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 March 31, 2013

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 ☒ 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 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	☒	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 number of shares of the Registrant's common stock, $.10 par value, outstanding as of May 4, 2013 was 144,032,357.

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"), 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-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 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":

- Projections of revenues, income, losses, cash flows, capital expenditures;
- Future prospects;
- Plans for future operations;
- Expectations of the economic environment;
- 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;
- The occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in California, Florida, Georgia, Indiana, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Texas and Washington, because a significant portion of business written by Brown & Brown is for customers located in these states;
- The integration of our operations with those of businesses or assets we have acquired, including our January 2012 acquisition of Arrowhead General Insurance Agency Superholding Corporation ("Arrowhead"), or may acquire in the future and the failure to realize the expected benefits of such acquisition and integration;
- Premium rates and exposure units 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 2013;
- Our ability to renew or replace expiring leases;
- Outcome of 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;
- 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");
- The performance of acquired businesses and its effect on estimated acquisition earn-out payable;
- Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission ("SEC") filings; and
- Assumptions as to any of the foregoing and all statements that 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, 2013	2012
REVENUES		
Commissions and fees	$333,793	$296,533
Investment income	186	135
Other income, net	1,033	5,818
Total revenues	335,012	302,486
EXPENSES		
Employee compensation and benefits	159,498	149,596
Non-cash stock-based compensation	3,850	3,747
Other operating expenses	46,339	43,400
Amortization	16,161	15,613
Depreciation	4,167	3,641
Interest	3,984	4,087
Change in estimated acquisition earn-out payables	1,522	(388)
Total expenses	235,521	219,696
Income before income taxes	99,491	82,790
Income taxes	39,360	33,357
Net income	$ 60,131	$ 49,433
Net income per share:		
Basic	$ 0.42	$ 0.34
Diluted	$ 0.41	$ 0.34
Weighted average number of shares outstanding:		
Basic	140,796	139,001
Diluted	142,947	141,500
Dividends declared per share	$ 0.09	$ 0.085

See accompanying notes to consolidated financial statements.

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except per share data)	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 340,206	$ 219,821
Restricted cash and investments	186,768	164,564
Short-term investments	7,228	8,183
Premiums, commissions and fees receivable	303,882	302,725
Deferred income taxes	16,041	24,408
Other current assets	27,488	39,811
Total current assets	881,613	759,512
Fixed assets, net	73,067	74,337
Goodwill	1,709,279	1,711,514
Amortizable intangible assets, net	550,689	566,538
Other assets	15,712	16,157
Total assets	$3,230,360	$3,128,058
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$ 443,290	$ 406,704
Premium deposits and credits due customers	25,343	32,867
Accounts payable	63,303	48,524
Accrued expenses and other liabilities	85,285	79,593
Current portion of long-term debt	93	93
Total current liabilities	617,314	567,781
Long-term debt	450,000	450,000
Deferred income taxes, net	244,883	237,630
Other liabilities	58,907	65,314
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued and outstanding 143,990 at 2013 and 143,878 at 2012	14,399	14,388
Additional paid-in capital	340,606	335,872
Retained earnings	1,504,251	1,457,073
Total shareholders' equity	1,859,256	1,807,333
Total liabilities and shareholders' equity	$3,230,360	$3,128,058

See accompanying notes to consolidated financial statements.

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	For the three months ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$ 60,131	$ 49,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	16,161	15,613
Depreciation	4,167	3,641
Non-cash stock-based compensation	3,850	3,747
Change in estimated acquisition earn-out payables	1,522	(388)
Deferred income taxes	15,620	18,435
Income tax benefit from exercise of shares from the stock benefit plans	(252)	(29)
Net gain on sales of investments, fixed assets and customer accounts	(383)	(2,988)
Payments on acquisition earn-outs in excess of original estimated payables	(1,618)	—
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:		
Restricted cash and investments (increase)	(22,204)	(58,984)
Premiums, commissions and fees receivable decrease (increase)	262	(6,491)
Other assets decrease	12,919	1,858
Premiums payable to insurance companies increase	36,586	28,897
Premium deposits and credits due customers (decrease) increase	(7,524)	1,056
Accounts payable increase	19,308	22,484
Accrued expenses and other liabilities increase (decrease)	5,788	(37,221)
Other liabilities (decrease)	(7,312)	(13,275)
Net cash provided by operating activities	137,021	25,788
Cash flows from investing activities:		
Additions to fixed assets	(2,947)	(5,905)
Payments for businesses acquired, net of cash acquired	(61)	(341,758)
Proceeds from sales of fixed assets and customer accounts	243	4,103
Purchases of investments	(1,629)	(1,308)
Proceeds from sales of investments	2,585	1,328
Net cash used in investing activities	(1,809)	(343,540)
Cash flows from financing activities:		
Payments on acquisition earn-outs	(2,701)	(133)
Proceeds from long-term debt	—	200,000
Payments on long-term debt	—	(614)
Borrowings on revolving credit facilities	—	100,000
Payments on revolving credit facilities	—	(100,000)
Income tax benefit from exercise of shares from the stock benefit plans	252	29
Issuances of common stock for employee stock benefit plans	625	287
Repurchase stock benefit plan shares for employees to fund tax withholdings	(50)	(224)
Cash dividends paid	(12,953)	(12,184)
Net cash (used in) provided by financing activities	(14,827)	187,161
Net increase (decrease) in cash and cash equivalents	120,385	(130,591)
Cash and cash equivalents at beginning of period	219,821	286,305
Cash and cash equivalents at end of period	$340,206	$ 155,714

See accompanying notes to consolidated financial statements.

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

NOTE 2· Basis of Financial Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted 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 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, 2012.

Results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

NOTE 3· Net Income Per Share

Accounting Standards Codification ("ASC") Topic 260 — *Earnings Per Share* is the authoritative guidance that states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share ("EPS") pursuant to the two-class method. The two-class method determines EPS for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Performance stock shares granted to employees under the Company's Performance Stock Plan and Stock Incentive Plan are considered participating securities as they receive non-forfeitable dividend equivalents at the same rate as common stock.

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

(in thousands, except per share data)	For the three months ended March 31, 2013	2012
Net income	$ 60,131	$ 49,433
Net income attributable to unvested awarded performance stock	(1,308)	(1,499)
Net income attributable to common shares	$ 58,823	$ 47,934
Weighted average number of common shares outstanding – basic	143,926	143,347
Less unvested awarded performance stock included in weighted average number of common shares outstanding – basic	(3,130)	(4,346)
Weighted average number of common shares outstanding for basic earnings per common share	140,796	139,001
Dilutive effect of stock options	2,151	2,499
Weighted average number of shares outstanding – diluted	142,947	141,500
Net income per share:		
Basic	$ 0.42	$ 0.34
Diluted	$ 0.41	$ 0.34

NOTE 4· Business Combinations

Acquisitions in 2013

During the three months ended March 31, 2013, Brown & Brown did not acquire any insurance intermediaries, however there were miscellaneous adjustments to the purchase price allocation of certain prior acquisitions acquired within the last twelve months as permitted by ASC Topic 805 — *Business Combinations* (“ASC 805”). Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

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

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company's 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, 2013, several adjustments were made within the permitted measurement period that resulted in reduction to the aggregate purchase price of the applicable acquisitions of $1,071,000, including $61,000 of cash payments, a reduction of $454,000 in other payables, the assumption of $43,000 of liabilities and the reduction of $721,000 in recorded earn-out payables.

The following table summarizes the adjustments made to the aggregate purchase price allocations as of the date of each acquisition:

(in thousands)

Name	Business Segment	2012 Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-out Payable	Net Assets Acquired
Arrowhead General Insurance Agency Superholding Corporation	National Programs; Services	January 9	$ —	$ (454)	$ —	$ (454)
Insurcorp & GGM Investments LLC	Retail	May 1	—	—	(834)	(834)
Richard W. Endlar Insurance Agency, Inc.	Retail	May 1	—	—	220	220
Texas Security General Insurance Agency, Inc.	Wholesale/ Brokerage	Sept 1	—	—	(107)	(107)
Other	Various	Various	61	—	—	61
Total			$ 61	$ (454)	$ (721)	$ (1,114)

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

(in thousands)	Arrowhead	Insurcorp	Endlar	Texas Security	Other	Total
Other current assets	$ —	$ —	$ —	$ 25	$ 1,419	$ 1,444
Goodwill	(454)	(566)	216	(843)	(1,214)	(2,861)
Purchased customer accounts	—	(268)	4	708	(98)	346
Total assets acquired	(454)	(834)	220	(110)	107	(1,071)
Other current liabilities	—	—	—	3	(46)	(43)
Net assets acquired	$ (454)	$ (834)	$ 220	$ (107)	$ 61	$(1,114)

Acquisitions in 2012

During three months ended March 31, 2012, Brown & Brown acquired the assets and assumed certain liabilities of two insurance intermediaries, and all of the stock of one insurance intermediary. The aggregate purchase price of these acquisitions was $559,241,000, including $401,247,000 of cash payments, the issuance of $21,391,000 in other payables, the assumption of $131,889,000 of liabilities and $4,714,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and hire high-quality personnel. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

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

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

(in thousands)

Name	Business Segment	2012 Date of Acquisition	Cash Paid	Note Payable	Other Payable	Recorded Earn-out Payable	Net Assets Acquired	*Maximum Potential Earn-out Payable*
Arrowhead General Insurance Agency Superholding Corporation	National Programs; Services	January 9	$397,531	$ —	$21,391	$ 3,634	$422,556	*$ 5,000*
Other	Various	Various	3,716	—	—	1,080	4,796	*3,488*
Total			$401,247	$ —	$21,391	$ 4,714	$427,352	*$ 8,488*

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

(in thousands)	Arrowhead	Other	Total
Cash	$ 62,396	$ —	$ 62,396
Other current assets	66,828	110	66,938
Fixed assets	4,743	25	4,768
Goodwill	320,145	2,899	323,044
Purchased customer accounts	100,072	1,828	101,900
Non-compete agreements	100	54	154
Other assets	41	—	41
Total assets acquired	554,325	4,916	559,241
Other current liabilities	(105,118)	(120)	(105,238)
Deferred income taxes, net	(26,651)	—	(26,651)
Total liabilities assumed	(131,769)	(120)	(131,889)
Net assets acquired	$ 422,556	$4,796	$ 427,352

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

Goodwill of $323,044,000, was allocated to the Retail, National Programs, Wholesale Brokerage and Services Divisions in the amounts of $2,088,000, $253,901,000, $811,000 and $66,244,000, respectively. Of the total goodwill of $323,044,000, $3,226,000 is currently deductible for income tax purposes and $315,104,000 is non-deductible. The remaining $4,714,000 relates to the earn-out payables and will not be deductible until it is earned and paid.

The results of operations for the acquisitions completed during 2012 have been combined with those of the Company since their respective acquisition dates. The total revenues and income before income taxes from the acquisitions completed through March 31, 2012, included in the Condensed Consolidated Statement of Income for the three months ended March 31, 2012, were $27,712,000 and $362,000, respectively. If the acquisitions had occurred as of the beginning of the period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	**For the three months ended March 31,**	
(in thousands, except per share data)	**2012**	**2011**
Total revenues	$304,916	$289,935
Income before income taxes	$ 83,481	$ 84,178
Net income	$ 49,846	$ 50,826
Net income per share:		
Basic	$ 0.35	$ 0.36
Diluted	$ 0.34	$ 0.35
Weighted average number of shares outstanding:		
Basic	139,001	138,351
Diluted	141,500	140,648

For acquisitions consummated prior to January 1, 2009, additional consideration paid to sellers as a result of purchase price "earn-out" provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by the Company in 2013 as a result of these adjustments totaled $626,000, all of which was allocated to goodwill. Of the $626,000 net additional consideration paid, $626,000 was issued as an other payable. The net additional consideration paid by the Company in 2012 as a result of these adjustments totaled $2,907,000, all of which was allocated to goodwill. Of the $2,907,000 net additional consideration paid, $2,907,000 was paid in cash.

As of March 31, 2013, the maximum future contingency payments related to all acquisitions totaled $147,631,000, all of which relates to acquisitions consummated subsequent to January 1, 2009.

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

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

(in thousands)	For the three months ended March 31, 2013	2012
Balance as of the beginning of the period	$52,987	$47,715
Additions to estimated acquisition earn-out payables	(721)	4,714
Payments for estimated acquisition earn-out payables	(4,319)	(133)
Subtotal	47,947	52,296
Net change in earnings from estimated acquisition earn-out payables:		
Change in fair value on estimated acquisition earn-out payables	997	(970)
Interest expense accretion	525	582
Net change in earnings from estimated acquisition earn-out payables	1,522	(388)
Balance as of March 31	$49,469	$51,908

Of the $49,469,000 estimated acquisition earn-out payables as of March 31, 2013, $15,781,000 was recorded as accounts payable and $33,688,000 was recorded as other non-current liabilities. Of the $51,908,000 in estimated acquisition earn-out payables as of March 31, 2012, $8,782,000 was recorded as accounts payable and $43,126,000 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. Brown & Brown completed its most recent annual assessment as of November 30, 2012, and identified no impairment as a result of the evaluation.

The changes in the carrying value of goodwill by operating segment for the three months ended March 31, 2013 are as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2013	$876,219	$439,180	$288,054	$108,061	$1,711,514
Goodwill of acquired businesses	(1,564)	172	(843)	—	(2,235)
Balance as of March 31, 2013	$874,655	$439,352	$287,211	$108,061	$1,709,279

NOTE 6· Amortizable Intangible Assets

Amortizable intangible assets at March 31, 2013 and December 31, 2012, consisted of the following:

	March 31, 2013				December 31, 2012			
(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	$1,005,316	$ (455,633)	$549,683	14.9	$1,005,031	$ (439,623)	$565,408	14.9
Non-compete agreements	25,320	(24,314)	1,006	7.2	25,320	(24,190)	1,130	7.2
Total	$1,030,636	$ (479,947)	$550,689		$1,030,351	$ (463,813)	$566,538	

Amortization expense for amortizable intangible assets for the years ending December 31, 2013, 2014, 2015, 2016 and 2017, is estimated to be $64,101,000, $63,039,000, $61,749,000, $57,169,000, and $54,457,000, respectively.

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

NOTE 7· Long-Term Debt

Long-term debt at March 31, 2013 and December 31, 2012, consisted of the following:

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

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

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

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

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement dated as of June 3, 2008 (the "Prior Loan Agreement"), with a national banking institution, amending and restating the Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), to increase the lending commitment to $50.0 million (subject to potential increases up to $100.0 million) and to extend the maturity date from December 20, 2011, to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $75.0 million. After a series of amendments that provided covenant exceptions for the notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $20.0 million. At March 31, 2013 and December 31, 2012, there were no borrowings against this facility.

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

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

The maturity date for the JPM Bridge Facility was February 3, 2012, at which time all outstanding principal and unpaid interest would have been due. On January 26, 2012, the Company entered into a term loan agreement (the "JPM Agreement") with JPMorgan that provided for a $100.0 million term loan (the "JPM Term Loan"). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver's amount outstanding was reduced to zero.

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

The 30-day LIBOR and Adjusted LIBOR Rate as of March 31, 2013 were 0.20% and 0.25%, respectively.

The Notes, the Master Agreement, the SunTrust Agreement and the JPM 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, 2013 and December 31, 2012.

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

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

(in thousands)	**For the three months ended March 31, 2013**	**2012**
Cash paid during the period for:		
Interest	$ 4,827	$ 5,241
Income taxes	$ 5,379	$ 4,063

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

(in thousands)	**For the three months ended March 31, 2013**	**2012**
Other payable issued for purchased customer accounts	$ 172	$ 21,391
Estimated acquisition earn-out payables and related charges	$ (721)	$ 4,714
Notes received on the sale of fixed assets and customer accounts	$ 126	$ 431

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.

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, 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 companies could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded, and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters.

NOTE 10· Segment Information

Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers; the National Programs Division, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities, and market niches; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers; and the Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside service, 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 which commenced business in March 2008. This operation earned $3.0 million and $2.7 million of total revenues for the three months ended March 31, 2013 and 2012, respectively. Additionally, this operation earned $9.7 million of total revenues for the year ended December 31, 2012. Long-lived assets held outside of the United States during the three months ended March 31, 2013 and 2012 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, 2012. Brown & Brown evaluates the performance of its segments based upon revenues and income before income taxes. Inter-segment revenues are eliminated.

