BROWN & BROWN INC
Form 10-Q
May 11, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

Or

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

For the transition period from to

Commission file number 001-13619

BROWN & BROWN, INC.
(Exact name of Registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	59-0864469 (I.R.S. Employer Identification Number)
220 South Ridgewood Avenue, Daytona Beach, FL (Address of principal executive offices)	32114 (Zip Code)

Registrant's telephone number, including area code: (386) 252-9601
Registrant's Website: www.bbinsurance.com

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The number of shares of the Registrant's common stock, $.10 par value, outstanding as of May 5, 2015 was 140,845,547

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, "we," "Brown & Brown" or the "Company"), makes "forward-looking statements" within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "estim "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 Form 10-Q and the reports, statements, information and announcements incorporated by reference into this report are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include 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":

- Future prospects;
- Material adverse changes in economic conditions in the markets we serve and in the general economy;
- Future regulatory actions and conditions in the states in which we conduct our business;
- The occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in California, Florida, Georgia, Illinois, Indiana, Kansas, Massachusetts, Michigan, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia and Washington, because a significant portion of business written by us is for customers located in these states;
- The integration of our operations with those of businesses or assets we have acquired, including our May 2014 acquisition of The Wright Insurance Group, LLC ("Wright"), or may acquire in the future, and the failure to realize the expected benefits of such acquisitions and integration;
- Our ability to attract, retain and enhance qualified personnel;
- Competition from others in the insurance agency, wholesale brokerage, insurance programs and service business;
- Risks that could negatively affect our acquisition strategy, including continuing consolidation among insurance intermediaries and the increasing presence of private equity investors driving up valuations;
- Exposure units, and premium rates set by insurance companies which have traditionally varied and are difficult to predict;
- Our ability to forecast liquidity needs through at least the end of 2015;
- Our ability to renew or replace expiring leases;
- Outcomes of existing or future legal proceedings and governmental investigations;
- Policy cancellations, which can be unpredictable;
- Potential changes to the tax rate that would affect the value of deferred tax assets and liabilities and the impact on income available for investment or distributable to shareholders;
- The inherent uncertainty in making estimates, judgments, and assumptions in the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP");
- Our ability to effectively apply technology in providing improved value for our customers as well as applying effective internal controls and efficiencies in operations; and
- Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission ("SEC") filings.

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Assumptions as to any of the foregoing and all statements are not based on 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 on a knowledge of our business and the environment in which we operate, but because of the factors listed above, among others, actual results may differ from those in the forward-looking statements. Consequently, these cautionary statements qualify all of the forward-looking statements we make herein. We cannot assure you that the results or developments anticipated by us will be realized or, even if substantially realized, that those results or developments will 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.

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PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS (UNAUDITED)
BROWN & BROWN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share data)	For the three months ended March 31,	
	2015	2014
REVENUES		
Commissions and fees	$403,781	$362,007
Investment income	220	103
Other income, net	297	1,484
Total revenues	404,298	363,594
EXPENSES		
Employee compensation and benefits	205,305	184,110
Non-cash stock-based compensation	6,357	7,515
Other operating expenses	61,093	52,461
Gain on disposal	(257)	—
Amortization	21,625	17,876
Depreciation	5,183	4,640
Interest	9,851	4,072
Change in estimated acquisition earn-out payables	1,363	6,083
Total expenses	310,520	276,757
Income before income taxes	93,778	86,837
Income taxes	36,827	34,422
Net income	$56,951	$52,415
Net income per share:		
Basic	$0.40	$0.36
Diluted	$0.39	$0.36
Dividends declared per share	$0.11	$0.10

See accompanying notes to condensed consolidated financial statements.

