto set forth in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities, at the date of the Condensed Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Recently Issued Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The amendments provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. We are currently evaluating our contracts and the available expedients provided by the new standard.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes”. The standard removes specific exceptions in the current rules and eliminates the need for an organization to analyze whether the following apply in a given period: (a) exception to the incremental approach for intra-period tax allocation; (b) exceptions to accounting for basis differences when there are ownership changes in foreign investments and (c) exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The standard also is designed to improve financial statement preparers’ application of income tax-related guidance and simplify GAAP for (a) franchise taxes that are partially based on income; (b) transactions with a government that result in a step-up in the tax basis of goodwill; (c) separate financial statements of legal entities that are not subject to tax and (d) enacted changes in tax laws in interim periods. The standard takes effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating the impact this standard will have on the Company’s financial position.

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” which provides guidance for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 became effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted ASU 2018-15 effective January 1, 2020. The impact of adoption of this standard on our consolidated financial statements, including accounting policies, processes, and systems, was not material.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The new guidance eliminates Step 2 of the goodwill impairment test. The updated guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit to its carrying value, and recognizing a non-cash impairment charge for the amount by which the carrying value exceeds the reporting unit’s fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. ASU 2017-04 became effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and will be applied prospectively. The Company adopted ASU 2017-04 effective January 1, 2020, with interim or annual goodwill impairment tests now comparing the fair value of a reporting unit with its carrying value and no longer performing Step 2 of the goodwill impairment test. No impairment charges were recorded as a result of adopting ASU 2017-04.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. The new guidance adds an impairment model, known as the current expected credit loss (CECL) model that is based on expected losses rather than incurred losses. These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable forward-looking information, which is intended to result in more timely recognition of such losses. All related guidance has been codified into, and is now known as, ASC 326 – Financial Instruments—Credit Losses. The new standard is effective for public companies for annual reporting periods beginning after December 15, 2019, and interim periods therein. The Company adopted ASU 2016-13 effective January 1, 2020 and has determined there is not a material impact on the Company’s Financial Statements given that historical trend analysis and assessments for forward-looking qualitative analysis are already integrated into financial assessments for the Company where possible.

NOTE 3 Revenues

The following tables present the revenues disaggregated by revenue source:

<i>(in thousands)</i>	Three months ended June 30, 2020					
	Retail	National Programs	Wholesale Brokerage	Services	Other ⁽⁸⁾	Total
Base commissions ⁽¹⁾	\$ 221,674	\$ 107,392	\$ 68,300	\$ —	\$ —	\$ 397,366
Fees ⁽²⁾	65,583	37,453	16,856	42,930	(323)	162,499
Incentive commissions ⁽³⁾	14,706	111	516	—	—	15,333
Profit-sharing contingent commissions ⁽⁴⁾	6,926	9,269	2,458	—	—	18,653
Guaranteed supplemental commissions ⁽⁵⁾	3,405	306	595	—	—	4,306
Investment income ⁽⁶⁾	41	129	46	—	117	333
Other income, net ⁽⁷⁾	227	7	82	—	—	316
Total Revenues	\$ 312,562	\$ 154,667	\$ 88,853	\$ 42,930	\$ (206)	\$ 598,806

<i>(in thousands)</i>	Six months ended June 30, 2020					
	Retail	National Programs	Wholesale Brokerage	Services	Other ⁽⁸⁾	Total
Base commissions ⁽¹⁾	\$ 540,218	\$ 198,159	\$ 125,776	\$ —	\$ —	\$ 864,153
Fees ⁽²⁾	123,224	70,013	32,475	87,382	(644)	312,450
Incentive commissions ⁽³⁾	64,694	222	2,384	—	—	67,300
Profit-sharing contingent commissions ⁽⁴⁾	23,021	14,980	4,594	—	—	42,595
Guaranteed supplemental commissions ⁽⁵⁾	7,837	(707)	1,032	—	—	8,162
Investment income ⁽⁶⁾	124	392	97	—	882	1,495
Other income, net ⁽⁷⁾	933	21	193	—	—	1,147
Total Revenues	\$ 760,051	\$ 283,080	\$ 166,551	\$ 87,382	\$ 238	\$ 1,297,302

- (1) Base commissions generally represent a percentage of the premium paid by an insured and are affected by fluctuations in both premium rate levels charged by insurance companies and the insureds’ underlying “insurable exposure units,” which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, or sales and payroll levels) to determine what premium to charge the insured. Insurance companies establish these premium rates based upon many factors, including loss experience, risk profile and reinsurance rates paid by such insurance companies, none of which we control.
- (2) Fee revenues relate to fees for services other than securing coverage for our customers, fees negotiated in lieu of commissions, and F&I products and services.
- (3) Incentive commissions include additional commissions over base commissions received from insurance carriers based on predetermined production levels mutually agreed upon by both parties.
- (4) Profit-sharing contingent commissions are based primarily on underwriting results, but may also reflect considerations for volume, growth and/or retention.
- (5) Guaranteed supplemental commissions represent guaranteed fixed-base agreements in lieu of profit-sharing contingent commissions.
- (6) Investment income consists primarily of interest on cash and investments.
- (7) Other income consists primarily of legal settlements and other miscellaneous income.
- (8) Fees within other reflects the elimination of intercompany revenues.

Contract Assets and Liabilities

The balances of contract assets and contract liabilities arising from contracts with customers as of June 30, 2020 and December 31, 2019 were as follows:

<i>(in thousands)</i>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Contract assets	\$ 313,014	\$ 289,609
Contract liabilities	\$ 57,204	\$ 58,126

Unbilled receivables (contract assets) arise when the Company recognizes revenue for amounts which have not yet been billed in the Company's systems and are reflected in premiums, commissions and fee receivables in the Company's Condensed Consolidated Balance Sheet. Deferred revenue (contract liabilities) relates to payments received in advance of performance under the contract before the transfer of a good or service to the customer. Deferred revenue is reflected within accrued expenses and other liabilities for those to be recognized in less than 12 months and in other liabilities for those to be recognized more than 12 months from the date presented in the Company's Condensed Consolidated Balance Sheet.

As of June 30, 2020, deferred revenue consisted of \$40.5 million as current portion to be recognized within one year and \$16.7 million in long term to be recognized beyond one year. As of December 31, 2019, deferred revenue consisted of \$41.2 million as current portion to be recognized within one year and \$16.9 million in long-term deferred revenue to be recognized beyond one year.

During the six months ended June 30, 2020, the net amount of revenue recognized related to performance obligations satisfied in a previous period was a \$10.5 million, consisting of \$17.6 million of additional variable consideration received on our supplemental commissions, offset by \$7.1 million of revised estimates related to variable consideration on policies where the exposure units are expected to be impacted by the COVID-19 pandemic ("COVID-19").

Other Assets and Deferred Cost

Incremental cost to obtain - The Company defers certain costs to obtain customer contracts primarily as they relate to commission-based compensation plans in the Retail Segment, in which the Company pays an incremental amount of compensation on new business. These incremental costs are deferred and amortized over a 15-year period. The cost to obtain balance within the other assets caption in the Company's Condensed Consolidated Balance Sheet was \$34.9 million and \$26.9 million as of June 30, 2020 and December 31, 2019, respectively. For the six months ended June 30, 2020, the Company deferred \$9.1 million of incremental cost to obtain customer contracts. The Company recorded an expense of \$1.1 million associated with the incremental cost to obtain customer contracts for the six months ended June 30, 2020.

Cost to fulfill - The Company defers certain costs to fulfill contracts and recognizes these costs as the associated performance obligations are fulfilled. The cost to fulfill balance within the other current assets caption in the Company's Condensed Consolidated Balance Sheet was \$68.8 million and \$73.3 million as of June 30, 2020 and December 31, 2019, respectively. For the six months ended June 30, 2020, the Company had net expense of \$4.5 million related to the release of previously deferred contract fulfillment costs associated with performance obligations that were satisfied in the period, net of current year deferrals for costs incurred that related to performance obligations yet to be fulfilled.

NOTE 4 Net Income Per Share

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

<i>(in thousands, except per share data)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Net income	\$ 96,784	\$ 92,593	\$ 249,184	\$ 206,489
Net income attributable to unvested awarded performance stock	(3,580)	(3,020)	(8,855)	(6,273)
Net income attributable to common shares	\$ 93,204	\$ 89,573	\$ 240,329	\$ 200,216
Weighted average number of common shares outstanding – basic	283,591	281,754	282,994	281,163
Less unvested awarded performance stock included in weighted average number of common shares outstanding – basic	(10,491)	(9,191)	(10,056)	(8,542)
Weighted average number of common shares outstanding for basic net income per common share	273,100	272,563	272,938	272,621
Dilutive effect of stock options	1,262	1,839	1,581	2,083
Weighted average number of shares outstanding – diluted	274,362	274,402	274,519	274,704
Net income per share:				
Basic	\$ 0.34	\$ 0.33	\$ 0.88	\$ 0.73
Diluted	\$ 0.34	\$ 0.33	\$ 0.88	\$ 0.73

NOTE 5 Business Combinations

During the six months ended June 30, 2020, Brown & Brown acquired the assets and assumed certain liabilities of seven insurance intermediaries and three books of business (customer accounts) for a total of ten acquisitions. Additionally, adjustments were recorded to the purchase price allocation of certain prior acquisitions completed within the last 12 months as permitted by Accounting Standards Codification Topic 805 — *Business Combinations* (“ASC 805”). Such adjustments are presented in the “Other” category within the following two tables. The recorded purchase price for all acquisitions includes an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the Condensed Consolidated Statements of Income when incurred.

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

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company’s Condensed Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period, as defined in ASC 805. For the six months ended June 30, 2020, adjustments were made within the permitted measurement period that resulted in an increase in the aggregate purchase price of the affected acquisitions of \$3.5 million relating to the assumption of certain liabilities. These measurement period adjustments have been reflected as current period adjustments in the six months ended June 30, 2020 in accordance with the guidance in ASU 2015-16 “Business Combinations.” The measurement period adjustments primarily impacted goodwill, with no effect on earnings or cash in the current period.

Cash paid for acquisitions was \$291.4 million during the six months ended June 30, 2020. The Company completed ten acquisitions (including book of business purchases) during the six months ended June 30, 2020. The Company completed fourteen acquisitions (including book of business purchases) during the six months ended June 30, 2019.

The following table summarizes the purchase price allocations made as of the date of each acquisition for current year acquisitions and adjustments made during the measurement period for prior year acquisitions. During the measurement periods, the Company will adjust assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. These adjustments are made in the period in which the amounts are determined, and the current period income effect of such adjustments will be calculated as if the adjustments had been completed as of the acquisition date.

(in thousands)

Name	Business segment	Effective date of acquisition	Cash paid	Common Stock Issued	Other payable	Recorded earn-out payable	Net assets acquired	Maximum potential earn-out payable
Special Risk Insurance Managers Ltd. (Special Risk)	National Programs	January 1, 2020	\$ 70,156	\$ —	\$ —	\$ 8,173	\$ 78,329	\$ 14,650
Texas All Risk General Agency, Inc. et al (Texas Risk)	Wholesale Brokerage	January 1, 2020	10,511	—	159	310	10,980	1,150
The Colonial Group, Inc. et al (Colonial)	Wholesale Brokerage	March 1, 2020	29,037	—	527	5,639	35,203	10,150
RLA Insurance Intermediaries, LLC (RLA)	Wholesale Brokerage	March 1, 2020	42,496	—	786	9,970	53,252	22,500
Dealer Financial Services of N.C., LLC d/b/a The Sterling Group (Sterling)	Retail	April 1, 2020	19,341	—	300	2,840	22,481	5,400
LP Insurance Services, LLC (LP)	National Programs	May 1, 2020	115,948	10,000	318	42,993	169,259	75,850
Other	Various	Various	3,935	—	75	4,829	8,839	3,940
Total			\$ 291,424	\$ 10,000	\$ 2,165	\$ 74,754	\$ 378,343	\$ 133,640

The following table summarizes the estimated fair values of the aggregate assets and liabilities acquired as of the date of each acquisition and adjustments made during the measurement period of the prior year acquisitions.

(in thousands)	Special Risk	Texas Risk	Colonial	RLA	Sterling	LP	Other	Total
Cash	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Other current assets	1,764	446	1,344	—	118	3,528	833	8,033
Fixed assets	346	27	59	54	16	1,877	—	2,379
Goodwill	60,049	8,940	25,719	51,285	15,163	115,200	848	277,204
Purchased customer accounts	15,483	3,222	9,393	12,875	7,196	48,633	4,158	100,960
Non-compete agreements	136	25	43	481	21	31	31	768
Other assets	—	—	—	—	—	—	3,088	3,088
Total assets acquired	77,778	12,660	36,558	64,695	22,514	169,269	8,958	392,432
Other current liabilities	551	(1,680)	(1,355)	(11,443)	(33)	(10)	(119)	(14,089)
Other liabilities	—	—	—	—	—	—	—	—
Total liabilities assumed	551	(1,680)	(1,355)	(11,443)	(33)	(10)	(119)	(14,089)
Net assets acquired	\$ 78,329	\$ 10,980	\$ 35,203	\$ 53,252	\$ 22,481	\$ 169,259	\$ 8,839	\$ 378,343

The other column represents current year acquisitions with total net assets acquired of less than \$10.0 million and adjustments from prior year acquisitions that were made within the permitted measurement period.

The weighted average useful lives for the acquired amortizable intangible assets are as follows: purchased customer accounts, 15 years; and non-compete agreements, 5 years.

Goodwill of \$277.2 million, which is net of any opening balance sheet adjustments within the allowable measurement period, was allocated to the Retail, National Programs, Wholesale Brokerage and Services Segments in the amounts of \$15.9 million, \$175.3 million, \$85.9 million and \$0.1 million, respectively. Of the total goodwill of \$277.2 million, the amount currently deductible for income tax purposes is \$202.4 million and the remaining \$74.8 million relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

For the acquisitions completed during 2020, the results of operations since the acquisition dates have been combined with those of the Company. The total revenues from the acquisitions completed through June 30, 2020, included in the Condensed Consolidated Statement of Income for the six months ended June 30, 2020, was \$24.3 million. The income before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through June 30, 2020, included in the Condensed Consolidated Statement of Income for the six months ended June 30, 2020, was \$0.2 million. If the acquisitions had occurred as of the beginning of the respective periods, 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.

<i>(UNAUDITED)</i> <i>(in thousands, except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Total revenues	\$ 602,143	\$ 597,784	\$ 1,316,330	\$ 1,235,519
Income before income taxes	\$ 130,378	\$ 129,909	\$ 340,312	\$ 283,667
Net income	\$ 97,514	\$ 97,381	\$ 253,396	\$ 215,312
Net income per share:				
Basic	\$ 0.34	\$ 0.35	\$ 0.90	\$ 0.77
Diluted	\$ 0.34	\$ 0.34	\$ 0.89	\$ 0.76
Weighted average number of shares outstanding:				
Basic	273,100	272,563	272,938	272,621
Diluted	274,362	274,402	274,519	274,704

As of June 30, 2020 and 2019, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820- *Fair Value Measurement*. The resulting additions, payments, and net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the six months ended June 30, 2020 and 2019, were as follows:

<i>(in thousands)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Balance as of the beginning of the period	\$ 157,720	\$ 108,710	\$ 161,513	\$ 89,924
Additions to estimated acquisition earn-out payables	60,776	5,811	74,754	23,966
Payments for estimated acquisition earn-out payables	(664)	(6,685)	(7,478)	(7,264)
Subtotal	217,832	107,836	228,789	106,626
Net change in earnings from estimated acquisition earn-out payables:				
Change in fair value on estimated acquisition earn-out payables	(1,308)	(4,350)	(13,949)	(4,301)
Interest expense accretion	1,943	1,490	3,627	2,651
Net change in earnings from estimated acquisition earn-out payables	635	(2,860)	(10,322)	(1,650)
Balance as of June 30,	\$ 218,467	\$ 104,976	\$ 218,467	\$ 104,976

Of the \$218.5 million estimated acquisition earn-out payables as of June 30, 2020, \$22.1 million was recorded as accounts payable and \$196.4 million was recorded as other non-current liabilities. As of June 30, 2020, the maximum future acquisition contingency payments related to all acquisitions was \$446.5 million, inclusive of the \$218.5 million estimated acquisition earn-out payables as of June 30, 2020. Included within the additions to estimated acquisition earn-out payables are any adjustments to opening balance sheet items within the allowable measurement period, which may therefore differ from previously reported amounts. During the six months ended June 30, 2020, the Company recorded a decrease in the estimated acquisition earn-out payables for acquisitions completed in the last three years partially as a result of the potential for lower future financial performance associated with COVID-19.