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

	For the three months ended March 31, 2013					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$ 174,568	$ 68,940	$ 48,697	$ 42,647	$ 160	$ 335,012
Investment income	$ 23	$ 5	$ 5	$ 1	$ 152	$ 186
Amortization	$ 8,811	$ 3,519	$ 2,897	$ 924	$ 10	$ 16,161
Depreciation	$ 1,371	$ 1,248	$ 707	$ 397	$ 444	$ 4,167
Interest expense	$ 6,200	$ 5,694	$ 755	$ 1,921	$ (10,586)	$ 3,984
Income before income taxes	$ 46,211	$ 14,012	$ 10,362	$ 13,953	$ 14,953	$ 99,491
Total assets	$2,483,391	$1,194,383	$882,273	$248,882	$(1,578,569)	$3,230,360
Capital expenditures	$ 1,335	$ 892	$ 536	$ 119	$ 65	$ 2,947

	For the three months ended March 31, 2012					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$ 167,204	$ 64,607	$ 43,304	$ 25,830	$ 1,541	$ 302,486
Investment income	$ 25	$ —	$ 6	$ —	$ 104	$ 135
Amortization	$ 8,527	$ 3,176	$ 2,787	$ 1,113	$ 10	$ 15,613
Depreciation	$ 1,258	$ 1,142	$ 656	$ 225	$ 360	$ 3,641
Interest expense	$ 6,934	$ 6,652	$ 1,226	$ 1,520	$ (12,245)	$ 4,087
Income before income taxes	$ 42,200	$ 15,957	$ 8,877	$ 2,987	$ 12,769	$ 82,790
Total assets	$2,188,467	$1,154,666	$768,444	$269,623	$(1,363,753)	$3,017,447
Capital expenditures	$ 1,061	$ 2,416	$ 1,174	$ 361	$ 893	$ 5,905

ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

THE FOLLOWING DISCUSSION UPDATES THE MD&A CONTAINED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED IN 2012, AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.

GENERAL

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

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

We attempt to foster a strong, decentralized sales culture with a goal of consistent, sustained growth over the long term. As of January 2013, our senior leadership group included eight executive officers with regional responsibility for oversight of designated operations within the Company, and four regional vice presidents in our Retail Division and one regional vice president in our Wholesale Brokerage Division, each of whom reports directly to one of our executive officers.

We increased revenues every year from 1993 to 2012, with the exception of 2009, when our revenues dropped 1.0%. Our annual revenues grew from $95.6 million in 1993 to $1.2 billion in 2012, reflecting a compound annual growth rate of 14.2%. In the same 19 year period, we increased annual net income from $8.0 million to $184.0 million in 2012, a compound annual growth rate of 17.9%.

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

Beginning in the first quarter of 2012, many insurance premium rates began to slightly increase. Additionally, in the second quarter of 2012, the general declines in insurable exposure units started to flatten and these exposures units subsequently began to gradually increase during the year. As a result, we recorded positive internal revenue growth for each quarter of 2012 for each of our four divisions with two exceptions; the first quarter for the Retail Division and the third quarter for the National Programs Division, in which declines of 0.7% and 3.3%, respectively, were experienced. For 2012, our consolidated internal revenue growth rate was 2.6%.

For the three months ended March, 31, 2013, our consolidated internal revenue growth rate was 10.2% and again, each of our four divisions recorded positive internal revenue growth. In the event that the gradual increases in insurance premium rates and insurable exposure units that occurred in 2012 and in the first quarter of 2013 continue for the remainder of 2013, we should continue to see positive quarterly internal revenue growth rates for the remaining nine months of 2013.

We also earn "profit-sharing contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but which may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 4.8% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are typically included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" excludes profit-sharing contingent commissions and guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In contrast, the term "core organic commissions and fees" is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). Core organic commissions and fees attempts to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes from (i) net new and lost accounts, (ii) net changes in our clients' exposure units, and (iii) net changes in insurance premium rates. The net changes in each of these three components can be determined for each of our customers. However, because our agency management accounting systems do not aggregate such data, it is not reportable. Core organic commissions and fees can reflect either "positive" growth with a net increase in revenues, or "negative" growth with a net decrease in revenues.

In recent years, five national insurance companies have replaced the loss-ratio based profit-sharing contingent commission calculation with a guaranteed fixed-base methodology, referred to as "Guaranteed Supplemental Commissions" ("GSCs"). Since GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based on actual premiums written. As of December 31, 2012, we accrued and earned $9.1 million from GSCs during 2012, most of which was collected in the first quarter of 2013. For the three-month periods ended March 31, 2013 and 2012, we earned $2.2 million and $2.6 million, respectively, from GSCs.

Fee revenues relate to fees negotiated in lieu of commissions, which are recognized as services are rendered. 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, Social Security disability and Medicare benefits advocacy services, and catastrophe claims adjusting services, and (2) our National Programs and Wholesale Brokerage Divisions, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies. These services are provided over a period of time, typically one year. Fee revenues, as a percentage of our total commissions and fees, represented 21.7% in 2012, 16.4% in 2011 and 14.6% in 2010.

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

Florida Insurance Overview

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

In August 2002, the Florida Legislature created Citizens, to be the "insurer of last resort" in Florida. Initially, Citizens charged insurance rates that were higher than those generally prevailing in the private insurance marketplace. In each of 2004 and 2005, four major hurricanes made landfall in Florida. As a result of the ensuing significant insurance property losses, Florida property insurance rates increased in 2006. To counter the higher property insurance rates, the State of Florida instructed Citizens to significantly reduce its property insurance rates beginning in January 2007. By state law, Citizens guaranteed these rates through January 1, 2010. As a result, Citizens became one of the most, if not the most, competitive risk-bearers for a large percentage of Florida's commercial habitational coastal property exposures, such as condominiums, apartments, and certain assisted living facilities. Additionally, Citizens became the only insurance market for certain homeowner policies throughout Florida. Today, Citizens is one of the largest underwriters of coastal property exposures in Florida.

In 2007, Citizens became the principal direct competitor of the insurance companies that underwrite the condominium program administered by one of our indirect subsidiaries, Florida Intracoastal Underwriters, Limited Company ("FIU"), and the excess and surplus lines insurers represented by wholesale brokers such as Hull & Company, Inc., another of our subsidiaries. Consequently, these operations lost significant amounts of revenue to Citizens. From 2008 through 2012, Citizens' impact was not as dramatic as it had been in 2007; FIU's core commissions and fees decreased 19.7% during this four-year period. Citizens continued to be competitive against the excess and surplus lines insurers, and therefore Citizens negatively affected the revenues of our Florida-based wholesale brokerage operations, such as Hull & Company, Inc. since 2007, although the impact has been decreasing each year.

Citizens' impact on our Florida retail offices was less severe than on our National Programs and Wholesale Brokerage Division operations because our retail offices have the ability to place business with Citizens, although at slightly lower commission rates and with greater difficulty than with other insurance companies.

Effective January 1, 2010, Citizens raised its insurance rates, on average, 10% for properties with values of less than $10 million, and more than 10% for properties with values in excess of $10 million. Citizens raised its insurance rates again in 2011 and 2012, and is expected to continue to increase its insurance rates in 2013. Our commission revenues from Citizens for 2012, 2011 and 2010 were approximately $6.4 million, $7.8 million, and $8.3 million, respectively. If, as expected, Citizens continues to attempt to reduce its insured exposures, the financial impact of Citizens on our business should continue to be reduced in 2013.

Company Overview — First Quarter of 2013

We continued the trend, that began in the first quarter of 2012, of achieving a quarterly positive growth rate of our core organic commissions and fees in the first quarter of 2013. This positive growth rate of 10.2% for the first quarter of 2013 accounted for $27.3 million of new core organic commissions and fees, of which, $16.2 million was generated from our Colonial Claims operation in our Services Division as a result of the significant claims activity related to the 2012 Superstorm Sandy, and $7.3 million related to a new automobile aftermarket program in our National Programs Division.

Additionally, our profit-sharing contingent commissions and GSCs for the three months ended March 31, 2013 increased by $0.4 million over the first quarter of 2012. However, other income decreased $4.8 million as a result of the following two revenue events that occurred in the first quarter of 2012 but did not have comparable events in the three months ended March 31, 2013: (1) $2.6 million related to gains on the sale of books of businesses, and (2) $2.2 million related to a legal settlement that we received on the enforcement of non-piracy covenants contained in our employment agreements.

Income before income taxes in the three-month period ended March 31, 2013 increased over the same period in 2012 by 20.2%, or $16.7 million, to $99.5 million. Of the $16.7 million increase, $2.1 million related to the operations of the new acquisitions that were stand-alone offices, with the remaining $14.6 million generated primarily by net new business.

Acquisitions

Approximately 37,500 independent insurance agencies are estimated to be operating currently in the United States. Part of our continuing business strategy is to attract high-quality insurance intermediaries to join our operations. From 1993 through the first quarter of 2013, we acquired 440 insurance intermediary operations, excluding acquired books of business (customer accounts).

A summary of our acquisitions and related adjustments to the purchase price of prior acquisitions for the three months ended March 31, 2013 and 2012 are as follows (in millions, except for number of acquisitions):

	Number of Acquisitions		Estimated Annual	Cash	Other	Liabilities	Recorded Earn-out	Aggregate Purchase
	Asset	Stock	Revenues	Paid	Payable	Assumed	Payable	Price
2013	—	—	$ —	$ 0.1	$ (0.4)	$ 0.1	$ (0.7)	$ (1.1)
2012	2	1	$ 111.3	$401.2	$ 21.4	$ 131.9	$ 4.7	$ 559.2

During the three months ended March 31, 2013, we did not acquire any insurance intermediaries, however there were miscellaneous adjustments to the purchase price allocation of certain prior acquisitions acquired within the last twelve months as permitted by Accounting Standards Codification Topic 805 - Business Combinations.

Critical Accounting Policies

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

We believe that of our significant accounting and reporting policies, the more critical policies include our accounting for revenue recognition, business acquisitions and purchase price allocations, intangible asset impairments and reserves for litigation. In particular, the accounting for these areas requires significant judgments 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, 2012 on file with the Securities and Exchange Commission ("SEC") for details regarding our critical and significant accounting policies.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

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 months ended March 31, 2013 and 2012, is as follows (in thousands, except percentages):

	For the three months ended March 31, 2013	For the three months ended March 31, 2012	% Change
REVENUES			
Core commissions and fees	$ 306,532	$ 269,720	13.6%
Profit-sharing contingent commissions	25,039	24,221	3.4%
Guaranteed supplemental commissions	2,222	2,592	(14.3)%
Investment income	186	135	37.8%
Other income, net	1,033	5,818	(82.2)%
Total revenues	335,012	302,486	10.8%
EXPENSES			
Employee compensation and benefits	159,498	149,596	6.6%
Non-cash stock-based compensation	3,850	3,747	2.7%
Other operating expenses	46,339	43,400	6.8%
Amortization	16,161	15,613	3.5%
Depreciation	4,167	3,641	14.4%
Interest	3,984	4,087	(2.5)%
Change in estimated acquisition earn-out payables	1,522	(388)	NMF(1)
Total expenses	235,521	219,696	7.2%
Income before income taxes	99,491	82,790	20.2%
Income taxes	39,360	33,357	18.0%
NET INCOME	$ 60,131	$ 49,433	21.6%
Net internal growth rate – core organic commissions and fees	10.2%	0.9%	
Employee compensation and benefits ratio	47.6%	49.5%	
Other operating expenses ratio	13.8%	14.3%	
Capital expenditures	$ 2,947	$ 5,905	
Total assets at March 31	$3,230,360	$3,017,447	

(1) NMF = Not a meaningful figure

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions and GSCs, for the first quarter of 2013 increased $37.3 million, or 12.6%, over the same period in 2012. Profit-sharing contingent commissions and GSCs for the first quarter of 2013 increased $0.4 million or 1.7%, over the first quarter of 2012, to $27.3 million. The net increase of $0.4 million was due primarily to increases in profit-sharing contingent commissions and GSCs in our Retail and Wholesale Brokerage Divisions of $3.5 million and $0.5 million, respectively, but was partially offset by a $4.1 million reduction in profit-sharing contingent commissions received by our Proctor Financial, Inc. ("Proctor") operation. Core commissions and fees revenue for the first quarter of 2013 increased $36.8 million on a net basis, of which approximately $11.5 million represented core commissions and fees from agencies acquired since the second quarter of 2012. After divested business of $2.0 million, the remaining net increase of $27.3 million represented net new business, which reflects a 10.2% internal growth rate for core organic commissions and fees.

Investment Income

Investment income for the three months ended March 31, 2013 increased by $0.1 million, or 37.8% over the same period in 2012. This increase is primarily due to higher invested balances.

Other Income, net

Other income for the three months ended March 31, 2013 reflected income of $1.0 million, compared with $5.8 million in the same period in 2012. Other income consists primarily of gains and losses from the sale and disposition of assets. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth, or because doing so is otherwise in the Company's interest. The $4.8 million decrease for the three months ended March 31, 2013 from the comparable period in 2012 was primarily due to the following two revenue events that occurred in the first quarter of 2012 which did not have comparable events in the three months ended March 31, 2013; (1) $2.6 million related to gains on the sale of books of businesses, and (2) $2.2 million related to a legal settlement that we received on the enforcement of non-piracy covenants contained in our employment agreements.

Employee Compensation and Benefits

Employee compensation and benefits expense as a percentage of total revenues decreased to 47.6% for the three months ended March 31, 2013, from the 49.5% for the three months ended March 31, 2012. Employee compensation and benefits for the first quarter of 2013 increased, on a net basis, approximately 6.6%, or $9.9 million, over the same period in 2012. However, that net increase included $2.2 million of new compensation costs related to new acquisitions that were stand-alone offices. Therefore, employee compensation and benefits expense attributable to those offices that existed in the same three-month period ended March 31, 2013 and 2012 (including the new acquisitions that combined with, or "folded into" those offices) increased by $7.7 million. The employee compensation and benefits expense increases in these offices were primarily related to an increase in staff and producer salaries ($4.1 million), an increase in commissioned producer compensation ($1.4 million), an increase in profit-center bonuses ($2.9 million), and an increase in the related payroll taxes ($0.8 million). These increases were partially offset by a $1.3 million decrease resulting from the 2012 one-time special bonus accrued for our Retail Division's commissioned producers that was not replicated in 2013.

Non-Cash Stock-Based Compensation

The Company has an employee stock purchase plan, and grants stock options and non-vested stock awards under other equity-based plans to its employees. Compensation expense for all share-based awards is recognized in the financial statements based upon the grant-date fair value of those awards. Non-cash stock-based compensation expense for the three months ended March 31, 2013 increased $0.1 million, or 2.7%, over the same period in 2012 primarily due to new grants issued in January 2013 under our Stock Incentive Plan ("SIP").

Other Operating Expenses

As a percentage of total revenues, other operating expenses represented 13.8% in the first quarter of 2013, a decrease from the 14.3% for the first quarter of 2012. Other operating expenses for the first quarter of 2013 increased $2.9 million, or 6.8%, over the same period of 2012, of which $0.6 million related to acquisitions that joined us as stand-alone offices since April 2012. Therefore, other operating expenses from those offices that existed in both the three-month periods ended March 31, 2013 and 2012 (including the new acquisitions that "folded into" those offices) increased by $2.4 million. The other operating expenses increases in these offices were primarily related to an increase in third-party inspection and processing fees as a result of net new business ($1.2 million), an increase in data processing and software licensing fees ($0.9 million), increase in foreign currency translation expense ($0.8 million), increased insurance costs ($0.6 million), and other miscellaneous net costs ($1.0 million). These increases were partially offset by a $2.1 million decrease in legal costs and errors and omission reserves.

Amortization

Amortization expense for the first quarter of 2013 increased $0.5 million, or 3.5%, over the first quarter of 2012. This increase was primarily due to the amortization of additional intangible assets as the result of 2012 acquisitions.

Depreciation

Depreciation expense for the first quarter of 2013 increased by $0.5 million, or 14.4%, over the first quarter of 2012. This increase was due primarily to 2012 acquisitions.

Interest Expense

Interest expense for the first quarter of 2013 decreased $0.1 million, or 2.5% from the first quarter of 2012. This decrease was a result of slightly lower debt levels.

Change in Estimated Acquisition Earn-Out Payables

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

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

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

	2013	2012
Change in fair value on estimated acquisition earn-out payables	$ 997	$(970)
Interest expense accretion	525	582
Net change in earnings from estimated acquisition earn-out payables	$1,522	$(388)

For the three months ended March 31, 2013 and 2012, the fair value of estimated earn-out payables was re-evaluated and increased by $1.0 million and decreased by $1.0 million, respectively, which resulted in a charge and a credit to the Condensed Consolidated Statement of Income. An acquisition is considered to be performing well if its operating profit exceeds the level needed to reach the minimum purchase price. However, a reduction in the estimated acquisition earn-out payable can occur even though the acquisition is performing well, if it is not performing at the level contemplated by our original estimate.

