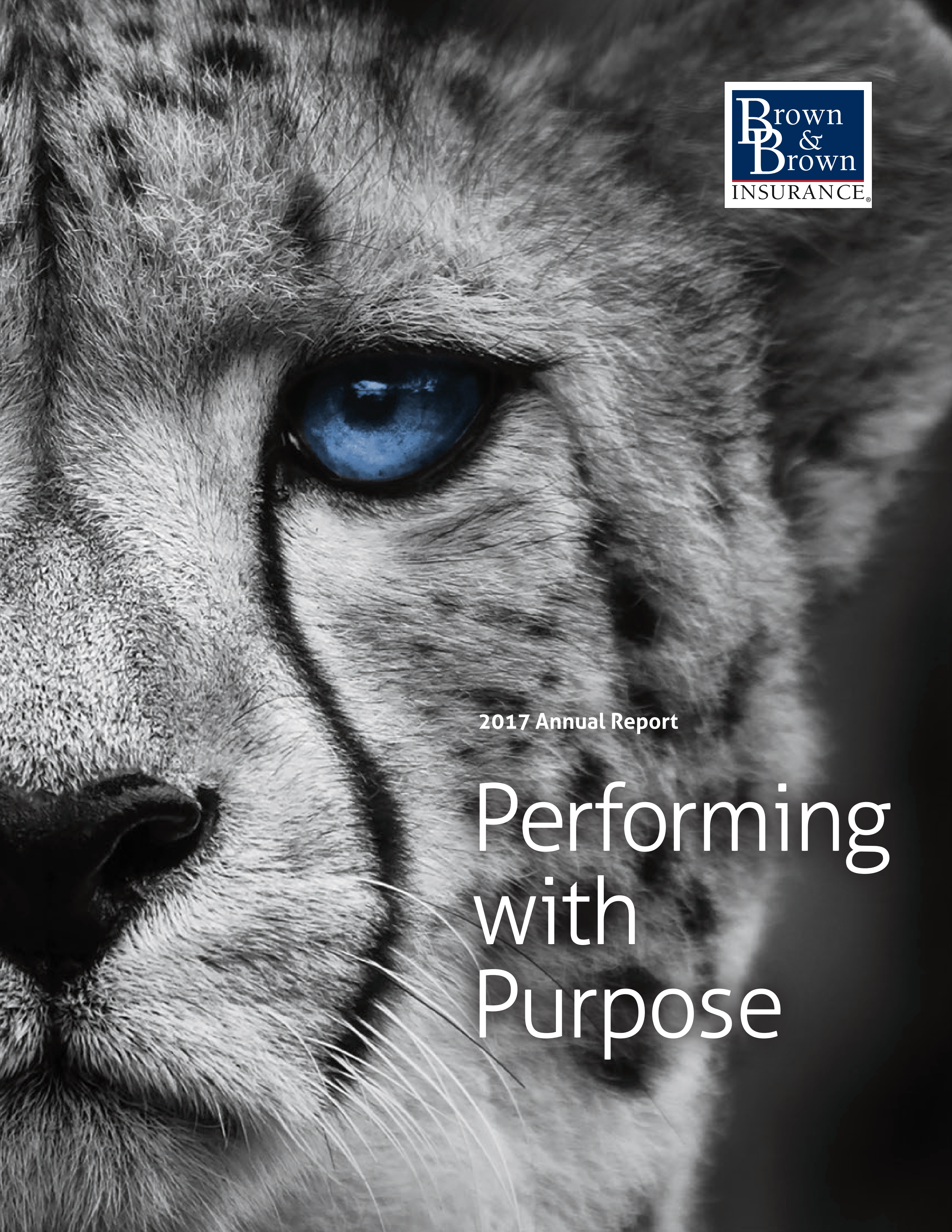
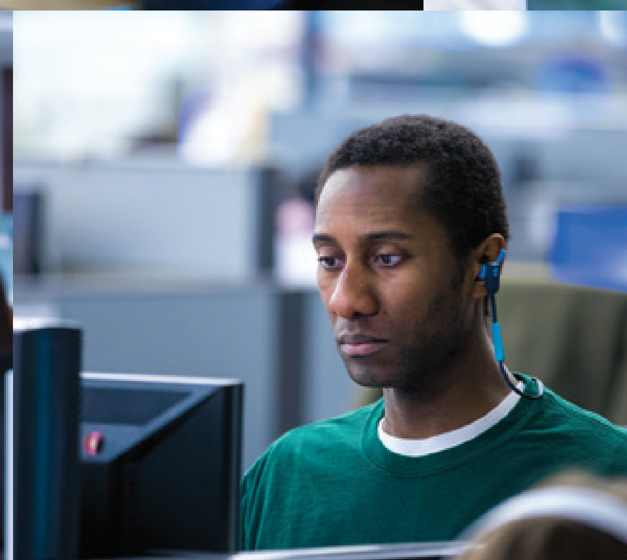


Brown & Brown INSURANCE

2017 Annual Report

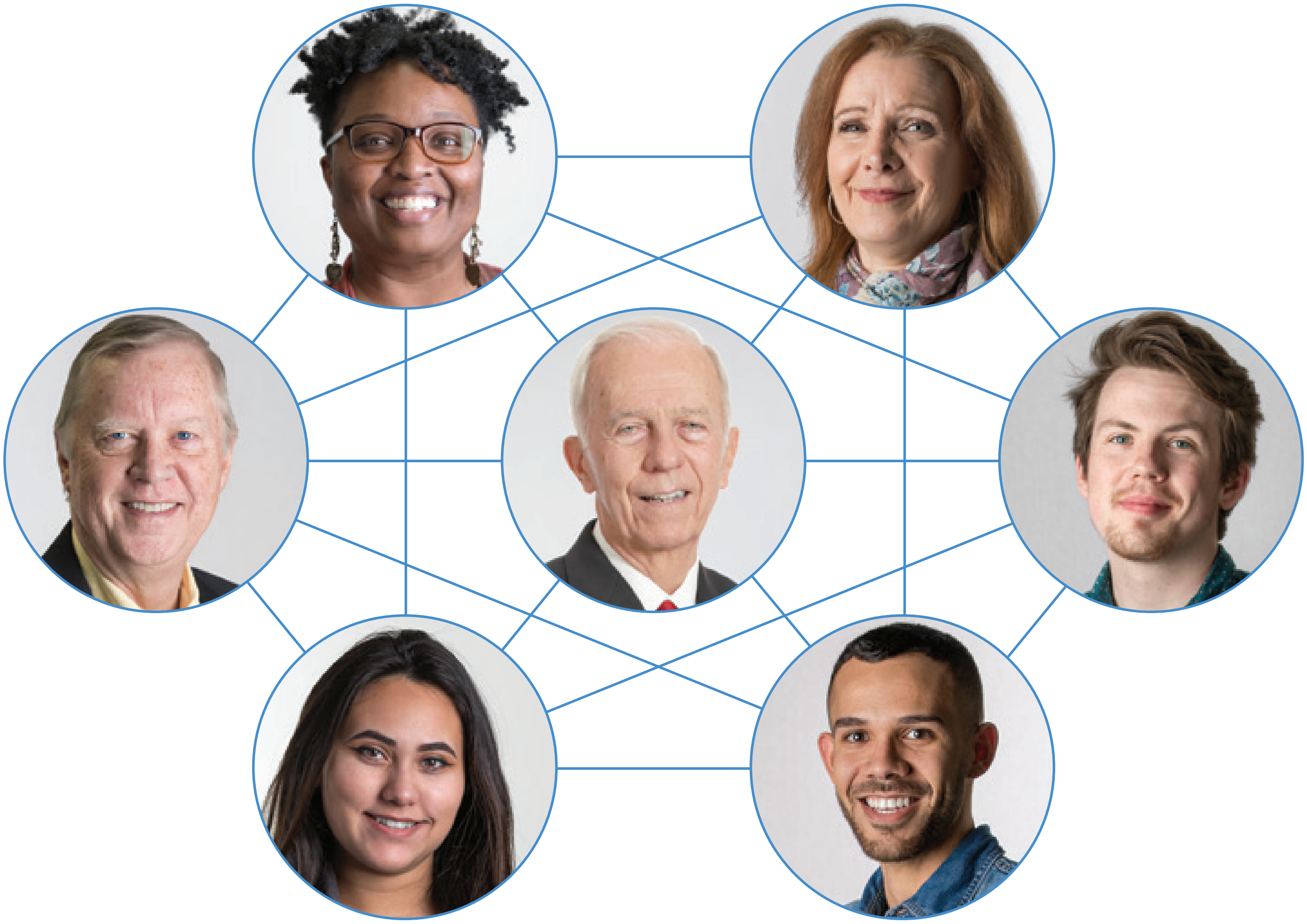
Performing with Purpose



In 2017, Brown & Brown was highly focused on performing with purpose. We invested heavily in strategic improvements across all areas of the Company, including teammate recruitment and development, collaboration, culture, technology, business capabilities, and community engagement. Those investments have enabled us to do a better job of helping our customers, as well as our teammates, during times of devastating loss. As part of our mission, Brown & Brown is dedicated to preparing our home communities and customers for tomorrow's risks, today. While no one could have anticipated the unprecedented number of catastrophic events that occurred in 2017, we are extremely proud of how our teammates rose to the occasion to support our customers in their time of need.

Our customers are our purpose. They inspire us to perform.



The legacy of the yellow notepad

Collaboration has been central to our culture from the beginning, and it was taken to the next level in the 1980s when Hyatt Brown met with teammates monthly at each office location, taking notes on his signature yellow notepad. As we grow, we strive to keep that grassroots interaction that has served our organization so well. Today, we embrace the power of technology platforms to effectively share knowledge and allow for real-time communication. We also host frequent teammate conferences to encourage collaboration on best practices in multiple areas including sales, internal operations, and customer service. At our core, we are in the people recruiting and enhancing business. We know that our teammates are our greatest asset, and empowering them through knowledge sharing and development is vital to our continued success.

78 years of grassroots teammate interaction

Our teammates are our most important asset

The growth and professional development of our teammates is equally as important as the growth of our bottom line. A percentage of our Company profits is invested in hiring future leaders. We strive to attract people who are competitive, driven, and disciplined, and we engulf them in our culture to best position them for success. Our approach goes far beyond the technical aspects of the industry, equipping our teammates with the knowledge and resources to give them a competitive edge. While our competitors are primarily focused on the transaction, we teach our team to prioritize customer focus. That means learning to ask the right questions, really listening to the answers, and understanding the unique needs of each customer. Our continuous training is comprehensive, but it all comes down to one core principle: When the customer comes first, everything else takes care of itself.

