Brown & Brown
INSURANCE®

THE POWER OF WE

2018 ANNUAL REPORT

THE POWER OF WE DRIVES OUR PERFORMANCE

For Our Customers

We are dedicated to making a positive difference in the lives of our customers by helping to protect what they value most.

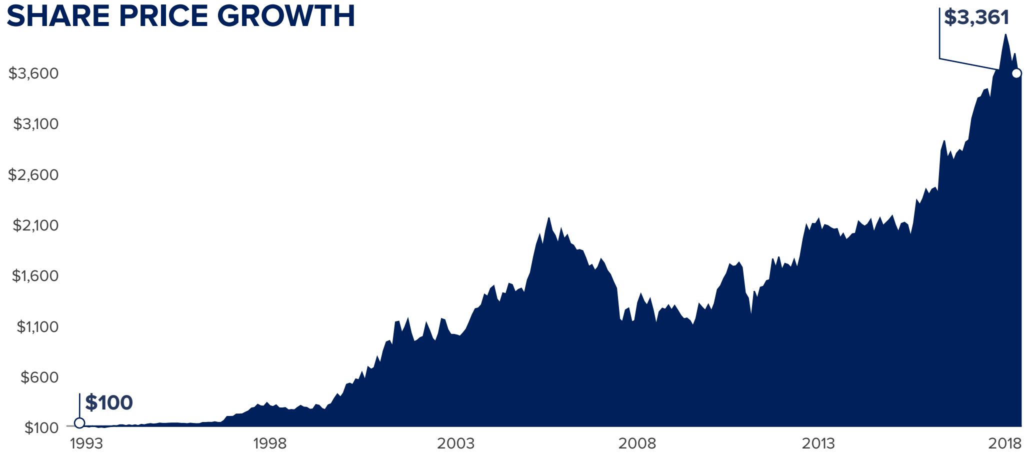
For Our Teammates

We think of ourselves as a team, so we have teammates—not employees. We strive to attract people who are competitive, driven, and disciplined. Built on meritocracy, our unique Company culture rewards self-starters and those who are committed to doing what is best for our customers.

For Our Investors and Shareholders

$100 invested in Brown & Brown stock in 1993 when we began our journey as a public company would be worth $3,361 as of December 31, 2018.

SHARE PRICE GROWTH



Source: JP Morgan

For Our Communities

Brown & Brown has a long-standing history of dedication to the people and communities we serve.

In This Report

MESSAGE FROM **OUR CEO**

2018 was a record year for Brown & Brown, and we are proud of our overall performance.

We crossed our $2 billion interim revenue goal and had the largest acquisition revenue year in our history closing 23 transactions with annual revenues of approximately $323 million, including acquisitions in all four of our business segments. For the year, our revenues grew 7.1% to over $2 billion and 2.4% organically[(1)]. Each of our segments performed well in 2018, despite a drop in revenues within our National Programs Segment that was associated with the hurricanes in late 2017. During the year, we continued our investment in teammates, technology, and launching new capabilities. All will ultimately benefit the experience of our customers, carrier partners, and teammates. These investments will support our profitable growth in the future. For 2018, we increased our dividend for the 25th year in a row and grew our operating cash flow 28.4% to $568 million. We are proud to deliver another year of industry-leading financial metrics.

So, why is Brown & Brown different from other firms? It comes down to culture and character. We have teammates, not employees. We think of ourselves as groups of high-performing athletic teams. We have leaders, not managers. Leaders inspire and connect with teammates. Together, we create lasting and trusted relationships with our customers. Our culture is characterized by accountability, performance, and ownership. More than 60% of teammates invest in our company, thereby tightly aligning our interests with those of our shareholders.

The theme of this year's Annual Report is *The Power of WE*—a phrase we have been using for many years. It means the shared experiences of our team are more impactful than the experience or talent of any one individual. We strive to tap the collective talents of our team to benefit our customers. This philosophy is further supported by the fact that we are a meritocracy—whereby teammates rise based on

(1) Organic revenue growth is a non-GAAP financial measure and is referenced to provide an additional meaningful method of evaluating our operating performance from period to period on a basis that may not be otherwise on a GAAP basis. For other information concerning organic revenue growth and to a reconciliation to the most closely comparable GAAP measure, refer to pages 23 and 30-31 of this Annual Report, respectively.

"So, why is Brown & Brown different than other firms? It comes down to culture and character. We have teammates, not employees. We think of ourselves as groups of high-performing athletic teams. We have leaders, not managers."

– J. Powell Brown

their ability. As we continue to grow, we remain focused on the personal side of our business. We are in the people recruiting and enhancing business, and our success is tied to our teammates' well-being. We stress the three most important things in our lives—our health, our families, and our team.

The landscape of our industry continues to evolve. Alternative capital and InsurTech are common topics of discussion. InsurTech is focused on streamlining highly repeatable tasks and improving the customer experience. We continue to follow this area closely and have implemented several emerging technologies in our company. There is an enormous amount of alternative capital available. That capital is positioned for risk-bearing and the purchase of distribution networks that will force a historically inefficient industry to evolve. Our ability to underwrite, loss control, and pay claims in our National Programs Segment is one area where we can, and have, put alternative capital to use for the benefit of our customers. Our investments in technology and partnering with risk bearers enable us to develop more innovative solutions for our customers.

We are "a forever company." We make long-term investments to benefit our stakeholders. Our top and bottom line growth provides stability and confidence for our teammates, and new and improved capabilities benefit our customers. Our commitment to improved technology enables us to trade better with our insurance companies, and our long-term growth of cash flow and earnings helps drive value for our shareholders. We have and will continue to create shareholder value over the long term by investing in our teammates, making the right acquisitions, and returning capital to shareholders through dividends and periodic share repurchases.

We are excited about our future and have set our next intermediate revenue goal of $4 billion. Success will be achieved by continuing our disciplined acquisition strategy, recruiting and retaining the best teammates, and always keeping the customer as our number one focus.

To our teammates, thank you for everything you do to make this mission possible. To our customers, thank you for having confidence in our ability to help protect your assets and employees. To our trading partners, thank you for your collaboration and the trust you place in us. Finally, to our shareholders, thank you for your continued belief in our team.

Cheers,

J. Powell Brown, CPCU
President & Chief Executive Officer

The Power of WE®, A Meritocracy®, and A Forever Company® are registered trademarks of Brown & Brown, Inc. in the United States.

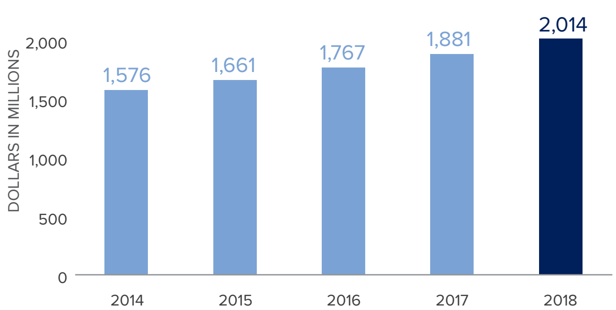
PERFORMANCE

Focused on Growth and Success

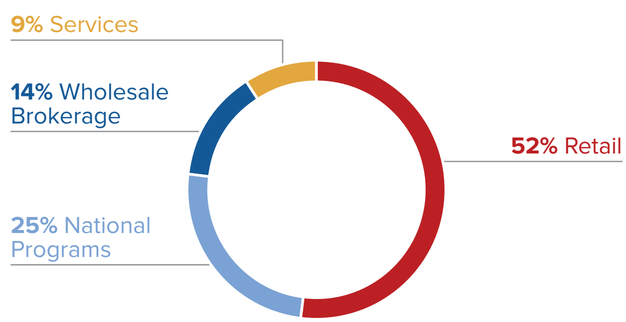
Principled customer focus is at the core of the Brown & Brown culture. An entrepreneurial spirit is valued and encouraged, which empowers teammates to do what it takes to provide best-in-class customer service and solutions.

We understand that the only constant is change, and we are dedicated to looking ahead for opportunities to best serve our customers in an ever-changing industry.

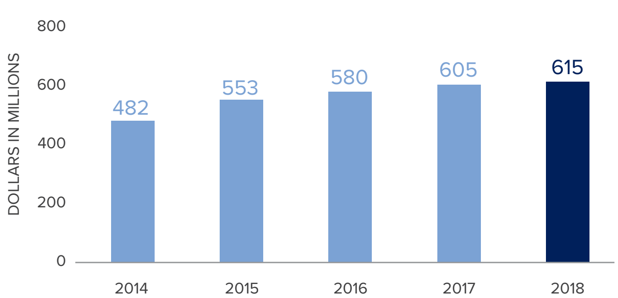
TOTAL REVENUES



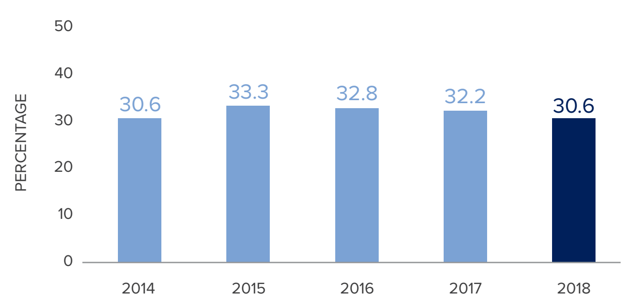
2018 REVENUE BY SEGMENT



EBITDAC [1]



EBITDAC MARGIN [1]

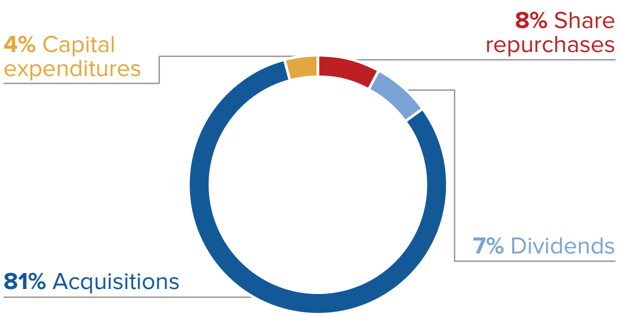


(1) EBITDAC and EBITDAC Margin are non-GAAP financial measures and are referenced to provide additional meaningful methods of evaluating our operating performance from period to period on a basis that may not be otherwise on a GAAP basis. For other information concerning EBITDAC and EBITDAC Margin and to reconciliations to the most closely comparable GAAP measures, refer to pages 23 and 83 of this Annual Report, respectively.

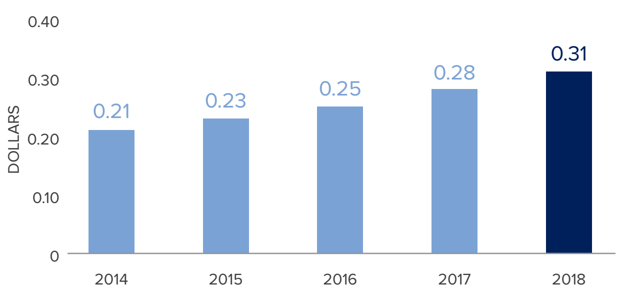
Capital Allocation

Our capital allocation strategy is based on the philosophy of investing to optimize returns and minimize debt. We strategically deploy capital to invest internally, return capital to shareholders, and acquire firms, while maintaining a conservative debt profile.

2018 USES OF CASH



DIVIDENDS PER SHARE

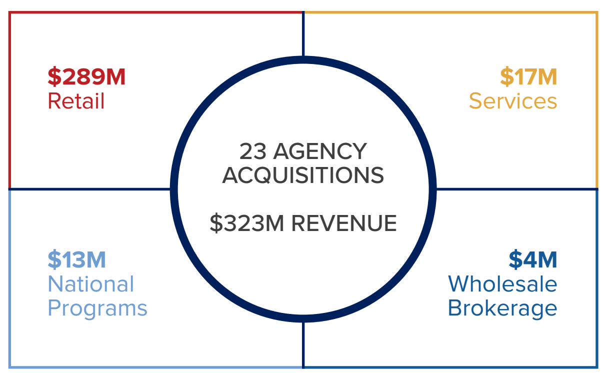


We are proud to have delivered 25 years of consecutive dividend increases.

Acquisitions

2018 was a banner year with $323 million in annual acquired revenue and the addition of 1,100+ talented teammates across all segments. We remain prepared to deploy our capital when acquisitions fit culturally and when terms make sense financially.

2018 ANNUAL ACQUIRED REVENUE



2018 STAND-ALONE ACQUISITIONS

- Automotive Development Group
- Dealer Associates
- Finance & Insurance Resources
- Hays Companies
- Health Special Risk
- Professional Disability Associates
- Rodman Insurance Agency
- Servco Insurance Services

Hays Companies marks the largest acquisition by revenue in our Company's history.

WHO WE ARE

We have always looked for driven, disciplined individuals who embrace our culture. The Power of BE is a set of powerful behaviors, skills, and characteristics that create a link between what we do as a company and how we do it—our cultural DNA.

THE POWER OF BE

BE Customer Focused
Build strong relationships.

BE Smart
Make decisions that propel us forward.

BE Clear
Use a concise message that resonates.

BE A Winner
Consistently achieve results.

BE Gritty
Have courage & determination.

BE Trustworthy
Build trust through authenticity.

BE A Mentor
Support growth & development.

BE The Link
Create teammate connections & energy.

BE A Talent Magnet
Attract the brightest & best talent.

BE A Futurist
Create innovative ways to be successful.

79
years of dogged discipline

Our Culture

Brown & Brown is built on integrity, innovation, superior capabilities, and discipline.

Since our beginning, we have known that doing the best for our customers requires constant persistence and vision. The cheetah, which represents vision, swiftness, strength, and agility, embodies our Company culture and has served as a symbol for Brown & Brown since the 1980s.

60%+
teammate shareholders

Ownership Mindset

We strive to provide opportunities for teammates to have ownership in our Company and create personal wealth.

Our teammates can share in ownership of Brown & Brown, Inc. through our Employee Stock Purchase Plan (ESPP), our 401(k), and long-term equity grants.

Over 60% of our teammates invest in our Company.

291
locations

A Big Company That Doesn't Act Like One

Thanks to our lean, decentralized sales and service model, rigid rules and bureaucratic interference are minimized, helping to drive new and innovative solutions for our customers.

Brown & Brown provides the personalized, dedicated service desired from a local agency, while leveraging the exceptional capabilities and peace-of-mind protection expected from a top ten brokerage.

Our vision, speed, and agility allows us to thrive in the competitive, ever-changing insurance industry.

$113,000+
foundation funds dispersed

Health, Family, Business

We encourage a healthy work-life balance. Personal health and well-being of our teammates and their families comes first.

The Brown & Brown Disaster Relief Foundation was established to help our own and others impacted by natural disasters and emergency hardship. Being a Brown & Brown teammate means stepping up to help others in times of need.

We believe that when we, as an organization, collectively value and support these priorities, our Company will continue to be driven by a positive, engaged, and productive team.

9,500+
teammates

Teammate-Driven Success

Every successful team thrives on diversity of talent, experience, and character.

We operate as a meritocracy, meaning we promote and reward individual initiative. Our continued success depends on the effective recruitment and enhancement of the most qualified teammates.

Our teammates are our greatest resource.

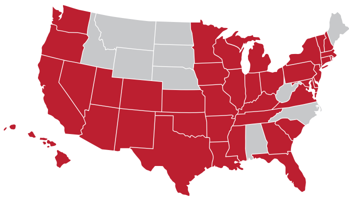
WHAT WE DO

Retail

ACCOMPLISHMENTS

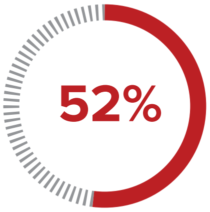
- Enhanced customer relationships
- Developed proprietary products
- Acquired many high-quality firms
- Heightened teammate collaboration
- Evolved technology platforms

LOCATIONS

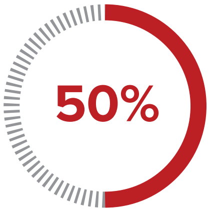


States with Brown & Brown Retail offices; Additional locations in Grand Cayman & Bermuda

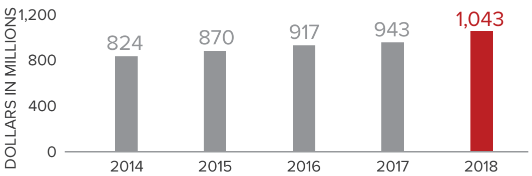
CONTRIBUTION TO TOTAL REVENUE



CONTRIBUTION TO TOTAL EBITDAC(1)



SEGMENT TOTAL REVENUES

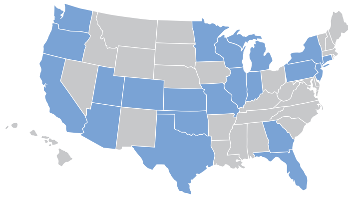


National Programs

ACCOMPLISHMENTS

- Expanded carrier relationships
- Added key leaders
- Rolled out core commercial program
- Launched new product offerings
- InsurTech proof of concepts

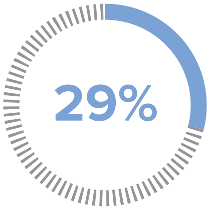
LOCATIONS



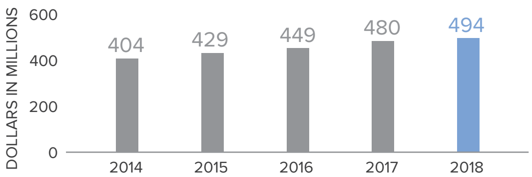
States with Brown & Brown National Programs offices; Additional location in Ontario, Canada

CONTRIBUTION TO TOTAL REVENUE

CONTRIBUTION TO TOTAL EBITDAC(1)



SEGMENT TOTAL REVENUES



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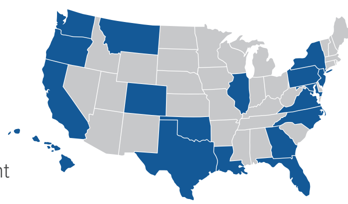
Wholesale Brokerage

ACCOMPLISHMENTS

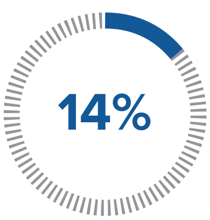
- Rolled out property binding authority
- Expanded carrier relationships
- Acquired workers' compensation business
- Grew geographic footprint
- Expanded talent development program

LOCATIONS

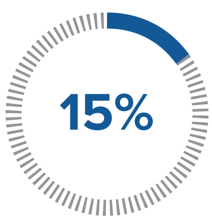


States with Brown & Brown Wholesale Brokerage offices; Additional location in London, England

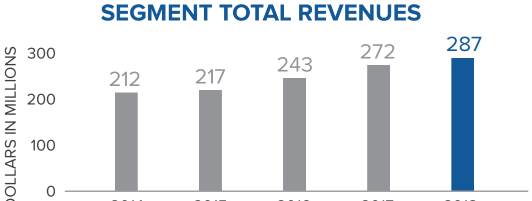
CONTRIBUTION TO TOTAL REVENUE



CONTRIBUTION TO TOTAL EBITDAC[(1)]



SEGMENT TOTAL REVENUES

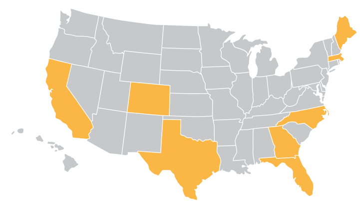


Services

ACCOMPLISHMENTS

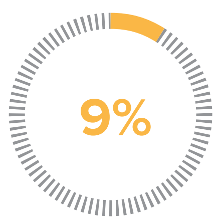
- Invested in innovation & technology
- Focused on teammate development & retention
- Improved collaboration & efficiency
- Enhanced customer experience
- Acquired additional capabilities

LOCATIONS

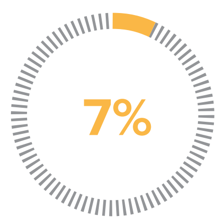


States with Brown & Brown Services offices

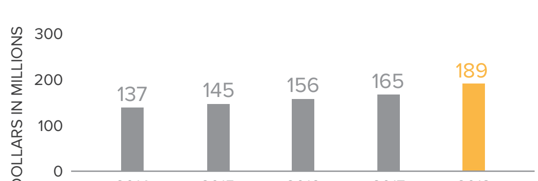
CONTRIBUTION TO TOTAL REVENUE



CONTRIBUTION TO TOTAL EBITDAC[(1)]



SEGMENT TOTAL REVENUES



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Review of Operations

RETAIL

Pictured here are teammates from Strategic Benefit Advisors in Southborough, Massachusetts.

The success of our Retail Segment in 2018 was driven by our best-in-class solutions and service, delivering organic revenue growth[(1)] of 3.0%.

With an average annual customer retention rate of more than 95%, Strategic Benefit Advisors (SBA) is an exceptional example of our customer-centric culture. Customer feedback is a hallmark of this employee benefits advisory firm; and is sought, analyzed, and acted upon every day. SBA's passion for listening and responding to customers' needs is the foundation for their outstanding customer retention rate and a key driver of their success. SBA's team is composed of experienced advisors and a deep bench of subject matter experts–from actuaries to physician specialists. Using their extensive knowledge of the benefits marketplace, their relationships with supplier partners, and their expertise in healthcare delivery models, SBA's advisors create tailored solutions for each customer's unique benefits requirements. The result is a suite of healthcare and group benefits programs that effectively and efficiently serve each customer's specific needs. SBA's passion for ongoing feedback allows them to continuously improve the quality, effectiveness, and breadth of their offerings. It is a crucial element of their commitment to their customers.

In 2019, our Retail Segment will continue to focus on building collaborative teams, investing in customer-centric technology platforms, delivering market-driven solutions to keep our customers ahead of industry trends, and acquiring companies to create additional growth.

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NATIONAL PROGRAMS

The impact of non-recurring revenue associated with the 2017 storm season resulted in organic revenue growth[(1)] of (0.9%) for our National Programs Segment in 2018.

Arrowhead General Insurance Agency's Special Risk division (commercial and residential earthquake) exemplifies underwriting expertise and strong carrier relationships.

Arrowhead's Commercial Earthquake program is one of the largest writers of standalone commercial earthquake policies in the United States and offers the highest commercial earthquake policy limits in California, Oregon, and Washington.

The team developed an innovative policy across multiple carriers, eliminating the cost and inefficiency of issuing separate policies. This creative approach helped drive strong growth in 2018. They also worked with multiple carrier partners to consolidate separate claims administration functions into a single source within our American Claims Management business. This change led to greater efficiency and speed of claims administration.

Arrowhead's Residential Earthquake program has a deeply-ingrained culture of customer engagement—the bedrock of its success—evidenced by the 1,000+ independent agents that distribute its industry-leading offerings.

The team's technical and product expertise is a key contributor to their strong carrier relationships, allowing them to offer expanded coverage options through the automated Arrowhead Exchange portal. This application provides access to fast and accurate quotes and swift underwriting response time for agents.

National Programs is committed to teammate engagement and development as a key piece of our growth strategy, and we will continue to evaluate and explore new product ideas, acquisitions, partnerships, and InsurTech applications. Teammates from the National Programs Segment work every day to create better outcomes for our customers.

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Pictured here are teammates from Arrowhead's Special Risk division in San Diego, California.

Review of Operations

WHOLESALE BROKERAGE

2018 was another banner year for the Wholesale Brokerage Segment with 5.7% organic revenue growth[1], powered by the diversification of our product mix.

The extraordinary success of Procor Solutions + Consulting's (Procor) risk management and claims advisory business demonstrates the quality of this segment's growth. Since its inception in 2013, Procor has grown organically to become one of the leading performers within the Wholesale Brokerage Segment. Procor exemplifies "Insurance in Action"—helping customers protect their people, property, and profits and become more resilient to a catastrophe or disaster. A premier provider of complex property damage and business interruption claims consulting services, Procor helped customers finalize and collect claims in excess of $1 billion in 2018 with exceptional revenue growth. But Procor's services go beyond helping businesses navigate insurance, manage business interruption risk, maximize valuations, and manage claims after an event. What sets Procor apart is its extensive pre-loss planning expertise—helping customers understand what their risks are, how to value them, and how to carefully plan for business continuity. Procor's commitment to excellence permeates every corner of their operation. From the many awards earned by its teammates in 2018, to its office strategically located in Brooklyn's "Tech Triangle," Procor's technology solutions make it easier to engage in disaster planning.

This dedication to customer and operational excellence is shared across the Wholesale Brokerage Segment. As we focus in 2019 on expanding the breadth and geographic footprint of our business, this commitment will be a key enabler to capture additional profitable growth opportunities.

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Pictured here are teammates from Procor Solutions + Consulting in Brooklyn, New York.

Review of Operations

SERVICES

Pictured here are teammates from USIS in Orlando, Florida.

Our commitment to excellence in customer service and innovation was evident in our Services Segment in 2018, which delivered organic revenue growth(1) of 3.4%.

“Service Beyond the Contract” is the motto of USIS, a leader in third-party claims administration and management for workers’ compensation and liability claims. Using the skills and expertise of its subject matter experts and software developers, USIS closely manages the needs and challenges facing its customers to create innovative programs with custom services. These tailor-made solutions reduce cost, increase efficiency, and improve quality of service for injured employees. This extraordinary customer focus allowed USIS to turn the insolvency of a workers’ compensation insurance company into a winning situation. In early 2018, the Florida Workers’ Compensation Insurance Guaranty Association (FWCIGA) turned to USIS to create a program to quickly and efficiently administer more than 2,200 workers’ compensation claims in receivership. Within weeks, USIS’s team of specially trained adjusters and nurses coordinated and reinstated medical care for injured employees, resumed the payment of lost wage benefits, and paid medical providers overdue amounts. Under USIS’s program, 55% of claims were resolved within the first 12 months. Injured employees received the care and financial support they were due, medical providers received the reimbursement they were owed, and FWCIGA’s exposure was minimized—all while contributing to USIS’s growth.

In 2019, the Services Segment will carry forward this deep-rooted dedication to customer focus as we collaborate to seek new ways to deliver more innovative and responsive products and services to drive customer acquisition, retention, and growth.