As of March 31, 2013, the estimated acquisition earn-out payables equaled $49,469,000, of which $15,781,000 was recorded as accounts payable and $33,688,000 was recorded as other non-current liability. As of March 31, 2012, the estimated acquisition earn-out payables equaled $51,908,000, of which $8,782,000 was recorded as accounts payable and $43,126,000 was recorded as other non-current liability.

Income Taxes

The effective tax rate on income from operations for the three-months ended March 31, 21013 and 2012, was 39.6% and 40.3%, respectively. The lower effective annual tax rates were primarily the result of lower average effective state income tax rates.

RESULTS OF OPERATIONS — SEGMENT INFORMATION

As discussed in Note 10 of the Notes to Condensed Consolidated Financial Statements, we operate four reportable segments or divisions: the Retail, National Programs, Wholesale Brokerage, and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses result from completed acquisitions within a given division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. As such, in evaluating the operational efficiency of a division, management places emphasis on the net internal growth rate of core organic commissions and fees revenue, the gradual improvement of the ratio of total employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

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

The internal growth rates for our core organic commissions and fees for the three months ended March 31, 2013 and 2012, by Division, are as follows (in thousands, except percentages):

2013	For the three months ended March 31, 2013	2012	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Retail[1]	$158,950	$149,971	$ 8,979	6.0%	$ 7,830	$ 1,149	0.8%
National Programs	61,706	53,630	8,076	15.1%	1,483	6,593	12.3%
Wholesale Brokerage	43,271	38,366	4,905	12.8%	1,547	3,358	8.8%
Services	42,605	25,762	16,843	65.4%	657	16,186	62.8%
Total core commissions and fees	$306,532	$267,729	$38,803	14.5%	$ 11,517	$27,286	10.2%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended March 31, 2013, and 2012, is as follows (in thousands):

	For the three months ended March 31, 2013	2012
Total core commissions and fees	$306,532	$267,729
Profit-sharing contingent commissions	25,039	24,221
Guaranteed supplemental commissions	2,222	2,592
Divested business	—	1,991
Total commission and fees	$333,793	$296,533

(1) The Retail Division includes commissions and fees reported in the "Other" column of the Segment Information in Note 10 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.

2012	For the three months ended March 31, 2012	2011	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Retail[(1)]	$151,946	$140,365	$11,581	8.3%	$ 12,544	$ (963)	(0.7)%
National Programs	53,630	34,095	19,535	57.3%	19,324	211	0.6%
Wholesale Brokerage	38,382	35,871	2,511	7.0%	549	1,962	5.5%
Services	25,762	15,823	9,939	62.8%	9,060	879	5.6%
Total core commissions and fees	$269,720	$226,154	$43,566	19.3%	$ 41,477	$ 2,089	0.9%

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended March 31, 2012, and 2011, is as follows (in thousands):

	For the three months ended March 31, 2012	2011
Total core commissions and fees	$269,720	$226,154
Profit-sharing contingent commissions	24,221	28,880
Guaranteed supplemental commissions	2,592	3,304
Divested business	—	3,114
Total commission and fees	$296,533	$261,452

(1) The Retail Division includes commissions and fees reported in the “Other” column of the Segment Information in Note 10 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.

Retail Division

The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. Approximately 95.7% of the Retail Division's commissions and fees revenue are commission-based. Because most of our other operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions, net of related compensation, which we receive will be reflected in our income before income taxes.

Financial information relating to Brown & Brown's Retail Division for the three months ended March 31, 2013 and 2012 is as follows (in thousands, except percentages):

	For the three months ended March 31,		
	2013	2012	% Change
REVENUES			
Core commissions and fees	$ 159,096	$ 152,592	4.3%
Profit-sharing contingent commissions	13,301	9,534	39.5%
Guaranteed supplemental commissions	1,719	2,013	(14.6)%
Investment income	23	25	(8.0)%
Other income, net	429	3,040	(85.9)%
Total revenues	174,568	167,204	4.4%
EXPENSES			
Employee compensation and benefits	84,442	82,661	2.2%
Non-cash stock-based compensation	1,543	1,304	18.3%
Other operating expenses	25,842	24,994	3.4%
Amortization	8,811	8,527	3.3%
Depreciation	1,371	1,258	9.0%
Interest	6,200	6,934	(10.6)%
Change in acquisition earn-out payables	148	(674)	NMF (1)
Total expenses	128,357	125,004	2.7%
Income before income taxes	$ 46,211	$ 42,200	9.5%
Net internal growth rate – core organic commissions and fees	0.8%	(0.7)%	
Employee compensation and benefits ratio	48.4%	49.4%	
Other operating expenses ratio	14.8%	14.9%	
Capital expenditures	$ 1,335	$ 1,061	
Total assets at March 31	$2,483,391	$2,188,467	

(1) NMF = Not a meaningful figure

The Retail Division's total revenues during the three months ended March 31, 2013, increased 4.4%, or $7.4 million, over the same period in 2012, to $174.6 million. Profit-sharing contingent commissions and GSCs for the first quarter of 2013 increased $3.5 million, or 30.1%, from the first quarter of 2012, to $15.0 million. The $6.5 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately $7.4 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2012; (ii) a decrease of $2.0 million related to commissions and fees revenue recorded in the first quarter of 2012 from business divested during 2012; and (iii) the remaining net increase of $1.1 million primarily related to net new business. The Retail Division's internal growth rate for core organic commissions and fees revenue was 0.8% for the first quarter of 2013, and was driven by slightly increasing insurable exposure units in most areas of the United States, and slight increases in general insurance premium rates.

Income before income taxes for the three months ended March 31, 2013, increased 9.5%, or $4.0 million, over the same period in 2012, to $46.2 million. This increase was primarily due to net new business, the earnings generated by acquisitions, and the increase in profit-sharing contingent commissions, but partially off-set by $2.6 million reduction in other income primarily due to gains on the sale of books of businesses in 2012. Additionally, there were continued improved efficiencies relating to certain other operating expenses, such as, bad debt and office rent expenses. However, $1.3 million of reduced bonus compensation related to a special one-time bonus for the three months ended March 31, 2012 whereby our commissioned producers were eligible for an extra 5% commission on their 2011 production results if their 2012 production exceeded their 2011 production by at least 5%, which was not replicated in 2013.

National Programs Division

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

Financial information relating to our National Programs Division for the three months ended March 31, 2013 and 2012 is as follows (in thousands, except percentages):

	For the three months ended March 31, 2013	2012	% Change
REVENUES			
Core commissions and fees	$ 61,706	$ 53,630	15.1%
Profit-sharing contingent commissions	6,844	10,519	(34.9)%
Guaranteed supplemental commissions	114	194	(41.2)%
Investment income	5	—	100.0%
Other income, net	271	264	2.7%
Total revenues	68,940	64,607	6.7%
EXPENSES			
Employee compensation and benefits	32,159	26,487	21.4%
Non-cash stock-based compensation	947	825	14.8%
Other operating expenses	12,157	10,280	18.3%
Amortization	3,519	3,176	10.8%
Depreciation	1,248	1,142	9.3%
Interest	5,694	6,652	(14.4)%
Change in acquisition earn-out payables	(796)	88	NMF (1)
Total expenses	54,928	48,650	12.9%
Income before income taxes	$ 14,012	$ 15,957	(12.2)%
Net internal growth rate – core organic commissions and fees	12.3%	0.6%	
Employee compensation and benefits ratio	46.6%	41.0%	
Other operating expenses ratio	17.6%	15.9%	
Capital expenditures	$ 892	$ 2,416	
Total assets at March 31	$1,194,383	$1,154,666	

(1) NMF = Not a meaningful figure

Total revenues for National Programs for the three months ended March 31, 2013, increased 6.7%, or $4.3 million, over the same period in 2012, to $68.9 million. Profit-sharing contingent commissions and GSCs for the first quarter of 2013 decreased $3.8 million, or 35.1%, from the first quarter of 2012 due primarily to a $4.1 million reduction in profit-sharing contingent commissions received by Proctor. Proctor's profit-sharing contingent commissions declined in the 2013 because certain insurance carriers' loss-ratios increased over those in the prior contract period. The $8.1 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately $1.5 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2012; and (ii) the remaining net increase of $6.6 million primarily related to net new business. The National Programs Division's internal growth rate for core organic commissions and fees revenue was 12.3% for the three months ended March 31, 2013. Of the $6.6 million of net new business, $6.3 million related to a net increase in commissions and fees revenue from our Arrowhead operations.

Income before income taxes for the three months ended March 31, 2013 decreased 12.2%, or $2.0 million, from the same period in 2012, to $14.0 million. This net decrease was primarily due to the $3.8 million reduction in profit-sharing contingent commissions, but which was partially offset by the net decreases in the inter-company interest expense allocation of $1.0 million and changes in estimated acquisition earn-out payables of $0.9 million.

Wholesale Brokerage Division

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

Financial information relating to our Wholesale Brokerage Division for the three months ended March 31, 2013 and 2012 is as follows (in thousands, except percentages):

	For the three months ended March 31,		
	2013	2012	% Change
REVENUES			
Core commissions and fees	$ 43,271	$ 38,382	12.7%
Profit-sharing contingent commissions	4,894	4,168	17.4%
Guaranteed supplemental commissions	389	597	(34.8)%
Investment income	5	6	(16.7)%
Other income, net	138	151	(8.6)%
Total revenues	48,697	43,304	12.5%
EXPENSES			
Employee compensation and benefits	23,215	21,430	8.3%
Non-cash stock-based compensation	357	302	18.2%
Other operating expenses	9,754	7,985	22.2%
Amortization	2,897	2,787	3.9%
Depreciation	707	656	7.8%
Interest	755	1,226	(38.4)%
Change in acquisition earn-out payables	650	41	NMF (1)
Total expenses	38,335	34,427	11.4%
Income before income taxes	$ 10,362	$ 8,877	16.7%
Net internal growth rate – core organic commissions and fees	8.8%	5.5%	
Employee compensation and benefits ratio	47.7%	49.5%	
Other operating expenses ratio	20.0%	18.4%	
Capital expenditures	$ 536	$ 1,174	
Total assets at March 31	$882,273	$768,444	

(1) NMF = Not a meaningful figure

The Wholesale Brokerage Division's total revenues for the three months ended March 31, 2013, increased 12.5%, or $5.4 million, over the same period in 2012, to $48.7 million. Profit-sharing contingent commissions and GSCs for the first quarter of 2013 increased $0.5 million, or 10.9%, from the same quarter of 2012. The $4.9 million net increase in core commissions and fees revenue resulted from the following factors: (i) an increase of approximately $1.5 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2012; and (ii) the remaining net increase of $3.4 million primarily related to net new business. As such, the Wholesale Brokerage Division's internal growth rate for core organic commissions and fees revenue was 8.8% for the first quarter of 2013.

Income before income taxes for the three months ended March 31, 2013, increased 16.7%, or $1.5 million, over the same period in 2012, to $10.4 million, primarily due to net new business, an increase in profit-sharing contingent commissions and a net reduction in the inter-company interest expense allocation of $0.5 million.

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Services Division

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

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

Financial information relating to our Services Division for the three months ended March 31, 2013 and 2012 is as follows (in thousands, except percentages):

	For the three months ended March 31,		
	2013	2012	% Change
REVENUES			
Core commissions and fees	$ 42,605	$ 25,762	65.4%
Profit-sharing contingent commissions	—	—	— %
Guaranteed supplemental commissions	—	—	— %
Investment income	1	—	100.0%
Other income, net	41	68	(39.7)%
Total revenues	42,647	25,830	65.1%
EXPENSES			
Employee compensation and benefits	16,746	13,868	20.8%
Non-cash stock-based compensation	168	131	28.2%
Other operating expenses	7,018	5,829	20.4%
Amortization	924	1,113	(17.0)%
Depreciation	397	225	76.4%
Interest	1,921	1,520	26.4%
Change in acquisition earn-out payables	1,520	157	868.2%
Total expenses	28,694	22,843	25.6%
Income before income taxes	$ 13,953	$ 2,987	367.1%
Net internal growth rate – core organic commissions and fees	62.8%	5.6%	
Employee compensation and benefits ratio	39.3%	53.7%	
Other operating expenses ratio	16.5%	22.6%	
Capital expenditures	$ 119	$ 361	
Total assets at March 31	$248,882	$269,623	

The Services Division's total revenues for the three months ended March 31, 2013 increased 65.1%, or $16.8 million, over the same period in 2012, to $42.6 million. The $16.8 million net increase in commissions and fees revenue resulted from the following factors: (i) an increase of approximately $0.6 million related to the core commissions and fees revenue from the TPA business acquired as part of the Arrowhead acquisition, which had no comparable revenues in the same period of 2012; and (ii) net new business of $16.2 million, which was almost exclusively due to our Colonial Claims operation and the impact of the significant flood claims resulting from the 2012 Superstorm Sandy. As such, the Services Division's internal growth rate for core organic commissions and fees revenue was 62.8% for the first quarter of 2013.

Income before income taxes for the three months ended March 31, 2013, increased 367.1%, or $11.0 million, over the same period in 2012, to $14.0 million, primarily due to net new business from our Colonial Claims operation.

Other

As discussed in Note 10 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 inter-company interest expense charges to reporting segments.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents of $340.2 million at March 31, 2013, reflected an increase of $120.4 million from the $219.8 million balance at December 31, 2012. For the three-month period ended March 31, 2013, $137.0 million of cash was provided from operating activities. Also during this period, $2.9 million was used for additions to fixed assets, and $13.0 million was used for payment of dividends.

Our ratio of current assets to current liabilities (the "current ratio") was 1.43 and 1.34 at March 31, 2013 and December 31, 2012, respectively.

Contractual Cash Obligations

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

	Payments Due by Period				
(in thousands)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt	$450,093	$ 93	$125,000	$225,000	$100,000
Other liabilities[1]	48,098	22,879	15,452	5,954	3,813
Operating leases	134,608	29,918	48,178	31,447	25,065
Interest obligations	49,438	15,825	19,649	11,901	2,063
Unrecognized tax benefits	106	—	106	—	—
Maximum future acquisition contingency payments[2]	147,631	46,100	101,531	—	—
Total contractual cash obligations	$829,974	$114,815	$309,916	$274,302	$130,941

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

(2) Includes $49.5 million of current and non-current estimated earn-out payables resulting from acquisitions consummated after January 1, 2009.

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

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

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

On June 12, 2008, we entered into an Amended and Restated Revolving Loan Agreement dated as of June 3, 2008 (the “Prior Loan Agreement”), with a national banking institution, amending and restating the Revolving Loan Agreement dated September 29, 2003, as amended (the “Revolving Agreement”), to increase the lending commitment to $50.0 million (subject to potential increases up to $100.0 million) and to extend the maturity date from December 20, 2011, to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $75.0 million. After a series of amendments that provided covenant exceptions for the notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $20.0 million. At March 31, 2013 and December 31, 2012, there were no borrowings against this facility.

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

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

The maturity date for the JPM Bridge Facility was February 3, 2012, at which time all outstanding principal and unpaid interest would have been due. On January 26, 2012, we entered into a term loan agreement (the “JPM Agreement”) with JPMorgan that provided for a $100.0 million term loan (the “JPM Term Loan”). The JPM Term Loan was fully funded on January 26, 2012, and provided the financing to fully repay (1) the JPM Bridge Facility and (2) the SunTrust Revolver. As a result of the January 26, 2012 financing and repayments, the JPM Bridge Facility was terminated and the SunTrust Revolver’s amount outstanding was reduced to zero.

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

The 30-day LIBOR and Adjusted LIBOR Rate as of March 31, 2013 were 0.20% and 0.25%, respectively.

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

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

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with the SunTrust Agreement, the JPM Agreement, and the New Master Agreement, will be sufficient to satisfy our normal liquidity needs through at least the end of 2013. Additionally, we believe that funds generated from future operations will be sufficient to satisfy our normal liquidity needs, including the required annual principal payments on our long-term debt.

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

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 and equity prices. We are exposed to market risk through our investments, revolving credit line and term loan agreements.

Our invested assets are held as cash and cash equivalents, restricted cash and investments, available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit. These investments are subject to interest rate risk and equity price risk. The fair values of our cash and cash equivalents, restricted cash and investments, and certificates of deposit at March 31, 2013, and December 31, 2012, 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.

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 March 31, 2013. Based on 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 March 31, 2013, 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 error 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 this Report is 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.