100%

of teammates are trained through Brown & Brown University

Focused on future growth and success

The entrepreneurial spirit is deeply embedded in our culture, empowering teammates to do what it takes to provide best-in-class solutions and service. In 2017 we became the program administrator for QBE North America's small commercial insurance portfolio, consisting of property and casualty business accounts under $100,000 in premium. This opportunity resulted from our successful twenty-plus-year relationship with QBE and gives us new middle-market capabilities and additional opportunities for growth. We also leveraged our excellent carrier partner relationships to encourage them to support our new *de novo* program, resulting in the creation of Arrowhead Risk Managers. Due to the ever-changing landscape of cybersecurity, we grew our presence in the cyber liability space. We will remain focused on identifying growth opportunities as new segments of our industry continue to emerge.

4.4%
total organic revenue growth(1) in 2017

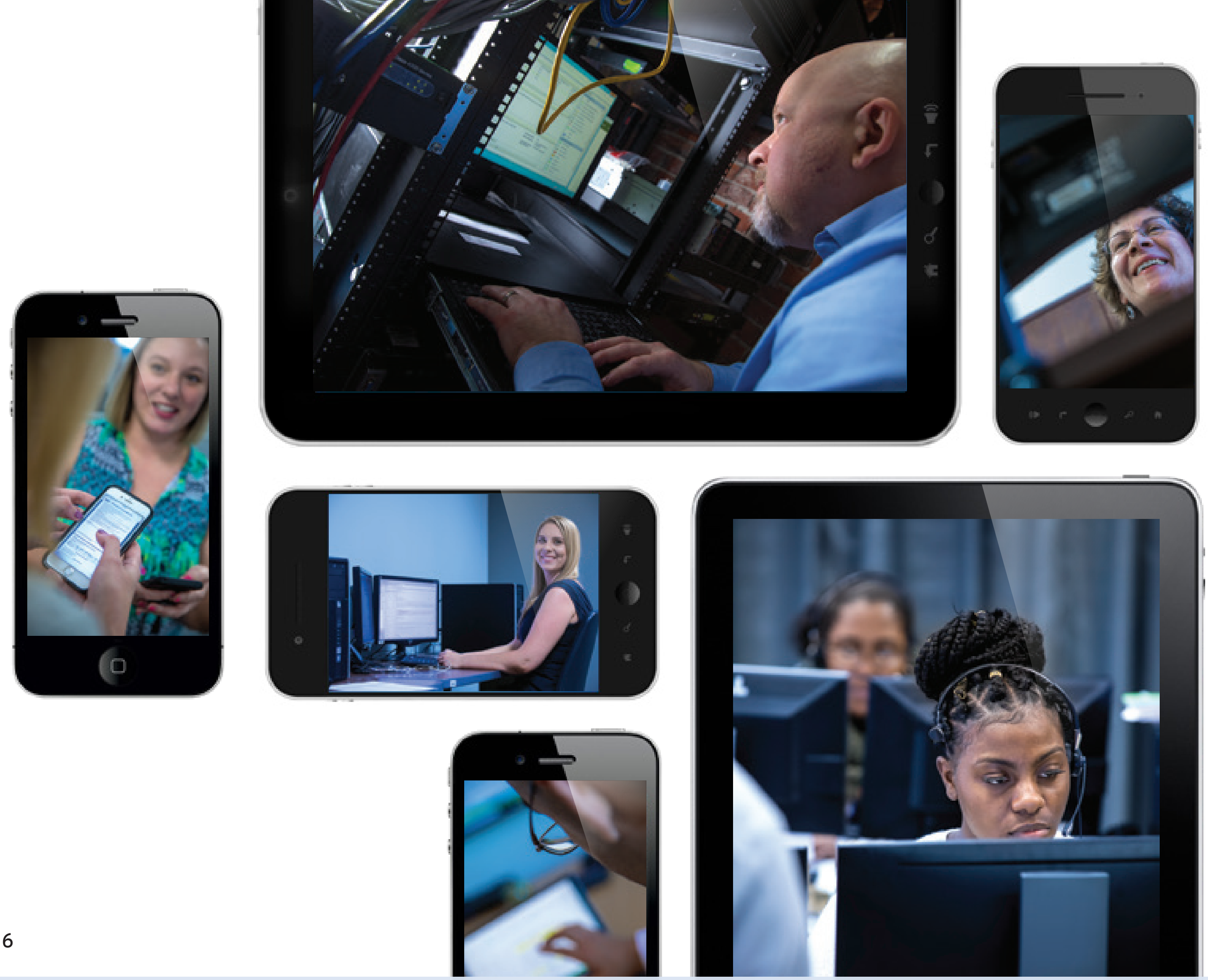
(1) Organic revenue growth rate is a non-GAAP financial measure and is referenced to provide an additional meaningful method of evaluating our operating performance from period to period on a basis that may not be otherwise on a GAAP basis. For other information concerning organic revenue growth rate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

A culture built on discipline and customer focus

Principled customer focus is at the core of Brown & Brown's culture. We deliver a competitive edge by anticipating and responding to the changing needs of our customers with speed and agility. Our strength comes from our years of experience and our deep relationships with carrier partners. Brown & Brown is a meritocracy, meaning we don't rest on our laurels, and we are focused on recruiting and developing teammates who are driven to work tirelessly until success is achieved. The cheetah—strong, swift, and agile—represents who we are as an organization. That description can be applied to each of our teammates as individuals and to the Company as a whole. We have a clearly defined growth strategy, and we are disciplined in identifying the right opportunities—we are a forever company.

8,491

disciplined and dedicated teammates



Empowering our teammates with world-class tools

Investments in technology were a tremendous focus in 2017. We initiated four major programs all focused on helping our teammates to better sell and service insurance. The programs included a systems refresh, process standardization, enhanced collaboration, and business intelligence, enabling our teammates to drive even better results. While Brown & Brown is known for our decentralized sales and service model, and the customer focus that comes with it, these initiatives allow our offices to concentrate on what they do best—sales and service. This makes the entire Company more productive and efficient, improves communication, and enhances our ability to provide outstanding customer service. We also implemented platforms that enable us to more quickly identify opportunities for the Company to acquire new customers. We are committed to using technology's power to better serve our teammates and our customers.

100

offices upgrading to new single agency management system

Dedicated to the people and communities we serve

For nearly 80 years, our Brown & Brown teammates have been dedicated to the people and communities we serve. With more than 8,400 teammates in approximately 240 locations, we regularly volunteer and support the many local communities in which we live, work, and play. Brown & Brown actively supports and serves many organizations nationwide, including the American Red Cross, United Way, Make-A-Wish, Habitat for Humanity, American Heart Association, American Cancer Society, Easter Seals, Boys & Girls Club, and the SPCA. Many of our teammates also participate in local fundraisers, including food and clothing drives, charity walks and runs, and disaster relief efforts. We are proud of our teammates' dedication to our communities and their commitment to serve those in need.

Supporting more than

900

organizations in our local communities

Maintaining focus during times of change

For the Tacoma location of Brown & Brown of Washington, Inc., 2017 was a year of both change and growth. After moving office locations and being named a Retail Office of the Year in 2016, the bar for future success was set high. They were selected to be the first of 100 offices in our Retail Segment to transition to a single, standardized agency management system, acting as the baseline to help define the future rollout strategy. Keeping customer satisfaction top of mind, the team faced this challenge head-on to ensure a seamless transition. Most importantly, they had another high-performing year with all three of their business lines growing revenues more than 15% in total over a two-year period. The cohesive nature of their team is the lifeblood of their business. They firmly believe that their commitment to finding ways to have fun while conquering every challenge is the key to their growth and success.

Pictured here are teammates from the Tacoma location of Brown & Brown of Washington, Inc.

Review of Operations

Retail

The Retail Segment experienced a year of expansion in 2017, delivering organic revenue growth[(1)] of 2.9%.

The year presented many opportunities for growth. We built on areas of specialization by collaborating across the business, making investments in teammates and embracing new technology, while maintaining industry-leading margins.

We continue to embrace technology across the entire Retail platform to have better real-time visibility into rapid changes in the marketplace. We continued on a multi-year journey to transition to a single, standardized agency management system. In addition, we continued to invest in technology that will allow us to pull real-time data to provide better solutions for our customers.

The Retail Segment focused heavily on recruitment, learning, and development in 2017. We are in the people business. Identifying strong candidates, engulfing them in our culture, training them through Brown & Brown University's expanding curriculum, and developing them into future leaders strengthens the entire organization.

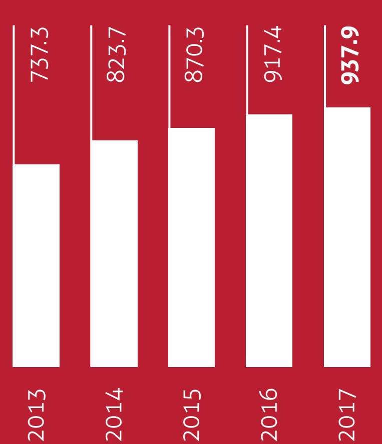
In addition, we implemented a new performance incentive plan that pays incremental commissions for higher growth. The first year delivered solid results.

Our teammates share best practices and resources, and exercise collaborative prospecting and cross-selling across the Retail Segment and the organization as a whole. We commonly refer to our collaboration as *The Power of WE*, and it was extremely apparent when our teammates banded together to assist offices that were impacted by significant storm activity. Teammates in California answered phone calls and reported claims for our Florida offices, and teammates from New Jersey assisted our office in Houston, Texas.

In 2018, we will continue our focus on recruiting, retaining, and developing the best talent; leveraging our national resources; seeking access to additional underwriting capital; exploring efficiencies in technology; and acquiring companies that fit culturally and strategically, and make sense financially.

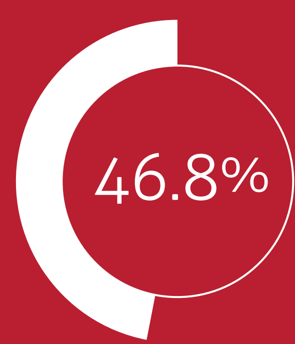
Segment Total Revenues

DOLLARS IN MILLIONS



Contribution to Total Revenues

Contribution to Total EBITDAC[(1)]



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Embracing innovation and technology

Our Proctor Financial business had the foresight to invest in technology, infrastructure, and IT security with the goal to strengthen customer partnerships and enhance the borrower experience. Their IT security and governance team protects data and systems to preserve confidentiality, integrity, and accessibility. They also created a compliant tracking tool to prevent borrower harm, respond nimbly to the evolving servicing regulations, and allow for transparent vendor management. These investments along with our investments in teammates and operations have positioned Proctor to be a leading provider of lender-placed insurance solutions.