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BROWN & BROWN, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except per share data)	March 31, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$340,731	$470,048
Restricted cash and investments	284,809	259,769
Short-term investments	10,867	11,157
Premiums, commissions and fees receivable	431,155	424,547
Reinsurance recoverable	13,092	13,028
Prepaid reinsurance premiums	291,037	320,586
Deferred income taxes	13,906	25,431
Other current assets	47,761	45,542
Total current assets	1,433,358	1,570,108
Fixed assets, net	83,220	84,668
Goodwill	2,487,791	2,460,611
Amortizable intangible assets, net	774,913	784,642
Investments	18,786	19,862
Other assets	40,874	36,567
Total assets	$4,838,942	$4,956,458
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$587,387	$568,184
Losses and loss adjustment reserve	13,092	13,028
Unearned premiums	291,037	320,586
Premium deposits and credits due customers	80,419	83,313
Accounts payable	82,912	57,261
Accrued expenses and other liabilities	127,100	181,156
Current portion of long-term debt	27,500	45,625
Total current liabilities	1,209,447	1,269,153
Long-term debt	1,146,010	1,152,846
Deferred income taxes, net	336,597	341,497
Other liabilities	85,426	79,217
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued 145,866 shares and outstanding 140,814 shares at 2015, issued 145,871 shares and outstanding 143,486 shares at 2014	14,587	14,587
Additional paid-in capital	397,498	405,982
Treasury stock, at cost 5,053 and 2,385 shares at 2015 and 2014, respectively	(160,025)	(75,025)
Retained earnings	1,809,367	1,768,201
Accumulated other comprehensive income, net of tax effect of $35 at 2015, of $0 at 2014	35	—
Total shareholders' equity	2,061,462	2,113,745
Total liabilities and shareholders' equity	$4,838,942	$4,956,458

See accompanying notes to condensed consolidated financial statements.

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

	For the three months ended March 31,	
(in thousands)	2015	2014
Cash flows from operating activities:		
Net income	$56,951	$52,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	21,625	17,876
Depreciation	5,183	4,640
Non-cash stock-based compensation	6,357	7,515
Change in estimated acquisition earn-out payables	1,363	6,083
Deferred income taxes	6,625	10,706
Amortization of debt discount	39	—
Income tax benefit from exercise of shares from the stock benefit plans	(1,783)	(2,258)
Net gain on sales of investments, fixed assets and customer accounts	(190)	(656)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:		
Restricted cash and investments (increase)	(25,040)	(2,863)
Premiums, commissions and fees receivable (increase)	(5,126)	(8,172)
Reinsurance recoverables (increase)	(64)	—
Prepaid reinsurance premiums decrease	29,549	—
Other assets (increase) decrease	(6,650)	128
Premiums payable to insurance companies increase (decrease)	18,538	(2,120)
Premium deposits and credits due customers (decrease) increase	(2,894)	10,436
Losses and loss adjustment reserve increase	64	—
Unearned premiums (decrease)	(29,549)	—
Accounts payable increase	32,019	31,100
Accrued expenses and other liabilities (decrease)	(54,100)	(50,959)
Other liabilities (decrease)	(2,215)	(6,726)
Net cash provided by operating activities	50,702	67,145
Cash flows from investing activities:		
Additions to fixed assets	(3,727)	(4,727)
Payments for businesses acquired, net of cash acquired	(36,195)	(1,013)
Proceeds from sales of fixed assets and customer accounts	3,712	829
Purchases of investments	(7,719)	(5,421)
Proceeds from sales of investments	9,126	5,078
Net cash used in investing activities	(34,803)	(5,254)
Cash flows from financing activities:		
Payments on acquisition earn-outs	(4,590)	(615)
Payments on long-term debt	(25,000)	—
Income tax benefit from exercise of shares from the stock benefit plans	1,783	2,258
Issuances of common stock for employee stock benefit plans	500	720
Repurchase stock benefit plan shares for employees to fund tax withholdings	(2,124)	(2,643)
Purchase of treasury stock	(85,000)	—
Prepayment of accelerated share repurchase program	(15,000)	—
Cash dividends paid	(15,785)	(14,546)
Net cash used in financing activities	(145,216)	(14,826)
Net (decrease) increase in cash and cash equivalents	(129,317)	47,065

Cash and cash equivalents at beginning of period	470,048	202,952
Cash and cash equivalents at end of period	$340,731	$250,017

See accompanying notes to condensed consolidated financial statements.