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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 ending December 31, 2012, certain information concerning certain legal proceedings and other matters was disclosed. Such information was current as of the date of filing. During the Company's fiscal quarter ending March 31, 2013, 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

There were no material changes in the risk factors previously disclosed in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 6. EXHIBITS

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

3.1	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	Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on March 2, 2012).
10.1	Employment Agreement, dated as of January 9, 2012 and Non-Competition, Non-Solicitation, Confidentiality and Non-Disclosure Agreement, dated as of January 9, 2012, between the Registrant and Chris L. Walker.
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.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* These interactive date files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under these sections.

SIGNATURE

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

BROWN & BROWN, INC.

/S/ CORY T. WALKER

Date: May 9, 2013

Cory T. Walker
Sr. Vice President, Chief Financial Officer and Treasurer
(duly authorized officer, principal financial officer and principal accounting officer)

EMPLOYMENT AGREEMENT

THIS **EMPLOYMENT AGREEMENT** (this "Agreement"), effective as of the effective date of the Merger, as described below (the "Effective Date"), is made and entered into by and between **BROWN & BROWN, INC**., a Florida corporation (the "Company"), and **CHRIS L. WALKER**, a resident of the State of Minnesota ("Executive" and together with the Company, each a "Party" and collectively, the "Parties").

BACKGROUND

A. Executive is a shareholder, director, executive officer, and key employee of Arrowhead General Insurance Company, Inc. and/or one or more of the Company's directly or indirectly owned subsidiaries (collectively, "Arrowhead"). Arrowhead General Insurance Agency SuperHolding Corporation ("SuperHolding") (the direct parent company of Arrowhead) and the Company are parties to that certain Agreement and Plan of Merger, effective as of the Effective Date (the "Merger Agreement"), pursuant to which SuperHolding has become a wholly owned subsidiary of the Company (the "Merger").

B. In connection with and conditioned upon the completion of the Merger, the Company has made an offer of employment to Executive and Executive is willing to accept such offer on the terms and conditions set forth in this Agreement. Executive's entry into this Agreement with the Company is a condition to Executive's employment with the Company, and the rights and obligations that comprise this Agreement equally extend to the Company's Affiliates.

C. Executive shall serve an executive officer of the Company, and may from time to time serve as a director, manager, and/or executive officer of Arrowhead and/or one or more of the Company's subsidiaries or affiliated entities ("Affiliates") and, by virtue of title and position, shall occupy a position of trust and shall be considered a "Senior Leader" and a member of what is commonly known as the Company's "Senior Leadership."

D. The Company and its Affiliates comprise one of the largest insurance intermediary organizations in the United States of America and in the world. The Company, through its Affiliates, is in the business of selling and servicing insurance, risk transfer alternatives, and related services including, but not limited to, the business of quoting, proposing, soliciting, selling, placing, providing, servicing and/or renewing insurance, reinsurance, and surety products, as well as loss control, claims administration, risk management, program administration, Medicare secondary payer statute compliance, Social Security benefits and Medicare benefits advocacy services, and other services (as such products and services may be developed, added by acquisition or modified from time to time, the "Insurance Business"). The Company has a compelling interest in maintaining the confidentiality of Confidential Information and/or Trade Secrets (as such terms are defined in Section Error! Reference source not found. of this Agreement), retaining its employees, and maintaining the customer relationships and business goodwill the Company acquires. Executive will have extensive and intimate knowledge of the Company's strategic goals, including particularized plans and processes developed by the Company, either through the Executive's efforts or other Senior Leadership while employed by the Company, which are unknown to others in the industry and which give the Company a competitive advantage.

D. Executive shall also have responsibility for the performance and results of various business units, divisions, profit centers and Affiliates of the Company and for developing and/or executing strategic plans for the Company and/or its Affiliates. Executive's role in the Senior Leadership will be such that the Company's Confidential Information and Trade Secrets will necessarily become so entwined with Executive's own base knowledge and experience that it will become inextricable and would, in a subsequent competitive venture, result in the inevitable disclosure and compromise of the Company's Confidential Information and Trade Secrets, whether such reliance or disclosure would be done consciously or unconsciously by Executive.

E. The provisions above are hereby incorporated into this Agreement as if set forth herein at length.

NOW, THEREFORE, the Parties, intending to be legally bound, hereby agree as follows:

1. **Certain Defined Terms.** For purposes of this Agreement, the term:

(a) "Affiliate" means, when used with respect to a specified Person, another Person that either directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person. For purposes of this Agreement, "control" means the possession, directly or indirectly, of the power to direct, or cause the direction of, the management and policies of a Person, whether through ownership of voting securities, contract or otherwise. "Controlled" and "controlling" shall have correlative meanings.

(b) "Client Account" means any Person to whom Insurance Products or Services have been provided by the Company within the twenty-four (24) month-period immediately preceding Separation,

(c) "Confidential Information" includes all information, whether or not reduced to written or recorded form, that is related to any Group Company and that is not generally known or accessible to members of the public and/or competitors of any Group Company and as to which such Group Company takes reasonable steps to remain confidential, whether furnished by any Group Company or compiled by Executive, including but not limited to: the financial condition, results of operations, compensation and other information regarding any Group Company, the personnel of any Group Company; information regarding the potential or completed merger, acquisition or sale of business assets; the lists of Client Accounts, Prospective Client Accounts, insurance carriers, policy forms, and/or rating information, expiration dates, information on risk characteristics; information concerning insurance markets for large or unusual risks; and records pertaining thereto. However, Confidential Information will not include information that (A) is or becomes publicly available other than as a result of disclosure by Executive, or (B) is now or hereafter becomes available to Executive on a non-confidential basis from a source (other than any Group Company) that is not prohibited from disclosing such information to Executive. As used herein, Confidential Information will also include, without limitation, a "Trade Secret," which will have the meaning ascribed under the Uniform Trade Secrets Act, as adopted and in effect on and after the date of this Agreement, and generally means any information that is not generally known, has independent economic value by reason of not being widely known, and as to which the owner of such Trade Secret takes reasonable precautions to protect its secrecy.

(d) "Group Company" means the Company and each of its Affiliates.

(e) "Insurance Business" means the business of quoting, placing, providing, servicing and/or renewing Insurance Products or Services.

(f) "Insurance Products or Services" means any insurance or reinsurance-related policies, programs, or services (i) provided or offered by, or (ii) under development and to be imminently provided or offered by, of the Group Companies.

(g) "Person" means an individual, partnership, corporation, business trust, limited liability company, limited liability partnership, joint stock company, trust, unincorporated association, joint venture, or other entity or a governmental body.

(h) "Prospective Client Account" means any Person as to whom any Group Company has quoted, proposed, or solicited any Insurance Products or Services within the twenty-four (24) month-period immediately preceding Separation.

(i) "Separation" means the cessation of Executive's employment with the Company or any of its Affiliates for any reason, and "Separated" means that a Separation has occurred.

2. **Employment and Job Duties; Life Insurance Policy.**

(a) The Company agrees to employ Executive, and Executive accepts such employment, upon the terms and conditions set forth in this Agreement. Executive shall have the title of Regional Executive Vice President of the Company, and/or such other title(s) as the Board of Directors, the President, and/or the Chief Executive Officer may designate from time to time. Additionally, as a Senior Leader of the Company, Executive shall serve as a member of Company's Senior Leadership team and the Company's Leadership Council.

(b) Executive shall perform such other duties as directed by the Board of Directors, the President and/or the Chief Executive Officer of the Company. Executive shall abide by all applicable policies, procedures and guidelines of the Company disclosed or made available to Executive in writing, as the same may be modified, amended or replaced by the Company in its sole discretion from time to time. Executive will not knowingly or willingly take any action contrary to the best interests of the Company or its Affiliates.

(c) During Executive's employment with the Company, Executive will not, directly or indirectly, engage in the Insurance Business in any of its phases, in any capacity, in any manner or with any firm or corporation engaged in the Insurance Business, except on behalf of the Company or as directed by the Company. Executive agrees that so long as Executive is working for the Company, Executive will not undertake the planning or organizing of any business activity that is competitive with or that creates a conflict of interest with the work Executive performs for the Company. Unless otherwise agreed, Executive will devote substantially all of Executive's productive business time to duties set forth by the Company or its Affiliates; provided, however, that nothing in this **Section 2(c)** will prevent or be deemed to prohibit Executive from spending time on Executive's passive investments or non-competitive businesses, provided further, however, that the activities described above do not materially interfere with the satisfactory performance of Executive's duties to the Company or require that any Company business time be expended by any other employee of the Company.

(d) Executive shall have broad discretion to direct those aspects of the business and affairs of the Company and Affiliates for which Executive is responsible, subject to Company's corporate governance obligations, insurance operations recommendations, accounting methodology, and other rules, procedures and guidelines, and subject to applicable law. By way of example and not by way of limitation, duties of Executive include the ability to:

(i) Hire and fire profit center leaders, regional operations leaders (in consultation with and subject to the approval of the Company's Chief Financial Officer), and certain other employees of Company and Affiliates in accordance with Company's procedures;

(ii) Negotiate and approve sales and purchases of Insurance Business accounts and books of business;

(iii) Refer and recommend business enterprises as M&A Prospects (as defined below);

(iv) Pursue new and existing insured customers and business relationships with insurance or reinsurance carriers, other insurance or reinsurance markets, intermediaries, brokers and agents, and other third parties;

(v) Develop, plan, implement and execute strategies to improve operational results;

(vi) Implement policies and procedures necessary for the operation of profit centers reporting to Executive, provided that they are not materially inconsistent with those of Company; and

(e) Make determinations concerning compensation to be paid to persons working for profit centers reporting to Executive.

(e) Executive shall also serve as the Profit Center Leader of the Company's newly formed profit center, which shall consist of Arrowhead and may consist of one or more of one of the Company's Affiliates (the "New Profit Center"). As Profit Center Leader, Executive shall have the title and customary responsibilities of Chief Executive Officer of Arrowhead. As Profit Center Leader of the New Profit Center, Executive will be assigned duties consistent with the Company's agreement under the Merger Agreement to provide the profit center leader of the New Profit Center with broad discretion to manage the New Profit Center's business and affairs consistent with the past business practices and corporate policies of Arrowhead, subject to the Company's quality control recommendations and accounting methodology, rules, procedures and guidelines. By way of example and not by way of limitation, duties of Executive include the ability to:

(i) Hire and fire producers and support staff personnel working in the New Profit Center in accordance with the Company's procedures;

(ii) Acquire new companies, partnerships or other business entities for the New Profit Center, subject to satisfactory due diligence investigations of such entities and the reasonable prior approval of the Company;

(iii) Pursue new and existing Client Accounts and business relationships with insurance carriers, other insurance markets, brokers and agents for the New Profit Center;

(iv) Manage all of the day to day business of the New Profit Center;

(v) Implement policies and procedures necessary for the operation of the New Profit Center, provided that they are not materially inconsistent with those of the Company; and

(vi) Make all determinations concerning compensation of any kind to be paid to all persons working for the New Profit Center, provided that such determinations are not materially inconsistent with the Company's guidelines or with the terms of the Merger Agreement.

(f) Without limiting the foregoing, Executive's duties on behalf of the Company include or may include, without limitation: (i) the identification of M&A Prospects; (ii) the negotiation and entry into a non-disclosure, confidentiality, or similar agreement with a M&A Prospect or its representative; (iii) the pursuit, receipt, analysis and evaluation of financial, legal, operational, and other information provided by or on behalf of a M&A Prospect to determine whether the Company should pursue a possible acquisition transaction (whether by asset acquisition, stock acquisition, merger, or other form of business combination) with such M&A Prospect (a "Transaction"); (iv) the negotiation of terms with a M&A Prospect and its representatives regarding a possible Transaction; (v) the consummation of a possible Transaction with a M&A Prospect or, alternatively, the termination of discussions regarding a possible Transaction with a M&A Prospect; and/or (vi) the integration and monitoring of the performance of a completed Transaction of a M&A Prospect (collectively and as the same may be modified from time to time, the "M&A Process"). The Parties acknowledge and agree that the successful execution of the M&A Process is an integral part of the Company's short-term and long-term business strategy and success. Executive's role in the M&A Process is one of confidence and trust with the Company.

(g) To the greatest extent permitted by applicable law, and in addition to any indemnification obligations by Arrowhead or SuperHolding under the Merger Agreement or any other agreements entered into between Executive, the Company, Arrowhead and/or SuperHolding in connection therewith, the Company shall indemnify, defend and hold Executive harmless from and against any claims or causes of action against Executive arising out of Executive's conduct in the course and scope of Executive's employment with the Company, but specifically excluding fraud (including fraudulent misrepresentation or omission), willful misconduct or unlawful misconduct.

(f) The Company may, at its option and expense, purchase a term life insurance policy on the life of Executive, with a limit and term to be determined in the Company's discretion and with benefits payable to the Company. Executive consents to the Company's purchase of such life insurance policy and will reasonably cooperate with the Company in connection with its efforts to obtain such insurance and take such actions (including, without limitation, submitting to physical examinations) as may reasonably be required for such purpose.

3. **Compensation and Benefits.**

(a) Base Compensation. During the Term of this Agreement (as defined in **Section** Error! Reference source not found.), the Company will pay Executive on annualized base salary of **$400,000.00,** provided that after the first year of the Term, Executive's base salary shall be subject to possible increase in the Company's discretion. After the expiration of the Term, Executive's annual base compensation structure will be as mutually agreed with the Company, provided that this sentence will not be construed to affect the at-will nature of Executive's employment upon the expiration of the Term, as discussed in **Section 4(g)** below.

(b) Bonus Compensation. Additionally, so long as Executive remains a Senior Leader in the Company, Executive shall participate in the Company's Senior Leader Bonus Program in effect from time to time, and as determined in the sole and unfettered discretion of the Compensation Committee of the Company's Board of Directors and/or the Company's President and/or Chief Executive Officer (such bonus under the Senior Leader Bonus Program, the "Senior Leader Bonus Program").

(c) Equity Grant. Additionally, Executive will be granted shares of the Company's common stock pursuant to the Company's 2010 Stock Incentive Plan ("SIP") (the "Performance Shares") with aggregate value of $1,100,000.00, representing eleven percent (11%) ("Executive's Applicable Percentage") of the total value of Performance Shares granted to Executive and certain other senior executive employees of Arrowhead (the "Senior Executives") on such date, based upon the per-share price of the Company's common stock at market close on the last trading day before the Closing Date (the "Closing Stock Price"), subject to the following terms and conditions:

(i) It shall be a condition to the awarding and vesting of the Performance Shares that the sum of EBITDA, as described in Exhibit A to this Agreement, recorded for Arrowhead for the three (3)-year period beginning February 1, 2012, and ending January 31, 2015 (the "EBITDA Performance Period") (such sum, the "EBITDA Total") shall equal or exceed $158,000,000.00 (the "EBITDA Condition").

(ii) Until the EBITDA Condition is satisfied upon expiration of the EBITDA Performance Period, Executive shall have no right to receive dividends associated with such shares and no right to vote such shares. If (A) the EBITDA Condition is satisfied and (B) Executive continues to be employed with the Company or an Affiliate as of the end of the EBITDA Performance Period, one hundred percent (100%) of the Performance Shares (the "Awarded Shares") shall be awarded to the Executive at the end of the EBITDA Performance Period, and Executive shall have the right to receive dividends associated with such shares and shall have the right to vote such Awarded Shares, so long as Executive continues to be employed with Company or an Affiliate.

(iii) If the EBITDA Condition is not satisfied, then all or a portion of Performance Shares shall be forfeited in accordance with the following formula: ($158,000,000.00 minus the EBITDA Total) divided by the Closing Stock Price, times Executive's Applicable Percentage. By way of example, in the event that the EBITDA Total should equal $155,000,000.00, and the Closing Stock Price should equal $20, the formula would apply as follows: ($3,000,000.00) divided by 20, or $150,000.00, would be multiplied by eleven percent (11%), with the consequence that 16,500 of the 55,000 Performance Shares ($1,100,000 divided by 20 in this example) granted to the Executive would be forfeited. In the event that the EBITDA Total does not exceed $148,000,000.00, all of the Performance Shares granted to the Executive would be forfeited. Any remaining Performance Shares (the "Awarded Shares") shall be awarded to Executive at the end of the EBITDA Performance Period so long as Executive continues to be employed with the Company or an Affiliate.

(iv) Until and unless vested as provided in this **Section 2(d)(iv)** or **2(d)(vi),** the Awarded Shares shall not be transferable. In the event that Executive's employment is terminated by the Company for Cause (as defined below) or by the Executive without Good Reason (as defined below), during the twelve (12) month period immediately following the EBITDA Performance Period (the "Vesting Period"). Executive shall forfeit his right to any Awarded Shares. If during the Vesting Period, Executive's employment is terminated by the Company without Cause, by Executive for Good Reason or by reason of death or Disability, then upon such termination the Awarded Shares will become fully vested and nonforfeitable. In all other events, the Awarded Shares will be fully vested and nonforfeitable on the last day of the Vesting Period (the "Vesting Date").