Pictured here are teammates from the Troy, Michigan location of Proctor Financial

Review of Operations

National Programs

The National Programs Segment required dedication and seamless execution in 2017, delivering organic revenue growth[(1)] of 6.1%.

The rapid succession of natural disasters that occurred in 2017 was unlike anything we have ever experienced and resulted in one of the worst years for insured losses. Our claims teams worked tirelessly around the clock to assist customers who suffered losses due to floods. Our teammates were compassionate, understanding, helpful, and available to our customers during their time of need. As individuals and as a Company, we were driven to provide excellent service and execute under extreme circumstances.

The onboarding of our new core commercial program gives us additional capabilities in terms of classes of covered business and geographic coverage for both small and mid-sized commercial customers. Core commercial has already had a positive impact on revenue, and we expect it to continue to be a platform for additional growth.

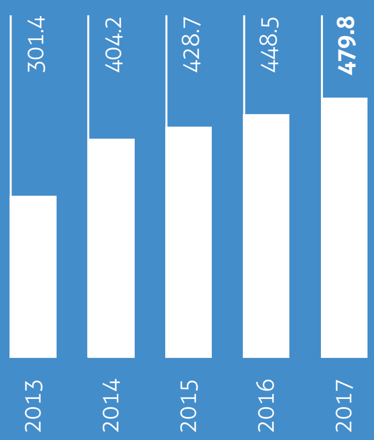
We made a significant investment in technology to ensure we were at the front of the pack when products emerge that will benefit our industry and our customers. Our National Programs Segment is heavily involved with insurance technology innovators, referred to collectively as InsurTech, and we are excited about the possibilities and opportunities.

We dedicated a great deal of time to exploring and refining who we are as a Segment to successfully articulate the breadth and depth of our capabilities. What became clear from this process was that our teammates and technology are pioneering the most innovative risk solutions to profoundly simplify the insurance experience.

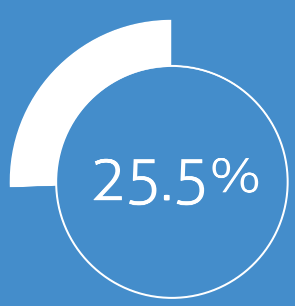
In 2018 and beyond, we are focused on continuing our quest to remain the most successful program administrator in the industry. We will diligently strive to attract and retain top talent; to attract and maintain strong carrier and distribution partnerships; to lead, embrace, and adopt technology; and to be specialty-niche oriented.

Segment Total Revenues

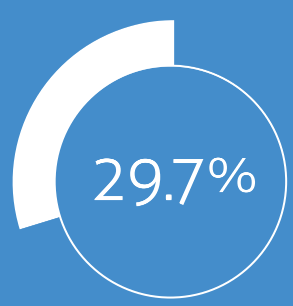
DOLLARS IN MILLIONS



Contribution to Total Revenues



Contribution to Total EBITDAC[(1)]



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Leveraging technology and teamwork to hit big goals

Our National Risk Solutions (NRS) business is based on technology, service, and sales, allowing it to operate as more than just an underwriting agency. Keeping in step with evolving technology, NRS recently implemented a new digital platform that enables teammates to populate real-time information more efficiently. This new tool boosted productivity by allowing account executives to focus on underwriting, cultivating relationships with agents, and selling products. Innovation like this creates a competitive edge for our business, and NRS is now collaborating with other offices to support the adoption of this technology. The entire team continuously rallies around lofty sales goals, and their strategic focus on pairing technology with teamwork consistently positions them for long-term success.

Pictured here are teammates from the St. Petersburg, Florida location of National Risk Solutions

Review of Operations

Wholesale Brokerage

In 2017, the Wholesale Brokerage Segment led the Company, delivering organic revenue growth(1) of 6.6%.

The year presented some exciting opportunities for internal growth. We invested both time and resources in identifying ways to further automate many of our processes, driving efficiency and accuracy. We elevated a long-standing teammate to lead the charge on technology in the binding authority area. We are working to develop new products by leveraging the alternative capital area. Once available, these new and differentiated products will be offered exclusively through Brown & Brown's Wholesale Brokerage and National Programs Segments.

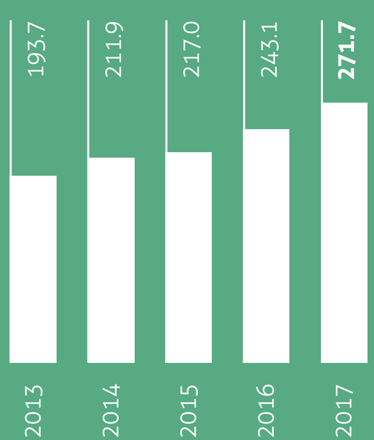
In the insurance business, change brings opportunity. As the legalization and regulation of cannabis shapes an emerging market, our offices are working together to create a suite of products that will provide insurance for the entire cannabis industry.

While we intended for 2017 to be a year of incremental growth from acquisitions, Wholesale Brokerage found that closing opportunities aligned with our strategy was more challenging than we had anticipated. We are confident in our plan for growth, and we will continue our search for the right acquisition prospects.

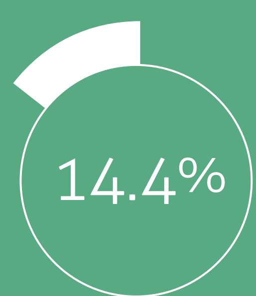
Looking ahead to 2018, we are anticipating that insurance rates will remain relatively flat, aside from potential changes within the catastrophic property area. This will present some opportunities for the business. We have an excellent team, and we are confident in our ability to provide a competitive edge and the agility to capture the opportunities ahead of us.

Segment Total Revenues

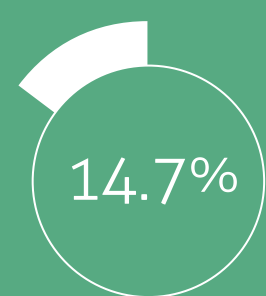
DOLLARS IN MILLIONS



Contribution to Total Revenues



Contribution to Total EBITDAC(1)



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As a team, we are indestructible

In 2017, three catastrophic hurricanes hit the U.S. and its territories, causing unimaginable damage. When Hurricane Irma hit Florida, we were not exempt from the devastation that occurred—our Tampa office was forced to close due to widespread power outages, and the homes of multiple teammates were damaged. In spite of these obstacles, we never lost sight of our main focus: helping our customers in their time of need. Teammates worked around the clock to return calls, process claims, and issue checks. With a significant increase in the volume of customer calls, it was all hands on deck, with our auto, general liability, and workers' compensation teams stepping in to support our property teams. During a time of unprecedented loss, our customers gave us rave reviews. That is a true testament to the character of our teammates and our cultural focus on *The Power of WE.*

Pictured here are teammates from the Tampa, Florida location of American Claims Management

Review of Operations

Services

In the face of extraordinary challenges in 2017, the Services Segment was responsible for delivering organic revenue growth[(1)] of 5.1%.

Our team collaborated beautifully to respond to the urgent needs of our customers resulting from unprecedented activity that included hurricanes, earthquakes, fires, and floods. Collectively, teammates handled more than 25,000 claims in a five-week period. Our teams outperformed peers by providing outstanding and timely customer service with superior results. In addition, our teammate retention was nearly 100% during a time when adjusters were being heavily recruited by our competitors.

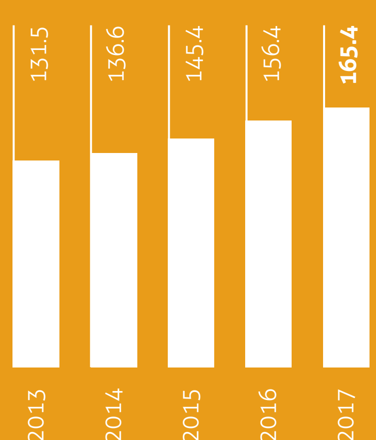
The Services Segment focused on continuing to position itself as the leader of choice in 2017. We expanded our claim monitoring service capabilities from the prior acquisition of Social Security Advocates for the Disabled (SSAD). From a book of acquired cases, we also uncovered two new opportunities that can now be applied across both The Advocator Group and SSAD businesses. We believe these new opportunities will provide us the ability to further supplement current revenue, and will generate an ongoing revenue stream.

We will continue to invest in technology in 2018 and beyond. Our American Claims Management office has now added dedicated resources to evaluate and implement innovative insurance technology solutions that will improve customer service, promote data-driven decision making for better results, and leverage artificial intelligence to improve efficiency.

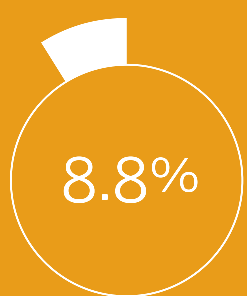
For 2018, our goals include identifying and developing new leaders; training claims adjustment and case management teams; quickly recognizing and responding to potential business interrupters; and increasing collaboration and cross-selling in order to provide more diverse product offerings to our customers.

Segment Total Revenues

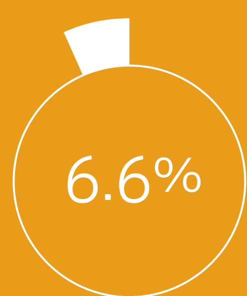
DOLLARS IN MILLIONS



Contribution to Total Revenues



Contribution to Total EBITDAC[(1)]



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Dear fellow shareholders

Brown & Brown had a great year in 2017—all four of our segments grew organically, and our teammates delivered for our customers. New capital continued to pour into the broker consolidation space, as well as the risk-bearing space, and with technology in the forefront, the hottest word in our industry was "InsurTech." Unfortunately, it was also one of the worst natural disaster years on record with over $130 billion in insured losses from hurricanes, floods, and fires. It was, indeed, a remarkably dynamic and interesting year.

In 2017, we executed our strategy of steady growth and industry-leading profitability, growing our organic revenue by 4.4% and continuing to deliver strong operating margins and earnings per share. Our teammates provided customized insurance solutions for our customers, and we continued to upgrade technology platforms across the Company. These investments were primarily focused on improving our customer experience, helping our teammates be more efficient in their jobs, and upgrading our internal financial systems. One of our most notable technology upgrades is the ongoing transition of our entire Retail Segment to a single agency management system.

