

BROWN & BROWN INC
Form 10-K
March 01, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

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)

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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

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

**Title of each class
COMMON STOCK, \$0.10 PAR VALUE**

**Name of each exchange on which registered
NEW YORK STOCK EXCHANGE**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

NOTE: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 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 No

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

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:

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Large accelerated filer 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

The aggregate market value of the voting Common Stock, \$0.10 par value, held by non-affiliates of the registrant, computed by reference to the last reported price at which the stock was last sold on June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was \$2,246,921,553.

The number of outstanding shares of the registrant's Common Stock, \$0.10 par value, outstanding as of February 24, 2010 was 142,129,787.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Brown & Brown, Inc.'s Proxy Statement for the 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, we, Brown & Brown or the Company), make 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, estimate, plan and continue or similar words. We have based these statements on our current expectations about future events. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-K 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 the following items, in addition to those matters described in Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations :

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;

Competition from others in the insurance agency, wholesale brokerage, insurance programs and service business;

A significant portion of business written by Brown & Brown is for customers located in California, Florida, Indiana, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on our business;

The integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration; and

Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (SEC) filings.

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.

PART I

ITEM 1. Business. General

We are a diversified insurance agency, wholesale brokerage, insurance programs and service organization with origins dating from 1939, headquartered in Daytona Beach and Tampa, Florida. We market and sell to our customers insurance products and services, primarily in the property, casualty and employee benefits areas. As an agent and broker, we do not assume underwriting risks. Instead, we provide our customers

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with quality, non-investment insurance contracts, as well as other targeted, customized risk management products and services.

We are compensated for our services primarily by commissions paid by insurance companies and by fees paid by customers for certain services. The commission is usually a percentage of the premium paid by the insured. Commission rates generally depend upon the type of insurance, the particular insurance company and the nature of the services provided by us. In some cases, a commission is shared with other agents or brokers who have acted jointly with us in a transaction. We may also receive from an insurance company a profit-sharing contingent commission, which is a profit-sharing commission based primarily on underwriting results, but may also contain considerations for volume, growth and/or retention. Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, and (2) our National Programs and Wholesale Brokerage Divisions, which earn fees primarily for the issuing of insurance policies on behalf of insurance carriers. The amount of our revenue from commissions and fees is a function of, among other factors, continued new business production, retention of existing customers, acquisitions and fluctuations in insurance premium rates and insurable exposure units.

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As of December 31, 2009, our activities were conducted in 213 locations in 37 states as follows and one office in London, England:

Florida	37	Kentucky	5	Massachusetts	2
New Jersey	17	Michigan	5	Missouri	2
California	13	Oklahoma	5	Nevada	2
New York	13	New Mexico	4	New Hampshire	2
Texas	13	North Carolina	4	Oregon	2
Georgia	11	Arizona	3	Tennessee	2
Indiana	9	Arkansas	3	Wisconsin	2
Pennsylvania	8	Connecticut	3	Hawaii	1
Washington	7	Minnesota	3	Kansas	1
Illinois	6	Montana	3	Nebraska	1
Louisiana	6	South Carolina	3	Ohio	1
Virginia	6	Delaware	2	West Virginia	1
Colorado	5				

Industry Overview

Premium pricing within the property and casualty insurance underwriting (risk-bearing) industry has historically been cyclical, displaying a high degree of volatility based on prevailing economic and competitive conditions. From the mid-1980s through 1999, the property and casualty insurance industry experienced a soft market during which the underwriting capacity of insurance companies expanded, stimulating an increase in competition and a decrease in premium rates and related commissions. The effect of this softness in rates on our revenues was somewhat offset by our acquisitions and new business production. As a result of increasing loss ratios (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, premium rates generally increased beginning in the first quarter of 2000 and continuing into 2003. During 2003, the increases in premium rates began to moderate and, in certain lines of insurance, the premium rates decreased. In 2004, as general premium rates continued to moderate, the insurance industry experienced the worst hurricane season since 1992 (when Hurricane Andrew hit south Florida). The insured losses from the 2004 hurricane season were absorbed relatively easily by the insurance industry and the general insurance premium rates continued to soften during 2005.