(v) The number of Performance Shares credited to the Executive shall be subject to adjustment in accordance with Article VIII of the SIP (for example, in connection with the payment of a stock dividend by the Company).

(vi) The Performance Shares not yet vested or forfeited shall become one hundred (100%) vested in the event that the Executive's employment is terminated following a Transfer of Control, as defined in the SIP, while the Executive is employed by the Company or an Affiliate thereof.

(vii) Any Performance Shares that are not awarded at the end of the EBITDA Performance Period, and any Awarded Shares that are not vested at the Vesting Date (collectively the "Unvested Performance Shares") shall be forfeited and terminate. Unvested Performance Shares that are forfeited shall be immediately transferred to the pool of shares available for issuance under the SIP without any payment by the Company, and the Company shall have the full right to cancel any evidence of the Executive's ownership of such forfeited shares.

(viii) The Performance Shares shall be granted pursuant to, and subject to, all of the terms and conditions imposed upon such grants made under the SIP and the terms of the Performance-Based Stock Grant Agreement to be signed at Closing, a template of which shall be provided to Executive within five (5) business days following the execution of this Agreement.

(d) Executive shall also be entitled to reimbursement of reasonable business expenses as approved by the Company's Chief Financial Officer, or his/her designee.

(e) In general, all compensation arrangements including, but not limited to, fringe benefits, employer-sponsored group benefits and the Senior Leader Bonus, are subject to increase or decrease, change, withdrawal or modification at any time, and from time to time, at the sole discretion of Company. The Company is not bound to continue any level, or kind, of compensation or benefit. Where the benefits are governed by formal plan documents and summary plan descriptions, the terms of those documents govern. The Company has the right to modify, amend or terminate any benefit plan or its contributions to any benefit plan at any time.

(f) Executive's compensation shall be subject to withholding for state and federal income tax, FICA, FUTA, SUTA, and other required statutory deductions.

4. **Term and Termination.**

(a) The term of this Agreement will begin on the Effective Date and expire upon the third (3rd) anniversary of the Effective Date (the "Term"), provided that Executive's employment will terminate automatically in the event of Executive's death or permanent disability (defined as the physical or mental inability to perform the substantial and material duties of Executive's occupation with or without reasonable accommodation for a period in excess of ninety (90) consecutive days or ninety (90) days within a six (6)-month period), and provided further that Executive may terminate Executive's employment by giving the Company thirty (30) days' advance written notice. Nothing in this Agreement will restrict the Company's or Executive's ability to terminate the employment relationship between the Company and Executive for any reason, during or after the Term.

(b) If, during the Term, (i) the Company terminates Executive's employment other than for Cause (as defined below), (ii) the Executive terminates Executive's employment for Good Reason (as defined below) or (iii) Executive's employment terminates due to Executive's death or permanent disability the Company will continue to pay to Executive (or, in the event of Executive's death, to Executive's estate), for the remainder of the Term, compensation (base salary and annual bonus, if any) at an annualized rate equal to the total amount of compensation received by Executive during the twelve (12)-month period prior to termination of Executive's employment (or, if such termination occurs within the first twelve (12) months of the Term, then an annualized rate determined based on the total compensation received by Executive from the date hereof through the termination date assuming that Executive received a pro-rata bonus at the target bonus rate (e.g., a bonus based upon a percentage of base salary) for such period of employment), provided that the Company's obligation to continue paying Executive for the remainder of the Term will immediately terminate upon a final court adjudication of Executive's failure or cessation, for any reason, to comply with the provisions of **Sections 5** and **6** hereof. The amounts payable under this **Section 4(b)** will be paid to Executive on the payroll dates determined in accordance with the Company's normal payroll practice following the termination of employment. However, Executive will not be entitled to and will not receive any of the payments or other benefits provided in this **Section 4(b)** unless and until (A) Executive executes and delivers to the Company a general release in favor of, and in a form acceptable to, the Company (the "Release") within sixty (60) days following the Executive's termination; (B) the Release becomes effective and can no longer be revoked by Executive; (C) if the period during which the Release may be delivered to the Company spans more than one (1) calendar year, payments or other benefits shall not commence until the second (2nd) calendar year and (D) Executive has returned to the Company all Company property in Executive's possession or control. Further, all payments to Executive under this **Section 4(b)** shall immediately cease, and no further payments shall be due to Executive under this **Section 4(b)**, in the event of any of Executive's restrictive covenants to which Executive is bound under this Agreement or any other agreement between Executive and the Company or any Group Company.

(c) If, during the Term, (i) Executive terminates Executive's employment for any reason other than for Good Reason, death or permanent disability or (ii) the Company terminates Executive for Cause, then the Company will pay Executive only such compensation as will have accrued through the date of termination; provided, however, that if Executive delivers a written notice of termination, the Company will have the option to waive the thirty (30) day notice period and pay Executive only through the day such notice is delivered. Notwithstanding any contrary provision of this Agreement, the applicable provisions of this Agreement including, without limitation, **Sections 5** through 17, will remain in full force and effect after the expiration or termination of this Agreement. The amounts payable under this **Section 4(c)** will be paid to Executive in accordance with applicable law and in any event no later than the **March 15** of the year following the calendar year in which Executive's termination of employment occurs.

(d) During the Term, Executive will be subject to immediate discharge by the Company for Cause. As used herein, the term "Cause" will mean the following:

(i) the conviction of a felony or any other act or omission by Executive involving material dishonesty, disloyalty or fraud;

(ii) conduct by Executive which brings the Company or any of its subsidiaries into substantial public disgrace or substantial public disrepute;

(iii) substantial, willful, and repeated failure by Executive to perform his duties as reasonably directed by the Company that is not susceptible to remedy or cure or, if susceptible to remedy or cure, is not remedied or cured and continues for ten (10) days after the Company has given written notice to Executive specifying in reasonable detail the manner in which Executive has continued to fail to perform his duties (provided, however, that if ten (10) days is insufficient time in which to fully remedy or cure such failure to perform, then such additional time as is reasonably necessary for such full remediation or cure shall be allowed if Executive has, within ten (10) days of receiving written notice from the Company, taken reasonable steps towards such remediation or cure);

(iv) gross negligence or willful misconduct by Executive with respect to the Company or any of its subsidiaries; or

(v) any substantial breach by Executive of any material provision of this Agreement or any other agreement entered into by Executive with the Company or any of its subsidiaries that is not susceptible to remedy or cure or, if susceptible to remedy or cure, is not remedied or cured and continues for ten (10) days after the Company has given written notice to Executive specifying the manner in which Executive has breached this Agreement or such other agreement, as the case may be (provided, however, that if ten (10) days is insufficient time in which to fully remedy or cure such breach, but such breach is still susceptible to remedy or cure, then such additional time as is reasonably necessary for such full remediation or cure shall be allowed if Executive has, within ten (10) days of receiving written notice from the Company, taken reasonable steps towards such remediation or cure).

(e) "Good Reason" will mean the existence of one or more of the following conditions which occur without Executive's express written consent provided that Executive has first provided written notice to the Company of the existence of such condition within ninety (90) days after its initial existence and the Company has not remedied such condition, if such condition can be remedied, within thirty (30) days after Executive's written notice is received by the Company and Executive separates from service within two years following the initial existence of such condition:

(i) a material diminution in Executive’s base compensation;

(ii) a material diminution in Executive’s authority, duties, or responsibilities;

(iii) a change in the geographic location at which Executive must perform the services to a location more than fifty (50) miles from the city limits of San Diego, California; or

(iv) any other action or inaction that constitutes a material breach by the Company of this Agreement

(f) Executive shall not be required to mitigate damages with respect to the termination of his employment under this Agreement by seeking other employment or otherwise, and there shall be no offset against amounts due Executive under this Agreement on account of subsequent employment except as specifically provided in this **Section 4.** Additionally, amounts owed to Executive under this Agreement shall not be offset by any claims the Company may have against Executive, and the Company’s obligation to make the payments provided for in this Agreement, and otherwise to perform its obligations hereunder, shall not be affected by any other circumstances, including, without limitation, any connterclaim, recoupment, defense or other right which the Company may have against Executive or others.

(g) After the expiration of the Term of this Agreement, the employment relationship memorialized by this Agreement will be at-will and may be terminated by the Company or Executive at any time, with or without Cause or Good Reason or advance notice and without the requirement of any procedural steps such as warnings or progressive discipline.

(h) Termination of Executive’s employment relationship with the Company, whether by the Company or Executive, before or after the expiration of the Term and whether with or without Cause or Good Reason, will not release either Executive or the Company from obligations hereunder through the date of such termination (the “<u>Termination Date</u>”) nor from the applicable provisions of this Agreement, including, without limitation, **Sections 5** through **17,** which will survive the termination of Executive’s employment and the termination of this Agreement. Upon written notice of termination of or by Executive, the Company has the power to suspend Executive from all duties on the date written notice is given, and to immediately require the return of all professional documentation as described in the Agreement. The Company has the further right to impound all Company property on Company premises for a reasonable time following termination, to permit the Company to inventory the property and ensure that its property and Trade Secrets are not removed from the premises. Executive acknowledges that Executive has no right or expectation of privacy with respect to Company property kept on Company premises, or equipment provided by the Company, including any such information maintained on computer systems or electronic communications devices utilized by Executive during employment by the Company. On or after the Termination Date, or at any time upon demand, Executive will immediately return to the Company, all: (i) tangible Confidential Information in Executive’s possession or control including, but not limited to, copies, notes, abstracts, summaries, tapes or other record of any type of Confidential Information; and (ii) other Company property in Executive’s possession or control including, without limitation, any and all keys, security cards, passes, credit cards, and marketing literature, any electronic data stored on a computer, and Executive will not destroy, delete or otherwise damage any such Confidential Information or Company property.

(i) The Company’s obligation to pay Executive the amounts described in **Section 4(b)** above (“<u>Separation Pay</u>”) shall immediately terminate upon Executive’s failure or cessation, for any reason, to comply with the provisions of Sections 5 through 13 hereof. Separation Pay under this **Section** Error! Reference source not found. shall be paid in installments over the twelve (12) months period from the Separation Date. A transition, transfer or demotion in which the Executive remains in the employ of the Company, but not in a Senior Leadership position, shall not constitute a Separation by Company and shall not entitle Executive to Separation Pay.

5. **<u>Ownership of Business</u>** Executive acknowledges and agrees that the following, without limitation, are the sole and exclusive property of the Company, and that the Executive has no right, title or interest in or to: (a) any and all Client Accounts, Prospective Client Accounts; (b) personal relationships and goodwill associated with such Client Accounts and Prospective Client Accounts; (c) brokers, insurance carriers and other insurance markets, vendors, and referral sources of Insurance Business that have been cultivated by Executive during Executive's employment with the Company; and (d) any related files, records, documents, lists, account information and other Confidential Information in Executive's possession or control during Executive's employment with the Company. Executive further acknowledges and agrees that the foregoing pertains to all types of Client Accounts and Prospective Client Accounts, including, without limitation, any Client Accounts as to which any Insurance Products or Services, whether placed during Executive's employment with the Company, may reflect Executive individually, rather than the Company, as the agent-of-record with an insurance carrier.

6. **<u>Covenant Not to Solicit or Service Client Accounts or Prospective Client Accounts; Covenant Not to Solicit Employees; Non-Interference; Related Matters</u>**.

(a) *Non-Solicitation and Non-interference Covenants*. During Executive's employment with the Company and for a period of two (2) years following the Termination Date (the "<u>Restricted Period</u>"):

(i) Executive will not, directly or indirectly, in any capacity whatsoever other than on behalf of the Company, solicit or divert any Client Account that Executive either had some involvement in proposing, quoting, selling, placing, providing, servicing or renewing any Insurance Products or Services or about whom Executive received any Confidential Information, or any Prospective Client Account that Executive either had some involvement in proposing or quoting any Insurance Products or Services or about whom Executive received any Confidential Information. For purposes of this Agreement, Executive acknowledges that informing Client Accounts or Prospective Client Accounts that Executive is or may be leaving Company prior to leaving employment of Company will be deemed to constitute prohibited solicitation under this Agreement absent the Company's prior written consent. Executive recognizes and acknowledges that Client Accounts and Prospective Client Accounts are not confined to any geographic area. Therefore, Executive acknowledges and understands that there is no geographic restriction that applies to the non-solicitation covenant contained in this **Section 6(a)(i)** and that the scope of this covenant is appropriately limited by the customer-based restriction.

(ii) In addition, Executive will not interfere or take any action intended to, or which reasonably may be expected to, cause any Client Account or Prospective Client Account, insurance carrier, wholesale broker, independent contractor or other person or entity with a material business relationship with the Company, to cease, reduce or refrain from transacting business with the Company or its Affiliates.

(iii) Unless the Company gives Executive prior express permission, during Executive's employment and throughout the Restricted Period, Executive will not use for Executive's own benefit, or use for or disclose to any competitor, Client Account, insurance carrier, managing general agent, and/or vendor of the Company or any other person, firm, corporation, or other entity, the Confidential Information as set forth herein including, without limitation, using or disclosing any Confidential Information to solicit or divert any Insurance Business in respect of any Client Account or Prospective Client Account of the Company for the benefit or account of any Person other than the Company.

(iv) Executive will not directly or indirectly solicit or seek to induce any of the Company's employees or independent contractors to terminate such employee's or contractor's employment or engagement with the Company for any reason, including, without limitation, to work for Executive or any competitor of the Company,

(b) *Remedies.*

(i) In the event of a breach or threatened breach of the provisions of this Agreement, any applicable Group Company shall be entitled to injunctive relief as well as any other applicable remedies at law or in equity. Without limiting the foregoing, Executive further acknowledges and understands that, under applicable statute, regulation or other applicable law, for the unauthorized use or disclosure of any trade secrets a court may award the following relief: (A) the Company's or its Affiliates' lost profits; (B) disgorgement of profits of the wrongdoer; (C) royalties; (D) an injunction; (E) punitive damages; and (F) attorneys' fees and costs.

(ii) The Company, the other Group Companies, and their respective Affiliates are intended to be third-party beneficiaries of this Agreement.

(iii) Should a court of competent jurisdiction declare any of the covenants set forth in this Agreement unenforceable due to an unreasonable restriction, duration, geographical area or otherwise, the Parties agree that such court shall be empowered and shall grant the applicable Group Company injunctive relief to the extent reasonably necessary to protect their respective interests. Executive acknowledges that the covenants set forth in this Agreement represent an important element of the value of the Group Companies and their businesses that the Company is acquiring pursuant to the Merger Agreement and are a material inducement for the Company and Merger Sub to enter into the Merger Agreement and the transactions contemplated therein. Executive further acknowledges that without such protection, the business of the Company, the Group Companies and/or their Affiliates would be irreparably harmed, and that the remedy of monetary damages alone would be inadequate.

(iv) If Executive shall violate the restrictions contained in this Agreement, and if any court action is instituted by the Company, the Company, any other Group Company, or any of their Affiliates to prevent or enjoin such violation, then the period of time during which Executive's business activities shall be restricted as provided in this Agreement shall be lengthened by a period of time equal to the period between the date upon which Executive is found to have first violated the restrictions, and the date on which the decree of the court disposing of the issues upon the merits shall become final and not subject to further appeal.

(v) Each provision of this Agreement shall be independent of any and all other provisions of this Agreement, the Merger Agreement, and any other agreement entered into between the Parties. The real or perceived existence of any claim or cause of action of Executive against the Company, whether predicated on this Agreement or some other basis, shall not relieve Executive of Executive's obligations under this Agreement and shall not constitute a defense to the enforcement by the Company or its Affiliates of the restrictions and covenants contained in this Agreement.

(c) It is the intention of the Parties that the terms and provisions of this Agreement be enforceable to the maximum extent permitted by applicable law. In furtherance of the foregoing, the Parties further agree that if a court of competent jurisdiction declare any of the covenants set forth in this Agreement unenforceable, then such court shall be authorized to modify such covenants so as to render the remaining covenants and the modified covenants valid and enforceable to the maximum extent possible, and as so modified, to enforce this Agreement in accordance with its terms. In accordance with the foregoing, if any provision of this Agreement shall be held to be excessively broad, it shall be limited to the extent necessary to comply with applicable law.