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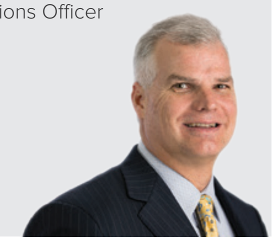
LEADERSHIP OVERVIEW

J. POWELL BROWN, CPCU
President &
Chief Executive Officer

R. ANDREW WATTS
Executive Vice President,
Chief Financial Officer &
Treasurer

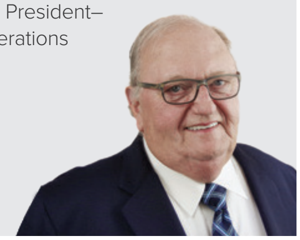
J. SCOTT PENNY, CIC
Executive Vice President &
Chief Acquisitions Officer



ROBERT W. LLOYD, ESQ., CPCU, CIC
Executive Vice President,
General Counsel
& Secretary

JULIE K. RYAN
Executive Vice President &
Chief People Officer

RICHARD A. FREEBOURN, SR., CPCU, CIC
Senior Vice President–
Internal Operations



ANTHONY T. STRIANESE
Executive Vice President &
President–Wholesale
Brokerage Division

CHRIS L. WALKER
Executive Vice President &
President–National
Programs Division

J. NEAL ABERNATHY
Senior Vice President

JOHN R. BERNER
Senior Vice President

SAM R. BOONE, JR.
Senior Vice President

STEVE M. BOYD
Senior Vice President

P. BARRETT BROWN
Senior Vice President & Regional
President—Retail Division

KATHY H. COLANGELO, CIC, ASLI
Senior Vice President

MICHAEL J. EGAN
Senior Vice President & Regional
President—Retail Division

JOHN M. ESPOSITO, CIC
Senior Vice President & Regional
President—Retail Division

JOSEPH S. FAILLA
Senior Vice President

JAMES C. HAYS
Vice Chairman

THOMAS K. HUVAL, CIC
Senior Vice President & Regional
President—Retail Division

MICHAEL L. KEEBY, CIC
Senior Vice President & Regional
President—Retail Division

RICHARD A. KNUDSON, CIC
Senior Vice President & Regional
President—Retail Division

DONALD M. MCGOWAN, JR.
Senior Vice President & Regional
President—Retail Division

B. CARL OWEN, JR.
Senior Vice President &
Chief Information Officer

PAUL F. ROGERS
Senior Vice President & Regional
President—Retail Division

H. VAUGHN STOLL
Senior Vice President

Board of Directors

Left to right:

SAMUEL P. BELL, III, ESQ.
Former Of Counsel Buchanan Ingersoll & Rooney PC

Committees: Acquisition, Compensation

JAMES S. HUNT
Former Executive Vice President & Chief Financial Officer, Walt Disney Parks and Resorts Worldwide

Committees: Acquisition, Audit (Chair), Compensation

THEODORE J. HOEPNER
Former Vice Chairman, SunTrust Bank Holding Company

Committees: Audit, Compensation

BRADLEY CURREY, JR.
Former Chairman & Chief Executive Officer, Rock-Tenn Company

Committee: Nominating/Corporate Governance

CHILTON D. VARNER, ESQ.
Senior Counsel, King & Spalding LLP

Committee: Nominating/Corporate Governance

WENDELL S. REILLY
Managing Partner,
Grapevine Partners, LLC
Lead Director

Committee: Nominating/Corporate Governance (Chair)

J. HYATT BROWN, CPCU, CLU
Chairman, Brown & Brown, Inc.

J. POWELL BROWN, CPCU
President & Chief Executive Officer, Brown & Brown, Inc.

TONI JENNINGS
Chairman, Jack Jennings & Sons;
Former Lieutenant Governor,
State of Florida

Committees: Audit, Compensation (Chair)

H. PALMER PROCTOR, JR.
President & Chief Executive Officer/ Director, Fidelity Bank

Committees: Acquisition (Chair), Compensation

HUGH M. BROWN
Founder and former President & Chief Executive Officer, BAMSI, Inc.

Committees: Acquisition, Audit, Nominating/Corporate Governance

TIMOTHY R. M. MAIN
Global Head of Financial Institutional Group, Barclays Plc

Committee: Acquisition

JAMES C. HAYS
Vice Chairman, Brown & Brown, Inc.

LAWRENCE L. GELLERSTEDT, III
Chairman of the Board &
Chief Executive Officer, Cousins Properties Incorporated

BROWN & BROWN **AT-A-GLANCE**

Retail

From large multinational organizations to small businesses and personal insurance, Brown & Brown's Retail Segment develops comprehensive insurance solutions to fit the needs of our customers. Our customers' exposures are unique and deserve equally unique options that provide appropriate coverage to reduce risk. Utilizing our unparalleled expertise and market strength, we are focused on protecting what our customers value most.

- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- Wisconsin

Outside U.S.:

- Bermuda
- Cayman Islands

National Programs

Teams within Brown & Brown's National Programs Segment specialize in the development and management of insurance program business, often designed for niche, underserved markets. We offer program management expertise for insurance carrier partners across numerous lines of business. By remaining vigilant of emerging insurance exposures and needs, we are leaders in the design of cutting-edge products and programs.

- Allied Protector Plan
- American Specialty
- Arrowhead General Insurance Agency
- Automotive Aftermarket
- Bellingham Underwriters
- CalSurance Associates
- Clear Risk Solutions
- Florida Intracoastal Underwriters
- Health Special Risk
- Irving Weber Associates
- Lawyer's Protector Plan
- Optometric Protector Plan
- Parcel Insurance Plan
- Physicians Protector Plan
- Proctor Financial
- Professional Protector Plan for Dentists
- Professional Risk Specialty Group
- Professional Services Plans
- Protect One for Professionals
- Public Risk Underwriters of Florida
- Public Risk Underwriters of Illinois
- Public Risk Underwriters of Indiana
- Public Risk Underwriters of New Jersey
- Sigma Underwriting Managers
- TitlePac
- Wright Flood
- Wright Public Entity
- Wright Specialty

Wholesale Brokerage

Specializing in placing unique and complex accounts, brokers in Brown & Brown's Wholesale Brokerage Segment are insurance product and program specialists with access to an extensive network of insurance companies offering excess and surplus lines coverages. We offer a distinct value proposition to retail partners: exceptional coverage expertise across a wide range of property and casualty lines of business and access to well-established insurance company relationships often unavailable to retail agencies on a direct basis.

- APEX Insurance Services
- Big Sky Underwriters
- Braishfield Associates
- Bridge Specialty Underwriting
- Combined Group Insurance Services
- Decus Insurance Brokers
- ECC Insurance Brokers
- Graham Rogers
- Halcyon Underwriters
- Hull & Company
- MacDuff Underwriters
- Morstan General Agency
- National Risk Solutions
- Peachtree Special Risk Brokers
- Procor Solutions + Consulting
- Public Risk Underwriters of Texas
- Texas Security General Insurance Agency

Services

Partnering with insurance companies and self-insured entities, Brown & Brown's Services Segment provides third-party claims administration and ancillary services such as surveillance and special investigation services. Our expertise across diverse lines of business includes workers' compensation, professional liability, auto, general liability, flood, and Social Security disability insurance advocacy. Our seasoned team prides itself on being nimble and ready to tailor solutions to meet each customer's unique needs.

- The Advocator Group
- American Claims Management
- Insurance Claims Adjusters
- NuQuest
- Preferred Government Claims Services
- Professional Disability Associates
- Protect Professionals Claims Management
- USIS

COMMUNITIES

Dedicated to the People and Communities We Serve

For 79 years, Brown & Brown has demonstrated a Culture of Caring through dedication to the people and communities we serve. With more than 9,500 teammates in approximately 291 locations, we actively support more than 975 organizations in the many local communities in which we live, work, and play. Brown & Brown is proud to support multiple non-profit groups and other organizations nationwide, including the American Cancer Society, American Red Cross, Big Brothers Big Sisters of America, Habitat for Humanity, Make-A-Wish, Special Olympics, St. Jude Children's Research Hospital, Wounded Warrior Project, and the United Way.

We proudly support conservation efforts to protect the cheetah, our Company symbol, through the Cheetah Conservation Fund and the Ann Van Dyk Cheetah Centre.

Servant leadership helps to build a better organization, and our team is passionate about giving back to our communities and serving those in need.

Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, "we," "Brown & Brown" or the "Company"), makes "forward-looking statements" within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "estimate," "plan" and "continue" or similar words. We have based these statements on our current expectations about potential future events. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-K and the reports, statements, information and announcements incorporated by reference into this report are based upon reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include but are not limited to the following items, in addition to those matters described in Part I, Item 1A "Risk Factors" and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations":

- Future prospects;
- Premium rates set by insurance companies and insurable exposure units, which have traditionally varied and are difficult to predict;
- Material adverse changes in economic conditions in the markets we serve and in the general economy;
- Future regulatory actions and conditions in the states in which we conduct our business;
- The occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia, Washington and Wisconsin, because a significant portion of business written by us is for customers located in these states;
- Our ability to attract, retain and enhance qualified personnel and to maintain our corporate culture;
- Competition from others in or entering into the insurance agency, wholesale brokerage, insurance programs and related service business;
- Disintermediation within the insurance industry, including increased competition from insurance companies, technology companies and the financial services industry, as well as the shift away from traditional insurance markets;
- The integration of our operations with those of businesses or assets we have acquired, including our November 2018 acquisition of The Hays Group, Inc. and certain of its affiliates, or may acquire in the future and the failure to realize the expected benefits of such integration;
- Risks that could negatively affect our acquisition strategy, including continuing consolidation among insurance intermediaries and the increasing presence of private equity investors driving up valuations;
- Our ability to forecast liquidity needs through at least the end of 2019;
- Our ability to renew or replace expiring leases;
- Outcomes of existing or future legal proceedings and governmental investigations;
- Policy cancellations and renewal terms, which can be unpredictable;
- Potential changes to the tax rate that would affect the value of deferred tax assets and liabilities and the impact on income available for investment or distribution to shareholders;
- The inherent uncertainty in making estimates, judgments, and assumptions in the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP");
- Our ability to effectively utilize technology to provide improved value for our customers or carrier partners as well as applying effective internal controls and efficiencies in operations; and
- Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission ("SEC") filings.

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

2018 Financial Review

General

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

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

We have increased revenues every year from 1993 to 2018, with the exception of 2009, when our revenues dropped 1.0%. Our revenues grew from $95.6 million in 1993 to $2.0 billion in 2018, reflecting a compound annual growth rate of 13.0%. In the same 25-year period, we increased net income from $8.1 million to $344.3 million in 2018, a compound annual growth rate of 16.2%.

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

The term "Organic Revenue," a non-GAAP measure, is our core commissions and fees less (i) the core commissions and fees earned for the first twelve months by newly-acquired operations, (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period), and (iii) the impact of the adoption of Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and Accounting Standards Codification Topic 340 – Other Assets and Deferred Cost (the "New Revenue Standard") effective January 1, 2018. The term "core commissions and fees" excludes profit-sharing contingent commissions and guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. "Organic Revenue" is reported in this manner in order to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes attributable to (i) net new and lost accounts, (ii) net changes in our customers' exposure units, (iii) net changes in insurance premium rates or the commission rate paid to us by our carrier partners, (iv) the net change in fees paid to us by our customers and (v) fees earned based upon claim processing volumes within our Services Segment. Organic Revenue is reported in "Results of Operations" and in "Results of Operations - Segment Information" of this Form 10-K.

We also earn "profit-sharing contingent commissions," which are commissions based primarily on underwriting results, but which may also reflect considerations for volume, growth and/or retention. These commissions which are included in our commissions and fees in the Consolidated Statement of Income, are accrued throughout the year based on actual premiums written and are primarily received in the first and second quarters of each year, based upon the aforementioned considerations for the prior year(s). Prior to the adoption of the New Revenue Standard, these commissions were recorded to income when received. Over the last three years, profit-sharing contingent commissions have averaged approximately 3.1% of the previous year's commissions and fees revenue.

Certain insurance companies offer guaranteed fixed-base agreements, referred to as “Guaranteed Supplemental Commissions” (“GSCs”) in lieu of profit-sharing contingent commissions. GSCs are accrued throughout the year based upon actual premiums written. For the year ended December 31, 2018, we had earned $ 10.0 million of GSCs, of which $8.9 million remained accrued at December 31, 2018 as most of this will be collected over the first and second quarters of 2019. For the years ended December 31, 2018, 2017, and 2016, we earned $10.0 million, $10.4 million and $11.5 million, respectively, from GSCs.

Combined, our profit-sharing contingent commissions and GSCs for the year ended December 31, 2018 increased by $3.3 million over 2017 primarily as a result of an increase in profit-sharing contingent commissions and GSCs in the National Programs Segments. Other income decreased by $20.8 million primarily as a result of a legal settlement recognized in the first quarter of 2017.

Fee revenues primarily relate to services other than securing coverage for our customers, as well as fees negotiated in lieu of commissions, and are recognized as performance obligations are satisfied. Fee revenues have historically been generated primarily by: (1) our Services Segment, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services, and claims adjusting services; (2) our National Programs and Wholesale Brokerage Segments, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies; and to a lesser extent (3) our Retail Segment in our large-account customer base. Fee revenues as a percentage of our total commissions and fees, represented 19.8% in 2018, 31.5% in 2017, and 31.3% in 2016.

For the years ended December 31, 2018 and 2017, our commissions and fees growth rate was 8.2% and 5.4%, respectively, and our consolidated Organic Revenue growth rate was 2.4% and 4.4%, respectively. In the event that the gradual increases in insurable exposure units that occurred in the past few years continues through 2019 and premium rate changes are similar with 2018, we believe we will continue to see positive quarterly Organic Revenue growth rates in 2019.

Historically, investment income has consisted primarily of interest earnings on operating cash and where permitted, on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. Investment income also includes gains and losses realized from the sale of investments. Other income primarily reflects legal settlements and other miscellaneous income.

Income before income taxes for the year ended December 31, 2018 increased over 2017 by $12.7 million, primarily as a result of net new business and acquisitions completed in the past twelve months offset by lower weather related claims processing revenues in 2018 and a legal settlement recorded in the first quarter of 2017.

Information Regarding Non-GAAP Measures

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

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

Tabular reconciliations of this supplemental non-GAAP financial information to our most comparable GAAP information are contained in this Annual Report on Form 10-K under “Results of Operation–Segment Information.”

Acquisitions

Part of our business strategy is to attract high-quality insurance intermediaries to join our operations. From 1993 through the fourth quarter of 2018, we acquired 513 insurance intermediary operations, excluding acquired books of business (customer accounts). During the year ended December 31, 2018, the Company acquired the assets and assumed certain liabilities of twenty insurance intermediaries, all of the stock of three insurance intermediaries and one book of business (customer accounts). Collectively, these acquired businesses had annualized revenues of approximately $323.2 million.

On November 15, 2018, we completed the acquisition of certain assets and assumption of certain liabilities of The Hays Group, Inc. and certain of its affiliates (collectively, “Hays”). At closing, we delivered a payment of $705 million, consisting of $605 million in cash and the issuance to certain key owners of Hays of 3,376,103 shares of our common stock for a total value of $ 100.0 million. In addition, the Company may pay additional consideration to Hays in the form of earn-out payments in the aggregate amount of up to $25.0 million in cash over three years, which is subject to certain conditions and the successful achievement of average annual EBITDA compound annual growth rate targets for the acquired business during 2019, 2020 and 2021. Hays was founded in 1994 providing employee benefits, property & casualty, and personal lines insurance and has grown to be the 22nd largest U.S. broker as measured by Business Insurance magazine. With headquarters in Minneapolis, Hays operates across twenty-one states, increasing our presence in the mid-west. This transaction was initially funded through utilization of the Company’s revolving line of credit within our credit facility, details of which can be found in “Management’s Discussion and Analysis of Financial Condition”, “Results of Operations” and Note 9 “Long-Term Debt” in the “Notes to Consolidated Financial Statements”.

Critical Accounting Policies

Our Consolidated Financial Statements are prepared in accordance with 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 upon historical experience and on 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, of which values are not readily apparent from other sources. Actual results may differ from these estimates.

We believe that of our significant accounting and reporting policies, the more critical policies include our accounting for revenue recognition, business combinations, and purchase price allocations, intangible asset impairments, non-cash stock-based compensation, and reserves for litigation. In particular, the accounting for these areas requires significant use of judgment to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” for a discussion of the impacts for adopting Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606).

Revenue Recognition

The majority of our revenue is commissions derived from our performance as agents and brokers, acting on behalf of insurance carriers to sell products to customers that are seeking to transfer risk, and conversely, acting on behalf of those customers in negotiating with insurance carriers seeking to acquire risk in exchange for premiums. In these arrangements our performance obligation is complete upon the effective date of the bound policy, as such that is when the associated revenue is recognized. Where the Company’s performance obligations have been completed, but the final amount of compensation is unknown due to variable factors, we estimate the amount of such compensation. We recognize subsequent commission adjustments upon our receipt of additional information or final settlement, whichever occurs first.

To a lesser extent, the Company earns revenues in the form of fees. Like commissions, fees paid to us in lieu of commission, are recognized upon the effective date of the bound policy. When we are paid a fee for service, however, the associated revenue is recognized over a period of time that coincides with when the customer simultaneously receives and consumes the benefit of our work, which characterizes most of our claims processing arrangements and various services performed in our employee benefits practices. Other fees are typically recognized upon the completion of the delivery of the agreed-upon services to the customer.

Management determines a policy cancellation reserve based upon historical cancellation experience adjusted in accordance with known circumstances.

Please see Note 2 “Revenues” in the “Notes to Consolidated Financial Statements” for additional information regarding the nature and timing of our revenues.

Business Combinations and Purchase Price Allocations

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

All of our business combinations initiated after June 30, 2001 have been accounted for using the acquisition method. In connection with these acquisitions, we record the estimated value of the net tangible assets purchased and the value of the identifiable intangible assets purchased, which typically consist of purchased customer accounts and non-compete agreements. Purchased customer accounts include the physical records and files obtained from acquired businesses that contain information about insurance policies, customers and other matters essential to policy renewals. However, they primarily represent the present value of the underlying cash flows expected to be received over the estimated future renewal periods of the insurance policies comprising those purchased customer accounts. The valuation of purchased customer accounts involves significant estimates and assumptions concerning matters such as cancellation frequency, expenses and discount rates. Any change in these assumptions could affect the carrying value of purchased customer accounts. Non-compete agreements are valued based upon their duration and any unique features of the particular agreements. Purchased customer accounts and non-compete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from 3 to 15 years. The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and intangible assets is assigned to goodwill and is not amortized.

Acquisition purchase prices are typically based upon a multiple of average annual operating profit and/or core revenue earned over a one to three-year period within a minimum and maximum price range. The recorded purchase prices for all acquisitions include an estimation of the fair value of liabilities associated with any potential earn-out provisions, where an earn-out is part of the negotiated transaction. Subsequent changes in the fair value of earn-out obligations are recorded in the Consolidated Statement of Income when changes to the expected performance of the associated business are realized.

The fair value of earn-out obligations is based upon the present value of the expected future payments to be made to the sellers of the acquired businesses in accordance with the provisions contained 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 this estimate 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 estimates are then discounted to a present value using a risk-adjusted rate that takes into consideration the likelihood that the forecasted earn-out payments will be made.

Intangible Assets Impairment

Goodwill is subject to at least an annual assessment for impairment measured by a fair-value-based test. Amortizable intangible assets are amortized over their useful lives and are subject to an impairment review based upon an estimate of the undiscounted future cash flows resulting from the use of the assets. To determine if there is potential impairment of goodwill, we compare the fair value of each reporting unit with its carrying value. If the fair value of the reporting unit is less than its carrying value, an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based upon multiples of earnings before interest, income taxes, depreciation, amortization, and change in estimated acquisition earn-out payables (“EBITDAC”), or on a discounted cash flow basis.

Management assesses the recoverability of our goodwill and our amortizable intangibles and other long-lived assets annually and whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Any of the following factors, if present, may trigger an impairment review: (i) a significant underperformance relative to historical or projected future operating results, (ii) a significant negative industry or economic trend, and (iii) a significant decline in our market capitalization. If the recoverability of these assets is unlikely because of the existence of one or more of the above-referenced factors, an impairment analysis is performed. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2018 and determined that the fair value of goodwill exceeded the carrying value of such assets. Additionally, there have been no impairments recorded for amortizable intangible assets for the years ended December 31, 2018, 2017 and 2016.

Non-Cash Stock-Based Compensation

We grant non-vested stock awards to our employees, with the related compensation expense recognized in the financial statements over the associated service period based upon the grant-date fair value of those awards.

During the first quarter of 2017, the performance conditions for 326,808 shares of the Company's common stock granted under the Company's Stock Incentive Plan were determined by the Compensation Committee to have been satisfied relative to performance-based grants issued in 2012. These grants had a performance measurement period that concluded on December 31, 2016. The vesting condition for these grants requires continuous employment for a period of up to ten years from the January 2012 grant date in order for the awarded shares to become fully vested and nonforfeitable. As a result of the awarding of these shares, the grantees will be eligible to receive payments of dividends and exercise voting privileges after the awarding date, and the awarded shares will be included as issued and outstanding common stock shares and included in the calculation of basic and diluted net income per share where the net income attributable to unvested awarded stock plans is excluded from the total net income attributable to common shares.

During the first quarter of 2018, the performance conditions for 260,344 shares of the Company's common stock granted under the Company's Stock Incentive Plan were determined by the Compensation Committee to have been satisfied relative to performance-based grants issued in 2013. These grants had a performance measurement period that concluded on December 31, 2017. The vesting condition for these grants requires continuous employment for a period of up to ten years from the January 2013 grant date in order for the awarded shares to become fully vested and nonforfeitable. During the third quarter of 2018, the performance conditions for 2,229,561 shares of the Company's common stock granted under the Company's Stock Incentive Plan were determined by the Compensation Committee to have been satisfied relative to performance-based grants issued in July 2013. These grants had a performance measurement period that concluded on June 30, 2018. The vesting condition for these grants requires continuous employment for a period of up to seven years from the July 2013 grant date in order for the awarded shares to become fully vested and nonforfeitable. As a result of the awarding of these shares, the grantees will be eligible to receive payments of dividends and exercise voting privileges after the awarding date, and the awarded shares will be included as issued and outstanding common stock shares and included in the calculation of basic and in diluted net income per share where the net income attributable to unvested awarded stock plans is excluded from the total net income attributable to common shares.

During the first quarter of 2019, the performance conditions for approximately 2.0 million shares of the Company's common stock granted under the Company's Stock Incentive Plan were determined by the Compensation Committee to have been satisfied relative to performance-based grants issued in 2014 and 2016. These grants had a performance measurement period that concluded on December 31, 2018. The vesting condition for these grants requires continuous employment for a period of up to seven years from the 2014 grant date and five years from the 2016 grant date in order for the awarded shares to become fully vested and nonforfeitable. As a result of the awarding of these shares, the grantees will be eligible to receive payments of dividends and exercise voting privileges after the awarding date, and the awarded shares will be included as issued and outstanding common stock shares and included in the calculation of basic and diluted net income per share.

Litigation and Claims

We are subject to numerous litigation claims that arise in the ordinary course of business. If it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is estimable, an accrual for the costs to resolve these claims is recorded in accrued expenses in the accompanying Consolidated Financial Statements. Professional fees related to these claims are included in other operating expenses in the accompanying Consolidated Statement of Income as incurred. Management, with the assistance of in-house and outside counsel, determines whether it is probable that a liability has been incurred and estimates the amount of loss based upon analysis of individual issues. New developments or changes in settlement strategy in dealing with these matters may significantly affect the required reserves and affect our net income.

Results of Operations for the Years Ended December 31, 2018, 2017, and 2016

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

Financial information relating to our Consolidated Financial Results is as follows:

(in thousands, except percentages)	2018	% Change	2017	% Change	2016
REVENUES					
Core commissions and fees	$ 1,944,021	8.3%	$ 1,794,714	5.7%	$ 1,697,308
Profit-sharing contingent commissions	55,875	7.1%	52,186	(3.4)%	54,000
Guaranteed supplemental commissions	9,961	(3.9)%	10,370	(9.7)%	11,479
Commissions and fees	2,009,857	8.2%	1,857,270	5.4%	1,762,787
Investment income	2,746	68.9%	1,626	11.7%	1,456
Other income, net	1,643	(92.7)%	22,451	NMF	2,386
Total revenues	**2,014,246**	**7.1%**	**1,881,347**	**6.5%**	**1,766,629**
EXPENSES					
Employee compensation and benefits	1,068,914	7.5%	994,652	7.5%	925,217
Other operating expenses	332,118	17.2%	283,470	7.8%	262,872
(Gain)/loss on disposal	(2,175)	0.8%	(2,157)	67.1%	(1,291)
Amortization	86,544	1.3%	85,446	(1.4)%	86,663
Depreciation	22,834	0.6%	22,698	8.1%	21,003
Interest	40,580	5.9%	38,316	(3.0)%	39,481
Change in estimated acquisition earn-out payables	2,969	(67.7)%	9,200	0.2%	9,185
Total expenses	**1,551,784**	**8.4%**	**1,431,625**	**6.6%**	**1,343,130**
Income before income taxes	**462,462**	**2.8%**	**449,722**	**6.2%**	**423,499**
Income taxes	118,207	136.0%	50,092	(69.8)%	166,008
NET INCOME	**$ 344,255**	**(13.8)%**	**$ 399,630**	**55.2%**	**$ 257,491**
Income Before Income Taxes Margin	23.0%		23.9%		24.0%
EBITDAC(1)	615,389	1.7%	605,382	4.4%	579,831
EBITDAC Margin(1)	30.6%		32.2%		32.8%
Organic Revenue growth rate(1)	2.4%		4.4%		3.0%
Employee compensation and benefits relative to total revenues	53.1%		52.9%		52.4%
Other operating expenses relative to total revenues	16.5%		15.1%		14.9%
Capital expenditures	$ 41,520	71.6%	$ 24,192	36.2%	$ 17,765
Total assets at December 31	**$6,688,668**	**16.4%**	**$5,747,550**	**9.2%**	**$5,262,734**

(1) A non-GAAP measure

NMF = Not a meaningful figure

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions and GSCs for 2018, increased $152.6 million to $2,009.9 million, or 8.2% over 2017. Core commissions and fees in 2018 increased $149.3 million, of which $ 91.2 million represented core commissions and fees from acquisitions that had no comparable revenues in 2017; approximately $43.5 million represented net new and renewal business; approximately $16.1 million related to the impact of the adoption of the New Revenue Standard; which was offset by $1.5 million related to commissions and fees revenue from businesses divested in 2017 and 2018, which reflected an Organic Revenue growth rate of 2.4%. Profit-sharing contingent commissions and GSCs for 2018 increased by $3.3 million, or 5.2%, compared to the same period in 2017. The net increase of $3.3 million was mainly driven by an increase in profit-sharing contingent commissions and GSCs in the National Programs Segment.

Commissions and fees, including profit-sharing contingent commissions and GSCs for 2017, increased $94.5 million to $1,857.3 million, or 5.4% over 2016. Core commissions and fees in 2017 increased $97.4 million, of which approximately $27.7 million represented core commissions and fees from agencies acquired since 2016 that had no comparable revenues. After accounting for divested business of $4.9 million, the remaining net increase of $74.6 million represented net new business, which reflected an Organic Revenue growth rate of 4.4% for core commissions and fees. Profit-sharing contingent commissions and GSCs for 2017 decreased by $2.9 million, or 4.5%, compared to the same period in 2016. The net decrease of $2.9 million was mainly driven by a decrease in profit-sharing contingent commissions and GSCs in the Retail and Wholesale Brokerage Segments, as a result of increased loss ratios and lower premium rates, which was partially offset by an increase in profit-sharing contingent commissions and GSCs in the National Programs Segment.

Investment Income

Investment income increased to $2.7 million in 2018, compared with $1.6 million in 2017 and increased to $1.6 million in 2017, compared with $1.5 million in 2016. The increases in both years were due to additional interest income driven by higher interest rates and cash management activities to earn a higher yield on excess cash balances.

Other Income, Net

Other income for 2018 was $1.6 million, compared with $22.4 million in 2017 and $2.4 million in 2016. Other income consists primarily of legal settlements and other miscellaneous income. In 2017, $20.0 million of other income was recognized as a result of a legal settlement with AssuredPartners.

Employee Compensation and Benefits

Employee compensation and benefits expense increased 7.5%, or $74.3 million, in 2018 over 2017. This increase included $34.8 million of compensation costs related to stand-alone acquisitions that had no comparable costs in the same period of 2017. Therefore, employee compensation and benefits expense attributable to those offices that existed in the same time periods of 2018 and 2017 increased by $39.5 million or 3.9%. This underlying employee compensation and benefits expense increase was primarily related to (i) an increase in staff salaries attributable to salary inflation, higher volumes in portions of our business and the mix of business across the company; (ii) increased producer commissions due to higher revenue; partially offset by (iii) a decrease of approximately $8.8 million in commission expense as a result of the adoption of the New Revenue Standard which requires the deferral of incremental costs to obtain a customer contract, and (iv) the increase in the value of corporate-owned life insurance policies associated with our deferred compensation plan which is substantially offset in other operating expenses. Employee compensation and benefits expense as a percentage of total revenues was 53.1% for 2018 as compared to 52.9% for the year ended December 31, 2017.