On July 27, 2020, the Company, The Hays Group, Inc., and certain of their affiliates entered into an amendment to the asset purchase agreement, dated as of October 22, 2018. Pursuant to the amendment, the parties agreed, among other things, that (i) based on the financial performance of the acquired business from the period from January 1, 2019, through June 30, 2020, the acquired business has achieved sufficient average annual EBITDA that the calculated earn-out payments will exceed the maximum earn-out payments amount of \$25.0 million, (ii) the maximum earn-out payments of \$25.0 million were deemed to have been achieved as of the date of the amendment, and (iii) the earn-out payments of \$25.0 million will be paid in accordance with the asset purchase agreement in the first quarter of calendar year 2022. The amendment will not have any impact on the Company's financial statements, as the estimated acquisition earn-out payable as of June 30, 2020 had already been recorded at the present value of the maximum amount of \$25.0 million.

NOTE 6 Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. The Company completed its most recent annual assessment as of November 30, 2019 and identified no impairment as a result of the evaluation.

The changes in the carrying value of goodwill by reportable segment for the six months ended June 30, 2020 are as follows:

<i>(in thousands)</i>	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of December 31, 2019	\$ 2,351,291	\$ 925,541	\$ 298,101	\$ 171,161	\$ 3,746,094
Goodwill of acquired businesses	15,903	175,250	85,943	108	277,204
Goodwill disposed of relating to sales of businesses	—	—	—	—	—
Balance as of June 30, 2020	<u>\$ 2,367,194</u>	<u>\$ 1,100,791</u>	<u>\$ 384,044</u>	<u>\$ 171,269</u>	<u>\$ 4,023,298</u>

NOTE 7 Amortizable Intangible Assets

Amortizable intangible assets at June 30, 2020 and December 31, 2019 consisted of the following:

<i>(in thousands)</i>	June 30, 2020				December 31, 2019			
	Gross carrying value	Accumulated amortization	Net carrying value	Weighted average life (years) (1)	Gross carrying value	Accumulated amortization	Net carrying value	Weighted average life (years) (1)
Purchased customer accounts	\$ 2,026,286	\$(1,064,134)	\$ 962,152	15.0	\$ 1,925,326	\$(1,011,574)	\$ 913,752	15.0
Non-compete agreements	34,648	(31,436)	3,212	4.6	33,881	(30,865)	3,016	4.6
Total	<u>\$ 2,060,934</u>	<u>\$(1,095,570)</u>	<u>\$ 965,364</u>		<u>\$ 1,959,207</u>	<u>\$(1,042,439)</u>	<u>\$ 916,768</u>	

(1) Weighted average life calculated as of the date of acquisition.

Amortization expense for amortizable intangible assets for the years ending December 31, 2020, 2021, 2022, 2023 and 2024 is estimated to be \$106.5 million, \$104.5 million, \$100.0 million, \$93.0 million, and \$89.1 million, respectively.

NOTE 8 Long-Term Debt

Long-term debt at June 30, 2020 and December 31, 2019 consisted of the following:

<i>(in thousands)</i>	June 30, 2020	December 31, 2019
Current portion of long-term debt:		
Current portion of 5-year term loan facility expires 2022	\$ 40,000	\$ 40,000
Current portion of 5-year term loan facility expires 2023	22,500	15,000
Total current portion of long-term debt	<u>62,500</u>	<u>55,000</u>
Long-term debt:		
Note agreements:		
4.200% senior notes, semi-annual interest payments, net of the unamortized discount, balloon due 2024	\$ 499,337	\$ 499,259
4.500% senior notes, semi-annual interest payments, net of the unamortized discount, balloon due 2029	349,513	349,484
Total notes	<u>848,850</u>	<u>848,743</u>
Credit agreements:		
5-year term-loan facility, periodic interest and principal payments, LIBOR plus up to 1.750%, expires June 28, 2022	270,000	290,000
5-year revolving-loan facility, periodic interest payments, LIBOR plus up to 1.500%, plus commitment fees up to 0.250%, expires June 28, 2022	200,000	100,000
5-year term-loan facility, periodic interest and principal payments, LIBOR plus up to 1.750%, expires December 21, 2023	255,000	270,000
Total credit agreements	<u>725,000</u>	<u>660,000</u>
Debt issuance costs (contra)	<u>(7,441)</u>	<u>(8,400)</u>
Total long-term debt less unamortized discount and debt issuance costs	1,566,409	1,500,343
Current portion of long-term debt	<u>62,500</u>	<u>55,000</u>
Total debt	<u>\$ 1,628,909</u>	<u>\$ 1,555,343</u>

On June 28, 2017, the Company entered into an amended and restated credit agreement (the “Amended and Restated Credit Agreement”) with the lenders named therein, JPMorgan Chase Bank, N.A. as administrative agent and certain other banks as co-syndication agents and co-documentation agents. The Amended and Restated Credit Agreement amended and restated the credit agreement dated April 17, 2014, among such parties (the “Original Credit Agreement”). The Amended and Restated Credit Agreement extends the applicable maturity date of the existing revolving credit facility (the “Revolving Credit Facility”) of \$800.0 million to June 28, 2022 and re-evidences unsecured term loans at \$400.0 million while also extending the applicable maturity date to June 28, 2022. The quarterly term loan principal amortization schedule was reset. At the time of the execution of the Amended and Restated Credit Agreement, \$67.5 million of principal from the original unsecured term loans was repaid using operating cash balances, and the Company added an additional \$2.8 million in debt issuance costs related to the Revolving Credit Facility to the Condensed Consolidated Balance Sheet. The Company also expensed to the Condensed Consolidated Statements of Income \$0.2 million of debt issuance costs related to the Original Credit Agreement due to certain lenders exiting prior to execution of the Amended and Restated Credit Agreement. The Company also carried forward \$1.6 million on the Condensed Consolidated Balance Sheet the remaining unamortized portion of the Original Credit Agreement debt issuance costs, which will be amortized over the term of the Amended and Restated Credit Agreement. As of June 30, 2020, there was an outstanding debt balance issued under the term loan of the Amended and Restated Credit Agreement of \$310.0 million and \$200.0 million borrowings outstanding against the Revolving Credit Facility. As of December 31, 2019, there was an outstanding debt balance issued under the term loan of the Amended and Restated Credit Agreement of \$330.0 million with \$100.0 million in borrowings outstanding against the Revolving Credit Facility.

On September 18, 2014, the Company issued \$500.0 million of 4.200% unsecured Senior Notes due in 2024. The Senior Notes were given investment grade ratings of BBB-/Baa3 with a stable outlook. The notes are subject to certain covenant restrictions and regulations which are customary for credit rated obligations. At the time of funding, the proceeds were offered at a discount of the original note amount which also excluded an underwriting fee discount. The net proceeds received from the issuance were used to repay the outstanding balance of \$475.0 million on the Revolving Credit Facility and for other general corporate purposes. As of June 30, 2020 and December 31, 2019, there was an outstanding debt balance of \$500.0 million exclusive of the associated discount balance.

On December 21, 2018, the Company entered into a term loan credit agreement (the “Term Loan Credit Agreement”) with the lenders named therein, Wells Fargo Bank, National Association, as administrative agent, and certain other banks as co-syndication agents and as joint lead arrangers and joint bookrunners. The Term Loan Credit Agreement provides for an unsecured term loan in the initial amount of \$300.0 million, which may, subject to lenders’ discretion, potentially be increased up to an aggregate amount of \$450.0 million (the “Term Loan”). The Term Loan is repayable over the five-year term from the effective date of the Term Loan Credit Agreement, which was December 21, 2018. Based on the Company’s net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating as determined by Moody’s Investor Service and Standard & Poor’s Rating Service, the rates of interest charged on the term loan are 1.00% to 1.75%, above the adjusted 1-Month LIBOR rate. On December 21, 2018, the Company borrowed \$300.0 million under the Term Loan Credit Agreement and used \$250.0 million of the proceeds to reduce indebtedness under the Revolving Credit Facility. As of June 30, 2020, there was an outstanding debt balance issued under the Term Loan of \$277.5 million. As of December 31, 2019, there was an outstanding debt balance issued under the Term Loan of \$285.0 million.

On March 11, 2019, the Company completed the issuance of \$350.0 million aggregate principal amount of the Company’s 4.500% Senior Notes due 2029. The Senior Notes were given investment grade ratings of BBB-/Baa3 with a stable outlook. The notes are subject to certain covenant restrictions, which are customary for credit rated obligations. At the time of funding, the proceeds were offered at a discount of the original note amount, which also excluded an underwriting fee discount. The net proceeds received from the issuance were used to repay a portion of the outstanding balance of \$350.0 million on the Revolving Credit Facility, utilized in connection with the financing related to the Hays Companies acquisition and for other general corporate purposes. As of June 30, 2020 and December 31, 2019, there was an outstanding debt balance of \$350.0 million exclusive of the associated discount balance.

The Amended and Restated Credit Agreement and Term Loan Credit Agreement require the Company to maintain certain financial ratios and comply with certain other covenants. The Company was in compliance with all such covenants as of June 30, 2020 and December 31, 2019.

The 30-day Adjusted LIBOR Rate for the term loan and Revolving Credit Facility of the Amended and Restated Credit Agreement and Term Loan Credit Agreement as of June 30, 2020 were each 0.188%.

NOTE 9 Leases

Substantially all of the Company’s operating lease right-of-use assets and operating lease liabilities represent real estate leases for office space used to conduct the Company’s business that expire on various dates through 2041. Leases generally contain renewal options and escalation clauses based upon increases in the lessors’ operating expenses and other charges. The Company anticipates that most of these leases will be renewed or replaced upon expiration.

The Company assesses at inception of a contract if it contains a lease. This assessment is based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether the Company has the right to direct the use of the asset.

The right-of-use asset is initially measured at cost, which is primarily composed of the initial lease liability, plus any initial direct costs incurred, less any lease incentives received. The lease liability is initially measured at the present value of the minimum lease payments through the term of the lease. Minimum lease payments are discounted to present value using the incremental borrowing rate at the lease commencement date, which approximates the rate of interest the Company expects to pay on a secured borrowing in an amount equal to the lease payments for the underlying asset under similar terms and economic conditions. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a total term of 12 months or less. The effect of short-term leases on the Company's right-of-use asset and lease liability would not be significant.

The balances and classification of operating lease right-of-use assets and operating lease liabilities within the Condensed Consolidated Balance Sheet is as follows:

<i>(in thousands)</i>		<u>June 30, 2020</u>	<u>December 31, 2019</u>
Balance Sheet			
<u>Assets:</u>			
Operating lease right-of-use assets	Operating lease assets	\$ 190,322	\$ 184,288
Total Assets		<u>190,322</u>	<u>184,288</u>
<u>Liabilities:</u>			
Current operating lease liabilities	Accrued expenses and other liabilities	43,579	43,415
Non-current operating lease liabilities	Operating lease liabilities	173,717	167,855
Total Liabilities		<u>\$ 217,296</u>	<u>\$ 211,270</u>

As of June 30, 2020, the Company has entered into future lease agreements expected to commence later in 2020 and 2021 consisting of undiscounted lease liabilities of \$19.7 million and \$3.2 million, respectively.

Lease expense for operating leases consists of the lease payments, inclusive of lease incentives, plus any initial direct costs, and is recognized on a straight-line basis over the lease term. Included in lease expense are any variable lease payments incurred in the period that were not included in the initial lease liability. Variable lease cost is lease payments that are based on an index or similar rate. They are initially measured using the index or rate in effect at lease commencement and are based on the minimum payments stated in the lease. Additional payments based on the change in an index or rate, or payments based on a change in the Company's portion of the operating expenses, including real estate taxes and insurance, are recorded as a period expense when incurred.

The components of lease cost for operating leases for the three and six months ended June 30, 2020 and 2019 were:

<i>(in thousands)</i>	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<u>Operating leases:</u>				
Lease cost	\$ 13,383	\$ 13,002	\$ 26,351	\$ 25,090
Variable lease cost	846	791	1,691	1,504
Short-Term lease cost	110	—	238	—
Operating lease cost	\$ 14,339	\$ 13,793	\$ 28,280	\$ 26,594
Sublease income	(540)	—	(808)	—
Total lease cost net	<u>\$ 13,799</u>	<u>\$ 13,793</u>	<u>\$ 27,472</u>	<u>\$ 26,594</u>

The weighted average remaining lease term and the weighted average discount rate for operating leases as of June 30, 2020 were:

Weighted-average remaining lease term	5.89
Weighted-average discount rate	3.60

Maturities of the operating lease liabilities by fiscal year at June 30, 2020 for the Company's operating leases are as follows:

<i>(in thousands)</i>	Operating Leases	
2020 (Remainder)	\$	24,356
2021		50,101
2022		42,411
2023		35,762
2024		28,166
Thereafter		60,581
Total undiscounted lease payments		241,377
Less: Imputed interest		24,081
Present value of lease payments	\$	217,296

Supplemental cash flow information for operating leases for the three and six months ended June 30, 2020 and 2019:

<i>(in thousands)</i>	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	2020	2019	2020	2019
Cash paid for amounts included in measurement of liabilities				
Operating cash flows from operating leases	\$ 13,773	\$ 13,110	\$ 26,774	\$ 25,911
Right-of-use assets obtained in exchange for new operating liabilities	\$ 3,023	\$ 4,284	\$ 22,181	\$ 6,723

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

During the second quarter of 2020, we deferred approximately \$60.0 million in federal and state income and employer related payroll tax payments. The resulting impact was an increase to our cash flow from operations in the form of higher payables when compared to comparable second quarters in previous years. Pursuant to guidance from the United States Treasury and various state taxing authorities, the Company deferred approximately \$50.0 million in federal and state income tax payments during the second quarter of 2020. The deferred federal and state income tax payments are expected to be paid during the third quarter of 2020. In addition, during the second quarter of 2020, we deferred \$10.0 million in employer-only payroll tax payments as allowed under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES" Act), which was signed into law on March 27, 2020. The Company will continue to defer employer-only payroll taxes for the remainder of 2020. The cumulative deferred employer payroll taxes as of December 31, 2020 will be paid in two equal installments in 2021 and 2022 respectively, as prescribed by the CARES Act.