(d) If any of the provisions of this Agreement shall otherwise contravene or be determined to be invalid or unenforceable under the laws of any state, country or other jurisdiction in which this Agreement may be applicable, valid, and enforceable but for such contravention or invalidity or unenforceability, then (A) such contravention or invalidity or unenforceability (1) shall not invalidate or otherwise affect the enforceability of all of the provisions of this Agreement, but rather (2) this Agreement (or the remaining provisions hereof, as applicable) shall be construed, insofar as the laws of that state or other jurisdiction are concerned, as not containing the provision or provisions contravening or invalid under the laws of that state or jurisdiction, and (B) the rights and obligations created hereby shall be construed and enforced to the maximum extent permitted under applicable law.

(c) Executive agrees that if Executive accepts new employment during the Restricted Period for any reason, Executive will give written notice to the new employer of Executive's post-employment obligations under this Agreement and provide a copy of such notice to the Company and Executive authorizes the Company to communicate directly to such new employer the terms and conditions of this Agreement.

(f) Nothing in this Agreement will be construed to prohibit Executive from engaging in employment and/or business ventures that are competitive with the Group Companies after the Executive's employment with the Company ends.

7. **Creations**.

(a) Executive irrevocably assigns, to the extent permitted by law, to the Company all rights, title and interest in and to all work performed, and all materials, creations, designs, technology, discoveries, inventions, ideas, information and other subject matter (whether or not patentable or copyrightable), conceived, developed or created by Executive, alone or with others, during the period of Executive's employment with the Company, including, but not limited to, all copyrighted, trade secret, patent, trademark and other intellectual property rights (collectively, referred to as "Creations"). Creations will be deemed works made for hire, and all rights, title and interest in and to Creations will vest automatically in the Company. Executive agrees to execute all documents necessary or appropriate for the use by the Company in applying for, obtaining and enforcing any rights regarding Creations as the Company may desire, together with any assignments thereof to the Company. If the Executive fails to execute such documents, then Executive does hereby irrevocably appoint the Company and its attorney in fact to so execute in Executive's name.

(b) Executive has attached hereto, as Exhibit C. a list describing with particularity all inventions, original works of authorship, developments, improvements, and trade secrets that Executive represents to the Company (i) were made by Executive before the commencement of Executive's employment with the Company (collectively referred to as "Prior Inventions"), (ii) belong solely to Executive or belong to Executive jointly with another, (iii) which relate in any way to any of the Company's proposed businesses, products or research and development, and (iv) are not being assigned to the Company hereunder; or, if no such list is attached, Executive represents that there are no such Prior Inventions. If, in the course of Executive's employment with the Company, Executive incorporates a Prior Invention into a Company product, process or machine, the Company is hereby granted and will have a non-exclusive, royalty-free, irrevocable, perpetual, worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell and otherwise distribute such Prior Invention as part of or in connection with such product, process or machine.

(c) Executive understands that the provisions of this Agreement requiring assignment of Creations or Prior Inventions to the Company do not apply to any invention which qualifies fully under the provisions of California Labor Code Section 2870 (attached hereto as Exhibit D). Executive will advise the Company promptly in writing of any inventions that Executive believes meet such provisions and are not otherwise disclosed on Exhibit C.

8. **<u>Waivers and Modifications</u>**. No amendment or waiver of any provision of this Agreement is effective unless the amendment or waiver is in writing and signed by the Parties. In the event of a waiver, the waiver is effective only in the specific instance and for the specific purpose given.

9. **<u>Notices</u>**. Notices will be addressed as indicated below, or to such other addressee or to such other address as may be designated by either Party:

If to the Company:

Brown & Brown, Inc.
220 S. Ridgewood Avenue
Daytona Beach, FL 32114
Attention: Robert W. Lloyd, General Counsel
Facsimile No.: (386) 239-7293

If to Executive:

To the most current residence address on file with the Company.

10. **<u>Amendment</u>**. Unless this Agreement provides otherwise, this Agreement cannot be altered, amended, changed, or modified in any respect or particular unless each such alteration, amendment, change, or modification will have been agreed to by each of the Parties hereto and reduced to writing in its entirety and signed and delivered by each Party.

11. **<u>Assignment and Enforcement</u>.** Executive agrees that the Company may freely assign this Agreement, and/or any rights hereunder, to any Affiliate or to any other entity. Further, to the extent applicable, the Company's Affiliates will be deemed third-party beneficiaries and may enforce the applicable rights and obligations under this Agreement. Executive further agrees to be bound by the provisions of this Agreement for the benefit of the Company or any subsidiary or Affiliate thereof to whose employ Executive may be transferred, without the necessity that this Agreement or another employment agreement be re-executed at the time of such transfer. No assignment, consent by Executive, or notice to Executive will be required to render this Agreement enforceable by any assignee, transferee or other entity designated by the Company. The Company's assignees or successors are expressly authorized to enforce the Company's rights and privileges hereunder, including without limitation the restrictive covenants set forth in **Section 6**. Executive may not assign or delegate Executive's rights or obligations hereunder in whole or in part without the Company's prior written consent. Subject to the foregoing, this Agreement will be binding upon and inure to the benefit of Executive's heirs, executers and administrators and the Parties' respective successors and assigns.

12. **<u>Governing Law; Jurisdiction and Venue</u>.**

(a) All matters arising under or relating to this Agreement will be governed by and construed and enforced in accordance with the Law of the State of California, without giving effect to its conflicts of law principles.

(b) Any claim, litigation or other proceeding ("Proceeding") arising out of or relating to any of this Agreement or Executive's employment with the Company will be brought either (i) in the courts of the State of California, County of San Diego, or (ii) if it has or can acquire jurisdiction, in the United States District Court for Southern District of California, and each Party irrevocably submits to the exclusive jurisdiction of each such court in any such Proceeding, waives any objection it may now or hereafter have to venue or to convenience of forum, agrees that all claims in respect of any Proceeding will be heard and determined only in any such court and agrees not to bring any Proceeding arising out of or relating to this Agreement in any other court. The Parties agree that either or both of them may file a copy of this **Section 12(b)** with any court as written evidence of the knowing, voluntary and bargained agreement between the Parties irrevocably to waive any objections to venue or to convenience of forum. Process in any Proceeding referred to in the first sentence of this **Section 12(b)** may be served on any Party anywhere in the world.

13. **Miscellaneous**. This Agreement constitutes the final agreement between the Parties. It is the complete and exclusive expression of the Parties' agreement on the matters contained in this Agreement. All prior and contemporaneous negotiations and agreements between the Parties on the matters contained in this Agreement are expressly merged into and superseded by this Agreement, provided that this sentence will not be deemed or construed to merge, supersede, or otherwise affect the Merger Agreement or any other agreement, instrument or document entered into by the Parties in connection with the Merger. This Agreement may be executed in counterparts, all of which together will comprise one and the same instrument.

14. **Negotiation of Agreement**. This Agreement has been negotiated by the Parties hereto, each having had the opportunity to be represented by counsel of its choice, and no provision hereof will be construed against any Party by reason of that Party being considered to be the drafter of such provision. Executive represents that Executive has read this Agreement carefully and understands this Agreement or has relied exclusively on Executive's counsel for an understanding of the terms and conditions herein.

15. **Effectiveness**. This Agreement will be effective on the Effective Date, provided that its effectiveness will be conditioned upon the completion of the Merger.

16. **Termination of Prior Agreement**. Executive acknowledges and agrees, by Executive's execution and delivery of this Agreement (but subject to the closing of the Merger): (a) this Agreement replaces and supersedes any oral or written employment agreement, severance agreement, or similar arrangement between Executive and the Company (as applicable, "Prior Agreement"); and (b) any Prior Agreement is hereby terminated.

17. **Section 409A**. With respect to the payments, if any, provided by this Agreement upon any Separation under **Sections 3 or 4**, Executive's employment shall be treated as terminated if the Separation meets the definition of "separation from service" as set forth in Treasury Regulation Section 1.409A-l(h)(l), Notwithstanding anything to the contrary contained in this Employment Agreement, if (a) Executive is a "specified employee" within the meaning of Treasury Regulation Section l,409A-l(i), and (b) any portion of the amounts payable under **Sections 3** or **4** upon Separation does not qualify for exemption from Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), under the short-term deferral exception to deferred compensation of Treasury Regulation Section 1,409A-l(b)(4), then payments of such amounts that are not exempt from Code Section 409A shall be made in accordance with the terms of this Employment Agreement, but in no event earlier than the first to occur of (i) the day after the six-month anniversary of Executive's Separation of employment, or (ii) Executive's death. Any payments delayed pursuant to the prior sentence shall be made in a lump sum on the first day of the seventh month following the date of Separation of Executive's employment, and the Company will pay the remainder of such payments, if any, on and after the first day of the seventh month following the date of Separation of Executive's employment at the time(s) and in the form(s) provided by the applicable section(s) of this Employment Agreement. Each such payment shall be considered a "separate payment" and not one of a series of payments for purposes of Code Section 409A.

*****

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have executed this Employment Agreement as of the date first written above.

EMPLOYEE	**THE COMPANY:**
	BROWN & BROWN, INC.
/s/ Chris L. Walker	By:
Chris L. Walker, individually	J. Scott Penny, *Chief Acquisitions Officer & Regional President*

Signature Page to Employment Agreement

IN WITNESS WHEREOF, the Parties have executed this Employment Agreement as of the date first written above.

EMPLOYEE	**THE COMPANY:**
	BROWN & BROWN, INC.
	By: /s/ J. Scott Penny
Chris L. Walker, individually	J. Scott Penny, *Chief Acquisitions Officer & Regional President*

Signature Page to Employment Agreement

EXHIBIT A

DEFINITION OF "EBITDA"

1. *Certain Defined Terms.* For purposes of this Agreement, the term:

(a) . "Action" means any claim, action, suit or proceeding, arbitral action, governmental inquiry, criminal prosecution as to which written notice has been provided to the applicable party.

(b) "Carrier" means any insurance company, surety, insurance pool, risk retention group, risk purchasing group, self-insured group, reinsurer, Lloyd's of London syndicate, state fund or pool or other risk assuming entity in which any insurance, reinsurance, or bond has been placed or obtained.

(c) "Commissions" means (i) commission revenues, including Overrides (if any) and guaranteed supplemental commissions ("GSCs") (if any), plus (ii) fees (other than Service Fees) in addition to or in lieu of commissions, provided such fees are disclosed and otherwise permissible in accordance with applicable law, plus (ii) premium financing commissions, provided such fees are billed and received in accordance with applicable law, in each case net of any Commissions or referral fees paid to any third party producing or referring agent or broker. Commissions do not include Contingent Revenues.

(d) "Contingent Revenues" means all contingent, bonus, profit-sharing, subsidies, and similar incentive-based revenues, including, without limitation, all sliding-scalc commissions arrangements. Contingent Revenues *exclude:* (i) any specific percentage commission on premium to be paid by a Carrier set at the time of purchase, renewal, placement or servicing of an insurance policy; (ii) any specific fee, to the extent legally permissible, to be paid by the Client Account in addition to or in lieu of such specific percentage commission; (iii) a combination of such commissions and fees; and (iv) Overrides.

(e) "GAAP" means generally accepted accounting principles in the United States.

(f) "Insurance Products or Services" means any insurance or reinsurance-related policies, programs, or services (i) provided or offered by, or (ii) under development and to be imminently provided or offered by, Arrowhead.

(g) "Institutional Equityholders" means Spectrum Equity Investors V, L.P., Spectrum V Investment Managers' Fund, L.P., JM1 Equity Fund V, L.P., and JMI Equity Fund (AI), L.P.

(h) "Overrides" means a fixed rate compensation method for the provision of insurance services expressed either as a flat fee or as a percentage of the cost of a service.

(i) "Senior Executives" means D. McDonald Armstrong, Stephen Bouker, Stephen Boyd, Mark Corey, Lewis DeFuria, Tomer Eilam, Matthew Lubien, Scott Marshall, Lawrence Moonan, Deirdre Millwood, Adam Nordost, Ryan O'Connor, Dhara Patel, Rebecca Pinto, Michael Powell, Mark Richardson, Peter Savas, Robert K. Schraner, Ronda Sedillo, Joseph Shomphe, and Christopher T. Uchida, and Chris L. Walker.

2. EBITDA.

(a) "EBITDA" means earnings before interest, taxes, depreciation, and amortization. EBITDA will be determined in accordance with GAAP and the Company's standard accounting methodology and procedures, consistently applied. Notwithstanding the foregoing, if there is any conflict between the Company's standard accounting methodology and practices and the terms of this Agreement, then solely for purposes of calculating the EBITDA Total hereunder, the terms of this Agreement will govern. For clarity, the definition of EBITDA under this Agreement shall be used solely for purposes of determining the EBITDA Total hereunder, and not to determine the financial performance of Arrowhead for any other purpose.

(b) Without limiting the foregoing:

(i) EBITDA will be computed without regard to "extraordinary items" of gain or loss as that term shall be defined in GAAP;

(ii) EBITDA will not include any gains, losses or profits realized from the sale of any assets;

(iii) Notwithstanding any GAAP requirement that Arrowhead or the Company post accruals for (A) direct bill Commissions or (B) Contingent Revenues on its balance sheet, for purposes of determining the EBITDA Total, direct bill Commissions and Contingent Revenues are recognized when received (i.e., on a cash basis).

(iv) Agency bill Commissions are recognized as follows:

(A) For agency bill policies for which premiums are paid in full at inception rather than in installments, such Commissions are recognized on the later of the policy effective date (as indicated in the policy) or the date that the premium was billed to the Client (as indicated in the premium invoice).

(B) For agency bill policies for which premiums are paid in installments during the policy period, such Commissions are recognized on the later of the payment due date for each installment (as indicated in the policy) or the date each installment was billed to the Client (as indicated in the invoice for each installment), provided, however, that notwithstanding the foregoing, during the EBITDA Performance Period:

(I) With respect to Arrowhead's personal auto, residential property, and residential earthquake programs, for agency bill policies for which premiums are paid in installments during the policy period, such Commissions are recognized in full on the later of (a) the transaction date (as indicated in the invoice and (b) the effective date of such policy; and

(2) Commissions for workers compensation policies are recognized on an earned basis, in equal monthly amounts of one-twelfth (1/12) over the policy year;

(v) Service Fees are recognized as follows: (A) policy, billing, and reinstatement fees are recognized on the effective date of the related policy; and (B) fees for claims administration, loss control, and other risk management services are recognized ratably as such services are rendered, measured consistently with current practices.

(vi) Notwithstanding anything herein to the contrary, the following shall apply to the calculation of EBITDA:

(A) Revenues shall exclude the following items:

(1) Late fees charged to Client Accounts, provided that policy cancellation fees and policy reinstatement fees shall be included as Service Fees and shall not be excluded as late fees hereunder;

(2) First year Commissions earned from any Individual Financial Products unless earned by a business line approved by the Company;

(3) Any Commissions earned from any (1) Individual Financial Products written on the lives of any Senior Executive, any director, officer or key employee of Arrowhead or any Institutional Equityholder, or any family member of any Senior Executive or any director, officer or key employee of Arrowhead or any Institutional Equityholder, or (2) Insurance Products or Services placed or provided for Arrowhead, any Institutional Equityholder, or any of their respective Affiliates;

(4) Interest;

(5) Countersignature fees;

(6) Commissions derived from any insurance coverages written with any Carrier not approved by the Company's Market Security Committee;

(7) Commissions accrued on Arrowhead's or the Company's balance sheet and attributable to direct bill policies or GSCs;

(8) Any revenues recognized during the EBITDA Performance Period under GAAP to reflect any changes in the fair value of the EBITDA Total;

(9) Any benefits paid to the Company under any Executive Life Insurance Policy purchased by the Company; and

(10) Any purchase price or other consideration that the Company or Arrowhead receives from any sale or transfer of client accounts during the EBITDA Performance Period, except as otherwise provided below.

(B) Except with respect to Commissions generated from endorsements or audits, no more than twelve (12) months' of revenues generated from any one Client Account will be included in any twelve (12)-month period.

(C) If any accounts receivable for premiums or Service Fees due from a Client Account (<u>"Premiums/Fees Receivable"</u>) are written off as bad debt in accordance with the Company's accounts receivable collection policy, as the same may be modified on a company-wide basis from time to time, during the EBITDA Performance Period, any corresponding Commissions or Service Fees that were previously recognized as revenue during the EBITDA Performance Period, and not otherwise reduced (e.g., by cancellation credits), will be excluded dollar-for-dollar from revenues; provided, however, that if such Premiums/Fees Receivable are later collected during the EBITDA Performance Period, any corresponding Commissions or Services Fees will be included in revenues. No Commissions or Service Fees corresponding to Premiums/Fees Receivable that were written-off as uncollectible bad debt before the Effective Time and are later collected during the EBITDA Performance Period will be included in revenues.