During the third quarter of 2005, the insurance industry experienced the worst hurricane season ever recorded. As a result of the significant losses incurred by the insurance companies from these hurricanes, the insurance premium rates in 2006 increased on coastal property, primarily in the southeastern region of the United States. In the other regions of the United States, the insurance premium rates, in general, declined during 2006.

In addition to significant insurance pricing declines in Florida, as discussed below, insurance premium rates continued to decline during the 2007 to 2009 period in most of the other U.S. regions. During 2007 and 2008, the home-building industry in southern California, and to a lesser extent Nevada, Arizona and Florida was especially hit hard. We have a wholesale brokerage operation that focuses on placing property and casualty insurance products for that home-building segment and a program operation that places errors and omissions professional liability coverages for title agents. These operations' revenues were significantly impacted during 2007 through 2009 by these national economic trends.

Although premium insurance rates declined during 2008 and 2009 in most lines of coverages, the rate of declines appeared to be slowing. However, during the second half of 2008 and all of 2009, insurable exposure units, such as sales and payroll expenditures, declined significantly due to the weakening economy, primarily in the southeast and western parts of the United States. For 2010, declining exposure units will most likely continue to have a greater negative impact on our commissions and fees revenues than will declining insurance premium rates.

SEGMENT INFORMATION

Our business is divided into four reportable operating segments: (1) the Retail Division; (2) the National Programs Division; (3) the Wholesale Brokerage Division; and (4) the Services Division. The Retail Division provides a broad range of insurance products and services to commercial, public entity, professional and individual customers.

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The National Programs Division contains two units: Professional Programs, which provides professional liability and related package products for certain professionals; and Special Programs, which markets targeted products and services to specific industries, trade groups, public entities, and market niches. The Wholesale Brokerage Division markets and sells excess and surplus commercial and personal insurance, and reinsurance, primarily through independent agents and brokers. The Services Division provides clients with third-party claims administration, consulting for the workers' compensation insurance market, comprehensive medical utilization management services in both workers' compensation and all-lines liability arenas, and Medicare Secondary Payer statute compliance-related services.

The following table sets forth a summary of (1) the commissions and fees revenue generated by each of our reportable operating segments for 2009, 2008 and, 2007, and (2) the percentage of our total commissions and fees revenue represented by each segment for each such period:

<i>(in thousands, except percentages)</i>	2009	%	2008	%	2007	%
Retail Division	\$ 582,472	60.4%	\$ 586,195	60.7%	\$ 548,038	59.9 %
National Programs Division	190,572	19.8%	177,930	18.4%	157,008	17.2 %
Wholesale Brokerage Division	157,658	16.3%	168,586	17.5%	175,289	19.1 %
Services Division	32,689	3.4%	32,137	3.3%	35,505	3.9 %
Other	1,472	0.1%	1,135	0.1%	(1,190)	(0.1)%
Total	\$ 964,863	100.0%	\$ 965,983	100.0%	\$ 914,650	100.0%

We conduct all of our operations within the United States of America, except for one wholesale brokerage operation based in London, England that commenced business in March 2008. This operation earned \$6.6 million and \$2.6 million of revenue for the years ended December 31, 2009 and 2008, respectively. We do not have any material foreign long-lived assets. See Note 16 to the Consolidated Financial Statements and

Management's Discussion and Analysis of Financial Condition and Results of Operations for additional segment financial data relating to our business.

Retail Division

As of December 31, 2009, our Retail Division employed 3,083 persons. Our retail insurance agency business provides a broad range of insurance products and services to commercial, public and quasi-public entity, professional and individual customers. The categories of insurance we principally sell include: property insurance relating to physical damage to property and resultant interruption of business or extra expense caused by fire, windstorm or other perils; casualty insurance relating to legal liabilities, workers' compensation, commercial and private passenger automobile coverages; and fidelity and surety bonds. We also sell and service group and individual life, accident, disability, health, hospitalization, medical and dental insurance.

No material part of our retail business is attributable to a single customer or a few customers. During 2009, commissions and fees from our largest single Retail Division customer represented less than one half of one percent of the Retail Division's total commissions and fees revenue.