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BROWN & BROWN, INC.
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 services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown’s business is divided into four reportable segments: the Retail Segment, which provides a broad range of insurance products and services to commercial, public entity, professional and individual customers; the National Programs Segment, acting as a managing general agent (“MGA”), provides professional liability and related package products for certain professionals, 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 markets; the Wholesale Brokerage Segment markets and sells excess and surplus commercial insurance, primarily through independent agents and brokers, including Brown & Brown Retail offices; and 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 catastrophe claims adjusting services. In addition, as the result of our acquisition of The Wright Insurance Group, LLC (“Wright”), in May 2014, we own a flood insurance carrier, Wright National Flood Insurance Company (“Wright Flood”), that is a Wright subsidiary. Wright Flood's business consists of policies written pursuant to the National Flood Insurance Program (“NFIP”), the program administered by the Federal Emergency Management Agency (“FEMA”), and several excess flood insurance policies which are fully reinsured.

NOTE 2· Basis of Financial Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with 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 normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto set forth in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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 Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Segment results for prior periods have been recast to reflect the current year segmental structure. Certain reclassifications have been made to the prior-year amounts reported in this quarterly report on Form 10-Q in order to conform to the current-year presentation.

Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ("ASU 2015-03") requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and not recorded as separate assets. This update is effective for reporting periods beginning after December 15, 2015, and is to be applied on a retrospective basis. The Company plans to adopt ASU 2015-03 in the first quarter of 2016. As the Company's debt issuance costs are not material, implementation of this update is not expected to have a material impact on the Company's consolidated financial statements.

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In August 2014, FASB issued ASU 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern," ("ASU 2014-15"), which addresses management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for fiscal years beginning after December 15, 2016 and for interim periods within those fiscal years, with early adoption permitted. The Company does not expect to early adopt this guidance and it believes the adoption of this guidance will not have an impact on the Condensed Consolidated Financial Statements.

In May 2014, FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company beginning January 1, 2017 and, at that time the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. Early adoption is not permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's Condensed Consolidated Financial Statements.

NOTE 3· Net Income Per Share

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

	For the three months ended March 31,	
(in thousands, except per share data)	2015	2014
Net income	$56,951	$52,415
Net income attributable to unvested awarded performance stock	(1,363)	(1,376)
Net income attributable to common shares	$55,588	$51,039
Weighted average number of common shares outstanding – basic	142,777	145,429
Less unvested awarded performance stock included in weighted average number of common shares outstanding – basic	(3,417)	(3,819)
Weighted average number of common shares outstanding for basic earnings per common share	139,360	141,610
Dilutive effect of stock options	2,127	1,699
Weighted average number of shares outstanding – diluted	141,487	143,309
Net income per share:		
Basic	$0.40	$0.36
Diluted	$0.39	$0.36

NOTE 4· Business Combinations

During the three months ended March 31, 2015, Brown & Brown acquired the assets and assumed certain liabilities of three insurance intermediaries and two books of business (customer accounts). Additionally, miscellaneous adjustments were recorded to the purchase price allocation of certain prior acquisitions completed within the last twelve months as permitted by Accounting Standards Codification Topic 805 — Business Combinations ("ASC 805"). All of these acquisitions were acquired primarily to expand Brown & Brown's core business and to attract and hire high-quality individuals. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the Condensed Consolidated Statement of Income when incurred.

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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 three months ended March 31, 2015, several adjustments were made within the permitted measurement period that resulted in a decrease in the aggregate purchase price of the affected acquisitions of $634,680 relating to the assumption of certain liabilities.

Cash paid for acquisitions were $36.2 million and $1.0 million in the three-month periods ended March 31, 2015 and 2014, respectively. We completed three acquisitions (excluding book of business purchases) in the three-month period ended March 31, 2015. We completed one acquisition (excluding book of business purchases) in the three-month period ended March 31, 2014.