(D) In calculating revenues, earned Commissions will be reduced for any cancellations or non-renewals effective during the EBITDA Performance Period, or recorded or received between the end of the EBITDA Performance Period and the calculation and payment of the final EBITDA Total, for any policies placed before or during the EBITDA Performance Period for the Jumbo Account.

(E) EBITDA will reflect all expenses actually incurred by Arrowhead and the following corporate expenses charged by the Company to its profit centers:

(F) A charge (not to exceed 1.60% of annual revenues), consistent with the charge to the Company's other profit centers, for the Company's premium and deductible expense for its errors and omissions (E&O) and other insurance coverages;

(G) Charges for actual legal and other professional fees paid to third-party service providers and incurred by or on behalf of Arrowhead;

(H) A charge for actual costs attributable to attendance at the Company's

annual sales meeting;

(I) A charge for the full amount of any judgment or settlement (in the case of any errors and omissions (E&O) or employment practices liability (EPL) claim, up to a maximum of $100,000.00), and the full amount of all related legal fees, costs and expenses (regardless of the type of claim), with respect to any claim arising on or after the Closing Date against Arrowhead, net of any applicable insurance proceeds actually paid.

(J) A charge for any applicable deductibles, judgment or settlement amount, and all related legal fees, costs and expenses for any Action pending as of, or any claim arising before, the Closing Date, to the extent the Company is not indemnified for such amounts pursuant to the Merger Agreement;

(K) Charges for the total compensation expense (including direct compensation and bonus compensation, group health plan and other Executive Benefit Plan-related expenses, expense accruals for paid time off (PTO) for applicable employees, and all compensation-related Tax-related liabilities) for all employees of Arrowhead, provided that as to new hires whose direct compensation qualifies for subsidization under the Company's corporate assistance program, such subsidized direct compensation will not be included within Expenses. For the second twelve (12)-month period ("Year Two") and third twelve (12)-month period ("Year Three") of the EBITDA Performance Period, the direct compensation expense charge may, subject to the Company's prior written approval, include an increase of up to three and one-half percent (3.5%) of the total direct compensation expense of New Profit Center employees, other than Senior Executives, over the prior twelve (12)-month period (such increase, the "Salary Increase Pool"). The Salary Increase Pool, if any, will be distributed in Year Two and Year Three as annual salary increases among New Profit Center employees other than Senior Executives in such amounts as the New Profit Center Leader may determine in his or her discretion.

(L) Expenses will also include charges for depreciation, in accordance with the Company's standard accounting methodology and practices, for computers, furniture and other tangible personal property acquired by Arrowhead on or after the Effective Time in excess of $750,000.00 per year, unless otherwise approved by the Company; and

(M) Expenses for optional marketing materials, programs, and services offered by the Company that Arrowhead orders or in which Arrowhead elects to participate.

(N) The following are excluded from "Expenses":

(1) Any acquisition amortization expense related to the Merger;

(2) the Company's income tax expense;

(3) the Company's cost of capital;

(4) Any premium expense incurred by the Company in connection with the purchase of any Executive Life Insurance Policy;

(5) Any expenses recognized during the EBITDA Performance Period under GAAP to reflect any changes in the fair value of the EBITDA Total; and

(6) Any expenses associated with compliance with (w) the Company's quality control guidelines; (x) the Company's accounting methodology, procedures, guidelines, and internal controls; (y) the Sarbanes-Oxley Act of 2002, as amended, and other applicable law; and (z) any necessary information technology (IT) upgrades as required by the Company.

3. *Fold-In Acquisitions.*

(a) As used herein, the term:

(i) "Fold-In Acquisition" means the acquisition by the Company or Arrowhead of any insurance intermediary operation (A) which any Senior Executive identifies and introduces to the Company during the EBITDA Performance Period as an acquisition prospect, (B) which the Company, Arrowhead, or any of their Affiliates had not previously identified and contacted as an acquisition prospect, (C) as to which any Senior Executive materially contributed to the consumnation of the acquisition during his or her employment with Arrowhead after the Closing Date, and (D) which acquisition either (1) combines with and into ("folds into") the New Profit Center or (2) operates as a branch of the New Profit Center under the management of the New Profit Center Leader.

(ii) "Fold-In Acquisitions Cost of Capital Charge" means the product of:

(A) An amount equal to four percent (4%) of the aggregate purchase price paid or payable by the Company, the applicable Group Company, or the applicable Affiliate thereof, as the case may be, on any completed Fold-In Acquisitions during the EBITDA Performance Period, times

(B) A fraction, the numerator of which is the number of months remaining in the EBITDA Performance Period after the effective date of the Fold-In Acquisition, and the denominator of which is twelve (12).

(iii) "Fold-In Acquisitions Payments Amount" means the product of:

(A) An amount equal to sixty-seven percent (67%) of the quotient of (1) the aggregate purchase price paid or payable by the Company, the applicable Group Company, or the applicable Affiliate thereof, as the case may be, on any completed Fold-In Acquisitions during the EBITDA Performance Period, *divided by* (2) fifteen (15), times

(B) A fraction, the numerator of which is the number of months remaining in the EBITDA Performance Period after the effective date of the Fold-In Acquisition, and the denominator of which is twelve (12),

(iv) "Fold-In Acquisitions Support Charge" means an aggregate charge for the Company's support services in investigating, negotiating, completing, and integrating Fold-In Acquisitions, equal to thirty-three percent (33%) of the pro forma EBITDA for any Fold-In Acquisition, as of the effective date of such Fold-In Acquisition.

(b) During the EBITDA Performance Period, the Company shall permit the Senior Executives to use commercially reasonable efforts to identify, meet with, and introduce prospective Fold-In Acquisition opportunities to the Company and Arrowhead, provided that such activities do not materially interfere with the satisfactory performance the Senior Executives' duties under their employment agreements with Arrowhead or, without the Company's prior written consent, require that any business time be expended by any other employee of Arrowhead.

(c) Any Fold-In Acquisition shall be subject to the Company's prior approval and satisfactory due diligence investigation. Prior to the completion of any acquisition that might reasonably meet the definition of a Fold-In Acquisition, the Company and the New Profit Center Leader, shall mutually agree in writing as to whether such acquisition shall be deemed a Fold-In Acquisition. Fold-In Acquisitions that will physically combine operations into the New Profit Center's offices and that are completed during the EBITDA Performance Period shall fold into the New Profit Center's office as quickly as reasonably possible, subject to the availability of sufficient office space, distance from the New Profit Center's offices or other transactional issues that might require the Fold-In Acquisition be a new stand-alone office.

(d) In determining the EBITDA Total, for each Fold-In Acquisition;

(i) EBITDA shall include all EBITDA earned from such Fold-In Acquisition during the EBITDA Performance Period; and

(ii) The Fold-In Acquisitions Cost of Capital Charge, the Fold-In Acquisitions Payments Amount, and the Fold-In Acquisitions Support Charge for such Fold-In Acquisition shall be deducted dollar-for-dollar from the EBITDA Total; provided, that the Fold-In Acquisitions Support Charge shall only be applied in the year the applicable Fold-In Acquisition is consummated.

Solely for illustrative purposes, Exhibit B to this Agreement sets forth examples of the effect of certain Fold-In Acquisitions on EBITDA; the Fold-In Acquisitions Cost of Capital Charge, the Fold-In Acquisitions Payments Amount, and the Fold-In Acquisitions Support Charge for such Fold-In Acquisitions; and the resulting effect on the EBITDA Total. In the event of a conflict between Exhibit B and the terms of this Agreement, the terms of this Agreement shall control and govern.

EXHIBIT B

FOLD-IN ACQUISITION EXAMPLES

[PLEASE SEE ATTACHED]

EXHIBIT B

FOLD-IN ACQUISITIONS EXAMPLES

Arrowhead
3 Year Aggregate Calculation for Stock Bonus Pool
Purposes Fold-In Acquisition Example 1

Fold In occurs at beginning of Year 2 and exceeds expectations

	2,000,000	Fold-In Acquisition Annual Revenue
	3,000,000	Fold-In Acquisition Aggregate Purchase Price
	800,000	Fold-In Acquisition Pro Forma Annual EBITDA
	850,000	Fold-In Acquisition Actual Annual EBITDA (Fold-In exceeds expectations)
	2	Years Remaining in Bonus Period at time of Acquisition
	1,700,000	Actual Fold-In EBITDA included in the total 3 Year EBITDA Calculation
Note B	(268,000)	Fold-in Acquisitions Payments Amount
Note C	(240,000)	Fold-In Acquisitions Cost of Capital Charge
Note A	(264,000)	Fold-In Acquisitions Support Charge (only applies in year of acquisition)
	928,000	Remaining EBITDA Contribution included in the 3 Year Aggregate Calculation

Note A—Fold In Acquisition Support Charge Calculation (only applies in year of acquisition)

	800,000 Fold-In Acquisition Pro Forma Annual EBITDA
0.33 33%	per Section 2.10 (a)(iv)
264,000	Fold In Acquisition Support Charge

Note B—Fold-In Acquisition Payments Amount Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price 15 Divided by 15 per Section 2.10 (a)(iii) 200,000 Quotient 0.67 67% per Section 2.10 (a)(iii)
134,000	Fold-in Acquisitions Payments Amount
2	Years Remaining in Bonus Period at time of acquisition
268,000	

Note C—Cost of Capital Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price
4.0%	Annual COC Charge
120,000	Fold-In Acquisition Cost of Capital Charge
2	Years Remaining in Bonus Period at time of acquisition
240,000	

Arrowhead
3 Year Aggregate Calculation for Stock Bonus Pool Purposes
Fold-In Acquisition Example 1

Fold In occurs at beginning of Year 3 and falls below EBITDA expectations

	2,000,000	Fold-In Acquisition Annual Revenue
	3,000,000	Fold-In Acquisition Aggregate Purchase Price
	800,000	Fold-In Acquisition Pro Forma Annual EBITDA
	750,000	Fold-In Acquisition Actual Annual EBITDA (Fold-In exceeds expectations)
	1	Years Remaining in Bonus Period at time of Acquisition
	750,000	Actual Fold-In EBITDA included in the total 3 Year EBITDA Calculation
Note B	(134,000)	Fold-in Acquisitions Payments Amount
Note C	(120,000)	Fold-In Acquisitions Cost of Capital Charge
Note A	(264,000)	Fold-In Acquisitions Support Charge (only applies in year of acquisition)
	232,000	Remaining EBITDA Contribution included in the 3 Year Aggregate Calculation

Note A—Fold In Acquisition Support Charge Calculation (only applies in year of acquisition)

800,000	Fold-In Acquisition Pro Forma Annual EBITDA
0.33	33% per Section 2.10 (a)(iv)
264,000	Fold In Acquisition Support Charge

Note B—Fold-In Acquisition Payments Amount Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price 15 Divided by 15 per Section 2.10 (a)(iii) 200,000 Quotient
0.67	67% per Section 2.10 (a)(iii) (1.0 in Year 1 and Year 2, .67 in Year 3 Deals)
134,000	Fold-in Acquisitions Payments Amount
1	Years Remaining in Bonus Period at time of acquisition
134,000	

Note C—Cost of Capital Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price
4.0%	Annual COC Charge
120,000	Fold-In Acquisition Cost of Capital Charge
1	Years Remaining in Bonus Period at time of acquisition
120,000	

Arrowhead
Year 3 Calculation for Earn Out Purposes
Fold-In Acquisition Example 1

Fold In occurs at beginning of Year 2 and exceeds expectations

	2,000,000	Fold-In Acquisition Annual Revenue
	3,000,000	Fold-In Acquisition Aggregate Purchase Price
	800,000	Fold-In Acquisition Pro Forma Annual EBITDA
	850,000	Fold-In Acquisition Actual Annual EBITDA (Fold-In exceeds expectations)
	850,000	Actual Fold-In EBITDA included in the Year 3 EBITDA Calculation
Note B	(200,000)	Fold-in Acquisitions Payments Amount
Note C	(180,000)	Fold-In Acquisitions Cost of Capital Charge
Note A	0	Fold-In Acquisitions Support Charge (only applies in year of acquisition)
	470,000	**Remaining EBITDA Contribution included in the Year 3 Calculation**

Note A—Fold In Acquisition Support Charge Calculation (only applies in year of acquisition)

	800,000 Fold-In Acquisition Pro Forma Annual EBITDA
0.33 33%	per Section 2.10 (a)(iv)
264,000	Fold In Acquisition Support Charge

Note B—Fold-In Acquisition Payments Amount Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price 15 Divided by 15 per Section 2.10 (a)(iii) 200,000 Quotient
1.00 67%	per Section 2.10 (a)(iii) (1.0 in Year 1 and Year 2, .67 in Year 3 Deals)
200,000	Fold-in Acquisitions Payments Amount

Note C—Cost of Capital Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price
6.0%	Annual COC Charge (6% in Year 1 & 2, 4% in Year 3 Deals)
180,000	Fold-In Acquisition Cost of Capital Charge

Arrowhead
Year 3 Calculation for Earn Out Purposes
Fold-In Acquisition Example 2

Fold In occurs at beginning of Year 3 and falls below EBITDA expectations

	2,000,000	Fold-In Acquisition Annual Revenue
	3,000,000	Fold-In Acquisition Aggregate Purchase Price
	800,000	Fold-In Acquisition Pro Forma Annual EBITDA
	750,000	Fold-In Acquisition Actual Annual EBITDA (Fold-In exceeds expectations)
	750,000	Actual Fold-In EBITDA included in the Year 3 EBITDA Calculation
Note B	(134,000)	Fold-in Acquisitions Payments Amount
Note C	(120,000)	Fold-In Acquisitions Cost of Capital Charge
Note A	(264,000)	Fold-In Acquisitions Support Charge (only applies in year of acquisition)
	232,000	**Remaining EBITDA Contribution included in the Year 3 Calculation**

Note A—Fold In Acquisition Support Charge Calculation (only applies in year of acquisition)

	800,000 Fold-In Acquisition Pro Forma Annual EBITDA
0.33 33%	per Section 2.10 (a)(iv)
264,000	Fold In Acquisition Support Charge

Note B—Fold-In Acquisition Payments Amount Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price 15 Divided by 15 per Section 2.10 (a)(iii) 200,000 Quotient
0.67 67%	per Section 2.10 (a)(iii) (1.0 in Year 1 and Year 2, .67 in Year 3 Deals)
134,000	Fold-in Acquisitions Payments Amount

Note C—Cost of Capital Calculation

3,000,000	Fold-In Acquisition Aggregate Purchase Price
4.0%	Annual COC Charge (6% in Year 1 & 2, 4% in Year 3 Deals)
120,000	Fold-In Acquisition Cost of Capital Charge

EXHIBIT C

**LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP**

EXCLUDED FROM SECTION 7

Title	Date	Identifying Number or Brief Description

☑ No inventions or improvements

☐ Additional Sheets Attached

Signature of Executive/Consultant: /s/ CHRIS WALKER

Print Name of Executive/Consultant: CHRIS WALKER

Date: January 6, 2012

EXHIBIT D

Section 2870 of the California Labor Code is as follows:

(a) Any provision in an employment agreement which provides that an employee will assign, or offer to assign, any of his or her rights in an invention to his or her employer will not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

NON-COMPETITION, NON-SOLICITATION, CONFIDENTIALITY AND NON-DISCLOSURE AGREEMENT

THIS NON-COMPETITION, NON-SOLICITATION, CONFIDENTIALITY AND NONDISCLOSURE AGREEMENT (this "Agreement"), effective as of the closing of the merger transaction described in the Merger Agreement, as defined below (the "Effective Date"), is made and entered into by and among **BROWN & BROWN, INC.,** a Florida corporation ("Parent"): and **CHRIS L. WALKER** (the "Principal Equityholder") Parent, Merger Sub, and Principal Equityholder are sometimes each referred to herein as a "Party" and collectively as the "Parties."

BACKGROUND

The Principal Equityholder is an equityholder of Arrowhead General Insurance Agency SuperHolding Corporation, a Delaware corporation ("AGIASC"). Pursuant to an Agreement and Plan of Merger, dated as of December 15, 2011 (the "Merger Agreement"), by and among Parent, Arrowhead Merger Corp., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Sub" and together with Parent, "Buyers"). AGIASC, and Spectrum Equity Investors V, L.P., as the "Equityholders' Representative", Merger Sub is to merge with and into AGIASC, with AGIASC being the surviving corporation (the "Surviving Corporation"). Pursuant to Section 2.3(b)(vii) of the Merger Agreement, the Principal Equityholder is entering into this Agreement to provide certain non-competition and other assurances as a material inducement for the Buyers to enter into the transactions contemplated in the Merger Agreement. The Principal Equityholder acknowledges that the restrictions contained in this Agreement are reasonably necessary to protect Parent's and the Group Companies' legitimate business interests, including, but not limited to, the trade secrets, confidential business information, and customer goodwill acquired from AGIASC and its Subsidiaries as part of the Merger Agreement. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Merger Agreement.