In connection with the selling and marketing of insurance coverages, we provide a broad range of related services to our customers, such as risk management and loss control surveys and analysis, consultation in connection with placing insurance coverages and claims processing. We believe these services are important factors in securing and retaining customers.

National Programs Division

As of December 31, 2009, our National Programs Division employed 755 persons. Our National Programs Division consists of two units: Professional Programs and Special Programs.

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Professional Programs. Professional Programs provides professional liability and related package insurance products for certain professionals. Professional Programs tailors insurance products to the needs of a particular professional group; negotiates policy forms, coverages and commission rates with an insurance company; and, in certain cases, secures the formal or informal endorsement of the product by a professional association or sponsoring company. Professional groups that Professional Programs service include dentists, lawyers, accountants, optometrists, opticians, insurance agents, financial service representatives, benefit administrators, real estate brokers, real estate title agents and escrow agents. The Professional Protector Plan® for Dentists and the Lawyer's Protector Plan® are marketed and sold primarily through a national network of independent agencies including certain of our retail offices; however, certain professional liability programs, CalSurance® and TitlePac®, are principally marketed and sold directly to our insured customers. Under our agency agreements with the insurance companies that underwrite these programs, we often have authority to bind coverages (subject to established guidelines), to bill and collect premiums and, in some cases, to adjust claims. For the programs that we market through independent agencies, we receive a wholesale commission or override, which is then shared with these independent agencies.

Below are brief descriptions of the programs offered to professional groups by the Professional Programs unit of the National Programs Division.

Dentists: The Professional Protector Plan® for Dentists offers comprehensive coverage for dentists, oral surgeons, dental schools and dental students, including practice protection and professional liability. This program, initiated in 1969, is endorsed by a number of state and local dental societies and is offered in 50 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico.

Lawyers: The Lawyer's Protector Plan® (LPP®) was introduced in 1983, 10 years after we began marketing lawyers' professional liability insurance. We presently offer this program in 44 states and the District of Columbia.

Optometrists and Opticians: The Optometric Protector Plan® (OPP®) and the Optical Services Protector Plan® (OSPP®) were created in 1973 and 1987, respectively, to provide professional liability, package and workers' compensation coverages exclusively for optometrists and opticians. These programs insure optometrists and opticians nationwide.

Wedding Protector Plan®: Wedding Protector Plan® provides wedding cancelation and liability insurance and is offered in 49 states and the District of Columbia.

Financial Professionals: CalSurance® has specialized in this niche since 1980 and offers professional liability programs designed for insurance agents, financial advisors, registered representatives, securities broker-dealers, benefit administrators, real estate brokers and real estate title agents. An important aspect of CalSurance® is Lancer Claims Services, which provides specialty claims administration for insurance companies underwriting CalSurance® product lines.

Real Estate Professionals: TitlePac® provides professional liability products and services designed for real estate title agents and escrow agents in 47 states and the District of Columbia.

Special Programs. Special Programs markets targeted products and services to specific industries, trade groups, public and quasi-public entities, and market niches. Most of the Special Programs products and services are marketed and sold primarily through independent agents, including certain of our retail offices. However, a number of these products and services are also marketed and sold directly to insured customers. Under agency agreements with the insurance companies that underwrite these programs, we often have authority to bind coverages (subject to established guidelines), to bill and collect premiums and, in some cases, to adjust claims.

Below are brief descriptions of the Special Programs:

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Florida Intracoastal Underwriters, Limited Company (FIU) is a managing general agency that specializes in providing insurance coverage for coastal and inland high-value condominiums and apartments. FIU has developed a specialty reinsurance facility to support the underwriting activities associated with these risks.

Public Risk Underwriters[®], along with our similar offices in Florida and other states, are program administrators offering tailored property and casualty insurance products, risk management consulting, third-party administration and related services designed for municipalities, schools, fire districts, and other public entities.

Proctor Financial, Inc. (Proctor) provides insurance programs and compliance solutions for financial institutions that service mortgage loans. Proctor's products include lender-placed fire and flood insurance, full insurance outsourcing, mortgage impairment, and blanket equity insurance. Proctor acts as a wholesaler and writes surplus lines property business for its financial institution clients.