Brown & Brown's cash paid during the period for interest and income taxes are summarized as follows:

<i>(in thousands)</i>	<u>Six months ended</u>	
	<u>2020</u>	<u>2019</u>
Cash paid during the period for:		
Interest	\$ 28,164	\$ 26,652
Income taxes, net of refunds	\$ 12,575	\$ 61,145

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

<i>(in thousands)</i>	<u>Six months ended</u>	
	<u>2020</u>	<u>2019</u>
Other payable issued for purchased customer accounts	\$ 2,165	\$ 2,159
Estimated acquisition earn-out payables and related charges	\$ 74,754	\$ 23,966
Notes received on the sale of fixed assets and customer accounts	\$ —	\$ 2,045

The Company's restricted cash balance is composed of funds held in separate premium trust accounts as required by state law or, in some cases, by agreement with carrier partners. The following is a reconciliation of cash and cash equivalents inclusive of restricted cash as of June 30, 2020 and 2019.

<i>(in thousands)</i>	Balance as of June 30,	
	2020	2019
Table to reconcile cash and cash equivalents inclusive of restricted cash		
Cash and cash equivalents	\$ 623,240	\$ 432,548
Restricted cash	438,964	382,233
Total cash and cash equivalents inclusive of restricted cash at the end of the period	<u>\$ 1,062,204</u>	<u>\$ 814,781</u>

The following is a reconciliation of cash and cash equivalents inclusive of restricted cash as of December 31, 2019 and 2018.

<i>(in thousands)</i>	Balance as of December 31,	
	2019	2018
Table to reconcile cash and cash equivalents inclusive of restricted cash		
Cash and cash equivalents	\$ 542,174	\$ 438,961
Restricted cash	420,801	338,635
Total cash and cash equivalents inclusive of restricted cash at the end of the period	<u>\$ 962,975</u>	<u>\$ 777,596</u>

NOTE 11 Legal and Regulatory Proceedings

The Company is involved in numerous pending or threatened proceedings by or against Brown & Brown, Inc. or one or more of its subsidiaries that arise in the ordinary course of business. The damages that may be claimed against the Company in these various proceedings are in some cases substantial, including in certain 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.

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

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

NOTE 12 Segment Information

Brown & Brown's business is divided into four reportable segments: (1) the Retail Segment, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers, and non-insurance risk-mitigating products through our F&I businesses, (2) the National Programs Segment, which acts as an MGA, provides professional liability and related package products for certain professionals, a range of insurance products for individuals, flood coverage, and targeted products and services designated for specific industries, trade groups, governmental entities and market niches, all of which are delivered through nationwide networks of independent agents, and Brown & Brown retail agents, (3) the Wholesale Brokerage Segment, which markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers, as well as Brown & Brown retail agents, and (4) the Services Segment, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services and claims adjusting services.

Brown & Brown conducts all of its operations within the United States of America, except for a Wholesale Brokerage operation based in London, England, Retail operations in Bermuda and the Cayman Islands, and a National Programs operation in Canada. These operations earned \$9.2 million and \$4.6 million of total revenues for the three months ended June 30, 2020 and 2019, respectively. These operations earned \$16.1 million and \$8.0 million of total revenues for the six months ended June 30, 2020 and 2019, respectively. Tangible long-lived assets held outside of the United States as of June 30, 2020 and 2019 were not material.

The accounting policies of the reportable segments are the same as those described in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019. The Company evaluates the performance of its segments based upon revenues and income before income taxes. Inter-segment revenues are eliminated.

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

	Three months ended June 30, 2020					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 312,562	\$ 154,667	\$ 88,853	\$ 42,930	\$ (206)	\$ 598,806
Investment income	\$ 41	\$ 129	\$ 46	\$ -	\$ 117	\$ 333
Amortization	\$ 16,453	\$ 6,866	\$ 2,032	\$ 1,390	\$ —	\$ 26,741
Depreciation	\$ 2,147	\$ 2,093	\$ 467	\$ 353	\$ 1,108	\$ 6,168
Interest expense	\$ 21,303	\$ 5,195	\$ 2,594	\$ 1,042	\$ (16,325)	\$ 13,809
Income before income taxes	\$ 36,829	\$ 48,344	\$ 24,708	\$ 6,436	\$ 13,084	\$ 129,401
Total assets	\$ 6,487,850	\$ 3,398,709	\$ 1,574,931	\$ 464,905	\$ (3,725,337)	\$ 8,201,058
Capital expenditures	\$ 3,228	\$ 1,532	\$ 555	\$ 206	\$ 13,959	\$ 19,480

	Three months ended June 30, 2019					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 310,738	\$ 131,817	\$ 81,171	\$ 50,797	\$ 696	\$ 575,219
Investment income	\$ 17	\$ 380	\$ 43	\$ 34	\$ 1,051	\$ 1,525
Amortization	\$ 15,357	\$ 6,357	\$ 2,844	\$ 1,396	\$ —	\$ 25,954
Depreciation	\$ 1,919	\$ 1,621	\$ 425	\$ 303	\$ 1,398	\$ 5,666
Interest expense	\$ 21,201	\$ 4,223	\$ 1,260	\$ 1,203	\$ (11,594)	\$ 16,293
Income before income taxes	\$ 44,217	\$ 40,243	\$ 22,944	\$ 9,268	\$ 6,850	\$ 123,522
Total assets	\$ 5,925,156	\$ 2,981,933	\$ 1,352,659	\$ 466,162	\$ (3,561,143)	\$ 7,164,767
Capital expenditures	\$ 2,408	\$ 1,942	\$ 513	\$ 222	\$ 6,903	\$ 11,988

	Six months ended June 30, 2020					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 760,051	\$ 283,080	\$ 166,551	\$ 87,382	\$ 238	\$ 1,297,302
Investment income	\$ 124	\$ 392	\$ 97	\$ -	\$ 882	\$ 1,495
Amortization	\$ 32,740	\$ 13,231	\$ 4,381	\$ 2,780	\$ —	\$ 53,132
Depreciation	\$ 4,183	\$ 3,998	\$ 898	\$ 704	\$ 2,406	\$ 12,189
Interest expense	\$ 43,101	\$ 9,877	\$ 4,305	\$ 2,133	\$ (30,316)	\$ 29,100
Income before income taxes	\$ 165,491	\$ 77,990	\$ 42,394	\$ 16,516	\$ 32,264	\$ 334,655
Total assets	\$ 6,487,850	\$ 3,398,709	\$ 1,574,931	\$ 464,905	\$ (3,725,337)	\$ 8,201,058
Capital expenditures	\$ 5,727	\$ 3,045	\$ 1,782	\$ 473	\$ 24,911	\$ 35,938

(in thousands)	Six months ended June 30, 2019					
	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	\$ 699,969	\$ 241,377	\$ 151,680	\$ 100,289	\$ 1,184	\$ 1,194,499
Investment income	\$ 17	\$ 696	\$ 83	\$ 82	\$ 1,728	\$ 2,606
Amortization	\$ 30,801	\$ 12,953	\$ 5,693	\$ 2,699	\$ —	\$ 52,146
Depreciation	\$ 3,543	\$ 3,211	\$ 829	\$ 587	\$ 3,531	\$ 11,701
Interest expense	\$ 42,354	\$ 9,577	\$ 2,587	\$ 2,075	\$ (25,102)	\$ 31,491
Income before income taxes	\$ 138,058	\$ 59,559	\$ 38,513	\$ 18,445	\$ 17,467	\$ 272,042
Total assets	\$ 5,925,156	\$ 2,981,933	\$ 1,352,659	\$ 466,162	\$ (3,561,143)	\$ 7,164,767
Capital expenditures	\$ 5,544	\$ 6,510	\$ 1,702	\$ 331	\$ 21,087	\$ 35,174

NOTE 13 Investments

At June 30, 2020, the Company's amortized cost and fair values of fixed maturity securities are summarized as follows:

(in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	\$ 25,984	\$ 605	\$ —	\$ 26,589
Corporate debt	5,313	245	—	5,558
Total	\$ 31,297	\$ 850	\$ —	\$ 32,147

At June 30, 2020, the Company held \$26.6 million in fixed income securities composed of U.S. Treasury securities, securities issued by U.S. Government agencies and municipalities, and \$5.6 million issued by corporations with investment grade ratings. Of that total, \$10.7 million is classified as short-term investments on the Condensed Consolidated Balance Sheet as maturities are less than one-year. Additionally, the Company holds \$7.4 million in short-term investments, which are related to time deposits held with various financial institutions.

At June 30, 2020, the Company had one security in an unrealized loss position. The unrealized losses for the period ended June 30, 2020 were caused by interest rate increases the amounts of which were deemed insignificant for the period. The corporate securities are highly rated securities with no indicators of potential impairment. Based on the ability and intent of the Company to hold these investments until recovery of fair value, which may be maturity, the bonds were not considered to be other-than-temporarily impaired at June 30, 2020.

At December 31, 2019, the Company's amortized cost and fair values of fixed maturity securities are summarized as follows:

(in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	\$ 26,487	\$ 174	\$ (39)	\$ 26,622
Corporate debt	5,324	68	(8)	5,384
Total	\$ 31,811	\$ 242	\$ (47)	\$ 32,006

At December 31, 2019, the Company held \$26.6 million in fixed income securities composed of U.S. Treasury securities, securities issued by U.S. Government agencies and municipalities, and \$5.4 million issued by corporations with investment grade ratings. Of that total, \$4.6 million is classified as short-term investments on the Condensed Consolidated Balance Sheet as maturities are less than one-year, which also includes \$7.7 million that is related to time deposits held with various financial institutions.

For securities in a loss position, the following table shows the investments' gross unrealized loss and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2019:

(in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	\$ —	\$ —	\$ 7,053	\$ (39)	\$ 7,053	\$ (39)
Corporate debt	—	—	998	(8)	998	(8)
Total	\$ —	\$ —	\$ 8,051	\$ (47)	\$ 8,051	\$ (47)

The unrealized losses from corporate issuers were caused by interest rate increases. At December 31, 2019, the Company had ten securities in an unrealized loss position. The corporate securities are highly rated securities with no indicators of potential impairment. Based on the ability and intent of the Company to hold these investments until recovery of fair value, which may be maturity, the bonds were not considered to be other-than-temporarily impaired at December 31, 2019.

The amortized cost and estimated fair value of the fixed maturity securities at June 30, 2020 by contractual maturity are set forth below:

<i>(in thousands)</i>	<u>Amortized cost</u>	<u>Fair value</u>
Years to maturity:		
Due in one year or less	\$ 10,469	\$ 10,555
Due after one year through five years	20,828	21,592
Due after five years	—	—
Total	\$ 31,297	\$ 32,147

The amortized cost and estimated fair value of the fixed maturity securities at December 31, 2019 by contractual maturity are set forth below:

<i>(in thousands)</i>	<u>Amortized cost</u>	<u>Fair value</u>
Years to maturity:		
Due in one year or less	\$ 4,616	\$ 4,628
Due after one year through five years	27,195	27,378
Due after five years	—	—
Total	\$ 31,811	\$ 32,006

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without penalty.

Proceeds from the sales and maturity of the Company's investment in fixed maturity securities were \$2.0 million. This along with maturing time deposits yielded total cash proceeds from the sale of investments of \$3.7 million in the period of January 1, 2020 to June 30, 2020. These proceeds were principally used to purchase additional fixed maturity securities and time deposits. The gains and losses realized on the sale of securities for the period from January 1, 2020 to June 30, 2020 were insignificant.

Realized gains and losses are reported on the Condensed Consolidated Statements of Income, with the cost of securities sold determined on a specific identification basis.

At June 30, 2020, investments with a fair value of approximately \$4.3 million were on deposit with state insurance departments to satisfy regulatory requirements.

NOTE 14 Insurance Company WNFIC

Although the reinsurers are liable to the Company for amounts reinsured, our subsidiary, Wright National Flood Insurance Company ("WNFIC") remains primarily liable to its policyholders for the full amount of the policies written whether or not the reinsurers meet their obligations to the Company when they become due. The effects of reinsurance on premiums written and earned are as follows:

<i>(in thousands)</i>	<u>For the six months ended June 30, 2020</u>	
	<u>Written</u>	<u>Earned</u>
Direct premiums	\$ 343,079	\$ 352,280
Ceded premiums	(343,073)	(352,274)
Net premiums	\$ 6	\$ 6

All premiums written by WNFIC under the National Flood Insurance Program are 100% ceded to the Federal Emergency Management Agency, or FEMA, for which WNFIC received a 30.1% expense allowance from January 1, 2020 through June 30, 2020. For the period from January 1, 2020 through June 30, 2020, the Company ceded \$342.1 million of written premiums.

As of June 30, 2020 the Condensed Consolidated Balance Sheet contained reinsurance recoverable of \$45.2 million and prepaid reinsurance premiums of \$356.8 million. There was no net activity in the reserve for losses and loss adjustment expense during the period January 1, 2020 through June 30, 2020, as WNFIC's direct premiums written were 100% to two reinsurers. The balance of the reserve for losses and loss adjustment expense, excluding related reinsurance recoverable, as of June 30, 2020 was \$45.2 million.

WNFIC maintains capital in excess of the minimum statutory amount of \$7.5 million as required by regulatory authorities. The unaudited statutory capital and surplus of WNFIC was \$30.9 million at June 30, 2020 and \$29.6 million as of December 31, 2019. For the period from January 1, 2020 through June 30, 2020, WNFIC generated statutory net income of \$0.3 million. For the period from January 1, 2019 through December 31, 2019, WNFIC generated statutory net income of \$8.1 million. The maximum amount of ordinary dividends that WNFIC can pay to shareholders in a rolling 12-month period is limited to the greater of 10% of statutory adjusted capital and surplus of 100% of adjusted net income. There was no dividend payout in 2019 and the maximum dividend payout that may be made in 2020 without prior approval is \$8.1 million.

NOTE 15 Shareholders' Equity

Under the authorization from the Company's Board of Directors, shares may be purchased from time to time, at the Company's discretion and subject to the availability of stock, market conditions, the trading price of the stock, alternative uses for capital, the Company's financial performance and other potential factors. These purchases may be carried out through open market purchases, block trades, accelerated share repurchase plans of up to \$100.0 million each (unless otherwise approved by the Board of Directors), negotiated private transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934.

On March 26, 2020, the Company completed a share repurchase in the open market of 42,080 shares at a total cost of \$1.4 million. After completing these open market share repurchases, the Company has outstanding approval to purchase up to approximately \$459.9 million, in the aggregate, of the Company's outstanding common stock.

ITEM 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion updates the Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and the two discussions should be read together.

GENERAL

Impact of COVID-19

The coronavirus pandemic (“COVID-19”), the resulting recession and its follow-on effects are impacting and will likely continue to impact business activity across industries worldwide, including us.

COVID-19 remains dynamic with uncertainty around its duration and broader impact. We are monitoring and assessing the situation as well as actively preparing for implications to our business. The pandemic and resulting recession has reduced, and is expected to continue reducing, the volume of business from new and existing customers and insurable exposure units. While we cannot predict the precise impact of COVID-19 on the economy or insurable exposure units, we do not expect to attain the level of Organic Revenue growth achieved in 2019 through the remainder of 2020.

As described in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q under the section titled, “Liquidity and Capital Resources,” the Company has access to \$600.0 million of additional borrowings under the existing Revolving Credit Facility as of June 30, 2020. Additionally, the Revolving Credit Facility contains an expansion option for up to an additional \$500.0 million of borrowing capacity, subject to the approval of participating lenders. In addition, under the Term Loan Credit Agreement, the unsecured term loan in the initial amount of \$300.0 million may be increased by up to \$150.0 million, subject to the approval of participating lenders. Including the expansion options under all existing credit agreements, the Company has access to up to \$1.3 billion of incremental borrowing capacity as of June 30, 2020. Debt principal payments due in 2020 and 2021 are \$55.0 million and \$70.0 million, respectively.