TERMS

The Parties, intending to be legally bound, agree as follows:

1. ***Defined Terms.*** As used in this Agreement, the term:

(a) "Affiliate" means, when used with respect to a specified Person, another Person that either directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person. For purposes of this Agreement, "control" means the possession, directly or indirectly, of the power to direct, or cause the direction of, the management and policies of a Person, whether through ownership of voting securities, contract or otherwise, and "controlled" and "controlling" shall have correlative meanings.

(b) "AGIA" means Arrowhead General Insurance Agency, Inc, a wholly owned indirect subsidiary of AGIASC.

(c) "Client Account" means any Person to whom any Restricted Insurance Products or Services or insurance claims administration have been provided by an applicable Group Company during the twenty-four (24)-month period immediately preceding the Effective Date.

(d) "Confidential Information" includes all information, whether or not reduced to written or recorded form, that has been disclosed or otherwise made known to the Principal Equityholder by any Group Company and that is not generally known or accessible to members of the public and/or competitors of any Group Company and as to which such Group Company takes reasonable steps to remain confidential, including but not limited to: (i) the financial condition, results, of operations, compensation and other information regarding any Group Company or the personnel of any Group Company; (ii) information regarding the potential or completed merger, acquisition or sale of business assets; (iii) the lists of Client Accounts, Prospective Client Accounts, insurance carriers, policy forms, and/or rating information, expiration dates or information on risk characteristics; (iv) information concerning insurance markets for large or unusual risks; and (v) records pertaining thereto. However, Confidential Information will not include information that (1) is or becomes publicly available other than as a result of disclosure by the Principal Equityholder in breach of this Agreement, or (2) is now or hereafter becomes available to the Principal Equityholder on a non-confidential basis from a source (other than the Group Companies or their Affiliates) that, to the Principal Equityholder's knowledge, is not prohibited from disclosing such information to the Principal Equityholder. As used herein, Confidential Information will also include, without limitation, a "Trade Secret." which will have the meaning ascribed under the Uniform Trade Secrets Act, as adopted and in effect on and after the date of this Agreement, and generally means any information that is not generally known to the public or to other persons who could obtain economic value from its disclosure, has independent economic value, and as to which the owner of such Trade Secret takes reasonable precautions to protect its secrecy.

(e) "Group Company" means each of AGIASC, the Surviving Corporation, and each of AGIASC's direct and indirect subsidiaries.

(f) "Insurance Business" means the business of quoting, placing, providing, servicing and/or renewing Insurance Products or Services.

(g) "Insurance Products or Services" means any insurance or reinsurance-related policies, programs, or services (i) provided or offered by, or (ii) to the knowledge of the Principal Equityholder, under development and to be imminently provided or offered by, of the Group Companies as of the Effective Date.

(h) "Non-Compete Period" means the five (5)-year period following the Effective Date, provided, however, that if the Principal Equityholder's employment is terminated by Parent or AGIA without "Cause" or the Principal Equityholder terminates his employment with Parent or AGIA with "Good Reason" (as such terms are defined in the Principal Equityholder's Employment Agreement with Parent and AGIA), the Non-Compete Period shall terminate as of the termination date of the Principal Equityholder's employment.

(i) "Non-Solicitation Period" means the five (5)-year period following the Effective Date.

(j) "Person" means an individual, partnership, corporation, business trust, limited liability company, limited liability partnership, joint stock company, trust, unincorporated association, joint venture, or other entity or a governmental body.

(k) "Prospective Client Account" means any Person as to whom any Group Company has quoted, proposed, or solicited any Insurance Products or Services during the twenty-four (24)-month period immediately preceding the Effective Date.

(1) "Restricted Area" means the United States of America, including its territories and possessions.

2. *Non-Compete Amount.* Upon the Parties' execution and delivery of this Agreement, the Company will pay **$10,000.00** to the Principal Equityholder (the "Non-Compete Amount"), by wire transfer of immediately available funds to one or more accounts designated in writing by the Principal

Equityholder, as partial consideration for the Principal Equityholder's entering into this Agreement; provided, however, that the amount that may be recovered in the event of a breach by the Principal Equityholder of the covenants set forth in this Agreement shall not be limited to the Non-Compete Amount. The Parties acknowledge and agree that such payment of the Non-Compete Amount by Parent constitutes the full performance of Parent's obligations hereunder and this Agreement shall not be deemed an executory contract under the U.S. Bankruptcy Code or other applicable law.

3. ***Non-Competition Covenant.*** The Principal Equityholder shall not, during the Non-Compete Period and within the Restricted Area, directly or indirectly engage or invest in, own, management, operate, finance, control, or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend the name of the Principal Equityholder or any Affiliate of the Principal Equityholder or any similar name to, lend the Principal Equityholder's credit to or render services or advice to (whether or not for compensation), any business whose products or services compete in whole or in part with the Insurance Products or Services of the Group Companies as of the Effective Date; provided, however, that ownership of less than five percent (5%) of the outstanding stock of any publicly traded corporation shall not be deemed a violation of this **Section 3;**

4. ***Non-Solicitation Covenant.*** Without limiting anything set forth in **Section 3** hereof, during the Non-Solicitation Period:

(a) The Principal Equityholder shall not, directly or indirectly, in any capacity whatsoever (other than in the course and scope of the Principal Equityholder's employment with a Group Company, Parent, or any of their Affiliates), solicit, divert, quote, propose, sell, place, provide, service or renew any Insurance Products or Services in respect of any past or current Client Account or Prospective Client Account of any Group Company. The Principal Equityholder recognizes and acknowledges that such Client Accounts and Prospective Client Accounts are not confined to any geographic area. Therefore, the Principal Equityholder acknowledges and understands that there is no geographic restriction that applies to the non-solicitation covenant as contained in this **Section 4** and that the scope of this covenant is appropriately limited by the customer-based restriction.

(b) The Principal Equityholder shall not take any action intended to or which reasonably may be expected to cause any Client Account or Prospective Client Account of any Group Company, or any other Person with a material business relationship with any Group Company to cease, reduce or refrain from transacting business with any Group Company.

(a) The Principal Equityholder shall not, directly or indirectly, solicit, hire, engage, or seek to induce any of the Group Companies' employees or independent contractors to terminate such employee's employment or such independent contractor's engagement with any Group Company for any reason, including, without limitation, to work for the Principal Equityholder or any competitor of Parent, the Group Companies, or their Affiliates other than (i) the making of any general solicitation for employees or public advertising of employment opportunities (including through the use of employment agencies) not specifically directed at such person and the hiring any such person who responds to any such general or public advertising and (ii) the solicitation or hiring of Group Company employees who have been Separated from such Group Company for six (6) months or more at the time of such solicitation or hiring.

(c) The covenants set forth in this **Section 4** are collectively referred to herein as the "Non-Solicitation Covenants". For clarity, the Non-Solicitation Covenants are in addition to, and not in lieu of, the post-separation obligations under the Management Equityholders' respective (i) Employment Agreements and (ii) Confidential Information and Non-Disclosure Agreements with the Company and Parent.

5. ***Confidentiality.***

(a) The Principal Equityholder recognizes and acknowledges that the Group Companies' Confidential Information constitutes valuable, secret, special, and unique assets. The Principal Equityholder covenants and agrees that the Principal Equityholder shall not deliver the Confidential Information to any Person for any reason or purpose, except in the Group Companies' business, without the express written approval of Buyer and shall not use the Confidential Information. It is expressly understood and agreed that the Confidential Information is the property of the Group Companies and must be immediately returned to Parent or the Group Companies upon demand.

(b) Any Trade Secrets of the Group Companies will also be entitled to all of the protections and benefits under applicable Trade Secret law and any other applicable law. If any information that Parent or any applicable Group Company deems to be a Trade Secret is found by a court of competent jurisdiction not to be a Trade Secret for purposes of this Agreement, such information will in any event still be considered Confidential Information for purposes of this Agreement. In the case of Trade Secrets of the Group Companies, the Principal Equityholder hereby waives any requirement that Parent or such Group Company submit proof of the economic value of any Trade Secret or post a bond or other security.

6. ***Scope of Covenants.*** The Principal Equityholder acknowledges and agrees that: (a) the Group Companies' businesses are national in scope and their Insurance Products and Services are marketed throughout the United States; (b) Parent, the Group Companies, and their Affiliates compete with other businesses that are or could be located in any part of the United States; (c) the covenants set forth in this Agreement are being entered into in connection with, and as a material inducement for Buyer to enter into, the Acquisition, voluntarily and for good and sufficient consideration; and (d) the Non- Compete Period, the Non-Solicitation Period, and the Restricted Area are reasonable in time and geographic area.

7. ***Remedies.***

(a) In the event of a breach or threatened breach of the provisions of this Agreement, Parent, any Group Company, or any of their applicable Affiliates shall be entitled to seek injunctive relief as well as any other applicable remedies at law or in equity.

(b) The Group Companies and the Affiliates of Parent and the Group Companies are intended to be third-party beneficiaries of this Agreement.

(c) Should a court of competent jurisdiction declare any of the covenants set forth in this Agreement unenforceable due to an unreasonable restriction, duration, geographical area or otherwise, the Parties agree that such court shall be empowered and shall grant Parent, the applicable Group Company, or their applicable Affiliate injunctive relief to the extent reasonably necessary to protect their respective interests. The Principal Equityholder acknowledges that the covenants set forth in this Agreement represent an important element of the value of the Group Companies and their businesses that Parent is acquiring pursuant to the Merger Agreement and are a material inducement for Parent and Merger Sub to enter into the Merger Agreement and the transactions contemplated therein. The Principal Equityholder further acknowledges that without such protection, the business of Parent, the Group Companies and/or their Affiliates may be irreparably harmed, and that the remedy of monetary damages alone may be inadequate.

(d) If the Principal Equityholder shall violate the restrictions contained in this Agreement, and if any court action is instituted by Buyer to prevent or enjoin such violation, then the period of time during which the Principal Equityholder's business activities shall be restricted as provided in this Agreement shall be lengthened by a period of time equal to the period between the date upon which the Principal Equityholder is found to have first violated the restrictions, and the date on which the decree of the court disposing of the issues upon the merits shall become final and not subject to further appeal.

(e) Each provision of this Agreement shall be independent of any and all other provisions of this Agreement, the Merger Agreement, and any other agreement entered into between the Parties. The real or perceived existence of any claim or cause of action of the Principal Equityholder against Buyer or Parent, whether predicated on this Agreement or some other basis, shall not relieve the Principal Equityholder of its obligations under this Agreement and shall not constitute a defense to the enforcement by Buyer or Parent of the restrictions and covenants contained in this Agreement.

(f) It is the intention of the Parties that the terms and provisions of this Agreement be enforceable to the maximum extent permitted by applicable law. In furtherance of the foregoing, the Parties further agree that the Parties agree that if a court of competent jurisdiction declare any of the covenants set forth in this Agreement unenforceable, then such court shall be authorized to modify such covenants so as to render the remaining covenants and the modified covenants valid and enforceable to the maximum extent possible, and as so modified, to enforce this Agreement in accordance with its terms. In accordance with the foregoing, if any provision of this Agreement shall be held to be excessively broad, it shall be limited to the extent necessary to comply with applicable law.

(g) If any of the provisions of this Agreement shall otherwise contravene or be determined to be invalid or unenforceable under the laws of any state, country or other jurisdiction in which this Agreement may be applicable, valid, and enforceable but for such contravention or invalidity or unenforceability, then (i) such contravention or invalidity or unenforceability (A) shall not invalidate or otherwise affect the enforceability of all of the provisions of this Agreement, but rather (B) this Agreement (or the remaining provisions hereof, as applicable) shall be construed, insofar as the laws of that state or other jurisdiction are concerned, as not containing the provision or provisions contravening or invalid under the Jaws of that state or jurisdiction, and (ii) the rights and obligations created hereby shall be construed and enforced to the maximum extent permitted under applicable law.

8. ***Attorney's Fees.*** Without limiting the foregoing or anything set forth in the Merger Agreement, the Parties agree that in the event of litigation concerning the terms of this Agreement, the prevailing party shall be entitled, in addition to all other remedies, to recover all costs of such action, including, without limitation, reasonable attorneys' fees and costs both at the trial court and appellate court level.

9. ***Entire Agreement; Waivers; Amendments.*** This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provisions hereof. This Agreement may not be amended, modified or superseded except by an agreement in writing executed by the Parties.

10. ***Assignment and Enforcement.*** The Principal Equityholder may not assign any of the Principal Equityholder's rights or obligations hereunder. The rights and obligations of Buyer shall be binding upon and fully enforceable by its affiliates, successors and assigns, including, without limitation, any successor in interest by way of merger, consolidation, sale or other succession, without need for further consent to such assignment by the Principal Equityholder. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties' respective successors and permitted assigns.

11. ***Governing Law, Jurisdiction and Venue.*** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California, without regard to conflicts of laws principles. Any claim, litigation or other proceeding ("Proceeding") arising out of or relating to any of this Agreement will be brought either (a) in the courts of the State of California, County of San Diego, or (b) if it has or can acquire jurisdiction, in the United States District Court for Southern District of California, and each Party irrevocably submits to the exclusive jurisdiction of each such court in any such Proceeding, waives any objection it may now or hereafter have to venue or to convenience of forum, agrees that all claims in respect of any Proceeding will be heard and determined only in any such court and agrees not to bring any Proceeding arising out of or relating to this Agreement in any other court. The Parties agree that any of them may file a copy of this **Section 11** with any court as written evidence of the knowing, voluntary and bargained agreement between the Parties irrevocably to waive any objections to venue or to convenience of forum. Process in any Proceeding referred to in the first sentence of this **Section 11** may be served on any Party anywhere in the world.

12. ***Joint Efforts.*** This Agreement is the result of the joint efforts and negotiations of the Parties hereto, with each Party being represented, or having the opportunity to be represented, by legal counsel of its own choice, and no singular Party is the author or drafter of the provisions of this Agreement. Accordingly, this Agreement shall not be interpreted against any Party on grounds that such Party was responsible for drafting any portion of it.

13. ***Severability.*** In the event that any provision, covenant, section, subsection, paragraph, or any portion thereof, of this Agreement is held by any court of competent jurisdiction to be illegal, invalid or unenforceable, either in whole or in part, the legality, validity or enforceability of the remaining provisions, covenants, sections, subsections, paragraphs, or portions thereof shall not be affected thereby, and each such provision, covenant, section, subsection, paragraph, or any portion thereof shall remain valid and enforceable to the fullest extent permitted by applicable law.

14. ***Effectiveness.*** This Agreement will be effective on the Effective Date, provided that its effectiveness will be conditioned upon the completion of the Merger.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, the Parties hereto have executed this Non-Competition, Non-Solicitation, Confidentiality and Non-Disclosure Agreement as of the day and year first written above.

PARENT:

BROWN & BROWN, INC.

By: /s/ J. Scott Penny,
Name: J. Scott Penny,
Title: Chief Acquisitions Officer & Regional President

PRINCIPAL EQUITYHOLDER:

Chris L. Walker, individually

Signature Page to Non-Competition, Non-Solicitation, Confidentiality and Non-Disclosure Agreement

IN WITNESS WHEREOF, the Parties hereto have executed this Non-Competition, Non-Solicitation, Confidentiality and Non-Disclosure Agreement as of the day and year first written above.

PARENT:

BROWN & BROWN, INC.

By: ______________________________
Name:
Title:

PRINCIPAL EQUITYHOLDER:

/s/ Chris L. Walker
Chris L. Walker, individually

Signature Page to Non-Competition, Non-Solicitation, Confidentiality and Non-Disclosure Agreement

Exhibit 31.1

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 March 31, 2013;

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 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: May 9, 2013

/s/ J. Powell Brown
J. Powell Brown
President and Chief Executive Officer

Exhibit 31.2

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

I, Cory T. Walker, certify that:

1. I have reviewed this Quarterly Report of Brown & Brown, Inc. (the "Registrant") on Form 10-Q for the quarter ended March 31, 2013;

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 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: May 9, 2013

/s/ Cory T. Walker
Cory T. Walker
Chief Financial Officer

Exhibit 32.1

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 March 31, 2013 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: May 9, 2013

/s/ J. Powell Brown

J. Powell Brown
President and Chief Executive Officer

Exhibit 32.2

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 March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Cory T. Walker, 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: May 9, 2013

/s/ Cory T. Walker

Cory T. Walker
Chief Financial Officer