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

(in thousands)

Name	Business Segment	Effective Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-Out Payable	Net Assets Acquired	Maximum Potential Earn-Out Payable
Liberty Insurance Brokers, Inc. and Affiliates (Liberty)	Retail	February 1, 2015	$12,000	$—	$1,436	$13,436	$3,750
Spain Agency, Inc.	Retail	March 1, 2015	20,681	—	2,750	23,431	9,162
Other	Various	Various	3,514	5	1,467	4,986	2,000
Total			$36,195	$5	$5,653	$41,853	$14,912

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

(in thousands)	Liberty	Spain Agency, Inc.	Other	Total
Other current assets	$2,437	$—	$(445)	$1,992
Fixed assets	40	50	18	108
Goodwill	8,689	16,682	4,047	29,418
Purchased customer accounts	4,289	6,715	1,423	12,427
Non-compete agreements	24	21	13	58
Total assets acquired	15,479	23,468	5,056	44,003
Other current liabilities	—	(37)	(705)	(742)
Other liabilities	(2,043)	—	635	(1,408)
Total liabilities assumed	(2,043)	(37)	(70)	(2,150)
Net assets acquired	$13,436	$23,431	$4,986	$41,853

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.

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Goodwill of $29,418,000 was allocated to the Retail, National Programs and Wholesale Brokerage Segments in the amounts of $26,461,000, $(194,000) and $3,151,000, respectively. Of the total goodwill of $29,418,000, $23,959,000 is currently deductible for income tax purposes and $(194,000) is non-deductible. The remaining $5,653,000 relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

For the acquisitions completed during 2015, the results of operations since the acquisition date have been combined with those of the Company. The total revenues and income before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through March 31, 2015, included in the Condensed Consolidated Statement of Income for the three months ended March 31, 2015, were $1,726,000 and $294,000, respectively. 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.

(UNAUDITED)	For the three months ended March 31,	
(in thousands, except per share data)	2015	2014
Total revenues	$406,379	$367,131
Income before income taxes	$94,463	$87,913
Net income	$57,367	$53,064
Net income per share:		
Basic	$0.40	$0.36
Diluted	$0.40	$0.36
Weighted average number of shares outstanding:		
Basic	139,360	141,610
Diluted	141,487	143,309

As of March 31, 2015 and 2014, 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 three months ended March 31, 2015 and 2014, were as follows:

	For the three months ended March 31,	
(in thousands)	2015	2014
Balance as of the beginning of the period	$75,283	$43,058
Additions to estimated acquisition earn-out payables	5,653	280
Payments for estimated acquisition earn-out payables	(4,590)	(615)
Subtotal	76,346	42,723
Net change in earnings from estimated acquisition earn-out payables:		
Change in fair value on estimated acquisition earn-out payables	677	5,603
Interest expense accretion	686	480
Net change in earnings from estimated acquisition earn-out payables	1,363	6,083
Balance as of March 31, 2015	$77,709	$48,806

Of the $77.7 million estimated acquisition earn-out payables as of March 31, 2015, $29.3 million was recorded as accounts payable and $48.4 million was recorded as other non-current liabilities.

NOTE 5· 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, 2014, and identified no impairment as a result of the evaluation.

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The changes in the carrying value of goodwill by reportable segment for the three months ended March 31, 2015 are as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2015	$1,231,869	$886,095	$222,356	$120,291	$2,460,611
Goodwill of acquired businesses	26,461	(194)	3,151	—	29,418
Goodwill disposed of relating to sales of businesses	—	(2,238)	—	—	(2,238)
Balance as of March 31, 2015	$1,258,330	$883,663	$225,507	$120,291	$2,487,791

NOTE 6· Amortizable Intangible Assets

Amortizable intangible assets at March 31, 2015 and December 31, 2014 consisted of the following:

	March 31, 2015				December 31, 2014			
(in thousands)	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	$1,365,525	$ (593,742)	$771,783	15.0	$1,355,550	$ (574,285)	$781,265	14.9
Non-compete agreements	29,193	(26,063)	3,130	6.8	29,139	(25,762)	3,377	6.8
Total	$1,394,718	$ (619,805)	$774,913		$1,384,689	$ (600,047)	$784,642	

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

Amortization expense for amortizable intangible assets for the years ending December 31, 2015, 2016, 2017, 2018 and 2019 is estimated to be $86.6 million, $82.2 million, $79.3 million, $74.1 million, and $69.5 million, respectively.