The Company has taken a number of precautionary steps to safeguard its business and teammates from COVID-19, including, but not limited to, implementing travel restrictions, arranging work from home capabilities, and initiating flexible work policies. By the end of March, nearly all of the Company’s teammates were working fully in a remote work environment, with virtually no disruption in our ability to serve our clients. The safety and well-being of our teammates is our first priority. The Company will continue to evaluate the impact of COVID-19 on its customers and operations over the coming quarters.

Company Overview — Second Quarter of 2020

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and the related Notes to those Financial Statements included elsewhere in this Quarterly Report on Form 10-Q. In addition, please see “Information Regarding Non-GAAP Financial Measures” below regarding important information on non-GAAP financial measures contained in our discussion and analysis.

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

The volume of business from new and existing customers, fluctuations in insurable exposure units, changes in premium rate levels, changes in general economic and competitive conditions, a health pandemic, and the occurrence of catastrophic weather events all affect our revenues. For example, level rates of inflation or a general decline in economic activity could limit increases in the values of insurable exposure units. Conversely, increasing costs of litigation settlements and awards could cause some customers to seek higher levels of insurance coverage. Historically, our revenues have typically grown as a result of our focus on net new business growth and acquisitions. We foster a strong, decentralized sales and service culture with the goal of consistent, sustained growth over the long-term.

The term “Organic Revenue,” a non-GAAP measure, is our core commissions and fees less: (i) the core commissions and fees earned for the first 12 months by newly-acquired operations; and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). The term “core commissions and fees” excludes profit-sharing contingent commissions and guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. “Organic Revenue” is reported in this manner in order to express the current year’s core commissions and fees on a comparable basis with the prior year’s core commissions and fees. The resulting net change reflects the aggregate changes attributable to: (i) net new and lost accounts; (ii) net changes in our customers’ exposure units; (iii) net changes in insurance premium rates or the commission rate paid to us by our carrier partners; and (iv) the net change in fees paid to us by our customers. Organic Revenue is reported in “Results of Operations” and in “Results of Operations - Segment Information” of this Quarterly Report on Form 10-Q.

We also earn profit-sharing contingent commissions, which are commissions based primarily on underwriting results, but which may also reflect considerations for volume, growth and/or retention. These commissions which are included in our commissions and fees in the Condensed Consolidated Statements of Income, are accrued throughout the year based on actual premiums written and are primarily received in the first and second quarters of each year, based upon the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 3.0% of commissions and fees revenue.

Certain insurance companies offer guaranteed fixed-base agreements, referred to as “Guaranteed Supplemental Commissions” (“GSCs”) in lieu of profit-sharing contingent commissions. GSCs are accrued throughout the year based on actual premiums written. For the 12-month period ended December 31, 2019, we had earned \$23.1 million of GSCs, of which \$12.7 million remained accrued at December 31, 2019, the balance of which is typically collected over the first and second quarters of the subsequent year. For the three-month periods ended June 30, 2020 and 2019, we earned and accrued \$4.3 million and \$12.7 million, respectively, from GSCs. The decrease in the second quarter of 2020 was driven by a one-time GSC realized within the National Programs Segment in the second quarter of 2019.

Combined, our profit-sharing contingent commissions and GSCs for the three months ended June 30, 2020 decreased by \$1.8 million compared to the second quarter of 2019. This decrease was primarily driven by the one-time GSC received within the National Programs Segment in the second quarter of 2019, which was substantially offset by increased profit-sharing contingent commissions within the National Programs Segment and to a lesser extent growth associated with acquisitions completed over the last 12 months.

Fee revenues primarily relate to services other than securing coverage for our customers, as well as fees negotiated in lieu of commissions, and are recognized as performance obligations are satisfied. Fee revenues have historically been generated primarily by: (1) our Services Segment, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers’ compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services, and claims adjusting services; (2) our National Programs and Wholesale Brokerage Segments, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies; and to a lesser extent (3) our Retail Segment in our large-account customer base, where we primarily earn fees for securing insurance for our customers, and in our automobile dealer services (“F&I”) businesses where we primarily earn fees for assisting our customers with creating and selling warranty and service risk management programs. Fee revenues as a percentage of our total commissions and fees, represented 27.1% in 2019 and 26.3% in 2018.

For the three-month period ended June 30, 2020, our total commissions and fees growth rate was 4.4%, and our consolidated Organic Revenue growth rate was 0.5%. For the second quarter of 2020, the Company lowered its estimates for the revenues we expect to earn from existing general liability and other policies where the premiums are subject to change based on associated activity, such as revenues, of the insured. These estimates were revised during the second quarter after assessing the projected impact of COVID-19 on economic activity and associated revenues and operations of our customers during the remainder of their current policy periods in light of the increasing rate of COVID-19 cases and a slower reopening of the U.S. economy than expected. This resulted in an adjustment of approximately \$8.0 million for the second quarter of 2020.

Historically, investment income has consisted primarily of interest earnings on operating cash and where permitted, 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. Other income primarily reflects legal settlements and other miscellaneous income.

Income before income taxes for the three-month period ended June 30, 2020 increased from the second quarter of 2019 by \$5.9 million, primarily as a result of net new business, acquisitions completed in the past 12 months, and management of our expense base, with the growth partially offset by the overall impact of COVID-19 on our revenues and expenses.

Information Regarding Non-GAAP Measures

In the discussion and analysis of our results of operations, in addition to reporting financial results in accordance with generally accepted accounting principles (“GAAP”), we provide references to the following non-GAAP financial measures as defined in Regulation G of SEC rules: Organic Revenue, Organic Revenue growth, EBITDAC and EBITDAC Margin. We view these non-GAAP financial measures as important indicators when assessing and evaluating our performance on a consolidated basis and for each of our segments because they allow us to determine a more comparable, but non-GAAP, measurement of revenue growth and operating performance that is associated with the revenue sources that were a part of our business in both the current and prior year. We believe that Organic Revenue provides a meaningful representation of our operating performance and view Organic Revenue growth as an important indicator when assessing and evaluating the performance of our four segments. Organic Revenue can be expressed as a dollar amount or a percentage rate when describing Organic Revenue growth. We also use Organic Revenue growth and EBITDAC Margin for incentive compensation determinations for executive officers and other key employees. We view EBITDAC and EBITDAC Margin as important indicators of operating performance, because they allow us to determine more comparable, but non-GAAP, measurements of our operating margins in a meaningful and consistent manner by removing the significant non-cash items of depreciation, amortization and the change in estimated acquisition earn-out payables, and also interest expense and taxes, which are reflective of investment and financing activities, not operating performance.

These measures are not in accordance with, or an alternative to the GAAP information provided in this Quarterly Report on Form 10-Q. We present such non-GAAP supplemental financial information because we believe such information is of interest to the investment community and because we believe they provide additional meaningful methods of evaluating certain aspects of the Company's operating performance from period to period on a basis that may not be otherwise apparent on a GAAP basis. We believe these non-GAAP financial measures improve the comparability of results between periods by eliminating the impact of certain items that have a high degree of variability. Our industry peers may provide similar supplemental non-GAAP information with respect to one or more of these measures, although they may not use the same or comparable terminology and may not make identical adjustments. This supplemental financial information should be considered in addition to, not in lieu of, our Condensed Consolidated Financial Statements.

Tabular reconciliations of this supplemental non-GAAP financial information to our most comparable GAAP information are contained in this Quarterly Report on Form 10-Q under "Results of Operations - Segment Information."

Acquisitions

Part of our continuing business strategy is to attract high-quality insurance intermediaries to join our operations. From 1993 through the second quarter of 2020, we acquired 546 insurance intermediary operations.

Critical Accounting Policies

We have had no changes to our Critical Accounting Policies as described in our most recent Form 10-K for the year ended December 31, 2019. We believe that of our significant accounting and reporting policies, the more critical policies include our accounting for revenue recognition, business combinations and purchase price allocations, intangible asset impairments, non-cash stock-based compensation and reserves for litigation. In particular, the accounting for these areas requires significant use of judgment to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 in the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2019 on file with the Securities and Exchange Commission for details regarding our critical and significant accounting policies.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

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

Financial information relating to our condensed consolidated financial results for the three and six months ended June 30, 2020 and 2019 is as follows:

<i>(in thousands, except percentages)</i>	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	2020	2019	% Change
REVENUES						
Core commissions and fees	\$ 575,198	\$ 548,206	4.9%	\$ 1,243,903	\$ 1,146,712	8.5%
Profit-sharing contingent commissions	18,653	11,983	55.7%	42,595	27,305	56.0%
Guaranteed supplemental commissions	4,306	12,743	(66.2)%	8,162	16,378	(50.2)%
Investment income	333	1,525	(78.2)%	1,495	2,606	(42.6)%
Other income, net	316	762	(58.5)%	1,147	1,498	(23.4)%
Total revenues	598,806	575,219	4.1%	1,297,302	1,194,499	8.6%
EXPENSES						
Employee compensation and benefits	346,515	309,610	11.9%	696,139	642,447	8.4%
Other operating expenses	75,568	98,050	(22.9)%	182,700	186,833	(2.2)%
(Gain)/loss on disposal	(31)	(1,016)	(96.9)%	(291)	(511)	(43.1)%
Amortization	26,741	25,954	3.0%	53,132	52,146	1.9%
Depreciation	6,168	5,666	8.9%	12,189	11,701	4.2%
Interest	13,809	16,293	(15.2)%	29,100	31,491	(7.6)%
Change in estimated acquisition earn-out payables	635	(2,860)	(122.2)%	(10,322)	(1,650)	NMF
Total expenses	469,405	451,697	3.9%	962,647	922,457	4.4%
Income before income taxes	129,401	123,522	4.8%	334,655	272,042	23.0%
Income taxes	32,617	30,929	5.5%	85,471	65,553	30.4%
NET INCOME	\$ 96,784	\$ 92,593	4.5%	\$ 249,184	\$ 206,489	20.7%
Income Before Income Taxes Margin (1)	21.6%	21.5%		25.8%	22.8%	
EBITDAC (2)	\$ 176,754	\$ 168,575	4.9%	\$ 418,754	\$ 365,730	14.5%
EBITDAC Margin (2)	29.5%	29.3%		32.3%	30.6%	
Organic Revenue growth rate (2)	0.5%	3.9%		3.1%	2.9%	
Employee compensation and benefits relative to total revenues	57.9%	53.8%		53.7%	53.8%	
Other operating expenses relative to total revenues	12.6%	17.0%		14.1%	15.6%	
Capital expenditures	\$ 19,480	\$ 11,988	62.5%	\$ 35,938	\$ 35,174	2.2%
Total assets at June 30,				\$ 8,201,058	\$ 7,164,767	14.5%

(1) "Income Before Income Taxes Margin" is defined as income before income taxes divided by total revenues

(2) A non-GAAP financial measure.

NMF = Not a meaningful figure

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions and GSCs, for the three months ended June 30, 2020 increased \$25.2 million to \$598.2 million, or 4.4%, over the same period in 2019. Core commissions and fees revenue for the second quarter of 2020 increased \$27.0 million, composed of (i) \$27.4 million from acquisitions that had no comparable revenues in the same period of 2019; (ii) an offsetting decrease of \$3.2 million related to commissions and fees revenue from business divested in 2019; and (iii) approximately \$2.8 million of net new and renewal business, which reflects an Organic Revenue growth rate of 0.5%. The 0.5% Organic Revenue growth rate was negatively impacted by an \$8.0 million adjustment as the Company lowered its estimates for the revenues we expect to earn from existing general liability and other policies where the premiums are subject to change based on associated activity, such as revenues, of the insured. These estimates were revised after further assessing the projected impact of COVID-19 on economic activity and associated revenues and operations of our customers during the remainder of their current policy periods. The \$8.0 million adjustment to commissions and fees for the second quarter of 2020 related to policies with effective dates prior to the second quarter of 2020. Profit-sharing contingent commissions and GSCs for the second quarter of 2020 decreased by \$1.8 million, or 7.1%, compared to the same period in 2019. The net decrease of \$1.8 million in the second quarter of 2020 was primarily driven by the one-time GSC received within the National Programs Segment in the second quarter of 2019, substantially offset by increased profit-sharing contingent commissions within the National Programs Segment and growth associated with acquisitions completed over the last 12 months.

For the six months ended June 30, 2020, commissions and fees, including profit-sharing contingent commissions and GSCs, increased \$104.3 million to \$1,294.7 million, or 8.8%, over the same period in 2019. Core commissions and fees revenue for six months ended June 30, 2020 increased \$97.2 million, composed of (i) \$68.8 million from acquisitions that had no comparable revenues in the same period of 2019; (ii) approximately \$35.8 million represented net new and renewal business; and (iii) an offsetting decrease of \$7.4 million related to commissions and fees revenue from businesses divested in 2019, which reflects an Organic Revenue growth rate of 3.1%. The 3.1% Organic Revenue growth rate was negatively impacted by a \$7.1 million adjustment in the first half of 2020 as a result of the Company's assessment of COVID-19, which lowered the Company's estimates of projected remaining policy year revenues related to employee benefits and workers' compensation lines of coverage, and for the revenues we expect to earn from existing general liability and other policies. This adjustment of \$7.1 million related to policies with effective dates prior to the first six months of 2020. Profit-sharing contingent commissions and GSCs for the six months ended June 30, 2020 increased by \$7.1 million, or 16.2%, compared to the same period in 2019. The net increase of \$7.1 million in the first half of 2020 was primarily driven by profit-sharing contingent commissions received in the first quarter of 2020 being significantly higher than the amount accrued as of December 31, 2019 for the estimate of profit-sharing contingent commissions earned in 2019 and expected to be received in the first six months of 2020 and to a lesser extent growth associated with acquisitions completed over the last 12 months, partially offset by a one-time GSC received in the National Programs Segment in the second quarter of 2019.

Investment Income

Investment income for the three months ended June 30, 2020 decreased \$1.2 million, or 78.2%, from the same period in 2019. Investment income for the six months ended June 30, 2020 decreased \$1.1 million, or 42.6%, from the same period in 2019. These decreases were primarily driven by lower interest rates as compared to the prior year.

Other Income, net

Other income for the three months ended June 30, 2020 was \$0.3 million, compared with \$0.8 million in the same period in 2019. Other income for the six months ended June 30, 2020 was \$1.1 million, compared with \$1.5 million in the same period in 2019. Other income consists primarily of legal settlements and other miscellaneous income.

Employee Compensation and Benefits

Employee compensation and benefits expense as a percentage of total revenues was 57.9% for the three months ended June 30, 2020 as compared to 53.8% for the three months ended June 30, 2019, and increased 11.9%, or \$36.9 million. This increase included \$8.6 million of compensation costs related to stand-alone acquisitions that had no comparable costs in the same period of 2019. Therefore, employee compensation and benefits expense attributable to those offices that existed in the same time periods of 2020 and 2019 increased by \$28.3 million or 9.1%. This underlying employee compensation and benefits expense increase was primarily related to (i) the increase in non-cash stock-based compensation expense; (ii) the increase in the value of deferred compensation liabilities driven by changes in the market prices of our employees' investment elections, which was offset within other operating expenses; and (iii) an increase in staff salaries attributable to salary inflation; partially offset by (iv) lower costs associated with our self-insured health plan driven by fewer health claims believed to be a result of social distancing efforts in response to COVID-19.