In 2017, our National Programs Segment delivered organic revenue growth of 6.1%. The team worked around the clock to serve our affected customers in the floods of Hurricanes Harvey and Irma and became the program administrator for a core commercial program with one of our carrier partners. Our Wholesale Brokerage Segment had another tremendous year with organic revenue growth of 6.6%—the sixth year in a row of robust organic revenue growth for that team. Our Services Segment delivered organic revenue growth of 5.1% and improved its operating margins. I am especially proud of the continued improvement in our Retail Segment, which delivered organic revenue growth of 2.9%, up from 1.9% in 2016 and 1.4% in 2015, respectively. Leaders across all of our business segments delivered for our teammates, who in turn delivered for our customers.

Analysts repeatedly ask us what we do with the money we make. The response

J. Powell Brown, CPCU
President &
Chief Executive Officer

is simple. We invest in current and future teammates, acquire companies that fit culturally, and promote shareholder returns. We acquired agencies with aggregate annual revenues of approximately $17.5 million in 2017. While we considered a number of other acquisition opportunities, we maintained a disciplined focus on firms that fit culturally and made sense financially. Many of the firms we evaluated did not ultimately meet both of our requirements. Over the past three years, private equity groups have changed the landscape of the acquisition model in our industry. Most of these groups are typically short term in nature with a focus on "the flip," not the development of a cohesive, long-term culture. We continue to talk with firms that are attracted to our culture and understand that we play for the "long game."

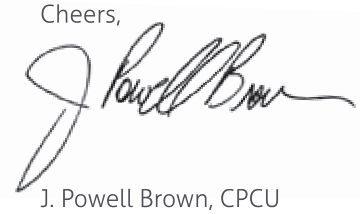
As you read this letter, tech-savvy entrepreneurs around the globe are working to simplify highly repetitive job functions across the insurance industry. Insurance start-ups, called "InsurTechs," represent a rapidly growing area of our industry. We are constantly searching the landscape for ideas that could improve our customers' experience and simplify our teammates' jobs. Innovation and investment in technology is a crucial part of our strategy moving forward.

In March 2011, when our annual revenue was approximately $973 million, our team set a goal to exceed $2 billion in annual revenue. As we rapidly approach that goal, we will set another lofty goal for the years ahead. We are a "forever" company, and we invest for the long term. Our goal is to increase the value of our shares over time, which is good for you, our shareholders, and our teammates. We are proud to have increased our dividend for the 24th year in a row, and remarkably, our teammates own approximately 30% of our Company.

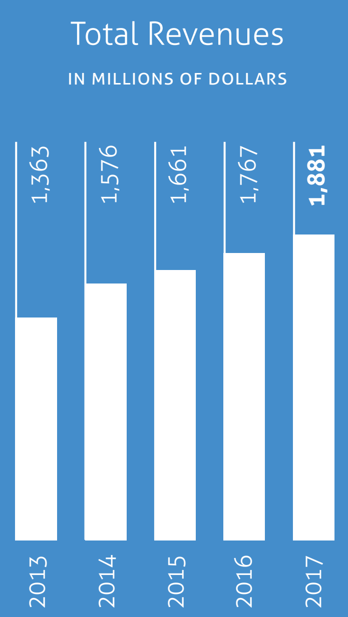
As you know by now, we have "teammates" at Brown & Brown, not employees. At the end of 2017 we had 8,491 teammates. I am extremely proud of the hard work and dedication shown by our teammates. Without their tireless efforts, we could not have delivered the customer experience that made our results possible. Each of us try to make contributions to the communities in which we work and live, whether in time or money or both. We don't get caught up in titles, hierarchy, or process—we focus on bringing the best solutions to our customers every time we have the opportunity. If we don't do that, we get replaced. When we put the customer first, we know with great confidence that it will all work out for Brown & Brown in the long run.

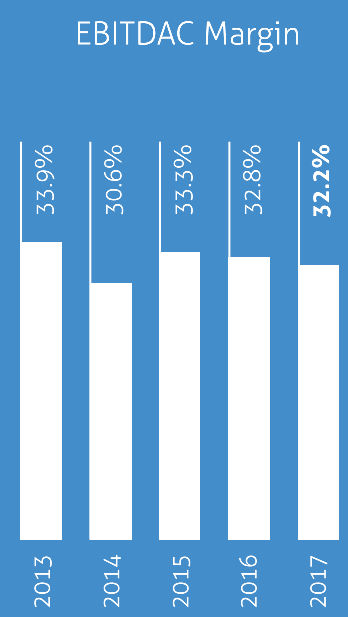
Thanks to all of you—teammates, customers, carrier partners, and shareholders alike. We appreciate everything that you do for our team.

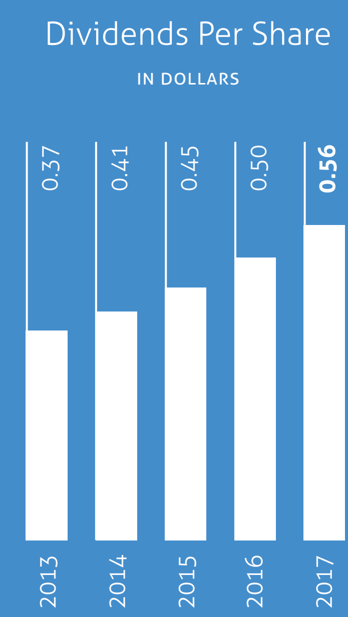
Cheers,



J. Powell Brown, CPCU
President &
Chief Executive Officer







This letter includes selected references to organic revenue growth rate and EBITDAC Margin, non-GAAP financial measures, which are included 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 organic revenue growth rate and EBITDAC Margin and to reconciliations to the most closely comparable GAAP measures, refer to pages 23 and 83-84 of this Annual Report, respectively.

Leadership Overview

Top row:

J. Powell Brown, CPCU
President & Chief Executive Officer

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

Richard A. Freebourn, Sr., CPCU, CIC
Senior Vice President – Internal Operations

Robert W. Lloyd, Esq., CPCU, CIC
Executive Vice President, General Counsel & Secretary

Bottom row:

J. Scott Penny, CIC
Executive Vice President & Chief Acquisitions Officer

Julie K. Ryan
Executive Vice President & Chief People Officer

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

John M. Esposito
Senior Vice President & Regional President – Retail Division

Joseph S. Failla
Senior Vice President

Thomas K. Huval, CIC
Senior Vice President & Regional President – Retail Division

Michael L. Keeby
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
Senior Vice President & Chief Information Officer

Paul F. Rogers
Senior Vice President & Regional President – Retail Division

H. Vaughn Stoll
Senior Vice President & Director of Acquisitions & Internal Operations

Board of Directors

Left to right:

Samuel P. Bell, III, Esq.
Former Of Counsel
Buchanan Ingersoll & Rooney PC
Acquisition Committee; Compensation Committee

James S. Hunt
Former Executive Vice President & Chief Financial Officer, Walt Disney Parks and Resorts Worldwide
Acquisition Committee; Audit Committee, Chair; Compensation Committee

Theodore J. Hoepner
Former Vice Chairman, SunTrust Bank Holding Company
Audit Committee; Compensation Committee

Bradley Currey, Jr.
Former Chairman & Chief Executive Officer, Rock-Tenn Company
Nominating/Corporate Governance Committee

Chilton D. Varner, Esq.
Senior Counsel, King & Spalding LLP
Nominating/Corporate Governance Committee

Wendell S. Reilly
Managing Partner,
Grapevine Partners, LLC
Lead Director; Nominating/Corporate Governance Committee, 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
Audit Committee; Compensation Committee, Chair

H. Palmer Proctor, Jr.
President & Chief Executive Officer/ Director, Fidelity Bank
Acquisition Committee, Chair; Compensation Committee

Hugh M. Brown
Founder and former President & Chief Executive Officer, BAMSI, Inc.
Acquisition Committee; Audit Committee; Nominating/Corporate Governance Committee

Timothy R. M. Main
Chairman of Global Financial Institutional Group, Barclays Plc
Acquisition Committee

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
Kentucky
Louisiana
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Nevada
New Hampshire
New Jersey
New Mexico
New York
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
Tennessee
Texas
Vermont
Virginia
Washington
Wisconsin

Outside the 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.

AFC Insurance
Allied Protector Plan
American Specialty
Arrowhead General Insurance Agency
Automotive Aftermarket
Bellingham Underwriters
CalSurance Associates
Clear Risk Solutions
CPA Protector Plan®
Florida Intracoastal Underwriters
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

For additional information on National Programs, please visit www.natprograms.com.

Wholesale Brokerage

Specialists 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
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
Protect Professionals Claims Management
Social Security Advocates for the Disabled
United Self Insured Services

2017
Financial Review

Management's Discussion and Analysis

of Financial Condition and Results of Operations

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. 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 2017, with the exception of 2009, when our revenues dropped 1.0%. Our revenues grew from $95.6 million in 1993 to $1.9 billion in 2017, reflecting a compound annual growth rate of 13.2%. In the same 24-year period, we increased net income from $8.1 million to $399.6 million in 2017, a compound annual growth rate of 17.6%.

The volume of business from new and existing customers, fluctuations in insurable exposure units, changes in premium rate levels, and changes in general economic and competitive conditions all affect our revenues. For example, level rates of inflation or a general decline in economic activity could limit increases in the values of insurable exposure units. Conversely, 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 and (ii) divested business (core commissions and fees generated from offices, books of business or niches sold or terminated during the comparable period). The term "core commissions and fees" excludes profit-sharing contingent commissions and guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. "Organic Revenue" is reported in this manner in order to express the current year's core commissions and fees on a comparable basis with the prior year's core commissions and fees. The resulting net change reflects the aggregate changes attributable to (i) net new and lost accounts, (ii) net changes in our customers' exposure units, (iii) net changes in insurance premium rates or the commission rate paid to us by our carrier partners, and (iv) the net change in fees paid to us by our customers. Organic Revenue is reported in the "Results of Operations – Segment Information" of this Annual Report.

We also earn "profit-sharing contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but which may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based upon the aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 3.2% of the previous year's total commissions and fees. Profit-sharing contingent commissions are included in our total commissions and fees in the Consolidated Statement of Income in the year received.

Certain insurance companies offer guaranteed fixed-base agreements, referred to as "Guaranteed Supplemental Commissions" ("GSCs") in lieu of profit-sharing contingent commissions. Since GSCs are not subject to the uncertainty of loss ratios, they are accrued throughout the year based upon actual premiums written. For the year ended December 31, 2017, we had earned $10.4 million of GSCs, of which $8.5 million remained accrued at December 31, 2017 as most of this will be collected in the first quarter of 2018. For the years ended December 31, 2017, 2016, and 2015, we earned $10.4 million, $11.5 million and $10.0 million, respectively, from GSCs.