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NOTE 7· Long-Term Debt

Long-term debt at March 31, 2015 and December 31, 2014 consisted of the following:

(in thousands)	2015	2014
Current portion of long-term debt:		
Current portion of 5-year term loan facility expires 2019	$27,500	$20,625
5.370% senior notes, Series D, quarterly interest payments, balloon due 2015	—	25,000
Total current portion of long-term debt	27,500	45,625
Long-term debt:		
Note agreements:		
5.660% senior notes, Series C, semi-annual interest payments, balloon due 2016	25,000	25,000
4.500% senior notes, Series E, quarterly interest payments, balloon due 2018	100,000	100,000
4.200% senior notes, semi-annual interest payments, balloon due 2024	498,510	498,471
Total notes	623,510	623,471
Credit agreements:		
5-year term-loan facility, periodic interest and principal payments, currently LIBOR plus 1.375%, expires May 20, 2019	522,500	529,375
5-year revolving-loan facility, periodic interest payments, currently LIBOR plus 1.175%, plus commitment fees of 0.20%, expires May 20, 2019	—	—
Revolving credit loan, quarterly interest payments, LIBOR plus up to 1.40% and availability fee up to 0.25%, expires December 31, 2016	—	—
Total credit agreements	522,500	529,375
Total long-term debt	1,146,010	1,152,846
Current portion of long-term debt	27,500	45,625
Total debt	$1,173,510	$1,198,471

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, $25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year, were issued. On September 15, 2011, and pursuant to a Confirmation of Acceptance (the "Confirmation"), dated January 21, 2011, in connection with the Master Agreement, $100.0 million in Series E Senior Notes were issued and are due September 15, 2018, with a fixed interest rate of 4.50% per year. The Series E Senior Notes were issued for the sole purpose of retiring existing senior notes. On January 15, 2015 the Series D Notes were redeemed at maturity using cash proceeds to pay off the principal of $25.0 million plus any remaining accrued interest. As of March 31, 2015, there was an outstanding debt balance issued under the provisions of the Master Agreement of $125.0 million.

On July 1, 2013, in conjunction with the acquisition of Beecher Carlson Holdings, Inc., the Company entered into: (1) a revolving loan agreement (the "Wells Fargo Agreement") with Wells Fargo Bank, N.A. that provided for a $50.0 million revolving line of credit (the "Wells Fargo Revolver"). The maturity date for the Wells Fargo Revolver is December 31, 2016, at which time all outstanding principal and unpaid interest will be due. On April 16, 2014, in connection with the signing of the Credit Facility (as defined below) an amendment to the agreement was established to reduce the total revolving loan commitment from $50.0 million to $25.0 million. The Wells Fargo Revolver may be increased by up to $50.0 million (bringing the total amount available to $75.0 million). The calculation of interest and fees for the Wells Fargo Agreement is generally based on the Company's funded debt-to-EBITDA ratio. Interest is charged at a rate equal to 1.00% to 1.40% above LIBOR or 1.00% below the Base Rate, each as more fully described in the Wells Fargo Agreement. Fees include an up-front fee, an availability fee of 0.175% to 0.25%, and a letter of credit margin fee of 1.00% to 1.40%. The obligations under the Wells Fargo Revolver are unsecured and the Wells Fargo Agreement includes various covenants, limitations and events of default that are customary for similar facilities for similar borrowers. There were no borrowings against the Wells Fargo Revolver as of March 31, 2015 and

December 31, 2014.

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On October 12, 2012, the Company entered into a Master Note Facility Agreement (the “New Master Agreement”) with another national insurance company (the “New Purchaser”). The New Master Agreement provides for a $125.0 million private uncommitted “shelf” facility for the issuance of unsecured senior notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The New Master Agreement includes various covenants, limitations, and events of default similar to the Master Agreement. At March 31, 2015 and December 31, 2014, there were no borrowings against this facility.