Employee compensation and benefits expense as a percentage of total revenues was 53.7% for the six months ended June 30, 2020 as compared to 53.8% for the six months ended June 30, 2019, and increased 8.4%, or \$53.7 million. This increase included \$22.8 million of compensation costs related to stand-alone acquisitions that had no comparable costs in the same period of 2019. Therefore, employee compensation and benefits expense attributable to those offices that existed in the same time periods of 2020 and 2019 increased by \$30.9 million or 4.8%. This underlying employee compensation and benefits expense increase was primarily related to (i) an increase in staff salaries attributable to salary inflation; (ii) an increase in non-cash stock-based compensation expense; and (iii) increased producer compensation due to higher revenue; partially offset by (iv) the decrease in the value of deferred compensation liabilities driven by changes in the market prices of our employees' investment elections, which was offset within other operating expenses.

Other Operating Expenses

Other operating expenses represented 12.6% of total revenues for the second quarter of 2020 as compared to 17.0% for the second quarter of 2019. Other operating expenses for the second quarter of 2020 decreased \$22.5 million, or 22.9%, from the same period of 2019. The net decrease included: (i) lower variable operating expenses, including such items as travel & entertainment, meetings and professional fees, resulting from responses to COVID-19; (ii) the increase in the value of corporate-owned life insurance policies associated with our deferred compensation plan, which was substantially offset by increases in the value of liabilities in the Company's deferred compensation plan recognized as expense in employee compensation and benefits; and (iii) one-time legal costs recorded in the second quarter of 2019; partially offset by (iv) \$3.7 million of other operating expenses related to stand-alone acquisitions that had no comparable costs in the same period of 2019.

Other operating expenses represented 14.1% of total revenues for the six months ended June 30, 2020 as compared to 15.6% for the six months ended June 30, 2019. Other operating expenses for the first half of 2020 decreased \$4.1 million, or 2.2%, from the same period of 2019. The net decrease included: (i) lower variable operating expenses, including such items as travel & entertainment, meetings and professional fees, resulting from responses to COVID-19; and (ii) one-time legal costs recorded in the second quarter of 2019; partially offset by (iii) \$8.5 million of other operating expenses related to stand-alone acquisitions that had no comparable costs in the same period of 2019; and (iv) the decrease in the value of corporate-owned life insurance policies associated with our deferred compensation plan, which was substantially offset by decreases in the value of liabilities in the Company's deferred compensation plan recognized as expense in employee compensation and benefits.

(Gain)/Loss on Disposal

Gain on disposal for the second quarter of 2020 decreased \$1.0 million from the second quarter of 2019. Gain on disposal for the six months ended June 30, 2020 decreased \$0.2 million from the six months ended June 30, 2019. The changes in the (gain)/loss on disposal were due to activity associated with book of business sales. Although we are not in the business of selling customer accounts, we periodically sell an office or a book of business (one or more customer accounts) that we believe does not produce reasonable margins or demonstrate a potential for growth, or because doing so is in the Company's best interest.

Amortization

Amortization expense for the second quarter of 2020 increased \$0.8 million, or 3.0%, compared to the second quarter of 2019. Amortization expense for the six months ended June 30, 2020 increased \$1.0 million, or 1.9%, compared to the six months ended June 30, 2019. These increases reflect the amortization of new intangibles from businesses acquired within the past 12 months, partially offset by certain intangible assets becoming fully amortized.

Depreciation

Depreciation expense for the second quarter of 2020 increased \$0.5 million, or 8.9%, compared to the second quarter of 2019. Depreciation expense for the six months ended June 30, 2020 increased \$0.5 million, or 4.2%, compared to the six months ended June 30, 2019. Changes in depreciation expense reflect the addition of fixed assets resulting from capital projects related to our multi-year technology investment program and other business initiatives, net additions of fixed assets resulting from businesses acquired in the past 12 months, partially offset by fixed assets which became fully depreciated.

Interest Expense

Interest expense for the second quarter of 2020 decreased \$2.5 million, or 15.2%, compared to the second quarter of 2019. Interest expense for the six months ended June 30, 2020 decreased \$2.4 million, or 7.6%, compared to the first half of 2019. These decreases are due to: (i) the decrease in interest rates associated with our floating rate debt balances; (ii) the scheduled principal amortization payments on existing various floating rate notes; offset by (iii) the incremental debt issued on the existing Revolving Credit Facility of \$100.0 million in the third quarter of 2019 and an additional borrowing in the second quarter of 2020 as a result of various acquisitions during those periods; and (iv) the impact of the full expense related to the Company's 4.500% Senior Notes due 2029 issued as of March 11, 2019.

Change in Estimated Acquisition Earn-Out Payables

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

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

As of June 30, 2020 and 2019, the fair values of the estimated acquisition earn-out payables were re-evaluated based upon projected operating results and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820-*Fair Value Measurement*. The resulting net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the three and six-month periods ended June 30, 2020 and 2019 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<i>(in thousands)</i>				
Change in fair value of estimated acquisition earn-out payables	\$ (1,308)	\$ (4,350)	\$ (13,949)	\$ (4,301)
Interest expense accretion	1,943	1,490	3,627	2,651
Net change in earnings from estimated acquisition earn-out payables	\$ 635	\$ (2,860)	\$ (10,322)	\$ (1,650)

For the three months ended June 30, 2020 and 2019, the fair value of estimated earn-out payables was re-evaluated and decreased by \$1.3 million and \$4.4 million, respectively, which resulted in credits to the Condensed Consolidated Statements of Income.

As of June 30, 2020, estimated acquisition earn-out payables totaled \$218.5 million, of which \$22.1 million was recorded as accounts payable and \$196.4 million was recorded as other non-current liabilities.

Income Taxes

The effective tax rate on income from operations for the three months ended June 30, 2020 and 2019 was 25.2% and 25.0%, respectively. The effective tax rate on income from operations for the six months ended June 30, 2020 and 2019 was 25.5% and 24.1%, respectively. These increases were driven primarily by changes in our state tax footprint and corresponding apportionment as well as changes to tax rates in certain states. Additionally, there were increases in the effective rates related to the unfavorable tax implications of decreased market values associated with our company owned life insurance policies as well as increases in other non-deductible expenses. The effective rates for the second quarter and the six months ended June 30, 2020, were reduced due to a one-time discrete state tax refund.

RESULTS OF OPERATIONS — SEGMENT INFORMATION

As discussed in Note 12 to the Condensed Consolidated Financial Statements, we operate four reportable segments: Retail, National Programs, Wholesale Brokerage, and Services. On a segmented basis, changes in amortization, depreciation and interest expenses generally result from activity associated with acquisitions. Likewise, other income in each segment reflects net gains primarily from legal settlements and miscellaneous income. As such, in evaluating the operational efficiency of a segment, management focuses upon the Organic Revenue growth rate of core commissions and fees revenue, the ratio of total employee compensation and benefits to total revenues, and the ratio of other operating expenses to total revenues.

The reconciliation of commissions and fees included in the Condensed Consolidated Statements of Income to Organic Revenue, a non-GAAP financial measure, for the three months ended June 30, 2020 and 2019, including by segment, and the growth rates for Organic Revenue for the three months ended June 30, 2020, including by segment, are as follows:

2020 <i>(in thousands, except percentages)</i>	Retail (1)		National Programs		Wholesale Brokerage		Services		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Commissions and fees	\$ 311,971	\$ 309,822	\$ 154,531	\$ 131,424	\$ 88,725	\$ 80,923	\$ 42,930	\$ 50,763	\$ 598,157	\$ 572,932
Total change	\$ 2,149		\$ 23,107		\$ 7,802		\$ (7,833)		\$ 25,225	
Total growth %	0.7%		17.6%		9.6%		(15.4)%		4.4%	
Profit-sharing contingent commissions	(6,926)	(6,659)	(9,269)	(4,093)	(2,458)	(1,231)	—	—	(18,653)	(11,983)
GSCs	(3,405)	(2,556)	(306)	(9,612)	(595)	(575)	—	—	(4,306)	(12,743)
Core commissions and fees	\$ 301,640	\$ 300,607	\$ 144,956	\$ 117,719	\$ 85,672	\$ 79,117	\$ 42,930	\$ 50,763	\$ 575,198	\$ 548,206
Acquisitions	(11,671)	—	(9,295)	—	(6,477)	—	—	—	(27,443)	—
Dispositions	—	(3,006)	—	(236)	—	—	—	—	—	(3,242)
Organic Revenue (2)	\$ 289,969	\$ 297,601	\$ 135,661	\$ 117,483	\$ 79,195	\$ 79,117	\$ 42,930	\$ 50,763	\$ 547,755	\$ 544,964
Organic Revenue growth (2)	\$ (7,632)		\$ 18,178		\$ 78		\$ (7,833)		\$ 2,791	
Organic Revenue growth rate (2)	(2.6)%		15.5%		0.1%		(15.4)%		0.5%	

- (1) The Retail Segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 12 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.
- (2) A non-GAAP financial measure.

The reconciliation of commissions and fees included in the Condensed Consolidated Statements of Income to Organic Revenue, a non-GAAP financial measure, for the three months ended June 30, 2019 and 2018, including by segment, and the growth rates for Organic Revenue for the three months ended June 30, 2019, including by segment, are as follows:

2019 <i>(in thousands, except percentages)</i>	Retail (1)		National Programs		Wholesale Brokerage		Services		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Commissions and fees	\$ 309,822	\$ 232,533	\$ 131,424	\$ 118,289	\$ 80,923	\$ 75,415	\$ 50,763	\$ 45,831	\$ 572,932	\$ 472,068
Total change	\$ 77,289		\$ 13,135		\$ 5,508		\$ 4,932		\$ 100,864	
Total growth %	33.2%		11.1%		7.3%		10.8%		21.4%	
Profit-sharing contingent commissions	(6,659)	(6,469)	(4,093)	(5,521)	(1,231)	(1,991)	—	—	(11,983)	(13,981)
GSCs	(2,556)	(2,182)	(9,612)	(39)	(575)	(272)	—	—	(12,743)	(2,493)
Core commissions and fees	\$ 300,607	\$ 223,882	\$ 117,719	\$ 112,729	\$ 79,117	\$ 73,152	\$ 50,763	\$ 45,831	\$ 548,206	\$ 455,594
Acquisition revenues	(65,915)	—	(3,131)	—	(1,213)	—	(6,832)	—	(77,091)	—
Divested business	—	(1,608)	—	(340)	—	(328)	—	—	—	(2,276)
Organic Revenue (2)	\$ 234,692	\$ 222,274	\$ 114,588	\$ 112,389	\$ 77,904	\$ 72,824	\$ 43,931	\$ 45,831	\$ 471,115	\$ 453,318
Organic Revenue growth (2)	\$ 12,418		\$ 2,199		\$ 5,080		\$ (1,900)		\$ 17,797	
Organic Revenue growth rate (2)	5.6%		2.0%		7.0%		(4.1)%		3.9%	

- (1) The Retail Segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 12 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.
- (2) A non-GAAP financial measure.

The reconciliation of commissions and fees included in the Condensed Consolidated Statements of Income to Organic Revenue, a non-GAAP financial measure, for the six months ended June 30, 2020 and 2019, including by segment, and the growth rates for Organic Revenue for the six months ended June 30, 2020, including by segment, are as follows:

2020 (in thousands, except percentages)	Retail (1)		National Programs		Wholesale Brokerage		Services		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Commissions and fees	\$ 758,350	\$ 698,272	\$ 282,667	\$ 240,631	\$ 166,261	\$ 151,285	\$ 87,382	\$ 100,207	\$ 1,294,660	\$ 1,190,395
Total change	\$ 60,078		\$ 42,036		\$ 14,976		\$ (12,825)		\$ 104,265	
Total growth %	8.6%		17.5%		9.9%		(12.8)%		8.8%	
Profit-sharing contingent commissions	(23,021)	(18,206)	(14,980)	(4,953)	(4,594)	(4,146)	—	—	(42,595)	(27,305)
GSCs	(7,837)	(5,796)	707	(9,616)	(1,032)	(966)	—	—	(8,162)	(16,378)
Core commissions and fees	\$ 727,492	\$ 674,270	\$ 268,394	\$ 226,062	\$ 160,635	\$ 146,173	\$ 87,382	\$ 100,207	\$ 1,243,903	\$ 1,146,712
Acquisitions	(46,580)	—	(11,798)	—	(8,865)	—	(1,484)	—	(68,727)	—
Dispositions	—	(6,980)	—	(376)	—	—	—	—	—	(7,356)
Organic Revenue (2)	\$ 680,912	\$ 667,290	\$ 256,596	\$ 225,686	\$ 151,770	\$ 146,173	\$ 85,898	\$ 100,207	\$ 1,175,176	\$ 1,139,356
Organic Revenue growth (2)	\$ 13,622		\$ 30,910		\$ 5,597		\$ (14,309)		\$ 35,820	
Organic Revenue growth % (2)	2.0%		13.7%		3.8%		(14.3)%		3.1%	

(1) The Retail Segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 12 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.

(2) A non-GAAP financial measure.

The reconciliation of commissions and fees included in the Condensed Consolidated Statements of Income to Organic Revenue, a non-GAAP financial measure, for the six months ended June 30, 2019 and 2018, including by segment, and the growth rates for Organic Revenue for the six months ended June 30, 2019, including by segment, are as follows:

2019 (in thousands, except percentages)	Retail (1)		National Programs		Wholesale Brokerage		Services		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Commissions and fees	\$ 698,272	\$ 510,628	\$ 240,631	\$ 230,621	\$ 151,285	\$ 141,333	\$ 100,207	\$ 89,824	\$ 1,190,395	\$ 972,406
Total change	\$ 187,644		\$ 10,010		\$ 9,952		\$ 10,383		\$ 217,989	
Total growth %	36.7%		4.3%		7.0%		11.6%		22.4%	
Profit-sharing contingent commissions	(18,206)	(12,599)	(4,953)	(9,503)	(4,146)	(3,563)	—	—	(27,305)	(25,665)
GSCs	(5,796)	(4,704)	(9,616)	(54)	(966)	(715)	—	—	(16,378)	(5,473)
Core commissions and fees	\$ 674,270	\$ 493,325	\$ 226,062	\$ 221,064	\$ 146,173	\$ 137,055	\$ 100,207	\$ 89,824	\$ 1,146,712	\$ 941,268
Acquisition revenues	(160,496)	—	(5,720)	—	(2,612)	—	(12,079)	—	(180,907)	—
Divested business	—	(1,742)	—	(453)	—	(653)	—	—	—	(2,848)
Organic Revenue (2)	\$ 513,774	\$ 491,583	\$ 220,342	\$ 220,611	\$ 143,561	\$ 136,402	\$ 88,128	\$ 89,824	\$ 965,805	\$ 938,420
Organic Revenue growth (2)	\$ 22,191		\$ (269)		\$ 7,159		\$ (1,696)		\$ 27,385	
Organic Revenue growth % (2)	4.5%		(0.1)%		5.2%		(1.9)%		2.9%	

(1) The Retail Segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 12 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.

(2) A non-GAAP financial measure.