Employee compensation and benefits expense increased 7.5%, or $69.4 million, in 2017 over 2016. This increase included $11.1 million of compensation costs related to stand-alone acquisitions that had no comparable costs in the same period of 2016. Therefore, employee compensation and benefits expense attributable to those offices that existed in the same time periods of 2017 and 2016 increased by $58.3 million or 6.4%. This underlying employee compensation and benefits expense increase was primarily related to (i) higher bonuses due to increased revenue and operating profit as well as the additional cost associated with the Retail Segment’s performance incentive plan introduced in 2017, (ii) an increase in producer commissions driven by new and renewed business, (iii) an increase in non-cash stock-based compensation expense due to forfeiture credits recognized in 2016, and (iv) increased staff salaries attributable to salary inflation and higher volumes in portions of our business. Employee compensation and benefits expense as a percentage of total revenues was 52.9% for 2017 as compared to 52.4% for the year ended December 31, 2016.

Other Operating Expenses

Other operating expenses in 2018 increased 17.2%, or $48.6 million, over 2017, of which $14.0 million was related to acquisitions that had no comparable costs in the same period of 2017. The other operating expenses for those offices that existed in the same periods in both 2018 and 2017 increased by $34.7 million or 6.6%, which was primarily attributable to (i) additional expenses associated with our investment in information technology and higher value-added consulting services; (ii) an increase of approximately $10.5 million for costs that had previously been reported on a net basis as contra-revenue prior to the adoption of the New Revenue Standard ; (iii) the increase in the value of corporate-owned life insurance policies associated with our deferred compensation plan which was substantially offset by employee compensation and benefits and partially offset by (iv) the benefits from our strategic purchasing program. Other operating expenses as a percentage of total revenues was 16.5% in 2018 as compared to 15.1% for the year ended December 31, 2017.

Other operating expenses in 2017 increased 7.8%, or $20.6 million, over 2016, of which $3.3 million was related to acquisitions that had no comparable costs in the same period of 2016. The other operating expenses for those offices that existed in the same periods in both 2017 and 2016, increased by $17.3 million or 6.6%, which was primarily attributable to (i) higher data processing costs related to our multi-year technology investment program, (ii) the receipt of certain premium tax refunds by our National Flood Program business in 2016, and (iii) professional fees at our National Programs Division. Other operating expenses as a percentage of total revenues was 15.1% in 2017 and 14.9% in 2016.

Gain or Loss on Disposal

The Company recognized gains on disposal of $2.2 million in 2018 and 2017 and $1.3 million in 2016. The change in the gain on disposal was due to activity associated with book of business sales. Although we are not in the business of selling customer accounts, we periodically sell an office or a book of business (one or more customer accounts) that we believe does not produce reasonable margins or demonstrate a potential for growth, or because doing so is in the Company's best interest.

Amortization

Amortization expense increased $1.1 million, or 1.3%, in 2018, and decreased $ 1.2 million, or 1.4%, in 2017. The increase in 2018 is a result of the addition of intangibles associated with newly acquired businesses and the decrease in 2017 is a result of certain intangibles becoming fully amortized or otherwise written off as part of disposed businesses, which was partially offset by the amortization of new intangibles from recently acquired businesses.

Depreciation

Depreciation expense increased $0.1 million, or 0.6%, in 2018, and increased $1.7 million, or 8.1% in 2017 as compared to 2016. These increases are due primarily to the addition of fixed assets resulting from capital projects related to our multi-year technology investment program and other business initiatives.

Interest Expense

Interest expense increased $2.3 million, or 5.9%, in 2018 from 2017, and decreased $1.2 million, or 3.0% in 2017 from 2016. The increase in 2018 was due primarily to the additional debt added in the fourth quarter with increased payments for newly acquired businesses, as well as increased interest rate exposure on the Company's floating rate notes. The decrease in 2017 was due primarily to having less total debt outstanding.

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

The net charge or credit to the 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 December 31, 2018, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820-Fair Value Measurement. The resulting net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, 2018, 2017, and 2016 were as follows:

(in thousands)	2018	2017	2016
Change in fair value of estimated acquisition earn-out payables	$ 603	$ 6,874	$ 6,338
Interest expense accretion	2,366	2,326	2,847
Net change in earnings from estimated acquisition earn-out payables	**$2,969**	**$9,200**	**$9,185**

For the years ended December 31, 2018, 2017, and 2016, the fair value of estimated earn-out payables was re-evaluated and increased by $0.6 million, $6.9 million and $6.3 million, respectively, which resulted in charges to the Consolidated Statement of Income.

As of December 31, 2018, the estimated acquisition earn-out payables equaled $89.9 million, of which $21.1 million was recorded as accounts payable and $68.8 million was recorded as other non-current liability. As of December 31, 2017, the estimated acquisition earn-out payables equaled $36.2 million, of which $25.1 million was recorded as accounts payable and $11.1 million was recorded as other non-current liability.

Income Taxes

The effective tax rate on income from operations was 25.6% in 2018, 11.1% in 2017, and 39.2% in 2016. The Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act") makes changes to the U.S. tax code that affected our income tax rate in 2017 and 2018. The Tax Reform Act reduces the U.S. federal corporate income tax rate from 35.0% to 21.0% and requires companies to pay a one-time transition tax on certain unrepatriated earnings from foreign subsidiaries that is payable over eight years. The Tax Reform Act also establishes new tax laws that became effective January 1, 2018. The 2018 effective tax rate reflects the reduction in the federal corporate income tax rate. The 2017 effective tax rate reflects the revaluation of deferred tax liabilities as described in Part II, Note 10 "Income Taxes," in addition to adoption of FASB Accounting Standards Update 2016-09, "Improvements to Employee Share Based Payment Accounting" ("ASU 2016-09") in the first quarter of 2017. ASU 2016-09, which requires upon vesting of stock-based compensation, any tax implications be treated as a discrete credit to the income tax expense in the quarter of vesting, amends guidance issued in ASC Topic 718, Compensation - Stock Compensation.

Results of Operations—Segment Information

As discussed in Note 16 "Segment Information" of the Notes to Consolidated Financial Statements, we operate four reportable segments: Retail, National Programs, Wholesale Brokerage and Services. On a segmented basis, changes in amortization, depreciation and interest expenses generally result from activity associated with acquisitions. Likewise, other income in each segment reflects net gains primarily from legal settlements and miscellaneous income. As such, in evaluating the operational efficiency of a segment, management focuses on the Organic Revenue growth rate of core commissions and fees, the ratio of total employee compensation and benefits to total revenues, and the ratio of other operating expenses to total revenues.

The reconciliation of total commissions and fees, included in the Consolidated Statement of Income, to Organic Revenue for the years ended December 31, 2018 and 2017 is as follows:

	Year Ended December 31,	
(in thousands)	2018	2017
Commissions and fees	$ 2,009,857	$ 1,857,270
Profit-sharing contingent commissions	(55,875)	(52,186)
Guaranteed supplemental commissions	(9,961)	(10,370)
Core commissions and fees	1,944,021	1,794,714
New Revenue Standard impact on core commissions and fees	(16,091)	—
Acquisition revenues	(91,177)	—
Divested businesses	—	(1,490)
Organic Revenue	**$1,836,753**	**$1,793,224**

The reconciliation of total commissions and fees to Organic Revenue for the year ended December 31, 2018, by Segment, are as follows:

2018	Retail[1]		National Programs		Wholesale Brokerage		Services		Total	
(in thousands, except percentages)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Commissions and fees	$1,040,574	$942,039	$493,878	$479,017	$286,364	$271,141	$189,041	$165,073	$2,009,857	$1,857,270
Total change	$ 98,535		$ 14,861		$ 15,223		$ 23,968		$ 152,587	
Total growth %	10.5%		3.1%		5.6%		14.5%		8.2%	
Profit-sharing contingent commissions	(24,517)	(23,377)	(23,896)	(20,123)	(7,462)	(8,686)	—	—	(55,875)	(52,186)
GSCs	(8,535)	(9,108)	(76)	(31)	(1,350)	(1,231)	—	—	(9,961)	(10,370)
Core commissions and fees	$1,007,522	$909,554	$469,906	$458,863	$277,552	$261,224	$189,041	$165,073	$1,944,021	$1,794,714
New Revenue Standard	1,254	—	(7,973)	—	935	—	(10,307)	—	(16,091)	—
Acquisition revenues	(73,405)	—	(7,289)	—	(2,514)	—	(7,969)	—	(91,177)	—
Divested business	—	(1,270)	—	(114)	—	(106)	—	—	—	(1,490)
Organic Revenue[2]	$ 935,371	$908,284	$454,644	$458,749	$275,973	$261,118	$170,765	$165,073	$1,836,753	$1,793,224
Organic Revenue growth[2]	$ 27,087		$ (4,105)		$ 14,855		$ 5,692		$ 43,529	
Organic Revenue growth %[2]	3.0%		(0.9)%		5.7%		3.4%		2.4%	

(1) The Retail Segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 16 of the Notes to the Consolidated Financial Statements, which includes corporate and consolidation items.

(2) A non-GAAP financial measure.

The reconciliation of total commissions and fees, included in the Consolidated Statement of Income, to Organic Revenue for the years ended December 31, 2017 and 2016, is as follows:

	Year Ended December 31,	
(in thousands)	2017	2016
Commissions and fees	$ 1,857,270	$ 1,762,787
Profit-sharing contingent commissions	(52,186)	(54,000)
Guaranteed supplemental commissions	(10,370)	(11,479)
Core commissions and fees	1,794,714	1,697,308
Acquisition revenues	(27,739)	—
Divested businesses	—	(4,912)
Organic Revenue	**$1,766,975**	**$1,692,396**

The reconciliation of total commissions and fees to Organic Revenue for the year ended December 31, 2017, by Segment, are as follows:

2017	**Retail[1]**		**National Programs**		**Wholesale Brokerage**		**Services**		**Total**	
(in thousands, except percentages)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Commissions and fees	$942,039	$916,084	$479,017	$447,808	$271,141	$242,813	$165,073	$156,082	$1,857,270	$1,762,787
Total change	$ 25,955		$ 31,209		$ 28,328		$ 8,991		$ 94,483	
Total growth %	2.8%		7.0%		11.7%		5.8%		5.4%	
Profit-sharing contingent commissions	(23,377)	(25,207)	(20,123)	(17,306)	(8,686)	(11,487)	—	—	(52,186)	(54,000)
GSCs	(9,108)	(9,787)	(31)	(23)	(1,231)	(1,669)	—	—	(10,370)	(11,479)
Core commissions and fees	$909,554	$881,090	$458,863	$430,479	$261,224	$229,657	$165,073	$156,082	$1,794,714	$1,697,308
Acquisition revenues	(8,151)	—	(2,296)	—	(16,442)	—	(850)	—	(27,739)	—
Divested business	—	(4,838)	—	(277)	—	—	—	203	—	(4,912)
Organic Revenue[2]	$901,403	$876,252	$456,567	$430,202	$244,782	$229,657	$164,223	$156,285	$1,766,975	$1,692,396
Organic Revenue growth[2]	$ 25,151		$ 26,365		$ 15,125		$ 7,938		$ 74,579	
Organic Revenue growth %[2]	2.9%		6.1%		6.6%		5.1%		4.4%	

(1) The Retail Segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 16 of the Notes to the Consolidated Financial Statements, which includes corporate and consolidation items.

(2) A non-GAAP financial measure.

The reconciliation of total commissions and fees, included in the Consolidated Statement of Income, to Organic Revenue for the years ended December 31, 2016 and 2015, is as follows:

	Year Ended December 31,	
(in thousands)	**2016**	**2015**
Commissions and fees	$1,762,787	$1,656,951
Profit-sharing contingent commissions	(54,000)	(51,707)
Guaranteed supplemental commissions	(11,479)	(10,026)
Core commissions and fees	1,697,308	1,595,218
Acquisition revenues	(61,713)	—
Divested businesses	—	(6,669)
Organic Revenue	$1,635,595	$1,588,549

The reconciliation of total commissions and fees to Organic Revenue for the year ended December 31, 2016, by Segment, are as follows:

2016	Retail[(1)]		National Programs		Wholesale Brokerage		Services		Total	
(in thousands, except percentages)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Commissions and fees	$916,084	$ 866,465	$447,808	$428,473	$242,813	$216,638	$156,082	$145,375	$1,762,787	$1,656,951
Total change	$ 49,619		$ 19,335		$ 26,175		$ 10,707		$ 105,836	
Total growth %	5.7%		4.5%		12.1%		7.4%		6.4%	
Profit-sharing contingent commissions	(25,207)	(22,051)	(17,306)	(15,558)	(11,487)	(14,098)	—	—	(54,000)	(51,707)
GSCs	(9,787)	(8,291)	(23)	(30)	(1,669)	(1,705)	—	—	(11,479)	(10,026)
Core commissions and fees	$881,090	$ 836,123	$430,479	$412,885	$229,657	$200,835	$156,082	$145,375	$1,697,308	$1,595,218
Acquisition revenues	(31,151)	—	(1,680)	—	(20,164)	—	(8,718)	—	(61,713)	—
Divested business	—	(1,926)	—	(1,296)	—	—	—	(3,447)	—	(6,669)
Organic Revenue[(2)]	$849,939	$ 834,197	$428,799	$411,589	$209,493	$200,835	$147,364	$141,928	$1,635,595	$1,588,549
Organic Revenue growth[(2)]	$ 15,742		$ 17,210		$ 8,658		$ 5,436		$ 47,046	
Organic Revenue growth %[(2)]	1.9%		4.2%		4.3%		3.8%		3.0%	

(1) The Retail Segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 16 of the Notes to the Consolidated Financial Statements, which includes corporate and consolidation items.

(2) A non-GAAP financial measure.

The reconciliation of income before incomes taxes, included in the Consolidated Statement of Income, to EBITDAC, a non-GAAP measure, and Income Before Income Taxes Margin to EBITDAC Margin, a non-GAAP measure, for the year ended December 31, 2018, is as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Income before income taxes	$217,845	$117,375	$70,171	$34,508	$ 22,563	$462,462
Income Before Income Taxes Margin	20.9%	23.7%	24.4%	18.2%	NMF	23.0%
Amortization	44,386	25,954	11,391	4,813	—	86,544
Depreciation	5,289	5,486	1,628	1,558	8,873	22,834
Interest	35,969	26,181	5,254	2,869	(29,693)	40,580
Change in estimated acquisition earn-out payables	1,081	875	815	198	—	2,969
EBITDAC	$304,570	$175,871	$89,259	$43,946	$ 1,743	$615,389
EBITDAC Margin	29.2%	35.6%	31.1%	23.2%	NMF	30.6%

NMF = Not a meaningful figure

The reconciliation of income before incomes taxes, included in the Consolidated Statement of Income, to EBITDAC, a non-GAAP measure, and Income Before Income Taxes Margin to EBITDAC Margin, a non-GAAP measure, for the year ended December 31, 2017, is as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Income before income taxes	$196,616	$109,961	$68,844	$30,498	$ 43,803	$449,722
Income Before Income Taxes Margin	20.8%	22.9%	25.3%	18.4%	NMF	23.9%
Amortization	42,164	27,277	11,456	4,548	1	85,446
Depreciation	5,210	6,325	1,885	1,600	7,678	22,698
Interest	31,133	35,561	6,263	3,522	(38,163)	38,316
Change in estimated acquisition earn-out payables	8,087	786	327	—	—	9,200
EBITDAC	$283,210	$179,910	$88,775	$40,168	$ 13,319	$605,382
EBITDAC Margin	30.0%	37.5%	32.7%	24.3%	NMF	32.2%

NMF = Not a meaningful figure

The reconciliation of income before incomes taxes, included in the Consolidated Statement of Income, to EBITDAC, a non-GAAP measure, and Income Before Income Taxes Margin to EBITDAC Margin, a non-GAAP measure, for the year ended December 31, 2016, is as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Income before income taxes	$188,001	$ 91,762	$62,623	$24,338	$ 56,775	$423,499
Income Before Income Taxes Margin	20.5%	20.5%	25.8%	15.6%	NMF	24.0%
Amortization	43,447	27,920	10,801	4,485	10	86,663
Depreciation	6,191	7,868	1,975	1,881	3,088	21,003
Interest	38,216	45,738	3,976	4,950	(53,399)	39,481
Change in estimated acquisition earn-out payables	10,253	207	(274)	(1,001)	—	9,185
EBITDAC	$286,108	$173,495	$79,101	$34,653	$ 6,474	$579,831
EBITDAC Margin	31.2%	38.7%	32.5%	22.2%	NMF	32.8%

NMF = Not a meaningful figure

Retail Segment

The Retail Segment provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. Approximately 85.9% of the Retail Segment's commissions and fees revenue is commission based. Because most of our other operating expenses are not correlated to changes in commissions on insurance premiums, a significant portion of any fluctuation in the commissions we receive, net of related producer compensation and cost to fulfill expense deferrals and releases as required by the New Revenue Standard, will result in a similar fluctuation in our income before income taxes, unless we make incremental investments or modifications to the costs in the organization.

Financial information relating to our Retail Segment is as follows:

(in thousands, except percentages)	2018	% Change	2017	% Change	2016
REVENUES					
Core commissions and fees	$ 1,008,639	10.9%	$ 909,762	3.2%	$ 881,729
Profit-sharing contingent commissions	24,517	4.9%	23,377	(7.3)%	25,207
Guaranteed supplemental commissions	8,535	(6.3)%	9,108	(6.9)%	9,787
Commissions and fees	1,041,691	10.6%	942,247	2.8%	916,723
Investment income	2	(75.0)%	8	(78.4)%	37
Other income, net	1,070	(11.2)%	1,205	86.5%	646
Total revenues	**1,042,763**	**10.5%**	**943,460**	**2.8%**	**917,406**
EXPENSES					
Employee compensation and benefits	570,222	10.6%	515,477	6.0%	486,303
Other operating expenses	169,104	15.0%	147,084	0.5%	146,286
(Gain)/loss on disposal	(1,133)	(51.0)%	(2,311)	79.0%	(1,291)
Amortization	44,386	5.3%	42,164	(3.0)%	43,447
Depreciation	5,289	1.5%	5,210	(15.8)%	6,191
Interest	35,969	15.5%	31,133	(18.5)%	38,216
Change in estimated acquisition earn-out payables	1,081	(86.6)%	8,087	(21.1)%	10,253
Total expenses	**824,918**	**10.5%**	**746,844**	**2.4%**	**729,405**
Income before income taxes	**$ 217,845**	**10.8%**	**$ 196,616**	**4.6%**	**$ 188,001**
Income Before Income Taxes Margin(1)	20.9%		20.8%		20.5%
EBITDAC(1)	304,570	7.5%	283,210	(1.0)%	286,108
EBITDAC Margin(1)	29.2%		30.0%		31.2%
Organic Revenue growth rate(1)	3.0%		2.9%		1.9%
Employee compensation and benefits relative to total revenues	54.7%		54.6%		53.0%
Other operating expenses relative to total revenues	16.2%		15.6%		15.9%
Capital expenditures	$ 6,858	52.6%	$ 4,494	(24.5)%	$ 5,951
Total assets at December 31	**$5,850,045**	**37.5%**	**$4,255,515**	**10.4%**	**$3,854,393**

(1) A non-GAAP measure
NMF = Not a meaningful figure

The Retail Segment's total revenues in 2018 increased 10.5%, or $99.3 million, over the same period in 2017, to $1,042.8 million. The $98.9 million increase in core commissions and fees was driven by the following: (i) approximately $73.4 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2017; (ii) $28.1 million related to net new and renewal business; offset by (iii) $1.3 million related to the impact of adopting the New Revenue Standard; and (iv) a decrease of $1.3 million related to commissions and fees from businesses divested in 2017 and 2018. Profit-sharing contingent commissions and GSCs in 2018 increased 1.7%, or $0.6 million, over 2017, to $33.1 million. The Retail Segment's growth rate for total commissions and fees was 10.6% and the Organic Revenue growth rate was 3.0% for 2018. The Organic Revenue growth rate was driven by increased new business and higher retention across most lines of business the preceding twelve months.

Income before income taxes for 2018 increased 10.8%, or $21.2 million, over the same period in 2017, to $217.8 million. The primary factors affecting this increase were: (i) the net increase in revenue as described above, (ii) offset by a 10.6%, or $54.7 million, increase in employee compensation and benefits, due primarily to the year-on-year impact of salary inflation and additional teammates to support revenue growth, (iii) operating expenses which increased by increased by $22.0 million, or 15.0%, primarily due to our multi-year technology investment program and increased professional services to support our customers; (iv) a combined increase in amortization, depreciation and intercompany interest expense of $7.2 million resulting from our acquisition activity over the past twelve months; offset by (v) a reduction in the change in estimated acquisition earn-out payables of $7.0 million, or 86.6%, to $1.1 million.

EBITDAC for 2018 increased 7.5%, or $21.4 million, from the same period in 2017, to $304.6 million. EBITDAC Margin for 2018 decreased to 29.2% from 30.0% in the same period in 2017. EBITDAC Margin was impacted by the net increase in revenue as described above, including the New Revenue Standard, which impacted the EBITDAC Margin by approximately 90 basis points.

The Retail Segment's total revenues in 2017 increased 2.8%, or $26.1 million, over the same period in 2016, to $943.5 million. The $28.0 million increase in core commissions and fees was driven by the following: (i) $24.6 million related to net new business; (ii) approximately $8.2 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2016; and (iii) an offsetting decrease of $ 4.8 million related to commissions and fees from businesses divested in 2016 and 2017. Profit-sharing contingent commissions and GSCs in 2017 decreased 7.2%, or $2.5 million, over 2016, to $32.5 million. The Retail Segment's growth rate for total commissions and fees was 2.8%, and the Organic Revenue growth rate was 2.9% for 2017. The Organic Revenue growth rate was driven by increased new business and higher retention during the preceding twelve months, along with continued increases in commercial auto and employee benefits rates and underlying exposure unit values that drive insurance premiums.

Income before income taxes for 2017 increased 4.6%, or $8.6 million, over the same period in 2016, to $196.6 million. The primary factors affecting this increase were: (i) the net increase in revenue as described above, which was offset by (ii) a 6.0%, or $29.2 million, increase in employee compensation and benefits, due primarily to the year-on-year impact of salary inflation, additional teammates to support revenue growth and the incremental investment in our performance incentive plan, (iii) an increase in operating expenses by $0.8 million, or 0.5%, primarily due to our multi-year technology investment program and increased value-added consulting services to support our customers; offset by (iv) a reduction in the change in estimated acquisition earn-out payables of $2.2 million, or 21.1%, to $8.1 million, and (v) a combined decrease in amortization, depreciation and intercompany interest expense of $9.3 million.

EBITDAC for 2017 decreased 1.0%, or $2.9 million, from the same period in 2016, to $283.2 million. EBITDAC Margin for 2017 decreased to 30.0% from 31.2% in the same period in 2016. EBITDAC Margin was impacted by the factors impacting employee compensation and benefits as well as other operating expenses described above, partially offset by the net increase in revenue as described above.

National Programs Segment

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

Financial information relating to our National Programs Segment is as follows:

(in thousands, except percentages)	2018	% Change	2017	% Change	2016
REVENUES					
Core commissions and fees	$ 469,906	2.4%	$ 458,863	6.6%	$ 430,479
Profit-sharing contingent commissions	23,896	18.7%	20,123	16.3%	17,306
Guaranteed supplemental commissions	76	145.2%	31	34.8%	23
Commissions and fees	493,878	3.1%	479,017	7.0%	447,808
Investment income	506	31.8%	384	(38.9)%	628
Other income, net	79	(80.8)%	412	NMF	80
Total revenues	**494,463**	**3.1%**	**479,813**	**7.0%**	**448,516**
EXPENSES					
Employee compensation and benefits	219,166	8.6%	201,816	5.6%	191,199
Other operating expenses	98,012	—%	97,988	16.9%	83,822
(Gain)/loss on disposal	1,414	NMF	99	—%	—
Amortization	25,954	(4.9)%	27,277	(2.3)%	27,920
Depreciation	5,486	(13.3)%	6,325	(19.6)%	7,868
Interest	26,181	(26.4)%	35,561	(22.3)%	45,738
Change in estimated acquisition earn-out payables	875	11.3%	786	NMF	207
Total expenses	**377,088**	**2.0%**	**369,852**	**3.7%**	**356,754**
Income before income taxes	**$ 117,375**	**6.7%**	**$ 109,961**	**19.8%**	**$ 91,762**
Income Before Income Taxes Margin(1)	23.7%		22.9%		20.5%
EBITDAC(1)	175,871	(2.2)%	179,910	3.7%	173,495
EBITDAC Margin(1)	35.6%		37.5%		38.7%
Organic Revenue growth rate(1)	(0.9)%		6.1%		4.2%
Employee compensation and benefits relative to total revenues	44.3%		42.1%		42.6%
Other operating expenses relative to total revenues	19.8%		20.4%		18.7%
Capital expenditures	$ 12,391	108.7%	$ 5,936	(14.9)%	$ 6,977
Total assets at December 31	**$2,940,097**	**(10.0)%**	**$3,267,486**	**20.5%**	**$2,711,378**

(1) A non-GAAP measure
NMF = Not a meaningful figure

The National Programs Segment's total revenues in 2018 increased 3.1%, or $ 14.7 million, over 2017, to a total $494.5 million. The $11.0 million increase in core commissions and fees was driven by the following: (i) $ 7.9 million related to the impact of adopting the New Revenue Standard; (ii) an increase of approximately $7.3 million related to core commissions and fees from acquisitions that had no comparable revenues in 2017; which was offset by (iii) $4.1 million related to net new and renewal business, which was impacted by lower weather related claims revenue as compared to the prior year; and (iv) a decrease of $0.1 million related to commissions and fees recorded in 2017 from businesses since divested. Profit-sharing contingent commissions and GSCs were $24.0 million in 2018, which was an increase of $3.8 million over 2017, which was primarily driven by the improved loss experience of our carrier partners.

The National Programs Segment's growth rate for total commissions and fees was 3.1% and the Organic Revenue growth rate was (0.9)% for 2018. The total commissions and fees growth was mainly due to recognizing a full year of revenues for our core commercial program, new acquisitions, strong growth in our earthquake programs, increased profit-sharing contingent commissions and a non-recurring adjustment of approximately $8.0 million relating to the New Revenue Standard with an offset for the lower weather-related claims revenue. The Organic Revenue growth rate decline was driven substantially by lower flood claims revenue as compared to the prior year.

Income before income taxes for 2018 increased 6.7%, or $ 7.4 million, from the same period in 2017, to $ 117.4 million. The increase was the result of a lower intercompany interest charge of $9.4 million, growth in a number of our programs, and was offset by the investment in our core commercial program, and lower weather-related claims revenue.

EBITDAC for 2018 decreased 2.2%, or $4.0 million, from the same period in 2017, to $175.9 million. EBITDAC Margin for 2018 decreased to 35.6% from 37.5% in the same period in 2017. The decrease in EBITDAC Margin was related to (i) increased employee compensation and benefits primarily driven by the investment in our core commercial program; (ii) a decrease in weather-related claims revenue compared to the prior year which has a margin higher than the average margin of the National Programs Segment; partially offset by (iii) the total revenue growth.

The National Programs Segment's total revenues in 2017 increased 7.0%, or $31.3 million, over 2016, to a total of $479.8 million. The $28.4 million increase in core commissions and fees was driven by the following: (i) $ 26.4 million related to net new business; (ii) an increase of approximately $2.3 million related to core commissions and fees from acquisitions that had no comparable revenues in 2016; and which was offset by (iii) a decrease of $0.3 million related to commissions and fees recorded in 2016 from businesses since divested. Profit-sharing contingent commissions and GSCs were $20.2 million in 2017, which was an increase of $2.8 million over 2016, which was primarily driven by the improved loss experience of our carrier partners.