On April 17, 2014, the Company entered into a credit agreement with JPMorgan Chase Bank, N.A. as administrative agent and certain other banks as co-syndication agents and co-documentation agents (the “Credit Agreement”). The Credit Agreement in the amount of $1,350.0 million provides for an unsecured revolving credit facility (the “Credit Facility”) in the initial amount of $800.0 million and unsecured term loans in the initial amount of $550.0 million, either or both of which may, subject to lenders’ discretion, potentially be increased by up to $500.0 million. The Credit Facility was funded on May 20, 2014 in conjunction with the closing of the Wright acquisition, with the $550.0 million term loan being funded as well as a drawdown of $375.0 million on the revolving loan facility. Use of these proceeds was to retire existing term loan debt and to facilitate the closing of the Wright acquisition as well as other acquisitions. The Credit Facility terminates on May 20, 2019, but either or both of the revolving credit facility and the term loans may be extended for two additional one-year periods at the Company’s request and at the discretion of the respective lenders. Interest and facility fees in respect to the Credit Facility are based on the better of the Company’s net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating. Based on the Company’s net debt leverage ratio, the rates of interest charged on the term loan are 1.00% to 1.75% and the revolving loan is 0.85% to 1.50% above the adjusted LIBOR rate for outstanding amounts drawn. There are fees included in the facility which include a facility fee based on the revolving credit commitments of the lenders (whether used or unused) at a rate of) 0.15% to 0.25% and letter of credit fees based on the amounts of outstanding secured or unsecured letters of credit. The Credit Facility includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers. As of March 31, 2015 and December 31, 2014, there was an outstanding debt balance issued under the provisions of the Credit Facility in total of $550.0 million with no borrowings outstanding relative to the revolving loan. Per the terms of the agreement, the first principal payment of $6.9 million is due on June 30, 2015.

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 March 31, 2015 and December 31, 2014 there was an outstanding debt balance of $500.0 million.

The Master Agreement, Wells Fargo Agreement and the Credit Agreement all 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 March 31, 2015 and December 31, 2014.

The 30-day Adjusted LIBOR Rate as of March 31, 2015 was 0.19%.

NOTE 8· Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

	For the three months ended March 31,	
(in thousands)	2015	2014
Cash paid during the period for:		
Interest	$14,899	$5,230
Income taxes	$8,004	$1,532

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

	For the three months ended March 31,	
(in thousands)	2015	2014
Other payable issued for purchased customer accounts	$5	$—
Estimated acquisition earn-out payables and related charges	$5,653	$280
Notes received on the sale of fixed assets and customer accounts	$362	$131

NOTE 9· 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 many instances claims for punitive or extraordinary damages. Some of these claims and lawsuits have been resolved, others are in the process of being resolved and others are still in the investigation or discovery phase. The Company will continue to respond appropriately to these claims and lawsuits and to vigorously protect its interests.

Wright National Flood Insurance Company ("Wright Flood"), a wholly-owned subsidiary acquired by the Company effective May 2014, is engaged in litigation in New York and New Jersey arising out of its claims handling procedures during Superstorm Sandy, which affected the northeastern United States in October 2012. The claims in litigation involve theories of an alleged fraudulent scheme by third party engineering firms engaged by Wright Flood and other Write Your Own flood insurance carriers to underpay claimants. Based upon currently available information, the Company does not believe it is reasonably possible that these claims by themselves would be material to the Company's results of operations or would have a material adverse effect on the Company's financial position or liquidity.

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

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NOTE 10· 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; (2) the National Programs Segment, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents and Brown & Brown retail agents, and markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities, market niches and provides flood coverage; (3) the Wholesale Brokerage Segment, which markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers; 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 catastrophe claims adjusting services.