The reconciliation of income before incomes taxes, included in the Condensed Consolidated Statement of Income, to EBITDAC, a non-GAAP measure, and Income Before Income Taxes Margin to EBITDAC Margin, a non-GAAP measure, for the three months ended June 30, 2020, is as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Income before income taxes	\$ 36,829	\$ 48,344	\$ 24,708	\$ 6,436	\$ 13,084	\$ 129,401
Income Before Income Taxes Margin	11.8%	31.3%	27.8%	15.0%	NMF	21.6%
Amortization	16,453	6,866	2,032	1,390	—	26,741
Depreciation	2,147	2,093	467	353	1,108	6,168
Interest	21,303	5,195	2,594	1,042	(16,325)	13,809
Change in estimated acquisition earn-out payables	147	344	144	—	—	635
EBITDAC	\$ 76,879	\$ 62,842	\$ 29,945	\$ 9,221	\$ (2,133)	\$ 176,754
EBITDAC Margin	24.6%	40.6%	33.7%	21.5%	NMF	29.5%

NMF = Not a meaningful figure

The reconciliation of income before incomes taxes included in the Condensed Consolidated Statement of Income to EBITDAC, a non-GAAP measure, and Income Before Income Taxes Margin to EBITDAC Margin, a non-GAAP measure, for the three months ended June 30, 2019, is as follows:

<i>(in thousands)</i>	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Income before income taxes	\$ 44,217	\$ 40,243	\$ 22,944	\$ 9,268	\$ 6,850	\$ 123,522
Income Before Income Taxes Margin	14.2%	30.5%	28.3%	18.2%	NMF	21.5%
Amortization	15,357	6,357	2,844	1,396	—	25,954
Depreciation	1,919	1,621	425	303	1,398	5,666
Interest	21,201	4,223	1,260	1,203	(11,594)	16,293
Change in estimated acquisition earn-out payables	(1,704)	(1,203)	(89)	136	—	(2,860)
EBITDAC	\$ 80,990	\$ 51,241	\$ 27,384	\$ 12,306	\$ (3,346)	\$ 168,575
EBITDAC Margin	26.1%	38.9%	33.7%	24.2%	NMF	29.3%

NMF = Not a meaningful figure

The reconciliation of income before incomes taxes included in the Condensed Consolidated Statement of Income to EBITDAC, a non-GAAP measure, and Income Before Income Taxes Margin to EBITDAC Margin, a non-GAAP measure, for the six months ended June 30, 2020, is as follows:

<i>(in thousands)</i>	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Income before income taxes	\$ 165,491	\$ 77,990	\$ 42,394	\$ 16,516	\$ 32,264	\$ 334,655
Income Before Income Taxes Margin	21.8%	27.6%	25.5%	18.9%	NMF	25.8%
Amortization	32,740	13,231	4,381	2,780	—	53,132
Depreciation	4,183	3,998	898	704	2,406	12,189
Interest	43,101	9,877	4,305	2,133	(30,316)	29,100
Change in estimated acquisition earn-out payables	(5,970)	(993)	(274)	(3,085)	—	(10,322)
EBITDAC	\$ 239,545	\$ 104,103	\$ 51,704	\$ 19,048	\$ 4,354	\$ 418,754
EBITDAC Margin	31.5%	36.8%	31.0%	21.8%	NMF	32.3%

NMF = Not a meaningful figure

The reconciliation of income before incomes taxes included in the Condensed Consolidated Statement of Income to EBITDAC, a non-GAAP measure, and Income Before Income Taxes Margin to EBITDAC Margin, a non-GAAP measure, for the six months ended June 30, 2019, is as follows:

<i>(in thousands)</i>	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Income before income taxes	\$ 138,058	\$ 59,559	\$ 38,513	\$ 18,445	\$ 17,467	\$ 272,042
Income Before Income Taxes Margin	19.7%	24.7%	25.4%	18.4%	NMF	22.8%
Amortization	30,801	12,953	5,693	2,699	—	52,146
Depreciation	3,543	3,211	829	587	3,531	11,701
Interest	42,354	9,577	2,587	2,075	(25,102)	31,491
Change in estimated acquisition earn-out payables	(676)	(1,161)	(48)	235	—	(1,650)
EBITDAC	\$ 214,080	\$ 84,139	\$ 47,574	\$ 24,041	\$ (4,104)	\$ 365,730
EBITDAC Margin	30.6%	34.9%	31.4%	24.0%	NMF	30.6%

NMF = Not a meaningful figure

Retail Segment

The Retail Segment provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers, and non-insurance risk-mitigating products through our automobile dealer services ("F&I") businesses. Approximately 81.7% of the Retail Segment's commissions and fees revenue is commission based. Because most of our other operating expenses are not correlated to changes in commissions on insurance premiums, a significant portion of any fluctuation in the commissions we receive, net of related producer compensation and cost to fulfill expense deferrals and releases as required by ASC 340, Other Assets and Deferred Costs, will result in a similar fluctuation in our income before income taxes, unless we make incremental investments or modifications to the costs in the organization.

Financial information relating to our Retail Segment for the three and six months ended June 30, 2020 and 2019 is as follows:

<i>(in thousands, except percentages)</i>	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	2020	2019	% Change
REVENUES						
Core commissions and fees	\$ 301,963	\$ 300,962	0.3%	\$ 728,136	\$ 674,814	7.9%
Profit-sharing contingent commissions	6,926	6,659	4.0%	23,021	18,206	26.4%
Guaranteed supplemental commissions	3,405	2,556	33.2%	7,837	5,796	35.2%
Investment income	41	17	141.2%	124	17	NMF
Other income, net	227	544	(58.3%)	933	1,136	(17.9%)
Total revenues	312,562	310,738	0.6%	760,051	699,969	8.6%
EXPENSES						
Employee compensation and benefits	186,971	175,407	6.6%	410,192	375,106	9.4%
Other operating expenses	48,743	55,357	(11.9%)	110,605	111,294	(0.6%)
(Gain)/loss on disposal	(31)	(1,016)	(96.9%)	(291)	(511)	(43.1%)
Amortization	16,453	15,357	7.1%	32,740	30,801	6.3%
Depreciation	2,147	1,919	11.9%	4,183	3,543	18.1%
Interest	21,303	21,201	0.5%	43,101	42,354	1.8%
Change in estimated acquisition earn-out payables	147	(1,704)	(108.6%)	(5,970)	(676)	NMF
Total expenses	275,733	266,521	3.5%	594,560	561,911	5.8%
Income before income taxes	\$ 36,829	\$ 44,217	(16.7%)	\$ 165,491	\$ 138,058	19.9%
Income Before Income Taxes Margin (1)	11.8%	14.2%		21.8%	19.7%	
EBITDAC (2)	\$ 76,879	\$ 80,990	(5.1%)	\$ 239,545	\$ 214,080	11.9%
EBITDAC Margin (2)	24.6%	26.1%		31.5%	30.6%	
Organic Revenue growth rate (2)	(2.6%)	5.6%		2.0%	4.5%	
Employee compensation and benefits relative to total revenues	59.8%	56.4%		54.0%	53.6%	
Other operating expenses relative to total revenues	15.6%	17.8%		14.6%	15.9%	
Capital expenditures	\$ 3,228	\$ 2,408	34.1%	\$ 5,727	\$ 5,544	3.3%
Total assets at June 30,				\$ 6,487,850	\$ 5,925,156	9.5%

(1) "Income Before Income Taxes Margin" is defined as income before income taxes divided by total revenues

(2) A non-GAAP financial measure.

NMF = Not a meaningful figure

The Retail Segment's total revenues for the three months ended June 30, 2020 increased 0.6%, or \$1.8 million, as compared to the same period in 2019, to \$312.6 million. The \$1.0 million increase in core commissions and fees revenue was driven by: (i) approximately \$11.7 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2019; offset by (ii) a decrease of \$7.7 million related to net new and renewal business; and (iii) a decrease of \$3.0 million related to commissions and fees recorded in 2019 from businesses since divested. Profit-sharing contingent commissions and GSCs for the second quarter of 2020 increased 12.1%, or \$1.1 million, as compared to the same period in 2019, to \$10.3 million, primarily driven by acquisition activity in the past 12 months and qualifying for certain profit-sharing contingent commissions and GSCs in the current year that we did not qualify for in 2019. The Retail Segment's total commissions and fees increased by 0.7%, and Organic Revenue declined 2.6% for the second quarter of 2020. The Organic Revenue growth rate was negatively impacted by an \$8.0 million adjustment to commissions and fees for the second quarter of 2020 as the Company lowered its estimates for the revenues we expect to earn from existing general liability and other policies where the premiums are subject to change based on associated activity, such as revenues, of the insured. These estimates were revised after further assessing the projected impact of COVID-19 on economic activity and associated revenues and operations of our customers during the remainder of their current policy periods. Of the \$8.0 million, approximately \$2.6 million is related to policies with effective dates prior to 2020. The Organic Revenue growth rate was driven by (i) lower insurable exposure units driven by the economic impact of COVID-19; (ii) continued premium

rate reductions in workers' compensation; partially offset by (iii) rate increases in most lines of business with the most pronounced being the continued increases in commercial auto rates and commercial P&C.

Income before income taxes for the three months ended June 30, 2020 decreased 16.7%, or \$7.4 million, as compared to the same period in 2019, to \$36.8 million. The primary factors affecting this decrease were: (i) an increase in the change in estimated acquisition earn-out payables; and (ii) an increase in amortization associated with new acquisitions; partially offset by (iii) the profit associated with the net increase in revenue as described above; and (iv) the drivers of EBITDAC described below.

EBITDAC for the three months ended June 30, 2020 decreased 5.1%, or \$4.1 million, as compared to the same period in 2019, to \$76.9 million. EBITDAC Margin for the three months ended June 30, 2020 decreased to 24.6% from 26.1% in the same period in 2019. The decrease in EBITDAC Margin was driven by: (i) higher non-cash stock-based compensation costs and an increase in intercompany IT charges; (ii) an acquisition from the third quarter of 2019 that is dilutive to the margin in the current quarter as it recognizes substantially all of its revenue in the first quarter of each year; (iii) a prior year gain on disposal; and (iv) the net Organic Revenue decrease, all which offset significant cost savings the Company delivered in response to COVID-19.

The Retail Segment's total revenues during the six months ended June 30, 2020 increased 8.6%, or \$60.1 million, as compared to the same period in 2019, to \$760.1 million. The \$53.2 million increase in core commissions and fees revenue was driven by: (i) approximately \$46.6 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2019; (ii) an increase of \$13.6 million related to net new and renewal business; and (iii) an offsetting decrease of \$7.0 million related to commissions and fees recorded in 2019 from businesses since divested. Profit-sharing contingent commissions and GSCs for the first six months of 2020 increased 28.6%, or \$6.9 million, as compared to the same period in 2019, to \$30.9 million. The Retail Segment's total commissions and fees increased by 8.6%, and the Organic Revenue growth rate was 2.0% for the first six months of 2020. The 2.0% Organic Revenue growth rate was negatively impacted by a \$7.1 million adjustment in the first half of 2020 as a result of the Company's assessment of COVID-19, which lowered the Company's estimates of projected remaining policy year revenues related to employee benefits and workers' compensation lines of coverage, and for the revenues we expect to earn from existing general liability and other policies. This adjustment of \$7.1 million related to policies with effective dates prior to the first six months of 2020. The Organic Revenue growth rate was driven by net new business written during the preceding 12 months and growth on renewals of existing customers. Renewal business was impacted by rate increases in most lines of business with continued increases in commercial auto rates, commercial P&C and employee benefits, partially offset by continued premium rate reductions in workers' compensation and lower insurable exposure units driven by the economic disruption caused by COVID-19.

Income before income taxes for the six months ended June 30, 2020 increased 19.9%, or \$27.4 million, as compared to the same period in 2019, to \$165.5 million. The primary factors affecting this increase were: (i) the profit associated with the net increase in revenue as described above; (ii) the drivers of EBITDAC described below; which were partially offset by (iii) an increase in intercompany interest charges and amortization expense associated with new acquisitions.

EBITDAC for the six months ended June 30, 2020 increased 11.9%, or \$25.5 million, as compared to the same period in 2019, to \$239.5 million. EBITDAC Margin for the six months ended June 30, 2020 increased to 31.5% from 30.6% in the same period in 2019. The increases in EBITDAC and EBITDAC Margin were primarily driven by: (i) the net increase in revenue of \$60.1 million; (ii) higher profit-sharing contingent commissions and GSCs; and (iii) cost savings the Company achieved in response to COVID-19; which were partially offset by (iv) higher non-cash stock based compensation and intercompany IT charges; and (v) the profit impact associated with revenue adjustments related to COVID-19 recorded over the first six months of 2020.

National Programs Segment

The National Programs Segment manages over 40 programs supported by approximately 100 well-capitalized carrier partners. In most cases, the insurance carriers that support the programs have delegated underwriting and, in many instances, claims-handling authority to our programs operations. These programs are generally distributed through a nationwide network of independent agents and Brown & Brown retail agents, and offer targeted products and services designed for specific industries, trade groups, professions, public entities and market niches. The National Programs Segment operations can be grouped into five broad categories: Professional Programs, Personal Lines Programs, Commercial Programs, Public Entity-Related Programs and the National Flood Program. The National Programs Segment's revenue is primarily commission based.

Financial information relating to our National Programs Segment for the three and six months ended June 30, 2020 and 2019 is as follows:

<i>(in thousands, except percentages)</i>	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	2020	2019	% Change
REVENUES						
Core commissions and fees	\$ 144,956	\$ 117,719	23.1%	\$ 268,394	\$ 226,062	18.7%
Profit-sharing contingent commissions	9,269	4,093	126.5%	14,980	4,953	NMF
Guaranteed supplemental commissions	306	9,612	(96.8%)	(707)	9,616	(107.4%)
Investment income	129	380	(66.1%)	392	696	(43.7%)
Other income, net	7	13	(46.2%)	21	50	(58.0%)
Total revenues	154,667	131,817	17.3%	283,080	241,377	17.3%
EXPENSES						
Employee compensation and benefits	62,665	54,053	15.9%	123,212	106,797	15.4%
Other operating expenses	29,160	26,523	9.9%	55,765	50,441	10.6%
(Gain)/loss on disposal	—	—	—%	—	—	—%
Amortization	6,866	6,357	8.0%	13,231	12,953	2.1%
Depreciation	2,093	1,621	29.1%	3,998	3,211	24.5%
Interest	5,195	4,223	23.0%	9,877	9,577	3.1%
Change in estimated acquisition earn-out payables	344	(1,203)	(128.6%)	(993)	(1,161)	(14.5%)
Total expenses	106,323	91,574	16.1%	205,090	181,818	12.8%
Income before income taxes	\$ 48,344	\$ 40,243	20.1%	\$ 77,990	\$ 59,559	30.9%
Income Before Income Taxes Margin (1)	31.3%	30.5%		27.6%	24.7%	
EBITDAC (2)	\$ 62,842	\$ 51,241	22.6%	\$ 104,103	\$ 84,139	23.7%
EBITDAC Margin (2)	40.6%	38.9%		36.8%	34.9%	
Organic Revenue growth rate (2)	15.5%	2.0%		13.7%	(0.1%)	
Employee compensation and benefits relative to total revenues	40.5%	41.0%		43.5%	44.2%	
Other operating expenses relative to total revenues	18.9%	20.1%		19.7%	20.9%	
Capital expenditures	\$ 1,532	\$ 1,942	(21.1%)	\$ 3,045	\$ 6,510	(53.2%)
Total assets at June 30,				\$ 3,398,709	\$ 2,981,933	14.0%

(1) "Income Before Income Taxes Margin" is defined as income before income taxes divided by total revenues

(2) A non-GAAP financial measure.