American Specialty Insurance & Risk Services, Inc. provides insurance and risk management services for clients in professional sports, motor sports, amateur sports, and the entertainment industry.

Fabricare: Irving Weber Associates (IWA) has specialized in this niche since 1946, providing package insurance including workers compensation to dry cleaners, linen supply and uniform rental. They also have insurance programs for independent grocery stores and restaurants.

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Parcel Insurance Plan[®] (PIP[®]) is a specialty insurance agency providing insurance coverage to commercial and private shippers for small packages and parcels with insured values of less than \$25,000 each.

Professional Risk Specialty Group is a specialty insurance agency providing liability insurance products to various professional groups.

AFC Insurance, Inc. (AFC) is a managing general underwriter, specializing in insurance products tailored to the health and human services industry. AFC works with retail agents in all states and targets home healthcare, group homes for the mentally and physically challenged, independent pizza restaurants, drug and alcohol facilities and programs for the developmentally disabled.

Acumen Re Management Corporation is a reinsurance underwriting management organization, primarily acting as an outsourced specific excess workers' compensation, directors and officers liability, and errors and omission liability facultative reinsurance underwriting facility.

Commercial Programs serves the insurance needs of certain specialty trade/industry groups. Programs offered include:

Railroad Protector Plan[®]. Introduced in 1997, this program provides insurance products for contractors, manufacturers and other entities servicing the railroad industry.

Environmental Protector Plan[®]. Introduced in 1998, this program provides a variety of specialized coverages, primarily to municipal mosquito control districts.

Towing Operators Protector Plan (TOPP)[®]. Introduced in 2009, this program provides property and casualty insurance for businesses involved in light class towing operations.

Wholesale Brokerage Division

At December 31, 2009, our Wholesale Brokerage Division employed 925 persons. Our Wholesale Brokerage Division markets and sells excess and surplus commercial insurance products and services to retail insurance agencies (including our retail offices), and reinsurance products and services to insurance companies throughout the United States. The Wholesale Brokerage Division offices represent various U.S. and U.K. surplus lines insurance companies. Additionally, certain offices are also Lloyd's of London correspondents. The Wholesale Brokerage Division also represents admitted insurance companies for smaller agencies that do not have access to large insurance company representation. Excess and surplus insurance products include many insurance coverages, including personal lines homeowners, yachts, jewelry, commercial property and casualty, commercial automobile, garage, restaurant, builder's risk and inland marine lines. Difficult-to-insure general liability and products liability coverages are a specialty, as is excess workers' compensation coverage. Wholesale brokers solicit business through mailings and direct contact with retail agency representatives.

Services Division

At December 31, 2009, our Services Division employed 281 persons and provided the following services: (1) insurance-related services, including comprehensive risk management and third-party administration (TPA) services for insurance entities and self-funded or fully-insured workers' compensation and liability plans; (2) comprehensive medical utilization management services for both workers' compensation and all-lines liability insurance plans; and (3) Medicare set-aside allocation services and related administrative services associated with the Medicare Secondary Payer statute.

The Services Division's workers' compensation and liability plan TPA services include claims administration, access to major reinsurance markets, cost containment consulting, services for secondary disability, and subrogation recoveries and risk management services such as loss control. In 2009, our three largest workers' compensation contracts represented approximately 27.1% of our Services Division's fees revenue, or approximately 0.9% of our total consolidated commissions and fees revenue. In addition, the Services Division provides managed care services, including medical networks, case management and utilization review services, certified by the American Accreditation Health Care

Commission.

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Employees

At December 31, 2009, we had 5,206 full-time equivalent employees. We have agreements with our sales employees and certain other employees that include provisions restricting their right to solicit our insured customers and employees after separation from employment with us. The enforceability of such agreements varies from state to state depending upon state statutes, judicial decisions and factual circumstances. The majority of these agreements are at-will and terminable by either party; however, the covenants not to solicit our insured customers and employees generally extend for a period of two years after cessation of employment.

None of our employees is represented by a labor union, and we consider our relations with our employees to be satisfactory.