Fee revenues relate to fees negotiated in lieu of commissions, which are recognized as services are rendered. 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. Our services are provided over a period of time, which is typically one year. Fee revenues as a percentage of our total commissions and fees represented 31.5% in 2017, 31.3% in 2016 and 30.6% in 2015.

Additionally, our profit-sharing contingent commissions and GSCs for the year ended December 31, 2017 decreased by $2.9 million over 2016 primarily as a result of 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, partially offset by an increase in profit-sharing contingent commissions and GSCs in the National Programs Segment. Other income increased by $20.1 million primarily as a result of a legal settlement recognized in the first quarter of 2017.

For the years ended December 31, 2017 and 2016, our commissions and fees growth rate was 5.4% and 6.4%, respectively, and our consolidated organic revenue growth rate was 4.4% and 3.0%, respectively. Additionally, each of our four segments recorded positive organic revenue growth for the year ended December 31, 2017. In the event that the gradual increases in insurable exposure units that occurred in the past few years continues through 2018 and premium rate changes are similar with 2017, we believe we will continue to see positive quarterly organic revenue growth rates in 2018.

Historically, investment income has consisted primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. 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, 2017 increased over 2016 by $26.2 million, primarily as a result of a legal settlement recorded in the first quarter of 2017 and net new business and acquisitions completed in the past twelve months.

Information Regarding Non-GAAP Measures

In the discussion and analysis of our results of operations, in addition to reporting financial results in accordance with GAAP, we provide information regarding the following non-GAAP measures: Organic Revenue, organic revenue growth, and organic revenue growth rate. We view each of these non-GAAP 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 comparable, but non-GAAP, measurement of revenue growth that is associated with the revenue sources that were a part of our business in both the current and prior year and that are expected to continue in the future. These measures are not in accordance with, or an alternative to, the GAAP information provided in this Annual Report. We believe that presenting these non-GAAP measures allows readers of our financial statements to measure, analyze and compare our consolidated growth, the growth of each of our segments, and certain aspects of our operating performance from period to period in a meaningful and consistent manner that may not be otherwise apparent on a GAAP basis. 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 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 2017, we acquired 490 insurance intermediary operations, excluding acquired books of business (customer accounts). 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). Collectively, these acquired businesses had annualized revenues of approximately $17.5 million.

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

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is processed into our systems and invoiced to the customer, whichever is later. Commission revenues related to installment billings are recognized on the later of the date effective or invoiced, with the exception of our Arrowhead business which follows a policy of recognizing on the later of the date effective or processed into our systems regardless of the billing arrangement. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted in accordance with known circumstances. Subsequent commission adjustments are recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments. Profit-sharing contingent commissions are recognized when determinable, which is generally when such commissions are received from insurance companies, or periodically when we receive formal notification of the amount of such payments. Fee revenues, and commissions for employee benefits coverages and workers' compensation programs, are recognized as services are rendered. Please see Note 1 in the "Notes to Consolidated Financial Statements" for changes to our revenue recognition policies that are effective January 1, 2018 as prescribed by new accounting pronouncements.

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 three to fifteen 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 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 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 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, 2017 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, 2017, 2016 and 2015.

Non-Cash Stock-Based Compensation

We grant non-vested stock awards and, to a lesser extent, stock options 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 2016, the performance conditions for approximately 1.4 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 2011. These grants had a performance measurement period that concluded on December 31, 2015. The vesting condition for these grants requires continuous employment for a period of up to ten years from the January 2011 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 became eligible to receive payments of dividends and exercise voting privileges after the awarding date.

During the first quarter of 2017, the performance conditions for approximately 169,000 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 EPS.

During the first quarter of 2018, the performance conditions for 130,172 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. 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 EPS.

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, 2017, 2016 and 2015

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)	2017	Percent Change	2016	Percent Change	2015
REVENUES					
Core commissions and fees	$1,794,714	5.7 %	$ 1,697,308	6.4 %	$1,595,218
Profit-sharing contingent commissions	52,186	(3.4)%	54,000	4.4 %	51,707
Guaranteed supplemental commissions	10,370	(9.7)%	11,479	14.5 %	10,026
Commissions and fees	1,857,270	5.4 %	1,762,787	6.4 %	1,656,951
Investment income	1,626	11.7 %	1,456	45.0 %	1,004
Other income, net	22,451	NMF	2,386	(6.6)%	2,554
Total revenues	**1,881,347**	**6.5 %**	**1,766,629**	**6.4 %**	**1,660,509**
EXPENSES					
Employee compensation and benefits	994,652	7.5 %	925,217	8.0 %	856,952
Other operating expenses	283,470	7.8 %	262,872	4.7 %	251,055
(Gain)/loss on disposal	(2,157)	67.1 %	(1,291)	108.6 %	(619)
Amortization	85,446	(1.4)%	86,663	(0.9)%	87,421
Depreciation	22,698	8.1 %	21,003	0.5 %	20,890
Interest	38,316	(3.0)%	39,481	0.6 %	39,248
Change in estimated acquisition earn-out payables	9,200	0.2 %	9,185	NMF	3,003
Total expenses	**1,431,625**	**6.6 %**	**1,343,130**	**6.8 %**	**1,257,950**
Income before income taxes	**449,722**	**6.2 %**	**423,499**	**5.2 %**	**402,559**
Income taxes	50,092	(69.8)%	166,008	4.2 %	159,241
NET INCOME	**$ 399,630**	**55.2 %**	**$ 257,491**	**5.7 %**	**$ 243,318**
Organic revenue growth rate [1]	4.4%		3.0%		2.6%
Employee compensation and benefits relative to total revenues	52.9%		52.4%		51.6%
Other operating expenses relative to total revenues	15.1%		14.9%		15.1%
Capital expenditures	$ 24,192		$ 17,765		$ 18,375
Total assets at December 31	**$5,747,550**		**$5,262,734**		**$4,979,844**

(1) A non-GAAP measure

NMF = Not a meaningful figure

Commissions and Fees

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 for 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 reflects 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.

Commissions and fees, including profit-sharing contingent commissions and GSCs for 2016, increased $105.8 million to $1,762.8 million, or 6.4% over 2015. Core commissions and fees in 2016 increased $102.1 million, of which approximately $61.7 million represented core commissions and fees from agencies acquired since 2015 that had no comparable revenues. After accounting for divested business of $6.6 million, the remaining net increase of $47.0 million represented net new business, which reflects an organic revenue growth rate of 3.0% for core commissions and fees. Profit-sharing contingent commissions and GSCs for 2016 increased by $3.7 million, or 6.1%, compared to the same period in 2015. The net increase of $3.7 million was mainly driven by an increase in profit-sharing contingent commissions and GSCs in the Retail Segment, which was partially offset by a decrease in profit-sharing contingent commissions in the Wholesale Brokerage Segment as a result of increased loss ratios.

Investment Income

Investment income increased to $1.6 million in 2017, compared with $1.5 million in 2016, and increased to $1.5 million in 2016, compared with $1.0 million in 2015. The increases in both years are due to additional interest income driven by higher average invested cash balances accompanied by higher effective earned rates of interest.

Other Income, Net

Other income for 2017 was $22.5 million, compared with $2.4 million in 2016 and $2.6 million in 2015. 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 in the first quarter of 2017.

Employee Compensation and Benefits

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.

Employee compensation and benefits expense increased 8.0%, or $68.3 million, in 2016 over 2015. This increase included $23.3 million of compensation costs related to stand-alone acquisitions that had no comparable costs in the same period of 2015. Therefore, employee compensation and benefits expense attributable to those offices that existed in the same time periods of 2016 and 2015 increased by $45.0 million or 5.2%. This underlying employee compensation and benefits expense increase was primarily related to (i) higher producer commissions driven by new and renewed business, (ii) increased staff salaries that included some severance cost, (iii) increased bonuses due to higher revenue and operating profit, (iv) increased cost of health insurance, and (v) an increase in non-cash stock-based compensation expense due to forfeiture credits recognized in 2015. Employee compensation and benefits expense as a percentage of total revenues was 52.4% for 2016 as compared to 51.6% for the year ended December 31, 2015.

Other Operating Expenses

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, 14.9% in 2016 and 15.1% in 2015.

As a percentage of total revenues, other operating expenses represented 14.9% in 2016 and 15.1% in 2015. Other operating expenses in 2016 increased $11.8 million, or 4.7%, over 2015, of which $9.5 million was related to acquisitions that had no comparable costs in the same period of 2015. The other operating expenses for those offices that existed in the same periods in both 2016 and 2015, increased by $2.3 million or 0.9%, which was primarily attributable to higher data processing costs related to our multi-year technology investment program, partially offset by the receipt of certain premium tax refunds by our National Flood Program business.

Gain or Loss on Disposal

The Company recognized gains on disposal of $2.2 million, $1.3 million and $0.6 million in 2017, 2016 and 2015, respectively. 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 decreased $1.2 million, or 1.4%, in 2017, and decreased $0.8 million, or 0.9%, in 2016. These decreases are as a result of certain intangibles becoming fully amortized or otherwise written off as part of disposed businesses, both of which were partially offset with amortization of new intangibles from recently acquired businesses.

Depreciation

Depreciation expense increased $1.7 million, or 8.1%, in 2017 and remained flat in 2016 as compared to 2015. The increase in 2017 is due primarily to the addition of fixed assets resulting from capital projects related to our multi-year technology investment program and other business initiatives in 2017, while the stable level of expense in 2016 versus 2015 reflected capital additions approximately equal to the value of prior capital additions that became fully depreciated.

Interest Expense

Interest expense decreased $1.2 million, or 3.0%, in 2017, and increased $0.2 million, or 0.6% in 2016. The decrease in 2017 was due primarily to having less total debt outstanding. The increase in 2016 was primarily due to an increase in floating interest rates related to the outstanding debt balance on the Credit Facility term loan.

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, 2017, 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 82 – 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, 2017, 2016 and 2015 were as follows:

(in thousands)	2017	2016	2015
Change in fair value of estimated acquisition earn-out payables	$ 6,874	$ 6,338	$ 13
Interest expense accretion	2,326	2,847	2,990
Net change in earnings from estimated acquisition earn-out payables	**$ 9,200**	**$ 9,185**	**$ 3,003**

For the years ended December 31, 2017, 2016 and 2015, the fair value of estimated earn-out payables was re-evaluated and increased by $6.9 million, $6.3 million and $13.0 thousand, respectively, which resulted in charges to the Consolidated Statement of Income.

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. As of December 31, 2016, the estimated acquisition earn-out payables equaled $63.8 million, of which $31.8 million was recorded as accounts payable and $32.0 million was recorded as other non-current liability.