Brown & Brown conducts all of its operations within the United States of America, except for one wholesale brokerage operation based in London, England, and retail operations in Bermuda and the Cayman Islands. These operations earned $2.7 million and $2.4 million of total revenues for the three months ended March 31, 2015 and 2014, respectively. Long-lived assets held outside of the United States during the three months ended March 31, 2015 and 2014 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, 2014. 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 table. The “Other” column includes any income and expenses not allocated to reportable segments and corporate-related items, including the inter-company interest expense charge to the reporting segment.

	For the three months ended March 31, 2015					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$218,344	$99,555	$51,828	$34,788	$(217)	$404,298
Investment income	$22	$45	$72	$—	$81	$220
Amortization	$10,934	$7,235	$2,423	$1,023	$10	$21,625
Depreciation	$1,642	$1,766	$563	$530	$682	$5,183
Interest expense	$10,158	$14,955	$229	$1,599	$(17,090)	$9,851
Income before income taxes	$47,009	$9,476	$14,484	$4,502	$18,307	$93,778
Total assets	$3,305,917	$2,407,695	$858,149	$300,155	$(2,032,974)	$4,838,942
Capital expenditures	$1,424	$1,489	$451	$240	$123	$3,727

	For the three months ended March 31, 2014					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$205,470	$76,675	$50,001	$31,642	$(194)	$363,594
Investment income	$16	$5	$4	$2	$76	$103
Amortization	$10,269	$3,864	$2,676	$1,057	$10	$17,876
Depreciation	$1,593	$1,489	$619	$463	$476	$4,640
Interest expense	$10,745	$5,442	$386	$1,970	$(14,471)	$4,072
Income before income taxes	$41,217	$16,944	$10,747	$2,769	$15,160	$86,837
Total assets	$3,057,253	$1,376,590	$877,555	$276,219	$(1,913,328)	$3,674,289
Capital expenditures	$2,116	$1,889	$287	$291	$144	$4,727

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NOTE 11· Investments

At March 31, 2015, 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 Municipals	$10,761	$ 33	$ —	$10,794
Foreign government	50	1	—	51
Corporate debt	5,725	32	(1)	5,756
Short duration fixed income fund	2,155	30	—	2,185
Total	$18,691	$ 96	$ (1)	$18,786

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 March 31, 2015:

(in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt	$1,178	$1	$—	$—	$1,178	$1
Total	$1,178	$1	$—	$—	$1,178	$1

The unrealized losses from corporate issuers were caused by interest rate increases. At March 31, 2015, the Company had 39 securities in an unrealized loss position. The contractual cash flows of the U.S. Treasury Securities and obligations of the U.S. Government agencies investments are either guaranteed by the U.S. Government or an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. 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 March 31, 2015.

At December 31, 2014, 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 Municipals	$10,774	$ 7	$ (1)	$10,780
Foreign government	50	—	—	50
Corporate debt	5,854	9	(11)	5,852
Short duration fixed income fund	3,143	37		3,180
Total	$19,821	$ 53	$ (12)	$19,862

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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, 2014:

(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 Municipals	$3,994	$1	$—	$—	$3,994	$1
Foreign Government	$50	$—			$50	$—
Corporate debt	$4,439	$11	$—	$—	$4,439	$11
Total	$8,483	$12	$—	$—	$8,483	$12

The unrealized losses from corporate issuers were caused by interest rate increases. At December 31, 2014, the Company had 38 securities in an unrealized loss position. The contractual cash flows of the U.S. Treasury Securities and obligations of the U.S. Government agencies investments are either guaranteed by the U.S. Government or an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. 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, 2014.

The amortized cost and estimated fair value of the fixed maturity securities at March 31, 2015 by contractual maturity are set forth below:

(in thousands)	Amortized Cost	Fair Value
Years to maturity:		
Due in one year or less	$8,134	$8,137
Due after one year through five years	10,227	10,304
Due after five years through ten years	330	345
Total	$18,691	$18,786

The amortized cost and estimated fair value of the fixed maturity securities at December 31, 2014 by contractual maturity are set forth below:

(in thousands)	Amortized Cost	Fair Value
Years to maturity:		
Due in one year or less	$5,628	$5,628
Due after one year through five years	13,863	13,897
Due after five years through ten years	330	337