The National Programs Segment's growth rate for total commissions and fees was 7.0% and the Organic Revenue growth rate was 6.1% for 2017. This Organic Revenue growth rate was mainly due to increased flood claims revenues and our new core commercial program with QBE. Growth in these businesses was partially offset by certain programs that have been affected by certain carriers changing their risk appetite for new or existing programs or lower premium rates for certain lines of business.

Income before income taxes for 2017 increased 19.8%, or $18.2 million, from the same period in 2016, to $110.0 million. The increase was the result of a lower intercompany interest charge of $10.2 million, along with leveraging revenue growth of $31.3 million.

EBITDAC for 2017 increased 3.7%, or $6.4 million, from the same period in 2016, to $179.9 million. EBITDAC Margin for 2017 decreased to 37.5% from 38.7% in the same period in 2016. The decrease in EBITDAC Margin was related to (i) the investment in our new core commercial program; which was partially offset by (ii) increased flood claims processing revenue which has a higher than average margin.

Wholesale Brokerage Segment

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

Financial information relating to our Wholesale Brokerage Segment is as follows:

(in thousands, except percentages)	2018	% Change	2017	% Change	2016
REVENUES					
Core commissions and fees	$ 277,552	6.3%	$ 261,224	13.7%	$ 229,657
Profit-sharing contingent commissions	7,462	(14.1)%	8,686	(24.4)%	11,487
Guaranteed supplemental commissions	1,350	9.7%	1,231	(26.2)%	1,669
Commissions and fees	286,364	5.6%	271,141	11.7%	242,813
Investment income	165	—%	—	(100.0)%	4
Other income, net	485	(18.6)%	596	108.4%	286
Total revenues	**287,014**	**5.6%**	**271,737**	**11.8%**	**243,103**
EXPENSES					
Employee compensation and benefits	147,571	6.7%	138,297	13.5%	121,863
Other operating expenses	50,177	12.3%	44,665	6.0%	42,139
(Gain)/loss on disposal	7	—%	—	—%	—
Amortization	11,391	(0.6)%	11,456	6.1%	10,801
Depreciation	1,628	(13.6)%	1,885	(4.6)%	1,975
Interest	5,254	(16.1)%	6,263	57.5%	3,976
Change in estimated acquisition earn-out payables	815	NMF	327	NMF	(274)
Total expenses	**216,843**	**6.9%**	**202,893**	**12.4%**	**180,480**
Income before income taxes	**$ 70,171**	**1.9%**	**$ 68,844**	**9.9%**	**$ 62,623**
Income Before Income Taxes Margin(1)	24.4%		25.3%		25.8%
EBITDAC(1)	89,259	0.5%	88,775	12.2%	79,101
EBITDAC Margin(1)	31.1%		32.7%		32.5%
Organic Revenue growth rate(1)	5.7%		6.6%		4.3%
Employee compensation and benefits relative to total revenues	51.4%		50.9%		50.1%
Other operating expenses relative to total revenues	17.5%		16.4%		17.3%
Capital expenditures	$ 2,518	37.1%	$ 1,836	41.1%	$ 1,301
Total assets at December 31	**$1,283,877**	**1.9%**	**$1,260,239**	**13.7%**	**$1,108,829**

(1) A non-GAAP measure
NMF = Not a meaningful figure

The Wholesale Brokerage Segment's total revenues for 2018 increased 5.6%, or $15.3 million, over 2017, to $287.0 million. The $16.3 million increase in core commissions and fees was driven by the following: (i) $14.9 million related to net new and renewal business; (ii) $2.5 million related to the core commissions and fees from acquisitions that had no comparable revenues in 2017; which was offset by (iii) a decrease of $ 0.9 million related to the impact of adopting the New Revenue Standard; and (iv) a decrease of $0.1 million related to commissions and fees recorded in 2017 from businesses since divested. Profit-sharing contingent commissions and GSCs for 2018 decreased $1.1 million over 2017, to $8.8 million. This decrease was driven by higher loss ratios experienced for several carriers due to losses associated with 2017 weather-related events. The Wholesale Brokerage Segment's growth rate for total commissions and fees was 5.6%, and the Organic Revenue growth rate was 5.7% for 2018. The Organic Revenue growth rate was driven by net new business and modest increases in exposure units that were partially offset by slightly decreasing rates.

Income before income taxes for 2018 increased 1.9%, or $ 1.3 million, over 2017, to $ 70.2 million, primarily due to the following: (i) the net increase in revenue as described above, which was offset by (ii) an increase in employee compensation and benefits of $9.3 million, related to additional teammates to support increased transaction volumes, compensation increases for existing teammates, and additional non-cash stock-based compensation expense; (iii) a decrease in profit from lower profit-sharing contingent commissions and GSCs; and (iv) a net $5.5 million increase in operating expenses, primarily related to intercompany technology charges that had no comparable expenses in the same period of 2017.

EBITDAC for 2018 increased 0.5%, or $0.5 million, from the same period in 2017, to $89.3 million. EBITDAC Margin for 2018 decreased to 31.1% from 32.7% in the same period in 2017. The decrease in EBITDAC Margin was primarily driven by the net decrease in profit-sharing contingent commissions as described above and to a lesser extent the intercompany technology charges and increased non-cash stock-based compensation costs, which more than offset margin expansion from leveraging of Organic Revenue growth.

The Wholesale Brokerage Segment's total revenues for 2017 increased 11.8%, or $28.6 million, over 2016, to $271.7 million. The $31.6 million net increase in core commissions and fees was driven by the following: (i) $16.5 million related to the core commissions and fees from acquisitions that had no comparable revenues in 2016; and (ii) $15.1 million related to net new business. Profit-sharing contingent commissions and GSCs for 2017 decreased $3.2 million over 2016, to $9.9 million. This decrease was driven by higher loss ratios experienced for several carriers, and partially offset by profit-sharing contingent commissions received from acquisitions that had no comparable profit-sharing contingent commissions in 2016. The Wholesale Brokerage Segment's growth rate for total commissions and fees was 11.7%, and the Organic Revenue growth rate was 6.6% for 2017, which were driven by net new business and modest increases in exposure units that were partially offset by significant contraction in insurance premium rates for catastrophe-prone properties during the first half of the year, which moderated in the latter part of the year.

Income before income taxes for 2017, increased 9.9%, or $6.2 million, over 2016, to $68.8 million, primarily due to the following: (i) the net increase in revenue as described above, offset by (ii) an increase in employee compensation and benefits of $16.4 million, of which $10.4 million was related to acquisitions that had no comparable compensation and benefits in the same period of 2016, with the remainder related to additional teammates to support increased transaction volumes and compensation increases for existing teammates, (iii) a decrease in profit from lower profit-sharing contingent commissions and GSCs, (iv) a net $2.5 million increase in operating expenses, of which $3.1 million was related to acquisitions that had no comparable expenses in the same period of 2016 and (v) higher intercompany interest charges related to acquisitions completed in the previous year.

EBITDAC for 2017 increased 12.2%, or $9.7 million, from the same period in 2016, to $88.8 million. EBITDAC Margin for 2017 increased to 32.7% from 32.5% in the same period in 2016. The increase in EBITDAC Margin was primarily driven by: (i) growth of core commissions and fees of 13.7%; and (ii) improving the EBITDAC Margin of a business acquired in 2016, which were partially offset by (iii) the net decrease in profit-sharing contingent commissions as a result of higher loss ratios.

Services Segment

The Services Segment provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas. The Services Segment also provides Medicare Set-aside account services, Social Security disability and Medicare benefits advocacy services, and claims adjusting services.

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

Financial information relating to our Services Segment is as follows:

(in thousands, except percentages)	2018	% Change	2017	% Change	2016
REVENUES					
Core commissions and fees	$ 189,041	14.5%	$ 165,073	5.8%	$ 156,082
Profit-sharing contingent commissions	—	—%	—	—%	—
Guaranteed supplemental commissions	—	—%	—	—%	—
Commissions and fees	189,041	14.5%	165,073	5.8%	156,082
Investment income	205	(31.4)%	299	5.7%	283
Other income, net	—	—%	—	—%	—
Total revenues	**189,246**	**14.4%**	**165,372**	**5.8%**	**156,365**
EXPENSES					
Employee compensation and benefits	85,930	6.2%	80,944	2.7%	78,804
Other operating expenses	61,833	39.9%	44,205	3.0%	42,908
(Gain)/loss on disposal	(2,463)	NMF	55	—%	—
Amortization	4,813	5.8%	4,548	1.4%	4,485
Depreciation	1,558	(2.6)%	1,600	(14.9)%	1,881
Interest	2,869	(18.5)%	3,522	(28.8)%	4,950
Change in estimated acquisition earn-out payables	198	—%	—	(100.0)%	(1,001)
Total expenses	**154,738**	**14.7%**	**134,874**	**2.2%**	**132,027**
Income before income taxes	**$ 34,508**	**13.1%**	**$ 30,498**	**25.3%**	**$ 24,338**
Income Before Income Taxes Margin(1)	18.2%		18.4%		15.6%
EBITDAC(1)	43,946	9.4%	40,168	15.9%	34,653
EBITDAC Margin(1)	23.2%		24.3%		22.2%
Organic Revenue growth rate(1)	3.4%		5.1%		3.8%
Employee compensation and benefits relative to total revenues	45.4%		48.9%		50.4%
Other operating expenses relative to total revenues	32.7%		26.7%		27.4%
Capital expenditures	$ 1,525	47.6%	$ 1,033	57.5%	$ 656
Total assets at December 31	**$471,572**	**18.1%**	**$399,240**	**7.4%**	**$371,645**

(1) A non-GAAP measure
NMF = Not a meaningful figure

The Services Segment's total revenues for 2018 increased 14.4%, or $23.9 million, over 2017, to $189.2 million. The $24.0 million increase in core commissions and fees was driven primarily by the following: (i) $10.3 million related to the impact of adopting the New Revenue Standard; (ii) $8.0 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2017; and (iii) $5.7 million related to net new and renewal business. The Services Segment's growth rate for total commissions and fees was 14.5%, and the Organic Revenue growth rate was 3.4% for 2018. The Organic Revenue growth rate was driven by growth across multiple businesses.

Income before income taxes for 2018 increased 13.1%, or $ 4.0 million, over 2017, to $34.5 million due to a combination of: (i) Organic Revenue growth; and (ii) lower intercompany interest charges, which were partially offset by (iii) the growth in other operating expenses associated with the New Revenue Standard and professional fees to support Organic Revenue growth.

EBITDAC for 2018 increased 9.4%, or $3.8 million, over the same period in 2017, to $43.9 million. EBITDAC Margin for 2018 decreased to 23.2% from 24.3% in the same period in 2017. The decrease in EBITDAC Margin was due to the impact of the New Revenue Standard, which resulting in recording $10.0 million of incremental year on year revenues and expenses which therefore compresses margins, along with higher non-cash stock-based compensation costs, and costs associated with onboarding new customers.

The Services Segment's total revenues for 2017 increased 5.8%, or $9.0 million, over 2016, to $165.4 million. The $9.0 million increase in core commissions and fees was driven primarily by the following: (i) $7.9 million related to net new business; (ii) $0.9 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2016; and (iii) an increase of $0.2 million related to commissions and fees recorded in 2016 from business since divested. The Services Segment's growth rate for total commissions and fees was 5.8% and the Organic Revenue growth rate was 5.1% for 2017, primarily driven by our claims offices that handle catastrophe claims.

Income before income taxes for 2017 increased 25.3%, or $ 6.2 million, over 2016, to $ 30.5 million due to a combination of: (i) new business realized across most of our businesses, (ii) our claims offices that handled catastrophe claims, (iii) the continued efficient operation of our businesses, and (iv) lower intercompany interest charges.

EBITDAC for 2017 increased 15.9%, or $5.5 million, over the same period in 2016, to $40.2 million. EBITDAC Margin for 2017 increased to 24.3% from 22.2% in the same period in 2016. The increase in EBITDAC Margin was due to net increase in revenue as described above and effective control of expenses.

Other

As discussed in Note 16 of the Notes to Consolidated Financial Statements, the "Other" column in the Segment Information table includes any income and expenses not allocated to reportable segments, and corporate-related items, including the intercompany interest expense charges to reporting segments.

Liquidity and Capital Resources

The Company seeks to maintain a conservative balance sheet and liquidity profile. Our capital requirements to operate as an insurance intermediary are low and we have been able to grow and invest in our business principally through cash that has been generated from operations. We have the ability to utilize our revolving credit facility (the "Facility"), which provides up to $800.0 million in available cash, and we believe that we have access to additional funds, if needed, through the capital markets to obtain further debt financing under the current market conditions. The Company believes that its existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with the funds available under the Facility, will be sufficient to satisfy our normal liquidity needs, including principal payments on our long-term debt, for at least the next twelve months.

Our cash and cash equivalents of $439.0 million at December 31, 2018 reflected a decrease of $134.4 million from the $573.4 million balance at December 31, 2017. During 2018, $ 567.5 million of cash was generated from operating activities, representing an increase of 28.4%. During this period, $923.9 million of cash was used for acquisitions, $26.6 million was used for acquisition earn-out payments, $ 41.5 million was used to purchase additional fixed assets, $84.7 million was used for payment of dividends, $100.0 million was used for share repurchases, and $120.0 million was used to pay outstanding principal balances owed on long-term debt.

We hold approximately $19.8 million in cash outside of the U.S., which we currently have no plans to repatriate in the near future.

Our cash and cash equivalents of $573.4 million at December 31, 2017 reflected an increase of $57.8 million from the $515.6 million balance at December 31, 2016. During 2017, $442.0 million of cash was generated from operating activities, representing an increase of 7.5%. During this period, $41.5 million of cash was used for acquisitions, $ 43.8 million was used for acquisition earn-out payments, $24.2 million was used to purchase additional fixed assets, $77.7 million was used for payment of dividends, $139.9 million was used for share repurchases, and $96.8 million was used to pay outstanding principal balances owed on long-term debt.

Our cash and cash equivalents of $515.6 million at December 31, 2016 reflected an increase of $72.2 million from the $443.4 million balance at December 31, 2015. During 2016, $411.0 million of cash was generated from operating activities. During this period, $122.6 million of cash was used for acquisitions, $28.2 million was used for acquisition earn-out payments, $17.8 million was used for additions to fixed assets, $70.3 million was used for payment of dividends, $7.7 million was used for share repurchases, and $73.1 million was used to pay outstanding principal balances owed on long-term debt.

Our ratio of current assets to current liabilities (the “current ratio”) was 1.22 and 1.13 at December 31, 2018 and 2017, respectively.

Contractual Cash Obligations

As of December 31, 2018, 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	$1,515,000	$ 50,000	$125,000	$840,000	$500,000
Other liabilities[1]	53,187	4,907	5,570	2,470	40,240
Operating leases	210,010	48,292	78,353	47,016	36,349
Interest obligations	251,053	57,848	109,532	68,798	14,875
Unrecognized tax benefits	1,639	—	1,639	—	—
Maximum future acquisition contingency payments[2]	198,627	43,184	155,443	—	—
Total contractual cash obligations	$2,229,516	$204,231	$475,537	$958,284	$591,464

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

(2) Includes $89.9 million of current and non-current estimated earn-out payables.

Debt

Total debt at December 31, 2018 was $1,507.0 million net of unamortized discount and debt issuance costs, which was an increase of $530.8 million compared to December 31, 2017. The increase reflects the addition of $650.0 million in principal balances, total debt repayments of $120.0 million, net of the amortization of discounted debt related to our Senior Notes due 2024, with a fixed interest rate of 4.200% per year and debt issuance cost amortization of $1.6 million. The Company also added $0.8 million in debt issuance costs related to the Term Loan Credit Agreement (as defined below) that was executed in December 2018.

On May 10, 2018, the Company elected to prepay in full the principal balance of $100.0 million from the Series E Senior Notes, along with accrued interest of $0.7 million and a prepayment premium of $0.7 million as the notes were to mature on September 15, 2018. This resulted in a net interest expense savings of $0.8 million after deducting the pro-rated interest expense and prepayment premiums paid when compared to holding the note to maturity paying the full semi-annual coupon interest expense of $2.3 million.

On June 28, 2017, the Company entered into an amended and restated credit agreement (the “Amended and Restated Credit Agreement”) with the lenders named therein, JPMorgan Chase Bank, N.A. as administrative agent and certain other banks as co-syndication agents and co-documentation agents. The Amended and Restated Credit Agreement amended and restated the credit agreement dated April 17, 2014, among such parties. The Amended and Restated Credit Agreement extends the applicable maturity date of the Facility of $800.0 million to June 28, 2022 and re-evidences the unsecured term loans in the amount of $400.0 million, while also extending the applicable maturity date to June 28, 2022.

The Company borrowed approximately $600.0 million under its Revolving Credit Facility on November 15, 2018 in connection with the closing of the acquisition of certain assets and assumption of certain liabilities of Hays.

On December 21, 2018, the Company borrowed $300.0 million under a term loan credit agreement with Wells Fargo Bank, National Association, as administrative agent, Bank of America, N.A., BMO Harris Bank N.A. and SunTrust Bank as co-syndication agents, and Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, BMO Capital Markets Corp. and SunTrust Robinson Humphrey, Inc. as joint lead arrangers and joint bookrunners (the “Term Loan Credit Agreement”). The Term Loan Credit Agreement provides for an unsecured term loan in the initial amount of $300.0 million, which may, subject to lenders’ discretion, potentially be increased up to an aggregate amount of $450.0 million (the “Term Loan”). The Term Loan is repayable over the five-year term from the effective date of the Term Loan Credit Agreement, which was December 21, 2018. Based on the Company’s net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating as determined by Moody’s Investor Service and Standard & Poor’s Rating Service, the current rate of interest on the Term Loan is 1.25% above the adjusted 1-Month London Interbank Offered Rate (“LIBOR”). The Company used $250.0 million of the borrowings to reduce indebtedness under the Facility.

Total debt at December 31, 2017 was $976.1 million net of unamortized discount and debt issuance costs, which was a decrease of $97.7 million compared to December 31, 2016. The decrease reflects the repayment of $96.8 million in principal, related to our credit agreements, repayment of the $0.5 million in a short-term note payable related to the 2016 acquisition of Social Security Advocates for the Disabled, LLC (“SSAD”), net of the amortization of discounted debt related to our Senior Notes due 2024, with a fixed interest rate of 4.200% per year and debt issuance cost amortization of $1.9 million. The Company also added $2.8 million in debt issuance costs related to the Amended and Restated Credit Agreement (as defined below) that was executed in June 2017.

Off-Balance Sheet Arrangements

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

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Our invested assets are held primarily as cash and cash equivalents, restricted cash, available-for-sale marketable debt securities, non-marketable debt securities, certificates of deposit, U.S. treasury securities, and professionally managed short duration fixed income funds. These investments are subject to interest rate risk. The fair values of our invested assets at December 31, 2018 and December 31, 2017, approximated their respective carrying values due to their short-term duration and therefore, such market risk is not considered to be material.

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

As of December 31, 2018, we had $1,015.0 million of borrowings outstanding under our various credit agreements, all of which bear interest on a floating basis tied to LIBOR and is therefore subject to changes in the associated interest expense. The effect of an immediate hypothetical 10% change in interest rates would not have a material effect on our Consolidated Financial Statements.

We are subject to exchange rate risk primarily in our U.K.-based wholesale brokerage business that has a cost base principally denominated in British pounds and a revenue base in several other currencies, but principally in U.S. dollars. Based upon our foreign currency rate exposure as of December 31, 2018, an immediate 10% hypothetical changes of foreign currency exchange rates would not have a material effect on our Consolidated Financial Statements.

BROWN & BROWN, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the year ended December 31,		
(in thousands, except per share data)	**2018**	**2017**	**2016**
REVENUES			
Commissions and fees	$ 2,009,857	$ 1,857,270	$ 1,762,787
Investment income	2,746	1,626	1,456
Other income, net	1,643	22,451	2,386
Total revenues	**2,014,246**	**1,881,347**	**1,766,629**
EXPENSES			
Employee compensation and benefits	1,068,914	994,652	925,217
Other operating expenses	332,118	283,470	262,872
(Gain)/loss on disposal	(2,175)	(2,157)	(1,291)
Amortization	86,544	85,446	86,663
Depreciation	22,834	22,698	21,003
Interest	40,580	38,316	39,481
Change in estimated acquisition earn-out payables	2,969	9,200	9,185
Total expenses	**1,551,784**	**1,431,625**	**1,343,130**
Income before income taxes	**462,462**	**449,722**	**423,499**
Income taxes	118,207	50,092	166,008
Net income	**$ 344,255**	**$ 399,630**	**$ 257,491**
Net income per share:			
Basic	**$ 1.24**	**$ 1.43**	**$ 0.92**
Diluted	**$ 1.22**	**$ 1.40**	**$ 0.91**
Dividends declared per share	**$ 0.31**	**$ 0.28**	**$ 0.25**

See accompanying notes to Consolidated Financial Statements.

BROWN & BROWN, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)	December 31, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 438,961	$ 573,383
Restricted cash and investments	338,635	250,705
Short-term investments	12,868	24,965
Premiums, commissions and fees receivable	844,815	546,402
Reinsurance recoverable	65,396	477,820
Prepaid reinsurance premiums	337,920	321,017
Other current assets	128,716	47,864
Total current assets	**2,167,311**	**2,242,156**
Fixed assets, net	100,395	77,086
Goodwill	3,432,786	2,716,079
Amortizable intangible assets, net	898,807	641,005
Investments	17,394	13,949
Other assets	71,975	57,275
Total assets	**$6,688,668**	**$5,747,550**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$ 857,559	$ 685,163
Losses and loss adjustment reserve	65,212	476,721
Unearned premiums	337,920	321,017
Premium deposits and credits due customers	105,640	91,648
Accounts payable	87,345	64,177
Accrued expenses and other liabilities	279,310	228,748
Current portion of long-term debt	50,000	120,000
Total current liabilities	**1,782,986**	**1,987,474**
Long-term debt less unamortized discount and debt issuance costs	1,456,990	856,141
Deferred income taxes, net	315,732	256,185
Other liabilities	132,392	65,051
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 560,000 shares; issued 293,380 shares and outstanding 279,583 shares at 2018, issued 286,929 shares and outstanding 276,210 shares at 2017–in thousands. 2017 share amounts reflect the 2-for-1 stock split effective March 28, 2018	29,338	28,689
Additional paid-in capital	615,180	483,733
Treasury stock, at cost at 13,797 and 10,719 shares at 2018 and 2017, respectively–in thousands	(477,572)	(386,322)
Retained earnings	2,833,622	2,456,599
Total shareholders' equity	**3,000,568**	**2,582,699**
Total liabilities and shareholders' equity	**$6,688,668**	**$5,747,550**

See accompanying notes to Consolidated Financial Statements.

BROWN & BROWN, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock					
(in thousands, except per share data)	Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance at January 1, 2016	282,077	$28,209	$412,931	$ (238,775)	$1,947,411	$2,149,776
Net income					257,491	257,491
Common stock issued for employee stock benefit plans	3,350	334	22,684			23,018
Purchase of treasury stock			11,250	(18,908)		(7,658)
Income tax benefit from exercise of stock benefit plans			7,346			7,346
Common stock issued to directors	34	4	496			500
Cash dividends paid ($0.25 per share)					(70,262)	(70,262)
Balance at December 31, 2016	285,461	28,547	454,707	(257,683)	2,134,640	2,360,211
Net income					399,630	399,630
Net unrealized holding (loss) gain on available-for-sale securities			(47)		41	(6)
Common stock issued for employee stock benefit plans	1,412	140	39,825			39,965
Purchase of treasury stock			(11,250)	(128,639)		(139,889)
Common stock issued to directors	22	2	498			500
Cash dividends paid ($0.28 per share)					(77,712)	(77,712)
Balance at December 31, 2017	286,895	28,689	483,733	(386,322)	2,456,599	2,582,699
Adoption of Topic 606 at January 1, 2018					117,515	117,515
Beginning balance after adoption of Topic 606	286,895	28,689	483,733	(386,322)	2,574,114	2,700,214
Net income					344,255	344,255
Net unrealized holding (loss) gain on available-for-sale securities			(21)		(57)	(78)
Common stock issued for employee stock benefit plans	3,096	310	39,857			40,167
Common stock issued for agency acquisitions	3,376	338	99,662			100,000
Purchase of treasury stock			(8,750)	(91,250)		(100,000)
Common stock issued to directors	13	1	699			700
Cash dividends paid ($0.31 per share)					(84,690)	(84,690)
Balance at December 31, 2018	293,380	$29,338	$615,180	$ (477,572)	$2,833,622	$3,000,568

See accompanying notes to Consolidated Financial Statements.

BROWN & BROWN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(in thousands)	**2018**	**2017**	**2016**
Cash flows from operating activities:			
Net income	$ 344,255	$ 399,630	$ 257,491
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	86,544	85,446	86,663
Depreciation	22,834	22,698	21,003
Non-cash stock-based compensation	33,519	30,631	16,052
Change in estimated acquisition earn-out payables	2,969	9,200	9,185
Deferred income taxes	15,008	(102,183)	18,163
Amortization of debt discount and disposal of deferred financing costs	1,627	1,840	1,762
Accretion of discounts and premiums, investments	(10)	22	39
Income tax benefit from exercise of shares from the stock benefit plans	—	—	(7,346)
(Gain)/loss on sales of investments, fixed assets and customer accounts	(1,934)	(1,841)	596
Payments on acquisition earn-outs in excess of original estimated payables	(12,538)	(14,501)	(3,904)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:			
Premiums, commissions and fees receivable (increase) decrease	(93,630)	(43,306)	(63,550)
Reinsurance recoverables (increase) decrease	412,424	(399,737)	(46,115)
Prepaid reinsurance premiums (increase) decrease	(16,903)	(12,356)	982
Other assets (increase) decrease	(22,440)	(9,747)	(4,718)
Premiums payable to insurance companies (increase) decrease	141,169	37,380	66,084
Premium deposits and credits due customers increase (decrease)	13,792	7,750	527
Losses and loss adjustment reserve increase (decrease)	(411,509)	398,638	46,115
Unearned premiums increase (decrease)	16,903	12,356	(982)
Accounts payable increase (decrease)	21,880	26,798	30,174
Accrued expenses and other liabilities increase (decrease)	22,801	25,509	8,670
Other liabilities increase (decrease)	(9,232)	(32,252)	(25,849)
Net cash provided by operating activities	**567,529**	**441,975**	**411,042**
Cash flows from investing activities:			
Additions to fixed assets	(41,520)	(24,192)	(17,765)
Payments for businesses acquired, net of cash acquired	(923,874)	(41,471)	(122,622)
Proceeds from sales of fixed assets and customer accounts	4,984	4,094	4,957
Purchases of investments	(9,284)	(10,665)	(25,872)
Proceeds from sales of investments	17,923	9,644	18,890
Net cash used in investing activities	**(951,771)**	**(62,590)**	**(142,412)**
Cash flows from financing activities:			
Payments on acquisition earn-outs	(14,059)	(29,265)	(24,309)
Proceeds from long-term debt	300,000	—	—
Payments on long-term debt	(120,000)	(96,750)	(73,125)
Deferred debt issuance costs	(778)	(2,821)	—
Borrowings on revolving credit facilities	600,000	—	—
Payments on revolving credit facilities	(250,000)	—	—
Income tax benefit from exercise of shares from the stock benefit plans	—	—	7,346
Issuances of common stock for employee stock benefit plans	19,432	17,422	15,983
Repurchase of stock benefit plan shares for employees to fund tax withholdings	(12,155)	(7,565)	(8,495)
Purchase of treasury stock	(91,250)	(128,639)	(18,908)
Settlement (prepayment) of accelerated share repurchase program	(8,750)	(11,250)	11,250
Cash dividends paid	(84,690)	(77,712)	(70,262)
Net cash provided by (used in) financing activities	**337,750**	**(336,580)**	**(160,520)**
Net increase (decrease) in cash and cash equivalents inclusive of restricted cash	**(46,492)**	**42,805**	**108,110**
Cash and cash equivalents inclusive of restricted cash at beginning of period	824,088	781,283	673,173
Cash and cash equivalents inclusive of restricted cash at end of period	**$ 777,596**	**$ 824,088**	**$ 781,283**

See accompanying notes to Consolidated Financial Statements. Refer to Note 13 for reconciliation of cash and cash equivalents inclusive of restricted cash.