NMF = Not a meaningful figure

The National Programs Segment's total revenue for the three months ended June 30, 2020 increased 17.3%, or \$22.9 million, as compared to the same period in 2019, to \$154.7 million. The \$27.2 million increase in core commissions and fees revenue was driven by: (i) \$18.2 million related to net new and renewal business; (ii) approximately \$9.3 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2019; and (iii) an offsetting decrease of \$0.3 million related to commissions and fees recorded in 2019 from businesses since divested. Profit-sharing contingent commissions and GSCs for the second quarter of 2020 decreased approximately \$4.1 million compared to the second quarter of 2019, primarily driven by a one-time GSC received by one of our programs in the second quarter of 2019, partially offset by qualifying for increased profit-sharing contingent commissions due to increased written premium and lower losses for a number of our programs.

The National Programs Segment's total commissions and fees increased by 17.6%, and the Organic Revenue growth rate was 15.5% for the three months ended June 30, 2020. The Organic Revenue growth was strong for many programs, including lender placement, commercial, and residential earthquake, and wind.

Income before income taxes for the three months ended June 30, 2020 increased 20.1%, or \$8.1 million, as compared to the same period in 2019, to \$48.3 million. Income before income taxes increased due to the total revenue growth and the drivers of EBITDAC described below, which were partially offset by higher estimated acquisition earn-out payables, depreciation, amortization and intercompany interest expense associated with new acquisitions.

EBITDAC for the three months ended June 30, 2020 increased 22.6%, or \$11.6 million, from the same period in 2019, to \$62.8 million. EBITDAC Margin for the three months ended June 30, 2020 increased to 40.6% from 38.9% in the same period in 2019. The EBITDAC growth was driven by: (i) strong Organic Revenue growth; (ii) leveraging our expense base; and (iii) decreased variable costs driven in response to COVID-19.

The National Programs Segment's total revenue for the six months ended June 30, 2020 increased 17.3%, or \$41.7 million, as compared to the same period in 2019, to \$283.1 million. The \$42.3 million increase in core commissions and fees revenue was driven by: (i) \$30.9 million related to net new and renewal business; (ii) approximately \$11.8 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2019; and (iii) an offsetting decrease of \$0.4 million related to commissions and fees recorded in 2019 from businesses since divested. Profit-sharing contingent commissions and GSCs were \$14.3 million for the first six months of 2020, which was a decrease of \$0.3 million from the same period in 2019, primarily driven by a one-time GSC received by one of our programs in the second quarter of 2019, which was substantially offset by qualifying for increased profit-sharing contingent commissions due to increased written premium and lower losses for a number of our programs.

The National Programs Segment's total commissions and fees increased by 17.5%, and the Organic Revenue growth rate was 13.7%, for the six months ended June 30, 2020. The Organic Revenue growth was strong for many programs, including lender placement, commercial and residential earthquake and wind.

Income before income taxes for the six months ended June 30, 2020 increased 30.9%, or \$18.4 million, from the same period in 2019, to \$78.0 million. The increase was due to the drivers of total revenue growth and the drivers of EBITDAC described below, which were partially offset by higher depreciation, amortization and intercompany interest expense associated with new acquisitions.

EBITDAC for the six months ended June 30, 2020 increased 23.7%, or \$20.0 million, as compared to the same period in 2019, to \$104.1 million. EBITDAC Margin for the six months ended June 30, 2020 increased to 36.8% from 34.9% in the same period in 2019. The increase in EBITDAC and EBITDAC Margin was driven by (i) strong Organic Revenue growth; (ii) leveraging our expense base; and (iii) decreased variable costs driven by the Company in response to COVID-19.

Wholesale Brokerage Segment

The Wholesale Brokerage Segment markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers, including Brown & Brown retail agents. Like the Retail and National Programs Segments, the Wholesale Brokerage Segment's revenues are primarily commission based.

Financial information relating to our Wholesale Brokerage Segment for the three and six months ended June 30, 2020 and 2019 is as follows:

(in thousands, except percentages)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	2020	2019	% Change
REVENUES						
Core commissions and fees	\$ 85,672	\$ 79,117	8.3%	\$ 160,635	\$ 146,173	9.9%
Profit-sharing contingent commissions	2,458	1,231	99.7%	4,594	4,146	10.8%
Guaranteed supplemental commissions	595	575	3.5%	1,032	966	6.8%
Investment income	46	43	7.0%	97	83	16.9%
Other income, net	82	205	(60.0%)	193	312	(38.1%)
Total revenues	88,853	81,171	9.5%	166,551	151,680	9.8%
EXPENSES						
Employee compensation and benefits	46,589	40,817	14.1%	89,093	78,327	13.7%
Other operating expenses	12,319	12,970	(5.0%)	25,754	25,779	(0.1%)
(Gain)/loss on disposal	—	—	—%	—	—	—%
Amortization	2,032	2,844	(28.6%)	4,381	5,693	(23.0%)
Depreciation	467	425	9.9%	898	829	8.3%
Interest	2,594	1,260	105.9%	4,305	2,587	66.4%
Change in estimated acquisition earn-out payables	144	(89)	NMF	(274)	(48)	NMF
Total expenses	64,145	58,227	10.2%	124,157	113,167	9.7%
Income before income taxes	\$ 24,708	\$ 22,944	7.7%	\$ 42,394	\$ 38,513	10.1%
Income Before Income Taxes Margin (1)	27.8%	28.3%		25.5%	25.4%	
EBITDAC (2)	\$ 29,945	\$ 27,384	9.4%	\$ 51,704	\$ 47,574	8.7%
EBITDAC Margin (2)	33.7%	33.7%		31.0%	31.4%	
Organic Revenue growth rate (2)	0.1%	7.0%		3.8%	5.2%	
Employee compensation and benefits relative to total revenues	52.4%	50.3%		53.5%	51.6%	
Other operating expenses relative to total revenues	13.9%	16.0%		15.5%	17.0%	
Capital expenditures	\$ 555	\$ 513	8.2%	\$ 1,782	\$ 1,702	4.7%
Total assets at June 30,				\$ 1,574,931	\$ 1,352,659	16.4%

(1) "Income Before Income Taxes Margin" is defined as income before income taxes divided by total revenues

(2) A non-GAAP financial measure.

NMF = Not a meaningful figure

The Wholesale Brokerage Segment's total revenues for the three months ended June 30, 2020 increased 9.5%, or \$7.7 million, as compared to the same period in 2019, to \$88.9 million. The \$6.6 million net increase in core commissions and fees revenue was driven primarily by: (i) \$6.5 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2019; and (ii) \$0.1 million related to net new and renewal business. Profit-sharing contingent commissions and GSCs for the second quarter of 2020 increased approximately \$1.2 million compared to the second quarter of 2019. The Wholesale Brokerage Segment's growth rate for total commissions and fees was 9.6%, and the Organic Revenue growth rate was 0.1% for the second quarter of 2020. The Organic Revenue growth rate was driven by rate increases for most lines of coverage, which were offset by decreases in exposure units driven by the economic impact of COVID-19.

Income before income taxes for the three months ended June 30, 2020 increased 7.7%, or \$1.8 million, as compared to the same period in 2019, to \$24.7 million. The increase was due to: (i) revenue growth from acquisitions; (ii) higher profit-sharing contingent commissions; and (iii) the drivers of EBITDAC described below.

EBITDAC for the three months ended June 30, 2020 increased 9.4%, or \$2.6 million, as compared to the same period in 2019, to \$29.9 million. EBITDAC Margin for the three months ended June 30, 2020 remained flat at 33.7%, as compared to the same period in 2019. EBITDAC Margin remained flat, even with lower Organic Revenue growth, due to managing our variable costs in response to COVID-19, which offset higher intercompany IT charges and non-cash stock compensation costs.

The Wholesale Brokerage Segment's total revenues for the six months ended June 30, 2020 increased 9.8%, or \$14.9 million, as compared to the same period in 2019, to \$166.6 million. The \$14.5 million net increase in core commissions and fees revenue was driven primarily by: (i) \$8.9 million related to core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2019; and (ii) \$5.6 million related to net new and renewal business. Profit-sharing contingent commissions and GSCs for the first six months of 2020 increased approximately \$0.5 million compared to the same period of 2019. The Wholesale Brokerage Segment's growth rate for total commissions and fees was 9.9%, and the Organic Revenue growth rate was 3.8% for the first six months of 2020. The Organic Revenue growth rate was driven by (i) rate increases for most lines of coverage; and (ii) net new business and exposure unit expansion during the first quarter of 2020; which was partially offset by (iii) decreased new business and exposure units during the second quarter driven by the economic disruption caused by COVID-19.

Income before income taxes for the six months ended June 30, 2020 increased 10.1%, or \$3.9 million, as compared to the same period in 2019, to \$42.4 million. The increase was due to (i) Organic Revenue growth; and (ii) the drivers of EBITDAC described below; which was partially offset by (iii) higher intercompany interest charges.

EBITDAC for the six months ended June 30, 2020 increased 8.7%, or \$4.1 million, as compared to the same period in 2019, to \$51.7 million. EBITDAC Margin for the six months ended June 30, 2020 decreased to 31.0% from 31.4% in the same period in 2019. The increase in EBITDAC was due to (i) profit of newly acquired businesses; (ii) slightly higher profit-sharing contingent commissions and GSCs; (iii) leveraging our expense base; and (iv) managing our variable costs in response to COVID-19, which helped to partially offset higher intercompany IT charges and non-cash stock compensation costs.

Services Segment

The Services Segment 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. The Services Segment also provides Medicare Set-aside account services, Social Security disability and Medicare benefits advocacy services, and claims adjusting services.

Unlike the other segments, nearly all of the Services Segment's revenue is generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Segment for the three and six months ended June 30, 2020 and 2019 is as follows:

(in thousands, except percentages)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% Change	2020	2019	% Change
REVENUES						
Core commissions and fees	\$ 42,930	\$ 50,763	(15.4%)	\$ 87,382	\$ 100,207	(12.8%)
Profit-sharing contingent commissions	—	—	—%	—	—	—%
Guaranteed supplemental commissions	—	—	—%	—	—	—%
Investment income	—	34	(100.0%)	—	82	(100.0%)
Other income, net	—	—	—%	—	—	—%
Total revenues	42,930	50,797	(15.5%)	87,382	100,289	(12.9%)
EXPENSES						
Employee compensation and benefits	22,060	23,381	(5.6%)	44,351	45,808	(3.2%)
Other operating expenses	11,649	15,110	(22.9%)	23,983	30,440	(21.2%)
(Gain)/loss on disposal	—	—	—%	—	—	—%
Amortization	1,390	1,396	(0.4%)	2,780	2,699	3.0%
Depreciation	353	303	16.5%	704	587	19.9%
Interest	1,042	1,203	(13.4%)	2,133	2,075	2.8%
Change in estimated acquisition earn-out payables	—	136	(100.0%)	(3,085)	235	NMF
Total expenses	36,494	41,529	(12.1%)	70,866	81,844	(13.4%)
Income before income taxes	\$ 6,436	\$ 9,268	(30.6%)	\$ 16,516	\$ 18,445	(10.5%)
Income Before Income Taxes Margin (1)	15.0%	18.2%		18.9%	18.4%	
EBITDAC (2)	\$ 9,221	\$ 12,306	(25.1%)	\$ 19,048	\$ 24,041	(20.8%)
EBITDAC Margin (2)	21.5%	24.2%		21.8%	24.0%	
Organic Revenue growth rate (2)	(15.4%)	(4.1%)		(14.3%)	(1.9%)	
Employee compensation and benefits relative to total revenues	51.4%	46.0%		50.8%	45.7%	
Other operating expenses relative to total revenues	27.1%	29.7%		27.4%	30.4%	
Capital expenditures	\$ 206	\$ 222	(7.2%)	\$ 473	\$ 331	42.9%
Total assets at June 30,				\$ 464,905	\$ 466,162	(0.3%)

(1) "Income Before Income Taxes Margin" is defined as income before income taxes divided by total revenues

(2) A non-GAAP financial measure.

NMF = Not a meaningful figure

The Services Segment's total revenues for the three months ended June 30, 2020 decreased 15.5%, or \$7.9 million, as compared to the same period in 2019, to \$42.9 million. The \$7.8 million net decrease in core commissions and fees revenue was driven primarily by lower claims, and net new and renewal business. The Services Segment's total commissions and fees declined 15.4%, and Organic Revenue declined 15.4% for the second quarter of 2020. Organic Revenue declined primarily due to: (i) lower claims in our Social Security advocacy businesses; (ii) lower claims due to shelter-in-place measures implemented in response to COVID-19; (iii) a prior year terminated customer contract in one of our claims processing businesses; and (iv) lower weather-driven claims.

Income before income taxes for the three months ended June 30, 2020 decreased 30.6%, or \$2.8 million, as compared to the same period in 2019, to \$6.4 million. Income before income taxes decreased substantially in line with EBITDAC, with a slight impact of lower intercompany interest expense and a change in estimated acquisition earn-out payables.

EBITDAC for the three months ended June 30, 2020 decreased 25.1%, or \$3.1 million, from the same period in 2019, to \$9.2 million. EBITDAC Margin for the three months ended June 30, 2020 decreased to 21.5% from 24.2% in the same period in 2019. The decreases in EBITDAC and EBITDAC Margin were driven primarily by: (i) the profit associated with the mix of lower Organic Revenue; and (ii) higher intercompany IT expenses; which were partially offset by (iii) managing our variable costs in response to COVID-19.

The Services Segment's total revenues for the six months ended June 30, 2020 decreased 12.9%, or \$12.9 million, over the same period in 2019, to \$87.4 million. The \$12.8 million net decrease in core commissions and fees revenue was driven primarily by: (i) a decrease of \$14.3 million related to lower claims, net new and renewal business; offset by (ii) \$1.5 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2019. The Services Segment's total commissions and fees declined 12.8%, and Organic Revenue declined 14.3% for the first six months of 2020. The decline in Organic Revenue was caused primarily by (i) lower claims and pricing in our Social Security advocacy businesses; (ii) lower claims due to shelter-in-place measures implemented in response to COVID-19; (iii) a prior year terminated customer contract in one of our claims processing businesses; and (iv) lower weather-driven claims.

Income before income taxes for the six months ended June 30, 2020 increased 10.5%, or \$1.9 million, from the same period in 2019, to \$16.5 million. The increase was driven by a change in estimated acquisition earn-out payables, which offset lower Organic Revenues and the drivers of EBITDAC described below.

EBITDAC for the six months ended June 30, 2020 decreased 20.8%, or \$5.0 million, from the same period in 2019, to \$19.0 million. EBITDAC Margin for the six months ended June 30, 2020 decreased to 21.8% from 24.0% in the same period in 2019. The decreases in EBITDAC and EBITDAC Margin were driven primarily by (i) the profit associated with the mix of lower Organic Revenue; (ii) higher intercompany IT expenses; and (iii) partially offset by managing our variable costs in response to COVID-19.

Other

As discussed in Note 12 of the Notes to Condensed 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 intercompany interest expense charges to reporting segments.

LIQUIDITY AND CAPITAL RESOURCES

The Company seeks to maintain a conservative balance sheet and strong liquidity profile. Our capital requirements to operate as an insurance intermediary are low and we have been able to grow and invest in our business principally through cash that has been generated from operations. We have the ability to utilize our existing Revolving Credit Facility, which as of June 30, 2020 provided up to \$600.0 million in available cash. We believe that we have access to additional funds, if needed, through the capital markets or private placements to obtain further debt financing under the current market conditions. The Company believes that its existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with the funds available under the Revolving Credit Facility, will be sufficient to satisfy our normal liquidity needs, including principal payments on our long-term debt, for at least the next 12 months.