Competition

The insurance intermediary business is highly competitive, and numerous firms actively compete with us for customers and insurance markets. Competition in the insurance business is largely based on innovation, quality of service and price. A number of firms and banks with substantially greater resources and market presence compete with us in the southeastern United States and elsewhere, particularly outside of Florida.

A number of insurance companies engage in the direct sale of insurance, primarily to individuals, and do not pay commissions to third-party agents and brokers. In addition, the Internet continues to be a source for direct placement of personal lines business. To date, such direct sales efforts have had little effect on our operations, primarily because our Retail Division is commercially rather than individually oriented.

In addition, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 and regulations enacted thereunder permit banks, securities firms and insurance companies to affiliate. As a result, the financial services industry has experienced and may continue to experience consolidation, which in turn has resulted and could continue to result in increased competition from diversified financial institutions, including competition for acquisition prospects.

Regulation, Licensing and Agency Contracts

We and/or our designated employees must be licensed to act as agents, brokers or third-party administrators by state regulatory authorities in the states in which we conduct business. Regulations and licensing laws vary by individual state and are often complex.

The applicable licensing laws and regulations in all states are subject to amendment or reinterpretation by state regulatory authorities, and such authorities are vested in most cases with relatively broad discretion as to the granting, revocation, suspension and renewal of licenses. The possibility exists that we and/or our employees could be excluded or temporarily suspended from carrying on some or all of our activities in, or otherwise subjected to penalties by, a particular state.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the Securities and Exchange Commission (SEC). We make available free of charge on our website, at www.bbinsurance.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act and the rules promulgated thereunder, as soon as reasonably practicable after electronically filing or furnishing such material to the SEC. These documents are posted on our website at www.bbinsurance.com select the Investor Relations link and then the Publications & Filings link.

Copies of these reports, proxy statements and other information can be read and copied at:

SEC Public Reference Room

100 F Street NE

Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Also the SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials

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may be obtained electronically by accessing the SEC's website at www.sec.gov.

The charters of the Audit, Compensation and Nominating/Governance Committees of our Board of Directors as well as our Corporate Governance Principles, Code of Business Conduct and Ethics and Code of Ethics – CEO and Senior Financial Officers (including any amendments to, or waivers of any provision of any of these charters, principles or codes) are also available on our website or upon request. Requests for copies of any of these documents should be directed in writing to Corporate Secretary, Brown & Brown, Inc., 3101 West Martin Luther King Jr. Blvd., Suite 400, Tampa, Florida 33607, or by telephone to (813) 222-4277.

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ITEM 1A. Risk Factors

WE CANNOT ACCURATELY FORECAST OUR COMMISSION REVENUES BECAUSE OUR COMMISSIONS DEPEND ON PREMIUM RATES CHARGED BY INSURANCE COMPANIES, WHICH HISTORICALLY HAVE VARIED AND, AS A RESULT, HAVE BEEN DIFFICULT TO PREDICT.

We are primarily engaged in the insurance agency, wholesale brokerage, and insurance programs business, and derive revenues principally from commissions paid by insurance companies. Commissions are based upon a percentage of premiums paid by customers for insurance products. The amount of such commissions is therefore highly dependent on premium rates charged by insurance companies. We do not determine insurance premiums. Premium rates are determined by insurance companies based on a fluctuating market. Historically, property and casualty premiums have been cyclical in nature and have varied widely based on market conditions.

As traditional risk-bearing insurance companies continue to outsource the production of premium revenue to non-affiliated brokers or agents such as us, those insurance companies may seek to reduce further their expenses by reducing the commission rates payable to those insurance agents or brokers. The reduction of these commission rates, along with general volatility and/or declines in premiums, may significantly affect our profitability. Because we do not determine the timing or extent of premium pricing changes, we cannot accurately forecast our commission revenues, including whether they will significantly decline. As a result, we may have to adjust our budgets for future acquisitions, capital expenditures, dividend payments, loan repayments and other expenditures to account for unexpected changes in revenues, and any decreases in premium rates may adversely affect the results of our operations.

THE CURRENT ECONOMIC CONDITIONS IN THE U. S. ECONOMY CONTINUE TO AFFECT OUR BUSINESS.