NOTE 1. Summary of Significant Accounting Policies

Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries (collectively, “Brown & Brown” or the “Company”) is a diversified insurance agency, wholesale brokerage, insurance programs and services organization that markets and sells to its customers, insurance products and services, primarily in the property, casualty and employee benefits areas. Brown & Brown’s business is divided into four reportable segments: the Retail Segment provides a broad range of insurance products and services to commercial, public and quasi-public entities, professional and individual customers; the National Programs Segment, acting as a managing general agent (“MGA”), provides professional liability and related package products for certain professionals, a range of insurance products for individuals, flood coverage, and targeted products and services designated for specific industries, trade groups, governmental entities and market niches, all of which are delivered through a nationwide network of independent agents, including Brown & Brown retail agents; the Wholesale Brokerage Segment markets and sells excess and surplus commercial insurance, primarily through a nationwide network of independent agents and brokers, as well as Brown & Brown Retail offices; and the Services Segment provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers’ compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services, and claims adjusting services.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which provides guidance for accounting for leases. Under ASU 2016-02, the Company will be required to recognize the assets and liabilities for the rights and obligations created by leased assets with initial maturities greater than one year. In July 2018, the FASB also issued ASU 2018-10 and ASU 2018-11 related to Topic 842. ASU 2018-10 narrows certain aspects of the guidance issued in the amendments within ASU 2016-02. ASU 2018-11 provides entities with an additional transition method to adopt ASU 2016-02. Under this new transition method, at the adoption date, a company shall recognize a cumulative-effect adjustment to the opening balance of retained earnings. ASU 2016-02, along with ASU 2018-10 and ASU 2018-11, will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company continues to evaluate the impact of this pronouncement with the principal impact expected to be the present value of the remaining lease payments and will be presented as a liability on the balance sheet as well as an asset of similar value representing the “Right of Use” for those leased properties. The Company plans to adopt Topic 842 under the transition method provided by ASU 2018-11. The undiscounted contractual cash payments remaining on leased properties were $213.2 million as of December 31, 2016, $210.4 million as of December 31, 2017 and $210.0 million as of December 31, 2018 as detailed in Note 14 “Commitments and Contingencies.”

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” which provides guidance for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact of this pronouncement.

Recently Adopted Accounting Standards

In November 2016, the Financial Accountings Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-18, “Statement of Cash Flows (Topic 230)”: Restricted Cash (“ASU 2016-18”), which requires that the Statement of Cash Flows explain the changes during the period of cash and cash equivalents inclusive of amounts categorized as restricted cash. ASU 2016-18 is effective for periods beginning after December 15, 2017. However, the Company elected to early adopt for the reporting period beginning January 1, 2017 under the full retrospective approach for all periods presented. With the adoption of ASU 2016-18, the change in restricted cash is no longer reflected as a change in operating assets and liabilities, and the Statement of Cash Flows details the changes in the balance of cash and cash equivalents inclusive of restricted cash. Net cash provided by operating activities for the year ended December 31, 2016 were previously reported as $375.2 million. With the retrospective adoption, the net cash provided by operating activities for the year ended December 31, 2016 is now reported as $411.0 million. The Company reflects cash collected from customers that is payable to insurance companies as restricted cash if segregation of this cash is required by the state of domicile for the office conducting this transaction or if required by contract with the relevant insurance company providing coverage. Cash collected from customers that is payable to insurance companies is reported in cash and cash equivalents if no such restriction is required.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)": Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) ("ASU 2016-15"), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified and applies to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. ASU 2016-15 became effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 with early adoption permitted. The Company adopted ASU 2016-15 effective January 1, 2018 and has determined there is no impact on the Company's Statement of Cash Flows. The Company already presented cash paid on contingent consideration in business combination as prescribed by ASU 2016-15 and does not, at this time, engage in the other activities being addressed in this ASU.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share Based Payment Accounting" ("ASU 2016-09"), which amends guidance issued in Accounting Standards Codification ("ASC") Topic 718, Compensation–Stock Compensation. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. The Company adopted the guidance on January 1, 2017, as required. Prior periods have not been adjusted, as the guidance was adopted prospectively. The principal impact is that the tax benefit or expense from stock compensation is now presented in the income tax line of the Statement of Income, whereas the prior treatment was to present this amount as a component of equity on the Balance Sheet. In addition, the tax benefit or expense is now presented as activity in Cash Flow from Operating Activity, rather than the prior presentation as Cash Flow from Financing Activity in the Statement of Cash Flows. The Company also continues to estimate forfeitures of stock grants as allowed by ASU 2016-09.

In March 2016, the FASB issued ASU 2016-08, "Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)" ("ASU 2016-08") to clarify certain aspects of the principal-versus-agent guidance included in the new revenue standard ASU 2014-09 "Revenue from Contracts with Customers" ("ASU 2014-09"). The FASB issued the ASU in response to concerns identified by stakeholders, including those related to (1) determining the appropriate unit of account under the revenue standard's principal-versus-agent guidance and (2) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard's control principle. The Company adopted ASU 2016-08 effective contemporaneously with ASU 2014-09 beginning January 1, 2018. The impact of ASU 2016-08 was limited to the claims administering activities of one of our businesses within our Services Segment and therefore was not material to the net income of the Company.

In November 2015, FASB issued ASU No. 2015-17, "Income Taxes (Topic 740)–Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as a single non-current item on the balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted as of the beginning of any interim or annual reporting period. The Company adopted the guidance on January 1, 2017, as required and prior period have been adjusted to reflect this adoption. This reclassification occurred prior to the passage of the Tax Cuts and Jobs Act of 2017, which had a material impact on the value of deferred tax items. See Note 10 "Income Taxes" for more information.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("Topic 606"), which provides guidance for revenue recognition. Topic 606 affects any entity that either enters into contracts with customers to transfer goods or services. It supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. Effective as of January 1, 2018, the Company adopted ASU 2014–09, and all related amendments, which established ASC Topic 606. The Company adopted these standards by recognizing the cumulative effect as an adjustment to opening retained earnings at January 1, 2018, under the modified retrospective method for contracts not completed as of the day of adoption. The cumulative impact of adopting Topic 606 on January 1, 2018 was an increase in retained earnings within stockholders' equity of $117.5 million. Under the modified retrospective method, the Company was not required to restate comparative financial information prior to the adoption of these standards and, therefore, such information presented prior to January 1, 2018 continue to be reported under the Company's previous accounting policies.

The following areas are impacted by the adoption of Topic 606:

The Company earns commissions and fees paid by insurance carriers for the binding of insurance coverage. These commissions and fees are earned at a point in time upon the effective date of bound insurance coverage, as no performance obligation exists after coverage is bound. If there are other services within the contract, the Company estimates the stand-alone selling price for each separate performance obligation, and the corresponding apportioned revenue is recognized over the period of time in which the customer receives the service, and as the performance obligations are fulfilled and the Company is entitled to that portion of revenue using the output method for the services. In situations where multiple performance obligations exist within a contract, the use of estimates is required to allocate the transaction price on a relative stand-alone selling price basis to each separate performance obligation.

Commission revenues–Prior to the adoption of Topic 606, commission revenues, including those billed on an installment basis, were recognized on the latter of the policy effective date or the date that the premium was billed to the client, with the exception of the Company's Arrowhead businesses, which followed a policy of recognizing these revenues on the latter of the policy effective date or processed date in our systems. As a result of the adoption of Topic 606, commission revenues associated with the issuance of policies are now recognized upon the effective date of the associated policy. The overall impact of these changes are not significant on a full-year basis, but the timing of recognizing revenue has impacted our fiscal quarters when compared to prior years. These commission revenues, including those billed on an installment basis, are now recognized earlier than they had been previously. Revenue is now accrued based upon the completion of the performance obligation, thereby creating a current asset for the unbilled revenue, until such time as an invoice is generated, which typically does not exceed twelve months. For the year ended December 31, 2018, the adoption of Topic 606 increased base and incentive commissions revenue, as defined in Note 2, by $9.9 million compared to what would have been recognized under the Company's previous accounting policies. Incentive commissions represent a form of variable consideration which includes additional commissions over base commissions received from insurance carriers based on predetermined production levels mutually agreed upon by both parties.

Profit-sharing contingent commissions–Prior to the adoption of Topic 606, revenue that was not fixed and determinable because a contingency existed was not recognized until the contingency was resolved. Under Topic 606, the Company must estimate the amount of consideration that will be received in the coming year such that a significant reversal of revenue is not probable. Profit-sharing contingent commissions represent a form of variable consideration associated with the placement of coverage, for which we earn commissions and fees. In connection with Topic 606, profit-sharing contingent commissions are estimated with a constraint applied and accrued relative to the recognition of the corresponding core commissions. The resulting effect on the timing of recognizing profit-sharing contingent commissions will now more closely follow a similar pattern as our commissions and fees with any true-ups recognized when payments are received or as additional information that affects the estimate becomes available. For the year ended December 31, 2018, the adoption of Topic 606 reduced profit-sharing contingent commissions revenue by $2.3 million compared to what would have been recognized under our previous accounting policies.

Fee revenues–The Company earns fee revenue related to services other than securing insurance coverage, which are predominantly in the Company's National Programs and Services Segments, and to a lesser extent in the large accounts businesses within the Company's Retail Segment, where the Company receives negotiated fees in lieu of a commission. In accordance with Topic 606, fee revenue from fee agreements are recognized in earlier periods and others in later periods as compared to our previous accounting treatment depending on when the services within the contract are satisfied and when we have transferred control of the related services to the customer. The overall impact of these changes is not significant on a full-year basis, but the timing of recognizing fees revenue will impact our fiscal quarters when compared to prior years. For the year ended December 31, 2018, the adoption of Topic 606 increased fees revenue by $6.2 million compared to what would have been recognized under our previous accounting policies, including a one-time $10.5 million increase for revenues within our Services Segment. Excluding this increase, fee revenues would have decreased by $4.3 million.

Additionally, the Company has evaluated ASC Topic 340–Other Assets and Deferred Cost ("ASC 340") which requires companies to defer certain incremental cost to obtain customer contracts, and certain costs to fulfill customer contracts.

Incremental cost to obtain–The adoption of ASC 340 resulted in the Company deferring certain costs to obtain customer contracts primarily as they relate to commission-based compensation plans in the Retail Segment, in which the Company pays an incremental amount of compensation on new business. These incremental costs are deferred and amortized over a 15-year period, which is consistent with the analysis performed on acquired customer accounts and referenced in Note 5 to the Company's consolidated financial statements. For incremental costs with an amortization period of less than 12 months, the costs are expensed as incurred. For the year ended December 31, 2018, the Company deferred $13.7 million of incremental cost to obtain customer contracts. The Company expensed $0.5 million of the incremental cost to obtain customer contracts for the year ended December 31, 2018.

Cost to fulfill–The adoption of ASC 340 resulted in the Company deferring certain costs to fulfill contracts and to recognize these costs as the associated performance obligations are fulfilled. In order for contract fulfillment costs to be deferred under ASC 340, the costs must (1) relate directly to a specific contract or anticipated contract, (2) generate or enhance resources that the Company will use in satisfying its obligations under the contract, and (3) be expected to be recovered through sufficient net cash flows from the contract. The Company does not expect the overall impact of these changes to be significant on a full-year basis, but the timing of recognizing these expenses will impact quarterly results compared to prior years as such recognition better aligns with the associated revenue. With the modified retrospective adoption of Topic 606, the Company deferred $52.7 million in contract fulfillment costs on its opening balance sheet on January 1, 2018 based upon the estimated average time spent on policy renewals. For the year ended December 31, 2018, the Company had net expense of $1.3 million related to the release of previously deferred contract fulfillment costs associated with performance obligations that were satisfied in the period, net of current year deferrals for costs incurred that related to performance obligations yet to be fulfilled.

In connection with the implementation of Topic 606 and ASC 340, we modified, and in some instances instituted, additional accounting procedures, processes and internal controls. While the relative impacts of these standards to our revenue and expense streams are significant during a calendar year, we do not view these modifications and additions as a material change in our internal controls over financial reporting on a full year basis.

The cumulative effect of the changes made to our consolidated balance sheet as of January 1, 2018 for the adoption of Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and ASC Topic 340–Other Assets and Deferred Cost (the "New Revenue Standard"):

(in thousands)	Balance at December 31, 2017	Adjustments due to the New Revenue Standard	Balance at January 1, 2018
Balance Sheet			
Assets:			
Premiums, commissions and fees receivable	$ 546,402	$153,058	$ 699,460
Other current assets	47,864	52,680	100,544
Liabilities:			
Premiums payable to insurance companies	685,163	12,107	697,270
Accounts payable	64,177	8,747	72,924
Accrued expenses and other liabilities	228,748	22,794	251,542
Deferred income taxes, net	256,185	44,575	300,760
Shareholders' Equity:			
Retained earnings	$2,456,599	$117,515	$2,574,114

The $52.7 million adjustment to other current assets reflects the deferral of certain cost to fulfill contracts. The $12.1 million adjustment to premiums payable to insurance companies reflects the estimated amount payable to outside brokers on unbilled premiums, commissions and fees receivable. The $8.7 million adjustment to accounts payable and the $22.8 million adjustment to accrued expenses and other liabilities consists of commissions payable and deferred revenue, respectively.

The following table illustrates the impact of adopting the New Revenue Standard has had on our reported results in the consolidated statement of income.

	December 31, 2018		
(in thousands)	As reported	Impact of adopting the New Revenue Standard	Balances without the New Revenue Standard
Statement of Income			
Revenues:			
Commissions and fees	$2,009,857	$18,399	$1,991,458
Expenses:			
Employee compensation and benefits	1,068,914	(8,835)	1,077,749
Other operating expenses	332,118	10,621	321,497
Income taxes	118,207	4,246	113,961
Net income	$ 344,255	$12,367	$ 331,888

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of Brown & Brown, Inc. and its subsidiaries. All significant intercompany account balances and transactions have been eliminated in the Consolidated Financial Statements.

Segment results for prior periods have been recast, where appropriate, to reflect the current year segmental structure. Certain reclassifications have been made to the prior year amounts reported in this Annual Report on Form 10-K in order to conform to the current year presentation.

Revenue Recognition

The Company earns commissions paid by insurance carriers for the binding of insurance coverage. Commissions are earned at a point in time upon the effective date of bound insurance coverage, as no performance obligation exists after coverage is bound. If there are other services within the contract, the Company estimates the stand-alone selling price for each separate performance obligation, and the corresponding apportioned revenue is recognized over a period of time as the performance obligations are fulfilled. The Company earns fee revenue by receiving negotiated fees in lieu of a commission and from services other than securing insurance coverage. Fee revenues from certain agreements are recognized depending on when the services within the contract are satisfied and when we have transferred control of the related services to the customer. In situations where multiple performance obligations exist within a fee contract, the use of estimates is required to allocate the transaction price on a relative stand-alone selling price basis to each separate performance obligation. Incentive commissions represent a form of variable consideration which includes additional commissions over base commissions received from insurance carriers based on predetermined production levels mutually agreed upon by both parties. Profit-sharing contingent commissions represent a form of variable consideration associated with the placement of coverage, for which we earn commissions. Profit-sharing contingent commissions and incentive commissions are estimated with a constraint applied and accrued relative to the recognition of the corresponding core commissions based on the amount of consideration that will be received in the coming year such that a significant reversal of revenue is not probable. Guaranteed supplemental commissions, a form of variable consideration, represent guaranteed fixed-base agreements in lieu of profit-sharing contingent commissions.

Management determines the policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities, at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents principally consist of demand deposits with financial institutions and highly liquid investments with quoted market prices having maturities of three months or less when purchased.

Restricted Cash and Investments, and Premiums, Commissions and Fees Receivable

In our capacity as an insurance agent or broker, the Company typically collects premiums from insureds and, after deducting the authorized commissions, remits the net premiums to the appropriate insurance company or companies. Accordingly, as reported in the Consolidated Balance Sheets, premiums are receivable from insureds. Unremitted net insurance premiums are held in a fiduciary capacity until the Company disburses them. Where allowed by law, the Company invests these unremitted funds only in cash, money market accounts, tax-free variable-rate demand bonds and commercial paper held for a short-term. In certain states in which the Company operates, the use and investment alternatives for these funds are regulated and restricted by various state laws and agencies. These restricted funds are reported as restricted cash and investments on the Consolidated Balance Sheets. The interest income earned on these unremitted funds, where allowed by state law, is reported as investment income in the Consolidated Statement of Income.

In other circumstances, the insurance companies collect the premiums directly from the insureds and remit the applicable commissions to the Company. Accordingly, as reported in the Consolidated Balance Sheets, commissions are receivables from insurance companies. Fees are primarily receivables due from customers.

Investments

Certificates of deposit, and other securities, having maturities of more than three months when purchased are reported at cost and are adjusted for other-than-temporary market value declines. The Company's investment holdings include U.S. Government securities, municipal bonds, domestic corporate and foreign corporate bonds as well as short-duration fixed income funds. Investments within the portfolio or funds are held as available-for-sale and are carried at their fair value. Any gain/loss applicable from the fair value change is recorded, net of tax, as other comprehensive income within the equity section of the Consolidated Balance Sheet. Realized gains and losses are reported on the Consolidated Statement of Income, with the cost of securities sold determined on a specific identification basis.

Fixed Assets

Fixed assets, including leasehold improvements, are carried at cost, less accumulated depreciation and amortization. Expenditures for improvements are capitalized, and expenditures for maintenance and repairs are expensed to operations as incurred. Upon sale or retirement, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in other income. Depreciation has been determined using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 15 years. Leasehold improvements are amortized on the straight-line method over the shorter of the useful life of the improvement or the term of the related lease.

Goodwill and Amortizable Intangible Assets

All of our business combinations initiated after June 30, 2001 are accounted for using the acquisition method. Acquisition purchase prices are typically based upon a multiple of average annual operating profit earned over a period of 3 years within a minimum and maximum price range. 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 the fair value of earn-out obligations are recorded in the Consolidated Statement of Income when incurred.

The fair value of earn-out obligations is based upon the present value of the expected future payments to be made to the sellers of the acquired businesses in accordance with the provisions contained in the respective purchase agreements. In determining fair value, the acquired business' future performance is estimated using financial projections developed by management for the acquired business and this estimate 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 estimates 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.

Amortizable intangible assets are stated at cost, less accumulated amortization, and consist of purchased customer accounts and non-compete agreements. Purchased customer accounts and non-compete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from 3 to 15 years. Purchased customer accounts primarily consist of records and files that contain information about insurance policies and the related insured parties that are essential to policy renewals.

The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and amortizable intangible assets is assigned to goodwill. While goodwill is not amortizable, it is subject to assessment at least annually, and more frequently in the presence of certain circumstances, for impairment by application of a fair value-based test. The Company compares the fair value of each reporting unit with its carrying amount to determine if there is potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based upon multiples of earnings before interest, income taxes, depreciation, amortization and change in estimated acquisition earn-out payables ("EBITDAC"), or on a discounted cash flow basis. The Company completed its most recent annual assessment as of November 30, 2018 and determined that the fair value of goodwill significantly exceeded the carrying value of such assets. In addition, as of December 31, 2018, there are no accumulated impairment losses.

The carrying value of amortizable intangible assets attributable to each business or asset group comprising the Company is periodically reviewed by management to determine if there are events or changes in circumstances that would indicate that its carrying amount may not be recoverable. Accordingly, if there are any such changes in circumstances during the year, the Company assesses the carrying value of its amortizable intangible assets by considering the estimated future undiscounted cash flows generated by the corresponding business or asset group. Any impairment identified through this assessment may require that the carrying value of related amortizable intangible assets be adjusted. There were no impairments recorded for the years ended December 31, 2018, 2017, and 2016.

Income Taxes

The Company records income tax expense using the asset-and-liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying values and the income tax bases of the Company's assets and liabilities.

The Company files a consolidated federal income tax return and has elected to file consolidated returns in certain states. Deferred income taxes are provided for in the Consolidated Financial Statements and relate principally to expenses charged to income for financial reporting purposes in one period and deducted for income tax purposes in other periods.

Net Income Per Share

Basic net income per share is computed based on the weighted average number of common shares (including participating securities) issued and outstanding during the period. Diluted net income per share is computed based on the weighted average number of common shares issued and outstanding plus equivalent shares, assuming the exercise of stock options. The dilutive effect of stock options is computed by application of the treasury-stock method. The weighted average number of common shares outstanding for 2016 and 2017 reflect the 2-for-1 stock split that occurred on March 28, 2018.

The following is a reconciliation between basic and diluted weighted average shares outstanding for the years ended December 31:

(in thousands, except per share data)	**2018**	**2017[(1)]**	**2016[(1)]**
Net income	$ 344,255	$ 399,630	$ 257,491
Net income attributable to unvested awarded performance stock	(8,297)	(9,746)	(6,705)
Net income attributable to common shares	**$335,958**	**$389,884**	**$250,786**
Weighted average number of common shares outstanding–basic	277,663	279,394	279,558
Less unvested awarded performance stock included in weighted average number of common shares outstanding–basic	(6,692)	(6,814)	(7,280)
Weighted average number of common shares outstanding for basic earnings per common share	270,971	272,580	272,278
Dilutive effect of stock options	4,550	5,006	3,330
Weighted average number of shares outstanding–diluted	**275,521**	**277,586**	**275,608**
Net income per share:			
Basic	**$ 1.24**	**$ 1.43**	**$ 0.92**
Diluted	**$ 1.22**	**$ 1.40**	**$ 0.91**

(1) The weighted average number of common shares outstanding for 2016 and 2017 reflect the 2-for-1 stock split that occurred on March 28, 2018.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial assets and liabilities, including cash and cash equivalents; restricted cash and short-term investments; investments; premiums, commissions and fees receivable; reinsurance recoverable; prepaid reinsurance premiums; premiums payable to insurance companies; losses and loss adjustment reserve; unearned premium; premium deposits and credits due customers and accounts payable, at December 31, 2018 and 2017, approximate fair value because of the short-term maturity of these instruments. The carrying amount of the Company's long-term debt approximates fair value at December 31, 2018 and 2017 as our fixed-rate borrowings of $499.1 million approximate their values using market quotes of notes with the similar terms as ours, which we deem a close approximation of current market rates. The estimated fair value of the $1,015.0 million currently outstanding approximates the carrying value due to the variable interest rate based upon adjusted LIBOR. See Note 3 to our Consolidated Financial Statements for the fair values related to the establishment of intangible assets and the establishment and adjustment of earn-out payables. See Note 6 for information on the fair value of investments and Note 9 for information on the fair value of long-term debt.

Stock-Based Compensation

The Company grants non-vested stock awards to its employees and officers and fully vested stock awards to directors. The Company uses the modified-prospective method to account for share-based payments. Under the modified-prospective method, compensation cost is recognized for all share-based payments granted on or after January 1, 2006 and for all awards granted to employees prior to January 1, 2006 that remained unvested on that date. The Company uses the alternative-transition method to account for the income tax effects of payments made related to stock-based compensation.

The Company uses the Black-Scholes valuation model for valuing all stock options and shares purchased under the Employee Stock Purchase Plan (the "ESPP"). Compensation for non-vested stock awards is measured at fair value on the grant date based upon the number of shares expected to vest. Compensation cost for all awards is recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period.

Reinsurance

The Company protects itself from claims-related losses by reinsuring all claims risk exposure. The only line of insurance the Company underwrites is flood insurance associated with the Wright National Flood Insurance Company ("WNFIC"), which is part of our National Programs Segment. However, all exposure is reinsured with the Federal Emergency Management Agency ("FEMA") for basic admitted policies conforming to the National Flood Insurance Program. For excess flood insurance policies, all exposure is reinsured with a reinsurance carrier with an AM Best Company rating of "A" or better. Reinsurance does not legally discharge the ceding insurer from the primary liability for the full amount due under the reinsured policies. Reinsurance premiums, commissions, expense reimbursement and reserves related to ceded business are accounted for on a basis consistent with the accounting for the original policies issued and the terms of reinsurance contracts. Premiums earned and losses and loss adjustment expenses incurred are reported net of reinsurance amounts. Other underwriting expenses are shown net of earned ceding commission income. The liabilities for unpaid losses and loss adjustment expenses and unearned premiums are reported gross of ceded reinsurance recoverable.

Balances due from reinsurers on unpaid losses and loss adjustment expenses, including an estimate of such recoverables related to reserves for incurred but not reported ("IBNR") losses, are reported as assets and are included in reinsurance recoverable even though amounts due on unpaid loss and loss adjustment expense are not recoverable from the reinsurer until such losses are paid. The Company does not believe it is exposed to any material credit risk through its reinsurance as the reinsurer is FEMA for basic admitted flood policies and national reinsurance carriers for private flood policies, which has an AM Best Company rating of "A" or better. Historically, no amounts due from reinsurance carriers have been written off as uncollectible.

Unpaid Losses and Loss Adjustment Reserve

Unpaid losses and loss adjustment reserve include amounts determined on individual claims and other estimates based upon the past experience of WNFIC and the policyholders for IBNR claims, less anticipated salvage and subrogation recoverable. The methods of making such estimates and for establishing the resulting reserves are continually reviewed and updated, and any adjustments resulting therefrom are reflected in operations currently.

WNFIC engages the services of outside actuarial consulting firms (the "Actuaries") to assist on an annual basis to render an opinion on the sufficiency of the Company's estimates for unpaid losses and related loss adjustment reserve. The Actuaries utilize both industry experience and the Company's own experience to develop estimates of those amounts as of year-end. These estimated liabilities are subject to the impact of future changes in claim severity, frequency and other factors. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and related loss adjustment reserve are adequate.

Premiums

Premiums are recognized as income over the coverage period of the related policies. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of the policies in force and are determined on a daily pro rata basis. The income is recorded to the commissions and fees line of the income statement.

NOTE 2. Revenues

The following table presents the revenues disaggregated by revenue source:

	Twelve months ended December 31, 2018					
(in thousands)	**Retail**	**National Programs**	**Wholesale Brokerage**	**Services**	**Other**	**Total**
Base commissions[1]	$ 811,820	$324,168	$226,117	$ —	$ (68)	$1,362,037
Fees[2]	148,121	144,195	50,571	189,041	(1,090)	530,838
Incentive commissions[3]	48,698	1,543	864	—	41	51,146
Profit-sharing contingent commissions[4]	24,517	23,896	7,462	—	—	55,875
Guaranteed supplemental commissions[5]	8,535	76	1,350	—	—	9,961
Investment income[6]	2	506	165	205	1,868	2,746
Other income, net[7]	1,070	79	485	—	9	1,643
Total Revenues	$1,042,763	$494,463	$287,014	$189,246	$ 760	$2,014,246

(1) Base commissions generally represent a percentage of the premium paid by an insured and are affected by fluctuations in both premium rate levels charged by insurance companies and the insureds' underlying "insurable exposure units," which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, or sales and payroll levels) to determine what premium to charge the insured. Insurance companies establish these premium rates based upon many factors, including loss experience, risk profile and reinsurance rates paid by such insurance companies, none of which we control.