Income Taxes

The effective tax rate on income from operations was 11.1% in 2017, 39.2% in 2016, and 39.6% in 2015. The decrease in the effective tax rate for 2017 was primarily driven by the revaluation of deferred tax liabilities as described in Part II, Note 9 "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 Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation. The decrease in the effective tax rate for 2016 is driven by several permanent tax differences along with the apportionment of taxable income in the states where we operate.

Results of Operations – Segment Information

As discussed in Note 15 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 and leverage 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, 2017 and 2016 is as follows:

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

The organic revenue growth rates for the year ended December 31, 2017, by Segment, are as follows:

(in thousands, except percentages)	Retail [(1)]		National Programs		Wholesale Brokerage		Services		Total	
	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%**	
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 15 of the Notes to the Condensed 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:

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

The organic revenue growth rates for the year ended December 31, 2016, by Segment, are as follows:

(in thousands, except percentages)	Retail [1] 2016	Retail [1] 2015	National Programs 2016	National Programs 2015	Wholesale Brokerage 2016	Wholesale Brokerage 2015	Services 2016	Services 2015	Total 2016	Total 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%**	
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 15 of the Notes to the Condensed 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, 2015 and 2014, is as follows:

(in thousands)	For the Year Ended December 31, 2015	2014
Commissions and fees	$1,656,951	$1,567,460
Less profit-sharing contingent commissions	51,707	57,706
Less guaranteed supplemental commissions	10,026	9,851
Core commissions and fees	1,595,218	1,499,903
Less acquisition revenues	76,632	—
Less divested businesses	—	19,336
Organic Revenue	**$1,518,586**	**$1,480,567**

Segment results for 2014 have been recast to reflect the current year segmental structure. Certain reclassifications have been made to the prior year amounts reported in this Annual Report in order to conform to the current year presentation.

The organic revenue growth rates for the year ended December 31, 2015, by Segment, are as follows:

(in thousands, except percentages)	Retail [1] 2015	Retail [1] 2014	National Programs 2015	National Programs 2014	Wholesale Brokerage 2015	Wholesale Brokerage 2014	Services 2015	Services 2014	Total 2015	Total 2014
Commissions and fees	$ 866,465	$ 822,140	$ 428,473	$ 397,326	$ 216,638	$ 211,512	$ 145,375	$ 136,482	**$1,656,951**	**$1,567,460**
Total change	$ 44,325		$ 31,147		$ 5,126		$ 8,893		**$ 89,491**	
Total growth %	5.4%		7.8%		2.4%		6.5%		**5.7%**	
Contingent commissions	22,051	21,616	15,558	20,822	14,098	15,268	—	—	**51,707**	**57,706**
GSCs	8,291	7,730	30	21	1,705	2,100	—	—	**10,026**	**9,851**
Core commissions and fees	$ 836,123	$ 792,794	$ 412,885	$ 376,483	$ 200,835	$ 194,144	$ 145,375	$ 136,482	**$1,595,218**	**$1,499,903**
Acquisition revenues	35,644	—	38,519	—	2,469	—	—	—	**76,632**	**—**
Divested business	—	3,291	—	8,811	—	6,887	—	347	**—**	**19,336**
Organic Revenue [2]	$ 800,479	$ 789,503	$ 374,366	$ 367,672	$ 198,366	$ 187,257	$ 145,375	$ 136,135	**$1,518,586**	**$1,480,567**
Organic revenue growth [2]	$ 10,976		$ 6,694		$ 11,109		$ 9,240		**$ 38,019**	
Organic revenue growth % [2]	1.4%		1.8%		5.9%		6.8%		**2.6%**	

(1) The Retail Segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 15 of the Notes to the Condensed Consolidated Financial Statements, which includes corporate and consolidation items.

(2) A non-GAAP financial measure.

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 87.3% of the Retail Segment's commissions and fees is commission based. Because a significant portion of our 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, 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)	**2017**	Percent Change	2016	Percent Change	2015
REVENUES					
Core commissions and fees	$ 909,762	3.2 %	$ 881,729	5.3 %	$ 837,420
Profit-sharing contingent commissions	23,377	(7.3)%	25,207	14.3 %	22,051
Guaranteed supplemental commissions	9,108	(6.9)%	9,787	18.0 %	8,291
Commissions and fees	942,247	2.8 %	916,723	5.6 %	867,762
Investment income	8	(78.4)%	37	(57.5)%	87
Other income, net	1,205	86.5 %	646	(74.1)%	2,497
Total revenues	943,460	**2.8 %**	**917,406**	**5.4 %**	**870,346**
EXPENSES					
Employee compensation and benefits	515,477	6.0 %	486,303	6.3 %	457,351
Other operating expenses	147,084	0.5 %	146,286	6.4 %	137,519
(Gain)/loss on disposal	(2,311)	79.0 %	(1,291)	7.0 %	(1,207)
Amortization	42,164	(3.0)%	43,447	(3.8)%	45,145
Depreciation	5,210	(15.8)%	6,191	(5.6)%	6,558
Interest	31,133	(18.5)%	38,216	(6.9)%	41,036
Change in estimated acquisition earn-out payables	8,087	(21.1)%	10,253	NMF	2,006
Total expenses	**746,844**	**2.4 %**	**729,405**	**6.0 %**	**688,408**
Income before income taxes	**$ 196,616**	**4.6 %**	**$ 188,001**	**3.3 %**	**$ 181,938**
Organic revenue growth rate [1]	2.9%		1.9%		1.4%
Employee compensation and benefits relative to total revenues	54.6%		53.0%		52.5%
Other operating expenses relative to total revenues	15.6%		15.9%		15.8%
Capital expenditures	$ 4,494		$ 5,951		$ 6,797
Total assets at December 31	**$4,255,515**		**$3,854,393**		**$3,507,476**

(1) A non-GAAP measure

NMF = Not a meaningful figure

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 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, (ii) offset by 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) operating expenses which increased 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.

The Retail Segment's total revenues in 2016 increased 5.4%, or $47.1 million, over the same period in 2015, to $917.4 million. The $44.3 million increase in core commissions and fees was driven by the following: (i) approximately $31.2 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2015, (ii) $15.7 million related to net new business, and (iii) an offsetting decrease of $2.6 million related to commissions and fees recorded from business divested in 2015 and 2016. Profit-sharing contingent commissions and GSCs in 2016 increased 15.3%, or $4.7 million, over 2015, to $35.0 million. The Retail Segment's growth rate for total commissions and fees was 5.6%, and the organic revenue growth rate was 1.9% for 2016, which were driven by revenue from net new business written during the preceding twelve months along with modest increases in commercial auto rates and underlying exposure unit values that drive insurance premiums, and partially offset by rate reductions in most lines of coverage, other than commercial auto, with the most pronounced declines realized for insurance premium rates for properties in catastrophe-prone areas.

Income before income taxes for 2016 increased 3.3%, or $6.1 million, over the same period in 2015, to $188.0 million. This growth in income before income taxes was negatively impacted by $10.3 million in expense associated with the change in estimated acquisition earn-out payables, an increase of $8.2 million over the same period in 2015. Other factors affecting this increase were: (i) the net increase in revenue as described above, (ii) a 6.3%, or $29.0 million, increase in employee compensation and benefits due primarily to the year-on-year impact of new teammates related to acquisitions completed in the past twelve months and to a lesser extent continued investment in producers and other staff to support current and future expected organic revenue growth, and (iii) operating expenses which increased by $8.8 million, or 6.4%, primarily due to increased value-added consulting services to support our customers and increases in office rent expense, offset by a combined decrease in amortization, depreciation and intercompany interest expense of $4.9 million.

National Programs Segment

The National Programs Segment manages over 51 programs supported by approximately 40 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)	2017	Percent Change	2016	Percent Change	2015
REVENUES					
Core commissions and fees	$ 458,863	6.6 %	$ 430,479	4.3 %	$ 412,885
Profit-sharing contingent commissions	20,123	16.3 %	17,306	11.2 %	15,558
Guaranteed supplemental commissions	31	34.8 %	23	(23.3)%	30
Commissions and fees	479,017	7.0 %	447,808	4.5 %	428,473
Investment income	384	(38.9)%	628	199.0 %	210
Other income, net	412	NMF	80	56.9 %	51
Total revenues	**479,813**	**7.0 %**	**448,516**	**4.6 %**	**428,734**
EXPENSES					
Employee compensation and benefits	201,816	5.6 %	191,199	4.6 %	182,854
Other operating expenses	97,988	16.9 %	83,822	(2.7)%	86,157
(Gain)/loss on disposal	99	— %	—	(100.0)%	458
Amortization	27,277	(2.3)%	27,920	(2.0)%	28,479
Depreciation	6,325	(19.6)%	7,868	8.5 %	7,250
Interest	35,561	(22.3)%	45,738	(17.9)%	55,705
Change in estimated acquisition earn-out payables	786	NMF	207	31.0 %	158
Total expenses	**369,852**	**3.7 %**	**356,754**	**(1.2)%**	**361,061**
Income before income taxes	**$ 109,961**	**19.8 %**	**$ 91,762**	**35.6 %**	**$ 67,673**
Organic revenue growth rate [(1)]	6.1%		4.2%		1.8%
Employee compensation and benefits relative to total revenues	42.1%		42.6%		42.6%
Other operating expenses relative to total revenues	20.4%		18.7%		20.1%
Capital expenditures	$ 5,936		$ 6,977		$ 6,001
Total assets at December 31	**$3,267,486**		**$2,711,378**		**$2,503,537**

(1) A non-GAAP measure

NMF = Not a meaningful figure

The National Programs Segment's total revenues in 2017 increased 7.0%, or $31.3 million, over 2016, to a total $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, 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 is the result of a lower intercompany interest charge of $10.2 million, along with leveraging revenue growth of $31.3 million.

The National Programs Segment's total revenues in 2016 increased 4.6%, or $19.8 million, over 2015, to a total of $448.5 million. The $17.6 million increase in core commissions and fees was driven by the following: (i) $17.2 million related to net new business, (ii) an increase of approximately $1.7 million related to core commissions and fees from acquisitions that had no comparable revenues in 2015; offset by (iii) a decrease of $1.3 million related to commissions and fees recorded in 2015 from businesses since divested. Profit-sharing contingent commissions and GSCs were $17.3 million in 2016, which was an increase of $1.7 million over 2015, 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 4.5% and the organic revenue growth rate was 4.2% for 2016. This organic revenue growth rate was mainly due to increased flood claims revenues and the on-boarding of net new customers by our lender-placed coverage program. Growth in these businesses was partially offset by certain programs that have been affected by lower rates and certain carriers changing their risk appetite for new or existing programs.