Since late 2007, global consumer confidence has recently eroded amidst concerns over declining asset values, potential inflation, volatility in energy costs, geopolitical issues, the availability and cost of credit, high unemployment, and the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations. These concerns have slowed economic growth and resulted in a recession in the United States. Recent economic conditions have had a negative impact on our results of operations during the year ended December 31, 2009, due to reduced customer demand which is expected to continue for the next several fiscal quarters. If these economic conditions continue or worsen, a number of negative effects on our business could result, including further declines in values of insurable exposure units, further declines in insurance premium rates, and the financial insolvency, or reduced ability to pay, of certain of our customers. Any of these effects could decrease our net revenue and profitability.

WE COULD INCUR SUBSTANTIAL LOSSES FROM OUR CASH AND INVESTMENT ACCOUNTS IF ONE OF THE FINANCIAL INSTITUTIONS THAT WE USE FAILS OR IS TAKEN OVER BY THE U.S. FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC).

Traditionally, we have maintained cash and investment balances, including restricted cash held in premium trust accounts, at various depository institutions in amounts that are significantly in excess of the FDIC insurance limits. While we began in the fall of 2008 re-focusing our investment and cash management strategy by moving more of our cash into non-interest bearing accounts (which are FDIC insured until June 30, 2010, but not subject to any limits) and money market accounts (a portion of which became FDIC insured in the fall of 2008), we still maintain cash and investment balances in excess of the FDIC insurance limits. As the credit crisis persists, the financial strength of some depository institutions has diminished and this trend may continue. If one or more of the depository institutions with which we maintain significant cash balances were to fail, our ability to access these funds might be temporarily or permanently limited, and we could face material liquidity problems and potential material financial losses.

OUR BUSINESS, AND THEREFORE OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION, MAY BE ADVERSELY AFFECTED BY THE FURTHER DISRUPTION IN THE U.S.-BASED CREDIT MARKETS AND BY FURTHER INSTABILITY OF FINANCIAL SYSTEMS.

The recent disruption in the U.S.-based credit markets, the repricing of credit risk and the deterioration of the financial and real estate markets have created increasingly difficult conditions for financial institutions and certain insurance companies. These conditions include significant losses, greater volatility, significantly less liquidity, widening of credit spreads and a lack of price transparency in certain markets. While these conditions have somewhat abated since the fall of 2008, it is difficult to predict when these conditions will completely end and the extent to which our markets, products and business will be adversely affected.

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These unprecedented disruptions in the credit and financial markets had a significant material adverse impact on a number of financial institutions and limited access to capital and credit for many companies. Although we are not currently experiencing any limitation of access to our revolving credit facility (which matures in 2013) and are not aware of any issues impacting the ability or willingness of our lenders under such facility to honor their commitments to extend us credit, the failure of a lender could adversely affect our ability to borrow on that facility, which over time could negatively impact our ability to consummate significant acquisitions or make other significant capital expenditures. Continued adverse conditions in the credit markets in future years could adversely affect the availability and terms of future borrowings or renewals or refinancings.

We also have a significant amount of trade accounts receivable from some insurance companies with which we place insurance. If those insurance companies were to experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us, which could have a significant adverse impact on our financial condition and results of operations.

OUR BUSINESS, AND THEREFORE OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION, MAY BE ADVERSELY AFFECTED BY ECONOMIC CONDITIONS THAT RESULT IN REDUCED INSURER CAPACITY.

Our results of operations are depend on the continued capacity of insurance carriers to underwrite risk and provide coverage, which depends in turn on insurance companies' ability to procure reinsurance. We have no control over these matters. To the extent that reinsurance becomes less widely available, we may not be able to procure the amount or types of coverage that our customers desire and the coverage we are able to procure may be more expensive or limited.

INFLATION MAY ADVERSELY AFFECT OUR BUSINESS OPERATIONS IN THE FUTURE.

Given the current macroeconomic environment, it is possible that U.S. government actions, in the form of a monetary stimulus, a fiscal stimulus, or both, to the U.S. economy, could lead to inflationary conditions that would adversely affect our cost base, particularly resulting in an increase in our employee compensation benefits and our other operating expenses. This may harm our margins and profitab