(2) Fee revenues relate to fees for services other than securing coverage for our customers and fees negotiated in lieu of commissions.

(3) Incentive commissions include additional commissions over base commissions received from insurance carriers based on predetermined production levels mutually agreed upon by both parties.

(4) Profit-sharing contingent commissions are based primarily on underwriting results, but may also reflect considerations for volume, growth and/or retention.

(5) Guaranteed supplemental commissions represent guaranteed fixed-base agreements in lieu of profit-sharing contingent commissions.

(6) Investment income consists primarily of interest on cash and investments.

(7) Other income consists primarily of legal settlements and other miscellaneous income.

Contract Assets and Liabilities

The balances of contract assets and contract liabilities arising from contracts with customers as of December 31, 2018 and 2017 were as follows:

(in thousands)	**December 31, 2018**	**December 31, 2017[1]**
Contract assets	$265,994	$210,323
Contract liabilities	$ 53,496	$ 51,236

(1) The balances as of December 31, 2017 reported in this footnote have been revised to reflect the impact of adopting the New Revenue Standard.

Unbilled receivables (contract assets) arise when the Company recognizes revenue for amounts which have not yet been billed in our systems. Deferred revenue (contract liabilities) relates to payments received in advance of performance under the contract before the transfer of a good or service to the customer.

As of December 31, 2018, deferred revenue consisted of $37.0 million as current portion to be recognized within one year and $16.5 million in long-term to be recognized beyond one year. As of December 31, 2017, deferred revenue consisted of $44.5 million as current portion to be recognized within one year and $6.7 million in long-term deferred revenue to be recognized beyond one year.

Contract assets and contract liabilities arising from acquisitions in 2018 were approximately $34.3 million and $3.3 million, respectively.

During the twelve months ended December 31, 2018, the amount of revenue recognized related to performance obligations satisfied in a previous period, inclusive of changes due to estimates, was approximately $8.9 million.

NOTE 3. Business Combinations

During the year ended December 31, 2018, the Company acquired the assets and assumed certain liabilities of twenty insurance intermediaries, all the stock of three insurance intermediaries and one book of business (customer accounts). Additionally, miscellaneous adjustments were recorded to the purchase price allocation of certain prior acquisitions completed within the last twelve months as permitted by ASC Topic 805 - *Business Combinations* ("ASC 805"). Such adjustments are presented in the "Other" category within the following two tables. The recorded purchase price for all acquisitions includes an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the Consolidated Statement of Income when incurred.

The fair value of earn-out obligations is based upon 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 upon 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 year ended December 31, 2018, several adjustments were made within the permitted measurement period that resulted in an increase in the aggregate purchase price of the affected acquisitions of $21.4 thousand relating to the assumption of certain liabilities. These measurement period adjustments have been reflected as current period adjustments for the year ended December 31, 2018 in accordance with the guidance in ASU 2015-16 "Business Combinations." The measurement period adjustments impacted goodwill, with no effect on earnings or cash in the current period.

Cash paid for acquisitions was $ 934.9 million and $41.5 million in the years ended December 31, 2018 and 2017, respectively. We completed twenty-three acquisitions (excluding book of business purchases) during the year ended December 31, 2018. We completed eleven acquisitions (excluding book of business purchases) during the year ended December 31, 2017.

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

(in thousands) Name	Business segment	Effective date of acquisition	Cash paid	Common Stock Issued	Other payable	Recorded earn-out payable	Net assets acquired	Maximum potential earn-out payable
Opus Advisory Group, LLC (Opus)	Retail	February 1, 2018	$ 20,400	$ —	$ 200	$ 2,384	$ 22,984	$ 3,600
Kerxton Insurance Agency, Inc. (Kerxton)	Retail	March 1, 2018	13,176	—	1,490	2,080	16,746	2,920
Automotive Development Group, LLC (ADG)	Retail	May 1, 2018	29,471	—	559	17,545	47,575	20,000
Servco Pacific, Inc. (Servco)	Retail	June 1, 2018	76,245	—	—	934	77,179	7,000
Tower Hill Prime Insurance Company (Tower Hill)	National Programs	July 1, 2018	20,300	—	—	1,188	21,488	7,700
Health Special Risk, Inc. (HSR)	National Programs	July 1, 2018	20,132	—	—	1,991	22,123	9,000
Professional Disability Associates, LLC (PDA)	Services	July 1, 2018	15,025	—	—	9,818	24,843	17,975
Finance & Insurance Resources, Inc. (F&I)	Retail	September 1, 2018	44,940	—	410	9,121	54,471	19,500
Rodman Insurance Agency, Inc. (Rodman)	Retail	November 1, 2018	31,121	—	261	3,720	35,102	9,850
The Hays Group, Inc. et al (Hays)	Retail	November 16, 2018	605,000	100,000	—	19,600	724,600	25,000
Dealer Associates, Inc. (Dealer)	Retail	December 1, 2018	28,825	—	1,175	3,100	33,100	12,125
Other	Various	Various	30,293	—	1,367	5,896	37,556	12,998
Total			$934,928	$100,000	$5,462	$ 77,377	$1,117,767	$147,668

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

(in thousands)	Opus	Kerxton	ADG	Servco	Tower Hill	HSR	PDA	F&I	Rodman	Hays
Cash	$ —	$ —	$ —	$ 8,188	$ —	$ 3,114	$ (248)	$ —	$ —	$ —
Other current assets	1,215	663	1,500	7,769	—	818	1,762	999	1,062	36,254
Fixed assets	11	10	67	179	$ —	$ 124	$ 310	$ 34	$ 45	$ 4,936
Goodwill	16,414	12,423	35,769	54,429	—	18,737	16,547	36,423	26,572	456,217
Purchased customer accounts	5,008	4,712	9,751	16,442	21,468	5,516	7,700	16,611	10,129	218,600
Non-compete agreements	21	22	21	1	20	65	82	21	51	2,600
Other assets	315	419	467	1,478	—	21	6	383	542	13,977
Total assets acquired	22,984	18,249	47,575	88,486	21,488	28,395	26,159	54,471	38,401	732,584
Other current liabilities	—	(1,503)	—	(11,307)	—	(5,930)	(1,093)	—	(3,299)	(7,984)
Other liabilities	—	—	—	—	—	(342)	(223)	—	—	—
Total liabilities assumed	—	(1,503)	—	(11,307)	—	(6,272)	(1,316)	—	(3,299)	(7,984)
Net assets acquired	$22,984	$16,746	$47,575	$ 77,179	$21,488	$22,123	$24,843	$54,471	$35,102	$724,600

(in thousands)	Dealer	Other	Total
Cash	$ —	$ —	$ 11,054
Other current assets	552	323	52,917
Fixed assets	13	100	5,829
Goodwill	21,467	22,712	717,710
Purchased customer accounts	10,986	15,085	342,008
Non-compete agreements	21	297	3,222
Other assets	226	754	18,588
Total assets acquired	33,265	39,271	1,151,328
Other current liabilities	(165)	(1,715)	(32,996)
Other liabilities	—	—	(565)
Total liabilities assumed	(165)	(1,715)	(33,561)
Net assets acquired	$33,100	$37,556	$ 1,117,767

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

Goodwill of $717.7 million, which is net of any opening balance sheet adjustments within the allowable measurement period, was allocated to the Retail, National Programs, Wholesale Brokerage and Services Segments in the amounts of $676.9 million, $18.7 million, $5.5 million and $16.5 million, respectively. Of the total goodwill of $717.7 million, the amount currently deductible for income tax purposes is $640.3 million and the remaining $77.4 million relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

For the acquisitions completed during 2018, the results of operations since the acquisition dates have been combined with those of the Company. The total revenues from the acquisitions completed through December 31, 2018 included in the Consolidated Statement of Income for the year ended December 31, 2018 were $82.4 million. The income before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through December 31, 2018 included in the Consolidated Statement of Income for the year ended December 31, 2018 was $6.3 million. If the acquisitions had occurred as of the beginning of the respective periods, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	Year Ended December 31,	
(in thousands, except per share data)	2018	2017
Total revenues	$2,259,812	$2,193,169
Income before income taxes	$ 504,664	$ 503,927
Net income	$ 375,670	$ 447,796
Net income per share:		
Basic	$ 1.35	$ 1.60
Diluted	$ 1.33	$ 1.57
Weighted average number of shares outstanding:		
Basic	270,971	272,580
Diluted	275,521	277,586

Acquisitions in 2017

During the year ended December 31, 2017, the Company acquired the assets and assumed certain liabilities of eleven insurance intermediaries and one book of business (customer accounts). Additionally, miscellaneous adjustments were recorded to the purchase price allocation of certain prior acquisitions completed within the last twelve months as permitted by ASC 805. Such adjustments are presented in the "Other" category within the following two tables.

For the year ended December 31, 2017, several adjustments were made within the permitted measurement period that resulted in a decrease in the aggregate purchase price of the affected acquisitions of $1.5 million, relating to the assumption of certain liabilities.

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

(in thousands) Name	Business Segment	Effective Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-Out Payable	Net Assets Acquired	Maximum Potential Earn-Out Payable
Other	Various	Various	$41,471	$11,708	$6,921	$60,100	$27,451
Total			$41,471	$11,708	$6,921	$60,100	$27,451

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

(in thousands)	Total
Other current assets	$ 601
Fixed assets	69
Goodwill	42,172
Purchased customer accounts	18,738
Non-compete agreements	721
Total assets acquired	62,301
Other current liabilities	(1,512)
Deferred income tax, net	(689)
Total liabilities assumed	(2,201)
Net assets acquired	$ 60,100

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 $42.2 million was allocated to the Retail, National Programs, Wholesale Brokerage and Services Segments in the amounts of $33.1 million, $ 7.2 million, $1.2 million and $0.7 million, respectively. Of the total goodwill of $ 42.2 million, $35.3 million is currently deductible for income tax purposes. The remaining $6.9 million relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

For the acquisitions completed during 2017, the results of operations since the acquisition dates have been combined with those of the Company. The total revenues from the acquisitions completed through December 31, 2017 included in the Consolidated Statement of Income for the year ended December 31, 2017 were $7.8 million. The income before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through December 31, 2017 included in the Consolidated Statement of Income for the year ended December 31, 2017 was $2.4 million. If the acquisitions had occurred as of the beginning of the respective periods, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	Year Ended December 31,	
(in thousands, except per share data)	2017	2016
Total revenues	$ 1,891,701	$ 1,784,776
Income before income taxes	$ 453,397	$ 429,490
Net income	$ 401,908	$ 261,133
Net income per share:		
Basic	$ 1.44	$ 0.93
Diluted	$ 1.41	$ 0.92
Weighted average number of shares outstanding:		
Basic	272,580	272,278
Diluted	277,586	275,608

Acquisitions in 2016

During the year ended December 31, 2016, the Company acquired the assets and assumed certain liabilities of seven insurance intermediaries, all of the stock of one insurance intermediary and three books of business (customer accounts). Additionally, miscellaneous adjustments were recorded to the purchase price allocation of certain prior acquisitions completed within the last twelve months as permitted by ASC 805. Such adjustments are presented in the "Other" category within the following two tables.

For the year ended December 31, 2016, several adjustments were made within the permitted measurement period that resulted in a decrease in the aggregate purchase price of the affected acquisitions of $917,497, relating to the assumption of certain liabilities.

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

(in thousands) Name	Business Segment	Effective Date of Acquisition	Cash Paid	Note Payable	Other Payable	Recorded Earn-Out Payable	Net Assets Acquired	Maximum Potential Earn-Out Payable
Social Security Advocates for the Disabled LLC (SSAD)	Services	February 1, 2016	$ 32,526	$ 492	$ —	$ 971	$ 33,989	$ 3,500
Morstan General Agency, Inc. (Morstan)	Wholesale Brokerage	June 1, 2016	66,050	—	10,200	3,091	79,341	5,000
Other	Various	Various	26,140	—	464	400	27,004	7,785
Total			$ 124,716	$ 492	$ 10,664	$4,462	$ 140,334	$ 16,285

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

(in thousands)	SSAD	Morstan	Other	Total
Cash	$ 2,094	$ —	$ —	$ 2,094
Other current assets	1,042	2,482	1,555	5,079
Fixed assets	307	300	77	684
Goodwill	22,352	51,454	19,570	93,376
Purchased customer accounts	13,069	26,481	11,075	50,625
Non-compete agreements	72	39	117	228
Other assets	—	—	20	20
Total assets acquired	38,936	80,756	32,414	152,106
Other current liabilities	(1,717)	(1,415)	(5,410)	(8,542)
Deferred income tax, net	(3,230)	—	—	(3,230)
Total liabilities assumed	(4,947)	(1,415)	(5,410)	(11,772)
Net assets acquired	$33,989	$79,341	$27,004	$140,334

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

Goodwill of $93.4 million was allocated to the Retail, National Programs, Wholesale Brokerage, and Services Segments in the amounts of $13.1 million, $(1.2) thousand, $57.9 million and $22.4 million, respectively. Of the total goodwill of $93.4 million, $88.9 million is currently deductible for income tax purposes. The remaining $4.5 million relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

For the acquisitions completed during 2016, the results of operations since the acquisition dates have been combined with those of the Company. The total revenues from the acquisitions completed through December 31, 2016 included in the Consolidated Statement of Income for the year ended December 31, 2016 were $34.2 million. The income before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through December 31, 2016 included in the Consolidated Statement of Income for the year ended December 31, 2016 was $4.3 million. If the acquisitions had occurred as of the beginning of the respective periods, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	**Year Ended December 31,**	
(in thousands, except per share data)	**2016**	**2015**
Total revenues	$ 1,789,790	$ 1,716,592
Income before income taxes	$ 428,194	$ 414,911
Net income	$ 260,346	$ 250,783
Net income per share:		
Basic	$ 0.93	$ 0.89
Diluted	$ 0.92	$ 0.87
Weighted average number of shares outstanding:		
Basic	272,278	275,620
Diluted	275,608	280,224

As of December 31, 2018, the maximum future contingency payments related to all acquisitions totaled $198.6 million, all of which relates to acquisitions consummated subsequent to January 1, 2009.

ASC 805 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 December 31, 2018, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820-*Fair Value Measurement*. The resulting additions, payments and net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the years ended December 31, 2018, 2017, and 2016 were as follows:

	Year Ended December 31,		
(in thousands)	**2018**	**2017**	**2016**
Balance as of the beginning of the period	$ 36,175	$ 63,821	$ 78,387
Additions to estimated acquisition earn-out payables	77,377	6,920	4,462
Payments for estimated acquisition earn-out payables	(26,597)	(43,766)	(28,213)
Subtotal	86,955	26,975	54,636
Net change in earnings from estimated acquisition earn-out payables:			
Change in fair value on estimated acquisition earn-out payables	603	6,874	6,338
Interest expense accretion	2,366	2,326	2,847
Net change in earnings from estimated acquisition earn-out payables	2,969	9,200	9,185
Balance as of December 31,	$ 89,924	$ 36,175	$ 63,821

Of the $89.9 million of estimated acquisition earn-out payables as of December 31, 2018, $21.1 million was recorded as accounts payable, and $68.8 million was recorded as another non-current liability. Included within additions to estimated acquisition earn-out payables are any adjustments to opening balance sheet items prior to the one-year anniversary date of the acquisition and may therefore differ from previously reported amounts. Of the $36.2 million of estimated acquisition earn-out payables as of December 31, 2017, $25.1 million was recorded as accounts payable, and $11.1 million was recorded as other non-current liabilities. Of the $63.8 million of estimated acquisition earn-out payables as of December 31, 2016, $31.8 million was recorded as accounts payable, and $32.0 million was recorded as other non-current liabilities.

NOTE 4. Goodwill

The changes in the carrying value of goodwill by reportable segment for the years ended December 31, are as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2017	$ 1,354,667	$ 901,294	$ 284,869	$ 134,572	$ 2,675,402
Goodwill of acquired businesses	33,076	7,178	1,229	689	42,172
Goodwill disposed of relating to sales of businesses	(1,495)	—	—	—	(1,495)
Balance as of December 31, 2017	$ 1,386,248	$ 908,472	$ 286,098	$ 135,261	$ 2,716,079
Goodwill of acquired businesses	676,902	18,737	5,524	16,547	717,710
Goodwill disposed of relating to sales of businesses	—	(1,003)	—	—	(1,003)
Balance as of December 31, 2018	**$2,063,150**	**$926,206**	**$291,622**	**$151,808**	**$3,432,786**

NOTE 5. Amortizable Intangible Assets

Amortizable intangible assets at December 31, 2018 and 2017 consisted of the following:

	December 31, 2018				December 31, 2017			
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value	Weighted average life in years(1)	Gross carrying value	Accumulated amortization	Net carrying value	Weighted average life in years(1)
Purchased customer accounts	$ 1,804,404	$ (909,415)	$ 894,989	14.9	$ 1,464,274	$ (824,584)	$ 639,690	15.0
Non-compete agreements	33,469	(29,651)	3,818	4.5	30,287	(28,972)	1,315	4.6
Total	**$1,837,873**	**$(939,066)**	**$898,807**		**$1,494,561**	**$(853,556)**	**$641,005**	

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

Amortization expense for amortizable intangible assets for the years ending December 31, 2019, 2020, 2021, 2022, and 2023 is estimated to be $100.4 million, $93.0 million, $89.5 million, $85.0 million, and $78.0 million, respectively.

NOTE 6. Investments

At December 31, 2018, the Company's amortized cost and fair values of fixed maturity securities are summarized as follows:

(in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	$ 21,729	$ 7	$ (222)	$ 21,514
Corporate debt	623	—	—	623
Total	**$22,352**	**$ 7**	**$(222)**	**$22,137**

At December 31, 2018, the Company held $21.7 million in fixed income securities composed of U.S. Treasury securities, securities issued by U.S. Government agencies and Municipalities, and $0.6 million issued by corporations with investment-grade ratings. Of the total, $4.8 million is classified as short-term investments on the Consolidated Balance Sheet as maturities are less than one year in duration. Additionally, the Company holds $8.1 million in short-term investments, which are related to time deposits held with various financial institutions.

For securities in a loss position, the following table shows the investments' gross unrealized loss and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2018:

	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	$ 5,866	$ (6)	$ 12,634	$ (216)	$ 18,500	$ (222)
Corporate debt	457	—	100	—	557	—
Total	**$6,323**	**$(6)**	**$12,734**	**$(216)**	**$19,057**	**$(222)**

The unrealized losses from corporate issuers were caused by interest rate increases. At December 31, 2018, the Company had 20 securities in an unrealized loss position. The corporate securities are highly rated securities with no indicators of potential impairment. Based upon the ability and intent of the Company to hold these investments until recovery of fair value, which may be maturity, the bonds were not considered to be other-than-temporarily impaired at December 31, 2018.

At December 31, 2017, the Company's amortized cost and fair values of fixed maturity securities are summarized as follows:

(in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	$ 29,970	$ —	$ (206)	$ 29,764
Corporate debt	1,072	12	—	1,084
Total	**$31,042**	**$12**	**$(206)**	**$30,848**

The following table shows the investments' gross unrealized loss and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2017:

	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	$ 17,919	$ (157)	$ 11,845	$ (49)	$ 29,764	$ (206)
Corporate debt	400	—	—	—	400	—
Total	**$18,319**	**$(157)**	**$11,845**	**$(49)**	**$30,164**	**$(206)**

The unrealized losses in the Company's investments in U.S. Treasury Securities and obligations of U.S. Government Agencies and bonds from corporate issuers were caused by interest rate increases. At December 31, 2017, the Company had 27 securities in an unrealized loss position. The contractual cash flows of the U.S. Treasury Securities and obligations of the U.S. Government agencies investments are either guaranteed by the U.S. Government or an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. The corporate securities are highly rated securities with no indicators of potential impairment. Based upon the ability and intent of the Company to hold these investments until recovery of fair value, which may be maturity, the bonds were not considered to be other-than-temporarily impaired at December 31, 2017.

The amortized cost and estimated fair value of the fixed maturity securities at December 31, 2018 by contractual maturity are set forth below:

(in thousands)	Amortized cost	Fair value
Years to maturity:		
Due in one year or less	$ 4,768	$ 4,743
Due after one year through five years	17,584	17,394
Due after five years through ten years	—	—
Total	**$22,352**	**$22,137**

The amortized cost and estimated fair value of the fixed maturity securities at December 31, 2017 by contractual maturity are set forth below:

(in thousands)	Amortized cost	Fair value
Years to maturity:		
Due in one year or less	$ 16,934	$ 16,899
Due after one year through five years	13,876	13,708
Due after five years through ten years	232	241
Total	**$31,042**	**$30,848**

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

Proceeds from the sales and maturity of the Company's investment in fixed maturity securities were $17.1 million. This along with maturing time deposits yielded total cash proceeds from the sale of investments of $17.9 million in the period of January 1, 2018 to December 31, 2018. These proceeds were used to purchase an additional $9.3 million of fixed maturity securities and to fund certain general corporate purposes. The gains and losses realized on those sales for the period from January 1, 2018 to December 31, 2018 were insignificant.

Proceeds from the sales and maturity of the Company's investment in fixed maturity securities were $5.8 million for the year ended December 31, 2017. This along with maturing time deposits yielded total cash proceeds from the sale of investments of $ 9.6 million in the period of January 1, 2017 to December 31, 2017. These proceeds were used to purchase additional fixed-maturity securities. The gains and losses realized on those sales for the period from January 1, 2017 to December 31, 2017 were insignificant.

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

At December 31, 2018, investments with a fair value of approximately $4.1 million were on deposit with state insurance departments to satisfy regulatory requirements.

NOTE 7. Fixed Assets

Fixed assets at December 31 consisted of the following:

(in thousands)	2018	2017
Furniture, fixtures and equipment	$ 213,928	$ 190,784
Leasehold improvements	39,194	35,481
Construction in progress	7,568	—
Land, buildings and improvements	8,185	7,643
Total cost	268,875	233,908
Less accumulated depreciation and amortization	(168,480)	(156,822)
Total	**$100,395**	**$ 77,086**

Depreciation and amortization expense for fixed assets amounted to $22.8 million in 2018, $22.7 million in 2017 and $21.0 million in 2016.

NOTE 8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other liabilities at December 31 consisted of the following:

(in thousands)	2018	2017
Accrued incentive compensation	$ 120,228	$ 106,923
Accrued compensation and benefits	51,731	40,540
Accrued rent and vendor expenses	34,110	30,616
Deferred revenue	37,018	21,921
Reserve for policy cancellations	15,197	11,048
Accrued interest	7,669	6,749
Other	13,357	10,951
Total	**$279,310**	**$228,748**

NOTE 9. Long-Term Debt

Long-term debt at December 31, 2018 and 2017 consisted of the following:

(in thousands)	December 31, 2018	December 31, 2017
Current portion of long-term debt:		
Current portion of 5-year term loan facility expires 2022	$ 35,000	$ 20,000
4.500% Senior Notes, Series E, quarterly interest payments, balloon due 2018	—	100,000
Current portion of 5-year term loan credit agreement expires 2023	15,000	—
Total current portion of long-term debt	50,000	120,000
Long-term debt:		
Note agreements:		
4.200% Senior Notes, semi-annual interest payments, balloon due 2024	499,101	498,943
Total notes	499,101	498,943
Credit agreements:		
5-year term loan facility, periodic interest and principal payments, LIBOR plus up to 1.750%, expires June 28, 2022	330,000	365,000
5-year revolving loan facility, periodic interest payments, currently LIBOR plus up to 1.500%, plus commitment fees up to 0.250%, expires June 28, 2022	350,000	—
5-year term loan facility, periodic interest and principal payments, LIBOR plus up to 1.750%, expires December 21, 2023	$ 285,000	$ —
Total credit agreements	965,000	365,000
Debt issuance costs (contra)	(7,111)	(7,802)
Total long-term debt less unamortized discount and debt issuance costs	1,456,990	856,141
Current portion of long-term debt	50,000	120,000
Total debt	**$1,506,990**	**$976,141**

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the “Master Agreement”) with a national insurance company (the “Purchaser”). The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.660% per year. On February 1, 2008, $25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.370% per year, were issued. On September 15, 2011, and pursuant to a Confirmation of Acceptance (the “Confirmation”), dated January 21, 2011, in connection with the Master Agreement, $100.0 million in Series E Senior Notes were issued and was due September 15, 2018, with a fixed interest rate of 4.500% per year. The Series E Senior Notes were issued for the sole purpose of retiring existing Senior Notes. On January 15, 2015, the Series D Notes were redeemed at maturity using cash proceeds to pay off the principal of $25.0 million plus any remaining accrued interest. On December 22, 2016, the Series C Notes were redeemed at maturity using cash proceeds to pay off the principal of $ 25.0 million plus any remaining accrued interest. On May 10, 2018, the principal balance of $100.0 million from the Series E Senior Notes was paid in full, along with accrued interest of $0.7 million and a prepayment premium of $0.7 million. As of December 31, 2018, there was no outstanding debt balance issued under the provisions of the Master Agreement, which is fully terminated with the Series E Senior Notes maturing.

On April 17, 2014, the Company entered into a credit agreement with JPMorgan Chase Bank, N.A. as administrative agent and certain other banks as co-syndication agents and co-documentation agents (the “Credit Agreement”). The Credit Agreement in the amount of $1,350.0 million provides for an unsecured revolving credit facility (the “Credit Facility”) in the initial amount of $800.0 million and unsecured term loans in the initial amount of $ 550.0 million, either or both of which may, subject to lenders’ discretion, potentially be increased by up to $ 500.0 million. The Credit Facility was funded on May 20, 2014 in conjunction with the closing of the Wright acquisition, with the $550.0 million term loan being funded as well as a drawdown of $ 375.0 million on the revolving loan facility. Use of these proceeds was to retire existing term loan debt and to facilitate the closing of the Wright acquisition as well as other acquisitions. The Credit Facility terminates on May 20, 2019, but either or both of the revolving credit facility and the term loans may be extended for two additional one year periods at the Company’s request and at the discretion of the respective lenders. Interest and facility fees in respect to the Credit Facility are based upon the better of the Company’s net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating. Based upon the Company’s net debt leverage ratio, the rates of interest charged on the term loan are 1.000% to 1.750%, and the revolving loan is 0.850% to 1.500% above the adjusted LIBOR rate for outstanding amounts drawn. There are fees included in the facility which include a facility fee based upon the revolving credit commitments of the lenders (whether used or unused) at a rate of 0.150% to 0.250% and letter of credit fees based upon the amounts of outstanding secured or unsecured letters of credit. The Credit Facility includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers.

On June 28, 2017, the Company entered into an amended and restated credit agreement (the “Amended and Restated Credit Agreement”) with the lenders named therein, JPMorgan Chase Bank, N.A. as administrative agent and certain other banks as co-syndication agents and co-documentation agents. The Amended and Restated Credit Agreement amended and restated the credit agreement dated April 17, 2014, among such parties (the “Original Credit Agreement”). The Amended and Restated Credit Agreement extends the applicable maturity date of the existing revolving credit facility (the “Facility”) of $800.0 million to June 28, 2022 and re-evidences unsecured term loans at $ 400.0 million, while also extending the applicable maturity date to June 28, 2022. The quarterly term loan principal amortization schedule was reset. At the time of the execution of the Amended and Restated Credit Agreement, $67.5 million of principal from the original unsecured term loans was repaid using operating cash balances, and the Company added an additional $2.8 million in debt issuance costs related to the Facility to the Consolidated Balance Sheet. The Company also expensed to the Consolidated Statements of Income $0.2 million of debt issuance costs related to the Original Credit Agreement due to certain lenders exiting prior to execution of the Amended and Restated Credit Agreement. The Company also carried forward $1.6 million on the Consolidated Balance Sheet the remaining unamortized portion of the Original Credit Agreement debt issuance costs, which will be amortized over the term of the Amended and Restated Credit Agreement. On December 31, 2018, the Company made a scheduled principal payment of $5.0 million per the terms of the Amended and Restated Credit Agreement. As of December 31, 2018, there was an outstanding debt balance issued under the term loan of the Amended and Restated Credit Agreement of $365.0 million with $350.0 million in borrowings outstanding against the Facility. The Company had borrowed approximately $600.0 million under its Revolving Credit Facility on November 15, 2018 in connection with the closing of the acquisition of certain assets and assumption of certain liabilities of the Hays Companies. Per the terms of the Amended and Restated Credit Agreement, a scheduled principal payment of $5.0 million is due March 31, 2019.