Income before income taxes for 2016 increased 35.6%, or $24.1 million, from the same period in 2015, to $91.8 million. The increase is the result of a lower intercompany interest charge of $10.0 million, the receipt of certain premium tax refunds by our National Flood Program business, along with revenue growth of $19.8 million.

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)	2017	Percent Change	2016	Percent Change	2015
REVENUES					
Core commissions and fees	$ 261,224	13.7 %	$ 229,657	14.4 %	$ 200,835
Profit-sharing contingent commissions	8,686	(24.4)%	11,487	(18.5)%	14,098
Guaranteed supplemental commissions	1,231	(26.2)%	1,669	(2.1)%	1,705
Commissions and fees	271,141	11.7 %	242,813	12.1 %	216,638
Investment income	—	(100.0)%	4	(97.3)%	150
Other income, net	596	108.4 %	286	37.5 %	208
Total revenues	**271,737**	**11.8 %**	**243,103**	**12.0 %**	**216,996**
EXPENSES					
Employee compensation and benefits	138,297	13.5 %	121,863	16.4 %	104,692
Other operating expenses	44,665	6.0 %	42,139	22.6 %	34,379
(Gain)/loss on disposal	—	— %	—	(100.0)%	(385)
Amortization	11,456	6.1 %	10,801	10.9 %	9,739
Depreciation	1,885	(4.6)%	1,975	(7.8)%	2,142
Interest	6,263	57.5 %	3,976	NMF	891
Change in estimated acquisition earn-out payables	327	NMF	(274)	(133.0)%	830
Total expenses	**202,893**	**12.4 %**	**180,480**	**18.5 %**	**152,288**
Income before income taxes	**$ 68,844**	**9.9 %**	**$ 62,623**	**(3.2)%**	**$ 64,708**
Organic revenue growth rate [1]	6.6%		4.3%		5.9%
Employee compensation and benefits relative to total revenues	50.9%		50.1%		48.2%
Other operating expenses relative to total revenues	16.4%		17.3%		15.8%
Capital expenditures	$ 1,836		$ 1,301		$ 3,084
Total assets at December 31	**$1,260,239**		**$1,108,829**		**$ 895,782**

(1) A non-GAAP measure

NMF = Not a meaningful figure

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.

The Wholesale Brokerage Segment's total revenues for 2016 increased 12.0%, or $26.1 million, over 2015, to $243.1 million. The $28.8 million net increase in core commissions and fees was driven by the following: (i) $20.2 million related to the core commissions and fees from acquisitions that had no comparable revenues in 2016, (ii) $8.7 million related to net new business; and (iii) an offsetting decrease of $0.1 million related to commissions and fees recorded in 2015 from businesses divested in the past year. Profit-sharing contingent commissions and GSCs for 2016 decreased $2.6 million over 2015, to $13.2 million. This decrease was driven by an increase in loss ratios for one carrier. The Wholesale Brokerage Segment's growth rate for total commissions and fees was 12.1%, and the organic revenue growth rate was 4.3% for 2016, which were driven by net new business and modest increases in exposure units, partially offset by significant contraction in insurance premium rates for catastrophe-prone properties and to a lesser extent all other lines of coverage.

Income before income taxes for 2016 decreased 3.2%, or $2.1 million, over 2015, to $62.6 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 $17.2 million, of which $10.8 million was related to acquisitions that had no comparable compensation and benefits in the same period of 2015, with the remainder related to additional teammates to support increased transaction volumes, (iii) a decrease in profit from lower profit-sharing contingent commissions and GSCs, (iv) a $7.8 million increase in operating expenses, of which $3.2 million was related to acquisitions that had no comparable expenses in the same period of 2015 and (v) higher intercompany interest charge related to acquisitions completed in the previous year.

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)	2017	Percent Change	2016	Percent Change	2015
REVENUES					
Core commissions and fees	$ 165,073	5.8 %	$ 156,082	7.4 %	$ 145,375
Profit-sharing contingent commissions	—	— %	—	— %	—
Guaranteed supplemental commissions	—	— %	—	— %	—
Commissions and fees	165,073	5.8 %	156,082	7.4 %	145,375
Investment income	299	5.7 %	283	NMF	42
Other income, net	—	— %	—	(100.0)%	(52)
Total revenues	**165,372**	**5.8 %**	**156,365**	**7.6 %**	**145,365**
EXPENSES					
Employee compensation and benefits	80,944	2.7 %	78,804	2.2 %	77,094
Other operating expenses	44,205	3.0 %	42,908	19.0 %	36,057
(Gain)/loss on disposal	55	— %	—	(100.0)%	515
Amortization	4,548	1.4 %	4,485	11.6 %	4,019
Depreciation	1,600	(14.9)%	1,881	(5.4)%	1,988
Interest	3,522	(28.8)%	4,950	(17.1)%	5,970
Change in estimated acquisition earn-out payables	—	(100.0)%	(1,001)	NMF	9
Total expenses	**134,874**	**2.2 %**	**132,027**	**5.1 %**	**125,652**
Income before income taxes	**$ 30,498**	**25.3 %**	**$ 24,338**	**23.5 %**	**$ 19,713**
Organic revenue growth rate [1]	5.1%		3.8%		6.8%
Employee compensation and benefits relative to total revenues	48.9%		50.4%		53.0%
Other operating expenses relative to total revenues	26.7%		27.4%		24.8%
Capital expenditures	$ 1,033		$ 656		$ 1,088
Total assets at December 31	**$ 399,240**		**$ 371,645**		**$ 285,459**

(1) A non-GAAP measure

NMF = Not a meaningful figure

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.

The Services Segment's total revenues for 2016 increased 7.6%, or $11.0 million, over 2015, to $156.4 million. The $10.7 million increase in core commissions and fees was driven primarily by the following: (i) $8.7 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2015, (ii) $5.4 million related to net new business, and (iii) partially offset by a decrease of $3.4 million related to commissions and fees recorded in 2015 from business since divested. The Services Segment's growth rate for total commissions and fees was 7.4% and the organic revenue growth rate was 3.8% for 2016, primarily driven by our claims.

Income before income taxes for 2016 increased 23.5%, or $4.6 million, over 2015, to $24.3 million due to a combination of: (i) the acquisition of SSAD, (ii) our claims office that handled catastrophe claims, (iii) the continued efficient operation of our businesses, and (iv) lower intercompany interest charges.

Other

As discussed in Note 15 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, 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 credit 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 $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.

We hold approximately $19.4 million in cash outside of the U.S. for which we currently have no plans to repatriate in the near future. With the passage of the Tax Cuts and Jobs Act of 2017, we will reevaluate the most advantageous opportunities to deploy this capital on an after-tax basis.

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 cash and cash equivalents of $443.4 million at December 31, 2015 reflected a decrease of $26.6 million from the $470.0 million balance at December 31, 2014. During 2015, $381.8 million of cash was generated from operating activities. During this period, $136.0 million of cash was used for acquisitions, $36.8 million was used for acquisition earn-out payments, $18.4 million was used for additions to fixed assets, $64.1 million was used for payment of dividends, $175.0 million was used as part of accelerated share repurchase programs, and $45.6 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 1.13 and 1.20 at December 31, 2017 and 2016, respectively.

Contractual Cash Obligations

As of December 31, 2017, 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	$ 985,000	$ 120,000	$ 70,000	$ 295,000	$ 500,000
Other liabilities (1)	51,266	3,973	8,305	2,430	36,558
Operating leases	210,559	43,080	73,272	49,711	44,496
Interest obligations	188,285	35,450	62,455	54,505	35,875
Unrecognized tax benefits	1,694	—	1,694	—	—
Maximum future acquisition contingency payments (2)	88,382	42,233	46,149	—	—
Total contractual cash obligations	**$ 1,525,186**	**$ 244,736**	**$ 261,875**	**$ 401,646**	**$ 616,929**

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

(2) Includes $36.2 million of current and non-current estimated earn-out payables resulting from acquisitions consummated after January 1, 2009.

Debt

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.

During 2017, the $100.0 million of Series E Senior Notes were issued and are due September 15, 2018, with a fixed interest rate of 4.500% per year were reclassified as current portion of long-term debt in the Consolidated Balance Sheet, as the date of maturity is less than one year.

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 the unsecured term loans in the amount of $400.0 million while also extending the applicable maturity date to June 28, 2022. In connection with the Amended and Restated Credit Agreement, 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, 2017, 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, 2017, there was an outstanding debt balance issued under the term loan of the Amended and Restated Credit Agreement of $385.0 million with no borrowings outstanding against the Facility. Per the terms of the Amended and Restated Credit Agreement, a scheduled principal payment of $5.0 million is due March 31, 2018.

Total debt at December 31, 2016 was $1,073.9 million, which was a decrease of $70.9 million compared to December 31, 2015. The decrease includes the repayment of $73.1 million in principal, net of the amortization of discounted debt related to our 4.200% Notes due 2024 and debt issuance cost amortization of $1.7 million plus the addition of $0.5 million in a short-term note payable related to the recent acquisition of SSAD.

As of December 31, 2016, the Company satisfied the sixth installment of scheduled quarterly principal payments on the Credit Facility term loan. The Company has satisfied $68.8 million in total principal payments through December 31, 2016 since the inception of the note. Scheduled quarterly principal payments are expected to be made until maturity. The balance of the Credit Facility term loan was $481.3 million as of December 31, 2016. Of the total amount, $55.0 million is classified as current portion of long-term debt in the Condensed Consolidated Balance Sheet as the date of maturity is less than one year.

On March 14, 2016, the Company terminated the Wells Fargo Revolver $25.0 million facility without incurring any fees. The facility was to mature on December 31, 2016. The Company terminated the Wells Fargo Revolver as it has flexibility with the Credit Facility revolver capacity and current capital and credit resources available.

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."

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, 2017 and December 31, 2016, 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, 2017, we had $385.0 million of borrowings outstanding under our Amended and Restated Credit Agreement, which bears interest on a floating basis tied to the London Interbank Offered Rate (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, 2017, an immediate 10% hypothetical change of foreign currency exchange rates would not have a material effect on our Consolidated Financial Statements.