During the second quarter of 2020, the Company borrowed \$250.0 million under the Revolving Credit Facility. The proceeds were used in conjunction with the payment of the purchase price for the previously announced acquisition LP Insurance Services LLC and for additional liquidity to further strengthen the Company's financial position in the event cash receipts from customers or carrier partners are delayed due to the COVID-19 pandemic. As of June 30, 2020, the Company had repaid \$150.0 million of \$250.0 million borrowed under the Revolving Credit Facility during the second quarter of 2020. As of June 30, 2020, the Company has access to \$600.0 million of additional borrowings under the Revolving Credit Facility. The Revolving Credit Facility contains an expansion option for up to an additional \$500.0 million of borrowing capacity, subject to the approval of participating lenders. In addition, under Term Loan Credit Agreement, the unsecured term loan in the initial amount of \$300.0 million may be increased by up to \$150.0 million, subject to the approval of participating lenders. Including the expansion options under all existing credit agreements, the Company has access to up to \$1.3 billion of incremental borrowing capacity as of June 30, 2020.

Contractual Cash Obligations

As of June 30, 2020, our contractual cash obligations were as follows:

(in thousands)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 1,637,500	\$ 62,500	\$ 530,000	\$ 695,000	\$ 350,000
Other liabilities (1)	86,330	3,917	11,388	5,913	65,112
Operating leases (2)	264,284	50,379	89,714	61,239	62,952
Interest obligations	253,407	48,964	87,802	58,235	58,406
Unrecognized tax benefits	1,975	—	1,975	—	—
Maximum future acquisition contingency payments (3)	446,454	46,481	399,973	—	—
Total contractual cash obligations (4)	\$ 2,689,950	\$ 212,241	\$ 1,120,852	\$ 820,387	\$ 536,470

(1) Includes the current portion of other long-term liabilities.

(2) Includes \$22.9 million of future lease commitments not reflected on the balance sheet.

(3) Includes (a) \$218.5 million of current and non-current estimated earn-out payables, and (b) \$25.0 million of this balances is not subject to any further contingency as a result of the amendment dated as of July 27, 2020 by and among the Company, The Hays Group, Inc., and certain of their affiliates, to the asset purchase agreement, dated as of October 22, 2018.

(4) Does not include approximately \$60.0 million of deferred federal and state income and employer-only payroll tax payments related to the CARES Act. The Company paid \$50.0 million of federal and state income tax payments in the third quarter of 2020. A total of \$10.0 million of deferred employer-only payroll taxes is expected to be paid in equal installments each in December 2021 and December 2022.

Debt

Total debt at June 30, 2020 was \$1,628.9 million net of unamortized discount and debt issuance costs, which was an increase of \$73.6 million compared to December 31, 2019. The increase includes (i) an incremental drawdown on the Revolving Credit Facility of \$100.0 million during the second quarter of 2020; (ii) net of the amortization of discounted debt related to our various unsecured Senior Notes, and debt issuance cost amortization of \$1.1 million; offset by (iii) the repayment of the principal balance of \$27.5 million for scheduled principal amortization balances related to our various existing floating rate debt term notes.

As of June 30, 2020, the Company has repaid \$20.0 million of principal related to the Amended and Restated Credit Agreement term loan through quarterly scheduled amortized principal payments each equaling \$10.0 million on March 31, 2020 and June 30, 2020, respectively. The Amended and Restated Credit Agreement term loan had an outstanding balance of \$310.0 million as of June 30, 2020. The Company's next scheduled amortized principal payment is due September 30, 2020 and is equal to \$10.0 million.

As of June 30, 2020, the Company has repaid \$7.5 million of principal related to the Term Loan Credit Agreement through quarterly scheduled amortized principal payments each equaling \$3.8 million on March 31, 2020 and June 30, 2020, respectively. The Term Loan Credit Agreement had an outstanding balance of \$277.5 million as of June 30, 2020. The Company's next scheduled amortized principal payment is due September 30, 2020 and is equal to \$3.8 million.

On April 30, 2020, the Company borrowed \$250.0 million under the Revolving Credit Facility. The proceeds were used in conjunction with the payment of the purchase price for the previously announced acquisition of LP Insurance Services LLC and for additional liquidity to further strengthen the Company's financial position and balance sheet in the event cash receipts from customers or carrier partners are delayed due to the COVID-19 pandemic. On June 30, 2020, the Company repaid \$150.0 million on the Revolving Credit Facility. As of June 30, 2020, the Company had borrowings under the Revolving Credit Facility of \$200.0 million.

Off-Balance Sheet Arrangements

Neither we nor our subsidiaries have 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.

For further discussion of our cash management and risk management policies, see "Quantitative and Qualitative Disclosures About Market Risk."

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Our invested assets are held primarily as cash and cash equivalents, restricted cash, available-for-sale marketable debt securities, non-marketable debt securities, certificates of deposit, U.S. treasury securities, and professionally managed short duration fixed income funds. These investments are subject to interest rate risk. The fair values of our invested assets at June 30, 2020 and December 31, 2019, approximated their respective carrying values due to their short-term duration and therefore, such market risk is not considered to be material.

We do not actively invest or trade in equity securities. In addition, we generally dispose of any significant equity securities received in conjunction with an acquisition shortly after the acquisition date.

As of June 30, 2020, we had \$787.5 million of borrowings outstanding under our various term loans, which bear interest on a floating basis tied to the London Interbank Offered Rate (“LIBOR”) and therefore can result in changes to our associated interest expense. The effect of an immediate hypothetical 10% change in interest rates would not have a material effect on our Condensed Consolidated Financial Statements. As of July 2017, the UK Financial Conduct Authority has urged banks and institutions to discontinue their use of the LIBOR benchmark rate for floating rate debt, and other financial instruments tied to the rate after 2021. The Alternative Reference Rates Committee (“ARRC”) have recommended the Secured Overnight Financing Rate (“SOFR”) as the best alternative rate to LIBOR post discontinuance and has proposed a transition plan and timeline designed to encourage the adoption of SOFR from LIBOR.

The Company is currently evaluating the transition from LIBOR as an interest rate benchmark to other potential alternative reference rates, including but not limited to the SOFR interest rate. Management will continue to actively assess the related opportunities and risks associated with the transition and monitor related proposals and guidance published by ARRC and other alternative-rate initiatives, with an expectation that the Company will be prepared for a termination of LIBOR benchmarks after 2021.

We are subject to exchange rate risk primarily in our U.K.-based wholesale brokerage business that has a cost base principally denominated in British pounds and a revenue base in several other currencies, but principally in U.S. dollars, and in our Canadian MGA business that has substantially all of its revenues and cost base denominated in Canadian Dollars. Based upon our foreign currency rate exposure as of June 30, 2020, an immediate 10% hypothetical change of foreign currency exchange rates would not have a material effect on our Condensed Consolidated Financial Statements.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation (the “Evaluation”) required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 and 15d-15 under the Exchange Act (“Disclosure Controls”) as of June 30, 2020. Based upon the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our senior management, including our CEO and CFO, to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There has not been any change in our internal control over financial reporting identified in connection with the Evaluation that occurred during the quarter ended June 30, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Control Over Financial Reporting

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

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

CEO and CFO Certifications

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are supplied in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the “Section 302 Certifications”). This Item 4 of Part I of this Quarterly Report on Form 10-Q contains the information concerning the evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

PART II

ITEM 1. Legal Proceedings

In Item 3 of Part I of the Company’s Annual Report on Form 10-K for its fiscal year ended December 31, 2019, certain information concerning litigation claims arising in the ordinary course of business was disclosed. Such information was current as of the date of filing. During the Company’s fiscal quarter ended June 30, 2020, no new legal proceedings, or material developments with respect to existing legal proceedings, occurred which require disclosure in this Quarterly Report on Form 10-Q.

ITEM 1A. Risk Factors

Other than as described below, there were no material changes in the risk factors previously disclosed in Item 1A, “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

THE COVID-19 PANDEMIC AND THE RESULTING GOVERNMENTAL AND SOCIETAL RESPONSES, THE SEVERITY AND DURATION OF THE PANDEMIC, AND THE RESULTING IMPACT ON THE U.S. ECONOMY AND THE GLOBAL ECONOMY, MAY MATERIALLY AND ADVERSELY AFFECT THE COMPANY’S BUSINESS, LIQUIDITY, CUSTOMERS, INSURANCE CARRIERS AND THIRD PARTIES.

In December 2019, a novel strain of coronavirus, COVID-19, surfaced. Since then, COVID-19 has spread across the world, and has been declared a pandemic by the World Health Organization. The global outbreak of COVID-19 continues to rapidly evolve. The COVID-19 pandemic has created significant volatility, uncertainty and economic disruption, which could adversely affect our business and may materially and adversely affect our financial condition, results of operations and cash flows. The extent to which COVID-19 impacts our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the ultimate geographic spread and severity of COVID-19; the duration of the pandemic; business closures, travel restrictions, social distancing and other actions taken to contain and treat COVID-19; the effectiveness of actions taken to contain and treat the virus; the impact of the pandemic on economic activity; the extent and duration of the effect on customer demand and buying patterns; and any impairment in value of our tangible or intangible assets which could be recorded as a result of a weaker economic conditions. In addition, if the pandemic continues to create disruptions or turmoil in the credit or financial markets, or impacts our credit ratings, it could adversely affect our ability to access capital on favorable terms and continue to meet our liquidity needs, all of which are highly uncertain and cannot be predicted.

As the COVID-19 pandemic and any associated protective or preventative measures continue to spread in the United States and around the world, we may experience disruptions to our business, including:

- our customers choosing to limit purchases of insurance and services due to declining business conditions, our customers ceasing their business operations on a temporary or permanent basis, and a reduction in our customers’ insurable exposure units, all of which would inhibit our ability to generate commission revenue and other revenue;
- a delay in cash payments to us from customers or carrier partners due to COVID-19, which could negatively impact our financial condition;
- travel restrictions and quarantines leading to a lack of in-person meetings, which would hinder our ability to establish relationships or originate new business;
- alternative working arrangements, including teammates working remotely, which could negatively impact our business should such arrangements remain for an extended period of time; and
- failure of third parties upon which we rely to meet their obligations to us, or significant disruptions in their ability to meet those obligations in a timely manner, which may be caused by their own financial or operational difficulties.

We cannot predict the impact that COVID-19 will have on our customers, insurance carriers, suppliers, and other third party contractors, and each of their financial conditions; however, any material effect on these parties could adversely impact us. Even after the COVID-19 outbreak has subsided, we may experience materially adverse impacts to our business as a result of the virus’ global economic impact. Further, COVID-19 may affect our operating and financial results in a manner that is not presently known to us or that we currently do not consider to present significant risks to our operations.

Additionally, COVID-19 could negatively affect our internal controls over financial reporting as a portion of our workforce is required to work from home and therefore new processes, procedures, and controls could be required to respond to changes in our business environment. Further, should any key employees become ill from the coronavirus and unable to work, the attention of the management team could be diverted. Our management is focused on mitigating the effects of COVID-19, which has required and will continue to require a large investment of time and resources across our business.

To mitigate the economic impact caused by COVID-19, certain governmental entities have declared or proposed a “grace period” on the collection of insurance premiums. It is unclear the impact this would have on our commission revenues, typically calculated as a percentage of premium. It is possible that such grace periods could delay our receipt of revenues as we continue to incur compensation and operating expenses related to serving our clients. In addition, certain governmental entities have proposed requiring underwriting enterprises to pay business interruption and workers’ compensation claims for COVID-19 losses despite applicable policy exclusions. Retroactively expanding business interruption or other coverages could materially negatively affect underwriting enterprises, reduce the availability of insurance coverage, and negatively affect our ability to generate commission revenues from such policies as well as supplemental and contingent commissions from underwriting enterprises. Other legislation under consideration would require underwriting enterprises to return premiums to clients on certain lines of coverage. While it is unclear the impact such legislation would have on us, it is possible we could be asked to disgorge commission revenues related to such premiums.

These and other disruptions related to COVID-19 could materially and adversely affect our business, financial condition, results of operations and cash flows. Further, the potential effects of COVID-19 also could impact many of our risk factors disclosed in Item 1A, “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2019. However, as the COVID-19 situation is unprecedented and continuously evolving, the potential impacts to our risk factors that are further described in our Annual Report on Form 10-K for the year ended December 31, 2019, remain uncertain.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about our repurchase of shares of our common stock during the three months ended June 30, 2020:

	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum value that may yet be purchased under the plans or programs (2)
April 1, 2020 to April 30, 2020	21,565	\$ 36.24	—	\$ 459,852,961
May 1, 2020 to May 31, 2020	190	35.63	—	459,852,961
June 1, 2020 to June 30, 2020	4,290	40.86	—	459,852,961
Total	26,045	\$ 36.99	—	\$ 459,852,961

- (1) We purchased 26,045 shares during the quarter ended June 30, 2020, which were acquired from our employees to cover required tax withholdings on the vesting of shares in our equity compensation plans.
- (2) On May 1, 2019, the Board of Directors approved an additional repurchase authorization amount of \$372.5 million to bring the total available share repurchase authorization to approximately \$500.0 million. After completing these open market share repurchases, the Company’s outstanding Board approved share repurchase authorization is approximately \$459.9 million. Between January 1, 2014 and June 30, 2020, the Company repurchased a total of approximately 15.5 million shares for an aggregate cost of approximately \$537.7 million.

ITEM 6. Exhibits

The following exhibits are filed as a part of this Report:

- 3.1 [Articles of Amendment to the Articles of Incorporation \(incorporated by reference to Exhibit 3.1 to Form 8-K filed on March 29, 2018\), Articles of Amendment to Articles of Incorporation \(adopted April 24, 2003\) \(incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 2003\) and Amended and Restated Articles of Incorporation \(incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 1999\).](#)
- 3.2 [By-Laws \(incorporated by reference to Exhibit 3.2 to Form 8-K filed on October 12, 2016\).](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification by the Chief Executive Officer of the Registrant.](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification by the Chief Financial Officer of the Registrant.](#)
- 32.1 [Section 1350 Certification by the Chief Executive Officer of the Registrant.](#)
- 32.2 [Section 1350 Certification by the Chief Financial Officer of the Registrant.](#)
- 101 The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in inline XBRL, include: (i) Condensed Consolidated Statements of Income, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) the Notes to the Condensed Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatted in inline XBRL and included in Exhibit 101).

SIGNATURE

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

BROWN & BROWN, INC.

/s/ R. Andrew Watts

R. Andrew Watts

**Executive Vice President, Chief Financial Officer and Treasurer
(duly authorized officer, principal financial officer and principal
accounting officer)**

Date: July 29, 2020

**Certification by the Chief Executive Officer
Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002**

I, J. Powell Brown, certify that:

1. I have reviewed this Quarterly Report of Brown & Brown, Inc. (the "Registrant") on Form 10-Q for the quarter ended June 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 29, 2020

/s/ J. Powell Brown

J. Powell Brown

President and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002**

I, R. Andrew Watts, certify that:

1. I have reviewed this Quarterly Report of Brown & Brown, Inc. (the "Registrant") on Form 10-Q for the quarter ended June 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 29, 2020

/s/ R. Andrew Watts

R. Andrew Watts

Executive Vice President, Chief Financial Officer and
Treasurer

**Certification Pursuant to Section 1350 of Title 18 of the United States Code, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Brown & Brown, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, J. Powell Brown, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. § 78m or § 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 29, 2020

/s/ J. Powell Brown

J. Powell Brown

President and Chief Executive Officer

**Certification Pursuant to Section 1350 of Title 18 of the United States Code, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Brown & Brown, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, R. Andrew Watts, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. § 78m or § 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 29, 2020

/s/ R. Andrew Watts

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