On September 18, 2014, the Company issued $500.0 million of 4.200% unsecured Senior Notes due in 2024. The Senior Notes were given investment grade ratings of BBB-/Baa3 with a stable outlook. The notes are subject to certain covenant restrictions and regulations which are customary for credit rated obligations. At the time of funding, the proceeds were offered at a discount of the original note amount which also excluded an underwriting fee discount. The net proceeds received from the issuance were used to repay the outstanding balance of $475.0 million on the revolving Credit Facility and for other general corporate purposes. As of December 31, 2018 and 2017, there was an outstanding debt balance of $500.0 million exclusive of the associated discount balance.

On December 21, 2018, the Company entered into a term loan credit agreement (the "Term Loan Credit Agreement") with the lenders named therein, Wells Fargo Bank, National Association, as administrative agent, and certain other banks as co-syndication agents and as joint lead arrangers and joint bookrunners. The Term Loan Credit Agreement provides for an unsecured term loan in the initial amount of $300.0 million, which may, subject to lenders' discretion, potentially be increased up to an aggregate amount of $450.0 million (the "Term Loan"). The Term Loan is repayable over the five-year term from the effective date of the Term Loan Credit Agreement, which was December 21, 2018.

Based on the Company's net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating as determined by Moody's Investor Service and Standard & Poor's Rating Service, the rates of interest charged on the term loan are 1.00% to 1.75%, above the adjusted 1-Month LIBOR rate. On December 21, 2018, the Company borrowed $ 300.0 million under the Term Loan Credit Agreement and used $250.0 million of the proceeds to reduce indebtedness under the Company's Amended and Restated Credit Agreement, dated June 28, 2017, with the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, and certain other banks as co-syndication agents and co-documentation agents (the "Revolving Credit Facility"). As of December 31, 2018, there was an outstanding debt balance issued under the term loan of the Term Loan Credit Agreement of $300.0 million. Per the terms of the Term Loan Credit Agreement, a scheduled principal payment of $3.8 million is due March 31, 2019.

The Master Agreement, Amended and Restated Credit Agreement and the Term Loan Credit Agreement require the Company to maintain certain financial ratios and comply with certain other covenants. The Company was in compliance with all such covenants as of December 31, 2018 and 2017.

The 30-day Adjusted LIBOR Rate for the term loan and Revolving Credit Facility of the Amended and Restated Credit Agreement and Term Loan Credit Agreement as of December 31, 2018 was 2.563%, 2.288%, and 2.500%, respectively.

Interest paid in 2018, 2017 and 2016 was $38.0 million, $36.2 million, and $37.7 million, respectively.

At December 31, 2018, maturities of long-term debt were $50.0 million in 2019, $55.0 million in 2020, $70.0 million in 2021, $630.0 million in 2022, $210.0 million in 2023 and $500.0 million in 2024.

NOTE 10. Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act"). The Tax Reform Act makes changes to the U.S. tax code that affected our income tax rate in 2017. The Tax Reform Act reduces the U.S. federal corporate income tax rate from 35.0% to 21.0% and requires companies to pay a one-time transition tax on certain unrepatriated earnings from foreign subsidiaries. The Tax Reform Act also establishes new tax laws that became effective January 1, 2018.

ASC 740 requires a company to record the effects of a tax law change in the period of enactment, however, shortly after the enactment of the Tax Reform Act, the SEC staff issued SAB 118, which allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

For 2017, we made a reasonable estimate of the impact of the Tax Reform Act and recorded a one-time credit in our 2017 income tax expense of $ 120.9 million, which reflects an estimated reduction in our deferred income tax liabilities of $124.2 million as a result of the maximum federal rate decreasing to 21.0% from 35.0%, which was partially offset by an estimated increase in income tax payable in the amount of $3.3 million as a result of the transition tax on cash and cash equivalent balances related to untaxed accumulated earnings associated with our international operations. During 2018, we made a credit adjustment to the transition tax on untaxed international operations in the amount of $1.6 million. This adjustment was a reduction of income tax expense for 2018 as a result of updated calculations based on the Company's tax filings for the 2017 year end. As of December 31, 2018, management does not expect any further changes to the amounts previously recorded and adjusted under SAB 118.

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

(in thousands)	2018	2017	2016
Current:			
Federal	$ 77,694	$ 129,954	$ 126,145
State	25,096	21,392	21,110
Foreign	409	929	590
Total current provision	103,199	152,275	147,845
Deferred:			
Federal	8,483	18,999	15,551
State	6,519	2,984	2,612
Foreign	6	—	—
Tax Reform Act deferred tax revaluation	—	(124,166)	—
Total deferred provision	15,008	(102,183)	18,163
Total tax provision	**$118,207**	**$ 50,092**	**$166,008**

A reconciliation of the differences between the effective tax rate and the federal statutory tax rate for the years ended December 31 is as follows:

	2018	2017	2016
Federal statutory tax rate	21.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	5.7	3.8	3.9
Non-deductible employee stock purchase plan expense	0.2	0.3	0.3
Non-deductible meals and entertainment	0.3	0.3	0.3
Non-deductible officers' compensation	0.3	—	—
Tax Reform Act deferred tax revaluation and transition tax impact	(0.3)	(26.9)	—
Other, net	(1.6)	(1.4)	(0.3)
Effective tax rate	**25.6%**	**11.1%**	**39.2%**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for income tax reporting purposes.

Significant components of the Company's net deferred tax liabilities as of December 31 are as follows:

(in thousands)	2018	2017
Non-current deferred tax liabilities:		
Intangible assets	$ 334,200	$ 306,351
Fixed assets	4,929	2,723
Impact of adoption of ASC 606 revenue recognition	29,729	—
Net unrealized holding (loss)/gain on available-for-sale securities	(78)	(6)
Total non-current deferred tax liabilities	368,780	309,068
Non-current deferred tax assets:		
Deferred compensation	41,293	36,701
Accruals and reserves	10,455	7,534
Deferred profit-sharing contingent commissions	—	7,107
Net operating loss carryforwards	2,196	2,434
Valuation allowance for deferred tax assets	(896)	(893)
Total non-current deferred tax assets	53,048	52,883
Net non-current deferred tax liability	**$315,732**	**$256,185**

Income taxes paid in 2018, 2017, and 2016 were $110.6 million, $152.0 million, and $143.1 million, respectively.

At December 31, 2018, the Company had net operating loss carryforwards of $0.1 million and $42.5 million for federal and state income tax reporting purposes, respectively, portions of which expire in the years 2019 through 2038. The federal carryforward is derived from insurance operations acquired by the Company in 2001. The state carryforward amount is derived from the operating results of certain subsidiaries and from the 2013 stock acquisition of Beecher Carlson Holdings, Inc.

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

(in thousands)	2018	2017	2016
Unrecognized tax benefits balance at January 1	$ 1,694	$ 750	$ 584
Gross increases for tax positions of prior years	594	1,070	412
Gross decreases for tax positions of prior years	(5)	—	(41)
Settlements	(644)	(126)	(205)
Unrecognized tax benefits balance at December 31	**$1,639**	**$1,694**	**$750**

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2018, 2017, and 2016 the Company had $197,205, $228,608, and $86,191 of accrued interest and penalties related to uncertain tax positions, respectively.

The total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized was $1.6 million as of December 31, 2018, $ 1.7 million as of December 31, 2017 and $0.8 million as of December 31, 2016. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

As a result of a 2006 Internal Revenue Service ("IRS") audit, the Company agreed to accrue at each December 31, for tax purposes only, a known amount of profit-sharing contingent commissions represented by the actual amount of profit-sharing contingent commissions received in the first quarter of the related year, with a true-up adjustment to the actual amount received by the end of the following March. Since this method for tax purposes differed from the method used for book purposes, it resulted in a current deferred tax asset as of December 31, 2017 and 2016. As of January 1, 2018, pursuant to ASU 606, Revenue Recognition, the deferred tax asset was removed and was included in the Company's overall beginning retained earnings adjustment per ASC 606. The Company will now follow book treatment for accrued profit-sharing contingent commissions.

The Company is subject to taxation in the United States and various state jurisdictions. The Company is also subject to taxation in the United Kingdom. In the United States, federal returns for fiscal years 2014 through 2018 remain open and subject to examination by the IRS. The Company files and remits state income taxes in various states where the Company has determined it is required to file state income taxes. The Company's filings with those states remain open for audit for the fiscal years 2012 through 2018. In the United Kingdom, the Company's filings remain open for audit for the fiscal years 2017 and 2018.

During 2017, the Company settled the previously disclosed IRS income tax audit of The Wright Insurance Group for the short period ended May 1, 2014. Pursuant to the agreement in which the Company acquired The Wright Insurance Group, the Company was fully indemnified for all audit-related assessments.

During 2018, the Company settled the previously disclosed State of Massachusetts income tax audit for the fiscal year 2013 through 2014. In addition, the Company is currently under audit in the states of Colorado, Illinois, Kansas, Massachusetts and New York for the fiscal years 2015 through 2017.

In general, it is our practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations.

NOTE 11. Employee Savings Plan

The Company has an Employee Savings Plan (401(k)) in which substantially all employees with more than 30 days of service are eligible to participate. Under this plan, the Company makes matching contributions of up to 4.0% of each participant's annual compensation. Prior to 2014, the Company's matching contribution was up to 2.5% of each participant's annual compensation with an additional discretionary profit-sharing contribution each year, which equaled 1.5% of each eligible employee's compensation. The Company's contribution expense to the plan totaled $22.8 million in 2018, $19.6 million in 2017, and $19.3 million in 2016.

NOTE 12. Stock-Based Compensation

Performance Stock Plan

In 1996, the Company adopted and the shareholders approved a performance stock plan, under which until the suspension of the plan in 2010, up to 28,800,000 Performance Stock Plan ("PSP") shares could be granted to key employees contingent on the employees' future years of service with the Company and other performance-based criteria established by the Compensation Committee of the Company's Board of Directors. Before participants may take full title to Performance Stock, two vesting conditions must be met. Of the grants currently outstanding, specified portions satisfied the first condition for vesting based upon 20% incremental increases in the 20-trading-day average stock price of Brown & Brown's common stock from the price on the business day prior to date of grant. Performance Stock that has satisfied the first vesting condition is considered "awarded shares." Awarded shares are included as issued and outstanding common stock shares and are included in the calculation of basic and diluted net income per share. Dividends are paid on awarded shares and participants may exercise voting privileges on such shares. Awarded shares satisfy the second condition for vesting on the earlier of a participant's: (i) 15 years of continuous employment with Brown & Brown from the date shares are granted to the participants (or, in the case of the July 2009 grant to Powell Brown, 20 years), (ii) attainment of age 64 (on a prorated basis corresponding to the number of years since the date of grant), or (iii) death or disability. On April 28, 2010, the PSP was suspended and any remaining authorized, but unissued shares, as well as any shares forfeited in the future, will be reserved for issuance under the 2010 Stock Incentive Plan (the "SIP").

At December 31, 2018, 10,269,384 shares had been granted, net of forfeitures, under the PSP. As of December 31, 2018, 1,196,092 shares had met the first condition of vesting and had been awarded, and 9,073,292 shares had satisfied both conditions of vesting and had been distributed to participants. Of the shares that have not vested as of December 31, 2018, the initial stock prices ranged from $8.16 to $12.84.

The Company uses a path-dependent lattice model to estimate the fair value of PSP grants on the grant date.

A summary of PSP activity for the years ended December 31, 2018, 2017, and 2016 is as follows:

	Weighted-average grant date fair value	Granted shares	Awarded shares	Shares not yet awarded
Outstanding at January 1, 2016	$ 4.52	3,204,428	3,188,428	16,000
Granted	$ —	—	—	—
Awarded	$ —	—	8,000	(8,000)
Vested	$ 3.19	(1,012,844)	(1,012,844)	—
Forfeited	$ 5.26	(185,034)	(177,034)	(8,000)
Outstanding at December 31, 2016	$ 5.11	2,006,550	2,006,550	—
Granted	$ —	—	—	—
Awarded	$ —	—	—	—
Vested	$ 4.81	(277,602)	(277,602)	—
Forfeited	$ 5.24	(34,472)	(34,472)	—
Outstanding at December 31, 2017	$ 5.16	1,694,476	1,694,476	—
Granted	$ —	—	—	—
Awarded	$ —	—	—	—
Vested	$ 5.53	(453,860)	(453,860)	—
Forfeited	$ 4.92	(44,524)	(44,524)	—
Outstanding at December 31, 2018	**$5.03**	**1,196,092**	**1,196,092**	**—**

The total fair value of PSP grants that vested during each of the years ended December 31, 2018, 2017, and 2016 was $11.9 million, $6.3 million, and $18.1 million, respectively.

Stock Incentive Plan

On April 28, 2010, the shareholders of the Company, Inc. approved the Stock Incentive Plan ("SIP") that provides for the granting of stock options, stock, restricted stock units, and/or stock appreciation rights to employees and directors contingent on criteria established by the Compensation Committee of the Company's Board of Directors. The principal purpose of the SIP is to attract, incentivize and retain key employees by offering those persons an opportunity to acquire or increase a direct proprietary interest in the Company's operations and future success. The SIP includes a sub-plan applicable to Decus Insurance Brokers Limited ("Decus") which, is a subsidiary of Decus Holdings (U.K.) Limited. The shares of stock reserved for issuance under the SIP are any shares that are authorized for issuance under the PSP and not already subject to grants under the PSP, and that were outstanding as of April 28, 2010, the date of suspension of the PSP, together with PSP shares and SIP shares forfeited after that date. As of April 28, 2010, 12,093,536 shares were available for issuance under the PSP, which were then transferred to the SIP. In addition, in May 2016 and May 2017 our shareholders approved amendments to the SIP to increase the shares available for issuance by an additional 2,400,000 and 2,600,000, respectively.

The Company has granted stock to our employees in the form of Restricted Stock Awards and Performance Stock Awards under the SIP. To date, a substantial majority of stock grants to employees under the SIP vest in five to ten years. The Performance Stock Awards are subject to the achievement of certain performance criteria by grantees, which may include growth in a defined book of business, Organic Revenue growth and operating profit growth of a profit center, Organic Revenue growth of the Company and consolidated EPS growth at certain levels of the Company. The performance measurement period ranges from three to five years. Beginning in 2016, certain Performance Stock Awards have a payout range between 0% to 200% depending on the achievement against the stated performance target. Prior to 2016, the majority of the grants had a binary performance measurement criteria that only allowed for 0% or 100% payout.

Non-employee members of the Board of Directors received shares annually issued pursuant to the SIP as part of their annual compensation. A total of 33,720 shares were issued in January 2016, 22,700 shares were issued in January 2017, and 26,620 shares were issued in January 2018.

The Company uses the closing stock price on the day prior to the grant date to determine the fair value of SIP grants and then applies an estimated forfeiture factor to estimate the annual expense. Additionally, the Company uses the path-dependent lattice model to estimate the fair value of grants with PSP-type vesting conditions as of the grant date. SIP shares that satisfied the first vesting condition for PSP-type grants or the established performance criteria are considered awarded shares. Awarded shares are included as issued and outstanding common stock shares and are included in the calculation of basic and diluted net income per share.

A summary of SIP activity for the years ended December 31, 2018, 2017, and 2016 is as follows:

	Weighted-average grant date fair value	Granted shares	Awarded shares	Shares not yet awarded
Outstanding at January 1, 2016	$ 14.37	12,553,944	2,259,988	10,293,956
Granted	$ 17.76	1,944,198	365,306	1,578,892[(1)]
Awarded	$ 12.46	—	2,862,638	(2,862,638)
Vested	$ 13.66	(333,768)	(333,768)	—
Forfeited	$ 12.67	(1,908,262)	(351,576)	(1,556,686)
Outstanding at December 31, 2016	$ 14.98	12,256,112	4,802,588	7,453,524
Granted	$ 20.82	1,392,912	241,334	1,151,578[(2)]
Awarded	$ 15.72	—	326,808	(326,808)
Vested	$ 12.61	(484,914)	(484,914)	—
Forfeited	$ 14.89	(342,120)	(76,212)	(265,908)
Outstanding at December 31, 2017	$ 15.58	12,821,990	4,809,604	8,012,386
Granted	$ 22.87	1,577,721	454,313	1,123,408[(3)]
Awarded	$ 15.89	—	2,489,905	(2,489,905)
Vested	$ 14.09	(933,916)	(933,916)	—
Forfeited	$ 16.37	(2,363,420)	(224,587)	(2,138,833)
Outstanding at December 31, 2018	**$16.69**	**11,102,375**	**6,595,319**	**4,507,056**

(1) Of the 1,578,892 shares of performance-based restricted stock granted in 2016, the payout for 706,264 shares may be increased up to 200% of the target or decreased to zero, subject to the level of performance attained. The amount reflected in the table includes all restricted stock grants at a target payout of 100%.

(2) Of the 1,151,578 shares of performance-based restricted stock granted in 2017, the payout for 641,652 shares may be increased up to 200% of the target or decreased to zero, subject to the level of performance attained. The amount reflected in the table includes all restricted stock grants at a target payout of 100%.

(3) Of the 1,123,408 shares of performance-based restricted stock granted in 2018, the payout for 576,886 shares may be increased up to 200% of the target or decreased to zero, subject to the level of performance attained. The amount reflected in the table includes all restricted stock grants at a target payout of 100%.

The following table sets forth information as of December 31, 2018, 2017 and 2016, with respect to the number of time-based restricted shares granted and awarded, the number of performance-based restricted shares granted, and the number of performance-based restricted shares awarded under our Performance Stock Plan and 2010 Stock Incentive Plan:

Year	Time-based restricted stock granted and awarded	Performance-based restricted stock granted	Performance-based restricted stock awarded
2018	454,313	1,123,408[(1)]	2,489,905
2017	241,334	1,151,578[(2)]	326,808
2016	365,306	1,578,892[(3)]	2,870,638

(1) Of the 1,123,408 shares of performance-based restricted stock granted in 2018, the payout for 576,886 shares may be increased up to 200% of the target or decreased to zero, subject to the level of performance attained. The amount reflected in the table includes all restricted stock grants at a target payout of 100%.

(2) Of the 1,151,578 shares of performance-based restricted stock granted in 2017, the payout for 641,652 shares may be increased up to 200% of the target or decreased to zero, subject to the level of performance attained. The amount reflected in the table includes all restricted stock grants at a target payout of 100%.

(3) Of the 1,578,892 shares of performance-based restricted stock granted in 2016, the payout for 706,264 shares may be increased up to 200% of the target or decreased to zero, subject to the level of performance attained. The amount reflected in the table includes all restricted stock grants at a target payout of 100%.

At December 31, 2018, 8,697,491 shares were available for future grants. This amount is calculated assuming the maximum payout for all restricted stock grants.

Employee Stock Purchase Plan

The Company has a shareholder-approved Employee Stock Purchase Plan ("ESPP") with a total of 34,000,000 authorized shares of which 7,316,901 were available for future subscriptions as of December 31, 2018. Employees of the Company who regularly work 20 hours or more per week are eligible to participate in the ESPP. Participants, through payroll deductions, may allot up to 10% of their compensation towards the purchase of a maximum of $25,000 worth of Company stock between August 1st of each year and the following July 31st (the "Subscription Period") at a cost of 85% of the lower of the stock price as of the beginning or end of the Subscription Period.

The Company estimates the fair value of an ESPP share option as of the beginning of the Subscription Period as the sum of: (1) 15% of the quoted market price of the Company's stock on the day prior to the beginning of the Subscription Period, and (2) 85% of the value of a one-year stock option on the Company stock using the Black-Scholes option-pricing model. The estimated fair value of an ESPP share option as of the Subscription Period beginning in August 2018 was $5.88. The fair values of an ESPP share option as of the Subscription Periods beginning in August 2017 and 2016, were $4.32 and $3.81, respectively.

For the ESPP plan years ended July 31, 2018, 2017 and 2016, the Company issued 985,601, 1,058,024 and 1,029,330 shares of common stock, respectively. These shares were issued at an aggregate purchase price of $18.7 million, or $18.96 per share, in 2018, $16.4 million, or $15.52 per share, in 2017, and $15.0 million, or $14.62 per share, in 2016.

For the five months ended December 31, 2018, 2017 and 2016 (portions of the 2018-2019, 2017-2018 and 2016-2017 plan years), 402,349, 435,027 and 494,046 shares of common stock (from authorized but unissued shares), respectively, were subscribed to by ESPP participants for proceeds of approximately $9.9 million, $8.2 million and $7.7 million, respectively.

Summary of Non-Cash Stock-Based Compensation Expense

The non-cash stock-based compensation expense for the years ended December 31 is as follows:

(in thousands)	2018	2017	2016
Stock incentive plan	$ 28,027	$ 24,899	$ 11,049
Employee stock purchase plan	4,744	4,025	3,698
Performance stock plan	748	1,707	1,305
Total	**$33,519**	**$30,631**	**$16,052**

Summary of Unamortized Compensation Expense

As of December 31, 2018, the Company estimates there to be $97.1 million of unamortized compensation expense related to all non-vested stock-based compensation arrangements granted under the Company's stock-based compensation plans, based upon current projections of grant measurement against performance criteria. That expense is expected to be recognized over a weighted average period of 3.29 years.

NOTE 13. Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

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

	Year Ended December 31,		
(in thousands)	**2018**	**2017**	**2016**
Cash paid during the period for:			
Interest	$ 38,032	$ 36,172	$ 37,652
Income taxes	$ 110,557	$ 152,024	$ 143,111

The Company's significant non-cash investing and financing activities are summarized as follows:

	Year Ended December 31,		
(in thousands)	**2018**	**2017**	**2016**
Other payables issued for purchased customer accounts	$ 5,462	$ 11,708	$ 10,664
Estimated acquisition earn-out payables and related charges	$ 77,378	$ 6,921	$ 4,463
Notes payable issued or assumed for purchased customer accounts	$ —	$ —	$ 492
Notes received on the sale of fixed assets and customer accounts	$ 52	$ —	$ 22

Our Restricted Cash balance is comprised of funds held in separate premium trust accounts as required by state law or, in some cases, per agreement with our carrier partners. The following is a reconciliation of cash and cash equivalents inclusive of restricted cash as of December 31, 2018, 2017, and 2016.

	Balance as of December 31,		
(in thousands)	**2018**	**2017**	**2016**
Table to reconcile cash and cash equivalents inclusive of restricted cash			
Cash and cash equivalents	$ 438,961	$ 573,383	515,646
Restricted cash	338,635	250,705	265,637
Total cash and cash equivalents inclusive of restricted cash at the end of the period	**$777,596**	**$824,088**	**781,283**

NOTE 14. Commitments and Contingencies

Operating Leases

The Company leases facilities and certain items of office equipment under non-cancelable operating lease arrangements expiring on various dates through 2042. The facility leases generally contain renewal options and escalation clauses based upon increases in the lessors' operating expenses and other charges. The Company anticipates that most of these leases will be renewed or replaced upon expiration. At December 31, 2018, the aggregate future minimum lease payments under all non-cancelable lease agreements were as follows:

(in thousands)	
2019	$ 48,292
2020	43,517
2021	34,836
2022	27,035
2023	19,981
Thereafter	36,349
Total minimum future lease payments	**$210,010**

Rental expense in 2018, 2017 and 2016 for operating leases totaled $54.6 million, $51.0 million and $49.3 million, respectively.

Legal Proceedings

The Company records losses for claims in excess of the limits of, or outside the coverage of, applicable insurance at the time and to the extent they are probable and estimable. In accordance with ASC Topic 450-*Contingencies*, the Company accrues anticipated costs of settlement, damages, losses for liability claims and, under certain conditions, costs of defense, based upon historical experience or to the extent specific losses are probable and estimable. Otherwise, the Company expenses these costs as incurred. If the best estimate of a probable loss is a range rather than a specific amount, the Company accrues the amount at the lower end of the range.

The Company's accruals for legal matters that were probable and estimable were not material at December 31, 2018 and 2017. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could adversely impact the Company's operating results, cash flows and overall liquidity. The Company maintains third-party insurance policies to provide coverage for certain legal claims, in an effort to mitigate its overall exposure to unanticipated claims or adverse decisions. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters. Based upon the AM Best Company ratings of these third-party insurers, management does not believe there is a substantial risk of an insurer's material non-performance related to any current insured claims.

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

NOTE 15. Quarterly Operating Results (Unaudited)

Quarterly operating results for 2018 and 2017 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018				
Total revenues	$501,461	$473,187	$530,850	$508,748
Total expenses	$383,020	$372,277	$388,350	$408,137
Income before income taxes	$118,441	$100,910	$142,500	$100,611
Net income	$ 90,828	$ 73,922	$106,053	$ 73,452
Net income per share:				
Basic	$ 0.33	$ 0.27	$ 0.38	$ 0.26
Diluted	$ 0.32	$ 0.26	$ 0.38	$ 0.26
2017				
Total revenues	$465,080	$466,305	$475,646	$474,316
Total expenses	$354,113	$358,303	$351,227	$367,982
Income before income taxes	$110,967	$108,002	$124,419	$106,334
Net income	$ 70,110	$ 66,102	$ 75,913	$187,505
Net income per share:				
Basic(1)	$ 0.25	$ 0.24	$ 0.27	$ 0.68
Diluted(1)	$ 0.25	$ 0.23	$ 0.27	$ 0.66(2)

(1) 2017 reflects the 2-for-1 stock split that occurred on March 28, 2018.

(2) Includes $0.43 impact associated with recording impact of the Tax Reform Act.

Quarterly financial results are affected by seasonal variations. The timing of the Company's policy renewals and acquisitions may cause revenues, expenses, and net income to vary significantly between quarters.

NOTE 16. Segment Information

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

Brown & Brown conducts all of its operations within the United States of America, except for a wholesale brokerage operation based in London, England, retail operations in Bermuda and the Cayman Islands, and a national programs operation in Canada. These operations earned $ 15.2 million, $15.9 million, and $ 14.5 million of total revenues for the years ended December 31, 2018, 2017, and 2016, respectively. Long-lived assets held outside of the United States during each of these three years were not material.

The accounting policies of the reportable segments are the same as those described in Note 1. The Company evaluates the performance of its segments based upon revenues and income before income taxes. Inter-segment revenues are eliminated.

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

	Year ended December 31, 2018					
(in thousands)	**Retail**	**National Programs**	**Wholesale Brokerage**	**Services**	**Other**	**Total**
Total revenues	$1,042,763	$ 494,463	$ 287,014	$189,246	$ 760	$2,014,246
Investment income	$ 2	$ 506	$ 165	$ 205	$ 1,868	$ 2,746
Amortization	$ 44,386	$ 25,954	$ 11,391	$ 4,813	$ —	$ 86,544
Depreciation	$ 5,289	$ 5,486	$ 1,628	$ 1,558	$ 8,873	$ 22,834
Interest expense	$ 35,969	$ 26,181	$ 5,254	$ 2,869	$ (29,693)	$ 40,580
Income before income taxes	$ 217,845	$ 117,375	$ 70,171	$ 34,508	$ 22,563	$ 462,462
Total assets	$5,850,045	$2,940,097	$1,283,877	$471,572	$(3,856,923)	$6,688,668
Capital expenditures	$ 6,858	$ 12,391	$ 2,518	$ 1,525	$ 18,228	$ 41,520

	Year ended December 31, 2017					
(in thousands)	**Retail**	**National Programs**	**Wholesale Brokerage**	**Services**	**Other**	**Total**
Total revenues	$ 943,460	$ 479,813	$ 271,737	$165,372	$ 20,965	$1,881,347
Investment income	$ 8	$ 384	$ —	$ 299	$ 935	$ 1,626
Amortization	$ 42,164	$ 27,277	$ 11,456	$ 4,548	$ 1	$ 85,446
Depreciation	$ 5,210	$ 6,325	$ 1,885	$ 1,600	$ 7,678	$ 22,698
Interest expense	$ 31,133	$ 35,561	$ 6,263	$ 3,522	$ (38,163)	$ 38,316
Income before income taxes	$ 196,616	$ 109,961	$ 68,844	$ 30,498	$ 43,803	$ 449,722
Total assets	$4,255,515	$3,267,486	$1,260,239	$399,240	$(3,434,930)	$5,747,550
Capital expenditures	$ 4,494	$ 5,936	$ 1,836	$ 1,033	$ 10,893	$ 24,192

	Year ended December 31, 2016					
(in thousands)	**Retail**	**National Programs**	**Wholesale Brokerage**	**Services**	**Other**	**Total**
Total revenues	$ 917,406	$ 448,516	$ 243,103	$156,365	$ 1,239	$1,766,629
Investment income	$ 37	$ 628	$ 4	$ 283	$ 504	$ 1,456
Amortization	$ 43,447	$ 27,920	$ 10,801	$ 4,485	$ 10	$ 86,663
Depreciation	$ 6,191	$ 7,868	$ 1,975	$ 1,881	$ 3,088	$ 21,003
Interest expense	$ 38,216	$ 45,738	$ 3,976	$ 4,950	$ (53,399)	$ 39,481
Income before income taxes	$ 188,001	$ 91,762	$ 62,623	$ 24,338	$ 56,775	$ 423,499
Total assets(1)	$3,854,393	$2,711,378	$1,108,829	$371,645	$(2,783,511)	$5,262,734
Capital expenditures	$ 5,951	$ 6,977	$ 1,301	$ 656	$ 2,880	$ 17,765

(1) Total assets have been restated to reflect the adoption of ASU No. 2015-17, "Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17").

NOTE 17. Reinsurance

Although the reinsurers are liable to the Company for amounts reinsured, our subsidiary, WNFIC remains primarily liable to its policyholders for the full amount of the policies written whether or not the reinsurers meet their obligations to the Company when they become due. The effects of reinsurance on premiums written and earned at December 31 are as follows:

	2018		2017	
(in thousands)	**Written**	**Earned**	**Written**	**Earned**
Direct premiums	$619,223	$602,320	$604,623	$592,267
Assumed premiums	—	—	—	—
Ceded premiums	619,206	602,303	604,610	592,254
Net premiums	**$ 17**	**$ 17**	**$ 13**	**$ 13**

All premiums written by WNFIC under the National Flood Insurance Program are 100% ceded to FEMA, for which WNFIC received a 30.9% expense allowance from January 1, 2018 through September 30, 2018. From October 1, 2018 through December 31, 2018 WNFIC received a 30.0% expense allowance. As of December 31, 2018 and 2017, the Company ceded $617.2 million and $602.9 million of written premiums, respectively.

Effective April 1, 2014, WNFIC is also a party to a quota share agreement whereby it cedes 100% of its gross private excess flood premiums, excluding fees, to Arch Reinsurance Company and receives a 30.5% commission. WNFIC ceded $2.0 million and $1.7 million for the years ended December 31, 2018 and 2017. As of December 31, 2018, WNFIC had $2.3 million in paid excess flood losses, $99,349 in loss adjustment expenses, case reserves of $0 and incurred but not reported of $0.1 million.

WNFIC also ceded 100%, of the Homeowners, Private Passenger Auto Liability, and Other Liability Occurrence to Stillwater Insurance Company, formerly known as Fidelity National Insurance Company. This business is in runoff. Therefore, only loss data still exists on this business. As of December 31, 2018, no ceded unpaid losses and loss adjustment expenses or incurred but not reported balance for Homeowners, Private Passenger Auto Liability, and Other Liability Occurrence.

As of December 31, 2018, the Consolidated Balance Sheet contained Reinsurance recoverable of $65.4 million and Prepaid reinsurance premiums of $337.9 million. As of December 31, 2017, the Consolidated Balance Sheet contained reinsurance recoverable of $477.8 million and prepaid reinsurance premiums of $321.0 million. There was $0.2 million net activity in the reserve for losses and loss adjustment expense for the year ended December 31, 2018, and $1.1 million net activity in the reserve for losses and loss adjustment expense for the year ended December 31, 2017, as WNFIC's direct premiums written were 100% ceded to two reinsurers. The balance of the reserve for losses and loss adjustment expense, excluding related reinsurance recoverables was $65.4 million as of December 31, 2018 and $477.8 million as of December 31, 2017.

NOTE 18. Statutory Financial Information

WNFIC maintains capital in excess of minimum statutory amount of $7.5 million as required by regulatory authorities. The statutory capital and surplus of WNFIC was $19.4 million as of December 31, 2018 and $28.7 million as of December 31, 2017. As of December 31, 2018 and 2017, WNFIC generated statutory net income of $4.5 million and $4.8 million, respectively.

NOTE 19. Subsidiary Dividend Restrictions

Under the insurance regulations of Texas, where WNFIC in incorporated, the maximum amount of ordinary dividends that WNFIC can pay to shareholders in a rolling twelve month period is limited to the greater of 10% of statutory adjusted capital and surplus as shown on WNFIC's last annual statement on file with the superintendent of the Texas Department of Insurance or 100% of adjusted net income. There was no dividend payout in 2018 and the maximum dividend payout that may be made in 2019 without prior approval is $4.5 million.

NOTE 20. Shareholders' Equity

On July 18, 2014, the Company's Board of Directors authorized the repurchase of up to $200.0 million of its shares of common stock, and on July 20, 2015, the Company's Board of Directors authorized the repurchase of up to an additional $400.0 million of the Company's outstanding common stock. Under the authorization from the Company's Board of Directors, shares may be purchased from time to time, at the Company's discretion and subject to the availability of stock, market conditions, the trading price of the stock, alternative uses for capital, the Company's financial performance and other potential factors. These purchases may be carried out through open market purchases, block trades, accelerated share repurchase plans of up to $100.0 million each (unless otherwise approved by the Board of Directors), negotiated private transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934.

On March 28, 2018, we effected a 2-for-1 stock split (the "Stock Split"). As a result of the Stock Split, every share of common stock outstanding as of close of business on March 14, 2018 received an additional share of common stock, increasing the number of outstanding shares of common stock from approximately 138 million shares to approximately 276 million shares. The number of authorized shares of our common stock increased from 280 million shares to 560 million shares. No fractional shares were issued in connection with the Stock Split. Par value of the Company's common stock was unchanged as a result of the Stock Split remaining at $0.10 per share. The number of shares of common stock reserved or subject to outstanding grants, the exercise or purchase prices applicable to such outstanding grants and subscriptions, and certain grant limitations under our 1990 Employee Stock Purchase Plan, Performance Stock Plan and 2010 Stock Incentive Plan were adjusted as a result of the Stock Split, as required under the terms of those plans. Treasury shares were not adjusted for the Stock Split. All other shares and per share data included within this Annual Report on Form 10-K, including our Consolidated Financial Statements and related footnotes, have been adjusted to account for the effect of the Stock Split.

On December 12, 2018, the Company entered into accelerated share repurchase agreement ("ASR") with an investment bank to purchase an aggregate $100.0 million of the Company's common stock. As part of the ASR, the Company received an initial share delivery of 2,910,150 shares of the Company's common stock with a fair market value of $80.0 million. Upon maturity of the program, the Company will receive the remaining balance of $20.0 million at settlement.

During 2014, the Company repurchased 2,384,760 shares at an average price per share of $31.46 for a total cost of $75.0 million under the original share repurchase authorization from the Board of Directors on July 18, 2014. During 2015, the Company repurchased 5,408,819 shares at an average price per share of $32.35 for a total cost of $175.0 million under the current share repurchase authorization, while exhausting the previous authorization of $200.0 million from the Board of Directors in 2014. During 2016, the Company repurchased 209,618 shares at an average price per share of $36.53 for a total cost of $7.7 million under the current share repurchase authorization. During 2017, the Company repurchased 2,883,349 shares at an average price of $48.51 for a total cost of $139.9 million under the current share repurchase authorization. At December 31, 2018, the remaining amount authorized by our Board of Directors for share repurchases was $147.5 million. Under the authorized repurchase programs, the Company has repurchased a total of approximately 13.8 million shares for an aggregate cost of approximately $477.5 million between 2014 and 2017. The aforementioned share amounts have not been adjusted for the March 28, 2018 Stock Split, as treasury shares did not participate in this stock split transaction.

GAAP RECONCILIATION

INCOME BEFORE INCOME TAXES TO EBITDAC(1) AND INCOME BEFORE INCOME TAXES MARGIN(2) TO EBITDAC MARGIN(3)

Total	2018	2017	2016	2015	2014	2013
Total revenues	**2,014,246**	**1,881,347**	**1,766,629**	**1,660,509**	**1,575,796**	**1,363,279**
Income before income taxes	462,462	449,722	423,499	402,559	339,749	357,609
Income before income taxes margin(2)	23.0%	23.9%	24.0%	24.2%	21.6%	26.2%
Amortization	86,544	85,446	86,663	87,421	82,941	67,932
Depreciation	22,834	22,698	21,003	20,890	20,895	17,485
Interest	40,580	38,316	39,481	39,248	28,408	16,440
Change in estimated acquisition earn-out payables	2,969	9,200	9,185	3,003	9,938	2,533
EBITDAC(1)	615,389	605,382	579,831	553,121	481,931	461,999
EBITDAC margin(3)	30.6%	32.2%	32.8%	33.3%	30.6%	33.9%

(1) "EBITDAC," a non-GAAP measure, is defined as income before interest, income taxes, depreciation, amortization and the change in estimated acquisition earn-out payables.

(2) "Income before income taxes margin" is defined as income before income taxes divided by total revenues.

(3) "EBITDAC margin," a non-GAAP measure, is defined as EBITDAC divided by total revenues.

REPORT OF INDEPENDENT REGISTERED **PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of Brown & Brown, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Brown & Brown, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Adoption of New Accounting Standards

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue from contracts with customers on January 1, 2018, on a modified retrospective basis due to the adoption of Financial Accounting Standards Board Accounting Standards Codification 606, *Revenue from Contracts with Customers*, and related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

Certified Public Accountants

Tampa, Florida
February 25, 2019

We have served as the Company's auditor since 2002.

REPORT OF INDEPENDENT REGISTERED **PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of Brown & Brown, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Brown & Brown, Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 25, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of Financial Accounting Standards Board Accounting Standards Codification 606, *Revenue from Contracts with Customers,* and related amendments.

As described in *Management's Annual Report on Internal Control Over Financial Reporting*, management excluded from its assessment the internal control over financial reporting at the Automotive Development Group, LLC, Servco Pacific Inc., Health Special Risk, Inc., Professional Disability Associates, LLC, Finance & Insurance Resources Inc., Rodman Insurance Agency, Inc., The Hays Group, Inc. et al, and Dealer Associates, Inc. which were acquired in 2018 and whose financial statements constitute approximately 0.01 percent and 17.55 percent of net and total assets, respectively, 3.18 percent of revenues, and 0.36 percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting of these acquired entities.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP

Certified Public Accountants

Tampa, Florida
February 25, 2019

MANAGEMENT'S REPORT ON INTERNAL **CONTROL OVER FINANCIAL REPORTING**

The management of Brown & Brown, Inc. and its subsidiaries ("Brown & Brown") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including Brown & Brown's principal executive officer and principal financial officer, Brown & Brown conducted an evaluation of the effectiveness of internal control over financial reporting based upon the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In conducting Brown & Brown's evaluation of the effectiveness of its internal control over financial reporting, Brown & Brown has excluded the following acquisitions completed by Brown & Brown during 2018: the Automotive Development Group, LLC, Servco Pacific Inc., Health Special Risk, Inc., Professional Disability Associates, LLC, Finance & Insurance Resources Inc., Rodman Insurance Agency, Inc., The Hays Group, Inc. et al, and Dealer Associates, Inc. (collectively the "2018 Excluded Acquisitions"), which were acquired during 2018 and whose financial statements constitute approximately 0.01% and 17.55% of net and total assets, respectively, 3.18% of revenues, and 0.36% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Refer to Note 3 to the Consolidated Financial Statements for further discussion of these acquisitions and their impact on Brown & Brown's Consolidated Financial Statements.

Based upon Brown & Brown's evaluation under the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that internal control over financial reporting was effective as of December 31, 2018. Management's internal control over financial reporting as of December 31, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Brown & Brown, Inc.
Daytona Beach, Florida
February 25, 2019

J. Powell Brown
Chief Executive Officer

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

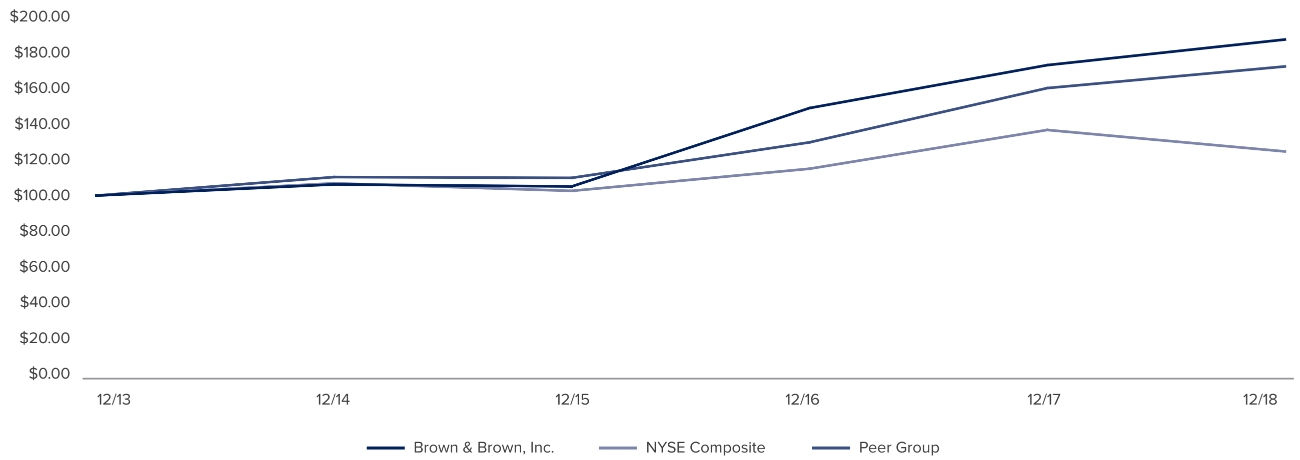
PERFORMANCE GRAPH

The following graph is a comparison of five-year cumulative total shareholder returns for our common stock as compared with the cumulative total shareholder return for the NYSE Composite Index, and a group of peer insurance broker and agency companies (Aon plc, Arthur J. Gallagher & Co, Marsh & McLennan Companies, and Willis Towers Watson Public Limited Company). The returns of each company have been weighted according to such companies' respective stock market capitalizations as of December 31, 2013 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed $100 investment on December 31, 2013, with all dividends reinvested.

	12/13	12/14	12/15	12/16	12/17	12/18
Brown & Brown, Inc.	100.00	106.25	105.10	149.02	173.08	187.43
NYSE Composite	100.00	106.87	102.62	115.02	136.76	124.72
Peer Group	100.00	110.37	109.91	129.81	160.21	172.33

Comparison Of 5 Year Cumulative Total Return*

Among Brown & Brown, Inc., the NYSE Composite Index, and a PeerGroup



* $100 invested on 12/31/13 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31

SHAREHOLDER INFORMATION

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

Outside Counsel
Holland & Knight LLP
200 South Orange Avenue Suite 2600
Orlando, Florida 32801

Corporate Information and Shareholder Services
The Company has included, as Exhibits 31.1 and 31.2, and 32.1 and 32.2 to its Annual Report on Form 10-K for fiscal year 2018, filed with the Securities and Exchange Commission, certificates of the Chief Executive Officer and the Chief Financial Officer of the Company certifying the Company's public disclosure is accurate and complete and that they have established and maintained adequate internal controls. The Company has also submitted to the New York Stock Exchange a certificate from its Chief Executive Officer certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

A copy of the Company's 2018 Annual Report on Form 10-K will be furnished without charge to any shareholder who directs a request in writing to:

Corporate Secretary
Brown & Brown, Inc.
220 South Ridgewood Avenue
Daytona Beach, Florida 32114

A reasonable charge will be made for copies of the exhibits to the Form 10-K.

Annual Meeting
The Annual Meeting of Shareholders of Brown & Brown, Inc. will be held:

May 1, 2019
9:00 a.m. (EDT)
Hard Rock Hotel Daytona Beach
918 North Atlantic Avenue
Daytona Beach, Florida 32118

Transfer Agent and Registrar
American Stock Transfer & Trust Company, LLC
6201 15th Ave.
Brooklyn, New York 11219
(800) 937-5449
email: info@amstock.com
www.amstock.com

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
201 North Franklin Street
Suite 3600
Tampa, FL 33602

Stock Listing
The New York Stock Exchange Symbol: BRO
On February 21, 2019, there were 279,701,832 shares of our common stock outstanding, held by approximately 1,311 shareholders of record.

Market Price of Common Stock

	Stock Price Range		Cash Dividends
2018	**High**	**Low**	**per Common Share**
First Quarter	26.91	24.71	0.08
Second Quarter	28.64	24.34	0.08
Third Quarter	31.55	27.53	0.08
Fourth Quarter	29.83	25.72	0.08
2017			
First Quarter	22.89	20.84	0.07
Second Quarter	22.29	20.55	0.07
Third Quarter	24.49	21.15	0.07
Fourth Quarter	26.21	24.04	0.08

Additional Information
Information concerning the services of Brown & Brown, Inc., as well as access to current financial releases, is available on the Internet. Brown & Brown's address is www.bbinsurance.com.

TEN-YEAR **STATISTICAL SUMMARY**

(in thousands, except per share data, percentages and Other Information)	2018	2017	2016
Revenues			
Commissions & fees	$ 2,009,857	$ 1,857,270	$ 1,762,787
Investment income	2,746	1,626	1,456
Other income, net	1,643	22,451	2,386
Total revenues	**2,014,246**	**1,881,347**	**1,766,629**
Expenses			
Compensation and benefits	1,068,914	994,652	925,217
Other operating expenses	332,118	283,470	262,872
(Gain) Loss on discontinued operations	(2,175)	(2,157)	(1,291)
Amortization expense	86,544	85,446	86,663
Depreciation expense	22,834	22,698	21,003
Interest expense	40,580	38,316	39,481
Change in estimated earn-out payables	2,969	9,200	9,185
Total expenses	1,551,784	1,431,625	1,343,130
Income before income taxes	462,462	449,722	423,499
Income taxes	118,207	50,092	166,008
Net income	**$ 344,255**	**$ 399,630**	**$ 257,491**
Compensation and benefits as % of total revenue	53.1%	52.9%	52.4%
Operating expenses as % of total revenue	16.5%	15.1%	14.9%
Earnings per Share Information			
Net income per share–diluted	$ 1.22	$ 1.40	$ 0.91
Weighted average number of shares outstanding–diluted	275,521	277,586	275,608
Dividends paid per share	$ 0.3050	$ 0.2775	$ 0.2513
Year-End Financial Position			
Total assets	$ 6,688,668	$ 5,747,550	$ 5,262,734
Long-term debt less unamortized discount and debt issuance costs	$ 1,456,990	$ 856,141	$ 1,018,372
Total shareholders' equity	$ 3,000,568	$ 2,582,699	$ 2,360,211
Total shares outstanding	279,583	276,210	280,208
Other Information			
Number of full-time equivalent employees at year-end	9,590	8,491	8,297
Total revenues per average number of employees[(2)]	$ 222,809	$ 224,137	$ 219,403
Stock price at year-end			
Stock price at year-end	$ 27.56	$ 25.73	$ 22.43
Stock price earnings multiple at year-end[(4)]	22.6	18.3	24.6
Return on beginning shareholders' equity[(5)]	13%	17%	12%

(1) Represents the incremental new debt associated with the acquisition of Wright and evolution of our capital structure. Please refer to Part I, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 8 “Long-Term Debt” for more details.

(2) Represents total revenues divided by the average of the number of full-time equivalent employees at the beginning of the year and the number of full-time equivalent employees at the end of the year.

(3) Of the 881 increase in the number of full-time equivalent employees from 2011 to 2012, 523 employees related to the January 9, 2012 acquisition of Arrowhead, and therefore, are considered to be full-time equivalent as of January 1, 2012. Thus, the average number of full-time equivalent employees for 2012 is considered to be 6,259.

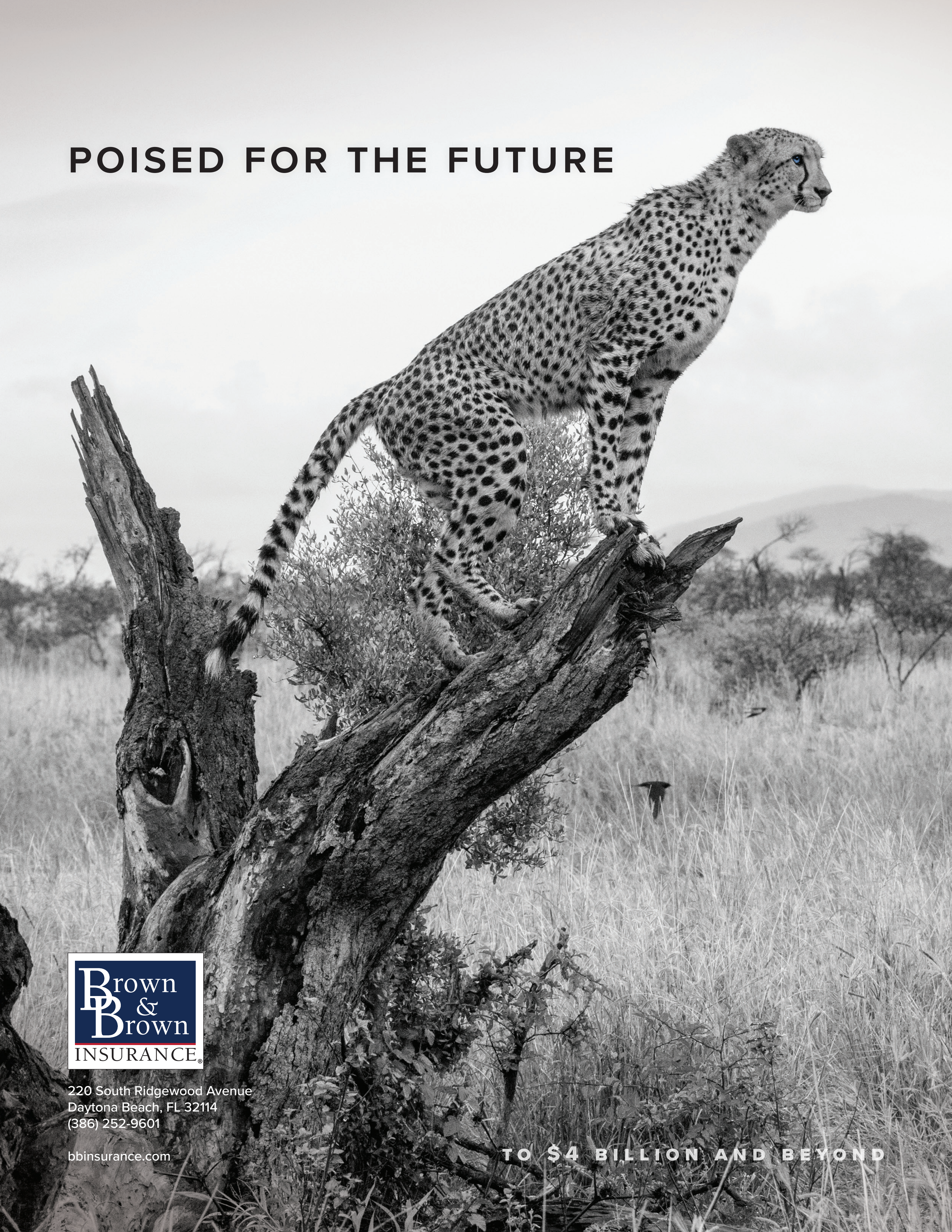
Year ended December 31, 2018

2015	2014	2013	2012	2011	2010	2009
$ 1,656,951	$ 1,567,460	$ 1,355,503	$ 1,189,081	$ 1,005,962	$ 966,917	$ 964,863
1,004	747	638	797	1,267	1,326	1,161
2,554	7,589	7,138	10,154	6,313	5,249	1,853
1,660,509	**1,575,796**	**1,363,279**	**1,200,032**	**1,013,542**	**973,492**	**967,877**
856,952	811,112	705,603	624,371	519,869	494,665	492,038
251,055	235,328	195,677	174,389	144,079	135,851	143,389
(619)	47,425	—	—	—	—	—
87,421	82,941	67,932	63,573	54,755	51,442	49,857
20,890	20,895	17,485	15,373	12,392	12,639	13,240
39,248	28,408	16,440	16,097	14,132	14,471	14,599
3,003	9,938	2,533	1,418	(2,206)	(1,674)	—
1,257,950	1,236,047	1,005,670	895,221	743,021	707,394	713,123
402,559	339,749	357,609	304,811	270,521	266,098	254,754
159,241	132,853	140,497	120,766	106,526	104,346	101,460
$ 243,318	**$ 206,896**	**$ 217,112**	**$ 184,045**	**$ 163,995**	**$ 161,752**	**$ 153,294**
51.6%	51.5%	51.8%	52.0%	51.3%	50.8%	50.8%
15.1%	14.9%	14.4%	14.5%	14.2%	14.0%	14.8%
$ 0.85	$ 0.71	$ 0.74	$ 0.63	$ 0.57	$ 0.56	$ 0.54
280,224	285,782	285,248	284,020	280,528	278,636	275,014
$ 0.2250	$ 0.2050	$ 0.1850	$ 0.1725	$ 0.1625	$ 0.1563	$ 0.1513
$ 4,979,844	$ 4,931,027	$ 3,620,232	$ 3,103,650	$ 2,587,148	$2,380,738	$2,212,435
$ 1,071,618	$ 1,142,948[1]	$ 379,171	$ 449,136	$ 250,033	$ 250,067	$ 250,209
$ 2,149,776	$ 2,113,745	$ 2,007,141	$ 1,807,333	$ 1,643,963	$1,506,344	$1,369,874
277,970	286,972	290,838	287,756	286,704	285,590	284,152
7,807	7,591	6,992	6,438	5,557	5,286	5,206
$ 215,686	$ 216,114	$ 203,020	$ 191,729[3]	$ 186,949	$ 185,568	$ 182,549
$ 16.05	$ 16.45	$ 15.70	$ 12.73	$ 11.32	$ 11.97	$ 8.99
18.9	23.3	21.1	20.2	20.0	21.4	16.6
12%	10%	12%	11%	11%	12 %	12%

(4) Stock price at year-end divided by net income per share-diluted.

(5) Represents net income divided by total shareholders' equity as of the beginning of the year.

Weighted average number of shares outstanding-diluted has been adjusted to give effect for the two-class method of calculating earnings per share as described in Note 1 to the Consolidated Financial Statements.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