Consolidated

Statements of Income

For the Year Ended December 31,

(in thousands, except per share data)	2017	2016	2015
REVENUES			
Commissions and fees	$ 1,857,270	$ 1,762,787	$ 1,656,951
Investment income	1,626	1,456	1,004
Other income, net	22,451	2,386	2,554
Total revenues	**1,881,347**	**1,766,629**	**1,660,509**
EXPENSES			
Employee compensation and benefits	994,652	925,217	856,952
Other operating expenses	283,470	262,872	251,055
(Gain)/loss on disposal	(2,157)	(1,291)	(619)
Amortization	85,446	86,663	87,421
Depreciation	22,698	21,003	20,890
Interest	38,316	39,481	39,248
Change in estimated acquisition earn-out payables	9,200	9,185	3,003
Total expenses	**1,431,625**	**1,343,130**	**1,257,950**
Income before income taxes	**449,722**	**423,499**	**402,559**
Income taxes	50,092	166,008	159,241
Net income	**$ 399,630**	**$ 257,491**	**$ 243,318**
Net income per share:			
Basic	**$ 2.86**	**$ 1.84**	**$ 1.72**
Diluted	**$ 2.81**	**$ 1.82**	**$ 1.70**
Dividends declared per share	**$ 0.56**	**$ 0.50**	**$ 0.45**

See accompanying notes to Consolidated Financial Statements.

Consolidated

Balance Sheets

(in thousands, except per share data)	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 573,383	$ 515,646
Restricted cash and investments	250,705	265,637
Short-term investments	24,965	15,048
Premiums, commissions and fees receivable	546,402	502,482
Reinsurance recoverable	477,820	78,083
Prepaid reinsurance premiums	321,017	308,661
Other current assets	47,864	50,571
Total current assets	**2,242,156**	**1,736,128**
Fixed assets, net	77,086	75,807
Goodwill	2,716,079	2,675,402
Amortizable intangible assets, net	641,005	707,454
Investments	13,949	23,048
Other assets	57,275	44,895
Total assets	**$ 5,747,550**	**$ 5,262,734**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$ 685,163	$ 647,564
Losses and loss adjustment reserve	476,721	78,083
Unearned premiums	321,017	308,661
Premium deposits and credits due customers	91,648	83,765
Accounts payable	64,177	69,595
Accrued expenses and other liabilities	228,748	201,989
Current portion of long-term debt	120,000	55,500
Total current liabilities	**1,987,474**	**1,445,157**
Long-term debt less unamortized discount and debt issuance costs	856,141	1,018,372
Deferred income taxes, net	256,185	357,686
Other liabilities	65,051	81,308
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued 148,824 shares and outstanding 138,105 shares at 2017, issued 148,107 shares and outstanding 140,104 shares at 2016	14,882	14,811
Additional paid-in capital	497,540	468,443
Treasury stock, at cost 10,719 and 8,003 shares at 2017 and 2016, respectively	(386,322)	(257,683)
Retained earnings	2,456,599	2,134,640
Total shareholders' equity	2,582,699	**2,360,211**
Total liabilities and shareholders' equity	**$ 5,747,550**	**$ 5,262,734**

For the Year Ended December 31,

See accompanying notes to Consolidated Financial Statements.

Consolidated

Statements of Shareholders' Equity

(in thousands, except per share data)	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance at January 1, 2015	**145,871**	**$ 14,587**	**$ 405,982**	**$ (75,025)**	**$ 1,768,201**	**$2,113,745**
Net income					243,318	243,318
Common stock issued for employee stock benefit plans	528	53	27,992			28,045
Purchase of treasury stock			(11,250)	(163,750)		(175,000)
Income tax benefit from exercise of stock benefit plans			3,276			3,276
Common stock issued to directors	16	2	498			500
Cash dividends paid ($0.41 per share)					(64,108)	(64,108)
Balance at December 31, 2015	**146,415**	**14,642**	**426,498**	**(238,775)**	**1,947,411**	**2,149,776**
Net income					257,491	257,491
Common stock issued for employee stock benefit plans	1,675	167	22,851			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	17	2	498			500
Cash dividends paid ($0.50 per share)					(70,262)	(70,262)
Balance at December 31, 2016	**148,107**	**14,811**	**468,443**	**(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	706	70	39,895			39,965
Purchase of treasury stock			(11,250)	(128,639)		(139,889)
Common stock issued to directors	11	1	499			500
Cash dividends paid ($0.56 per share)					(77,712)	(77,712)
Balance at December 31, 2017	**148,824**	**$ 14,882**	**$ 497,540**	**$ (386,322)**	**$ 2,456,599**	**$ 2,582,699**

See accompanying notes to Consolidated Financial Statements.

Consolidated

Statement of Cash Flows

For the Year Ended December 31,

(in thousands)	2017	2016	2015
Cash flows from operating activities:			
Net income	$ 399,630	$ 257,491	$ 243,318
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	85,446	86,663	87,421
Depreciation	22,698	21,003	20,890
Non-cash stock-based compensation	30,631	16,052	15,513
Change in estimated acquisition earn-out payables	9,200	9,185	3,003
Deferred income taxes	(102,183)	18,163	22,696
Amortization of debt discount	158	165	157
Amortization and disposal of deferred financing costs	1,682	1,597	—
Accretion of discounts and premiums, investments	22	39	—
Income tax benefit from exercise of shares from the stock benefit plans	—	(7,346)	(3,276)
Loss/(gain) on sales of investments, fixed assets and customer accounts	(1,841)	596	(107)
Payments on acquisition earn-outs in excess of original estimated payables	(14,501)	(3,904)	(11,383)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:			
Premiums, commissions and fees receivable (increase)	(43,306)	(63,550)	(7,163)
Reinsurance recoverables (increase)	(399,737)	(46,115)	(18,940)
Prepaid reinsurance premiums (increase) decrease	(12,356)	982	10,943
Other assets (increase)	(9,747)	(4,718)	(5,318)
Premiums payable to insurance companies decrease	37,380	66,084	542
Premium deposits and credits due customers increase (decrease)	7,750	527	(2,973)
Losses and loss adjustment reserve increase	398,638	46,115	18,940
Unearned premiums increase (decrease)	12,356	(982)	(10,943)
Accounts payable increase	26,798	30,174	34,206
Accrued expenses and other liabilities increase	25,509	8,670	8,204
Other liabilities (decrease)	(32,252)	(25,849)	(23,898)
Net cash provided by operating activities	**441,975**	**411,042**	**381,832**
Cash flows from investing activities:			
Additions to fixed assets	(24,192)	(17,765)	(18,375)
Payments for businesses acquired, net of cash acquired	(41,471)	(122,622)	(136,000)
Proceeds from sales of fixed assets and customer accounts	4,094	4,957	10,576
Purchases of investments	(10,665)	(25,872)	(22,766)
Proceeds from sales of investments	9,644	18,890	21,928
Net cash used in investing activities	**(62,590)**	**(142,412)**	**(144,637)**
Cash flows from financing activities:			
Payments on acquisition earn-outs	(29,265)	(24,309)	(25,415)
Payments on long-term debt	(96,750)	(73,125)	(45,625)
Deferred debt issuance costs	(2,821)	—	—
Income tax benefit from exercise of shares from the stock benefit plans	—	7,346	3,276
Issuances of common stock for employee stock benefit plans	17,422	15,983	15,890
Repurchase of stock benefit plan shares for employees to fund tax withholdings	(7,565)	(8,495)	(2,857)
Purchase of treasury stock	(128,639)	(18,908)	(163,750)
Settlement (prepayment) of accelerated share repurchase program	(11,250)	11,250	(11,250)
Cash dividends paid	(77,712)	(70,262)	(64,108)
Net cash used in by financing activities	**(336,580)**	**(160,520)**	**(293,839)**
Net increase (decrease) in cash and cash equivalents inclusive of restricted cash	**42,805**	**108,110**	**(56,644)**
Cash and cash equivalents inclusive of restricted cash at beginning of period	781,283	673,173	729,817
Cash and cash equivalents inclusive of restricted cash at end of period	**$ 824,088**	**$ 781,283**	**$ 673,173**

See accompanying notes to Consolidated Financial Statements. Refer to Note 12 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 nationwide networks of independent agents, including Brown & Brown retail agents; the Wholesale Brokerage Segment markets and sells excess and surplus commercial insurance, primarily through 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 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 years ended December 31, 2015 and 2016 were previously reported as $411.8 million and $375.2 million, respectively. With the retrospective adoption, the net cash provided by operating activities for the years ended December 31, 2015 and 2016 is now reported as $381.8 million and $411.0 million, respectively. 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 will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted. The Company is adopting this change effective January 1, 2018 and has evaluated the impact of ASU 2016-15 determining that there is no impact on the Company's Statement of Cash Flows. The Company already presents 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 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. ASU 2016-08 is effective contemporaneous with ASU 2014-09 beginning January 1, 2018. The impact of adopting ASU 2016-08 is not material to the Company.

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. ASU 2016-02 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 being that the present value of the remaining lease payments 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. As detailed in Note 13 of the 2016 10-K, the undiscounted contractual cash payments remaining on leased properties was $213.2 million as of December 31, 2016 and is $210.4 million as of December 31, 2017 as detailed in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" and Note 13 "Commitments and Contingencies."

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. As a result, the Company retrospectively applied the guidance to the 2016 balance sheet by reclassifying $24.6 million from deferred income taxes (asset) to deferred income taxes, net (liability) on the Condensed Consolidated Balance Sheet. 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 9 "Income Taxes" for more information.

In May 2014, 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 or enters into contracts for the transfer of non-financial assets. 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. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. Specifically, in situations where multiple performance obligations exist within a contract, the use of estimates is required to allocate the transaction price to each separate performance obligation.

Historically, approximately 70% of the Company's commissions and fees are in the form of commissions paid by insurance carriers. These commissions are earned upon the effective date of bound coverage, as no significant performance obligation remains after coverage is bound. The following areas are impacted by the adoption of Topic 606:

Installment billing Prior to the adoption of Topic 606, commission revenues related to installment billings were recognized on the latter of the policy effective date (as indicated in the policy) or the date that the premium was billed to the client (as indicated on the premium invoice), with the exception of our Arrowhead businesses, which follow a policy of recognizing these revenues on the latter of the policy effective date or processed date into our systems, regardless of the billing arrangement. As a result of the adoption of Topic 606, revenue associated with the issuance of policies will be recognized upon the effective date of the associated policy, which means that commission revenues billed on an installment basis will be now recognized earlier than they had been previously resulting in revenue will accrued based upon the completion of the performance obligation and thus creating a current asset for the unbilled revenue until such time as an invoice is generated, typically not to exceed twelve months. The Company does not expect the overall impact of these changes to be significant on a full-year basis, but the timing of recognizing revenue will be impacted among quarters when compared to prior years.

Contingent commissions Prior to the adoption of Topic 606, revenue that was not fixed and determinable because a contingency exists was not recognized until the contingency was resolved. Under Topic 606, the Company must use its judgment to estimate the amount of consideration that will be received such that a significant reversal of revenue is not probable. Contingent commissions represent a form of variable consideration associated with the same performance obligation, which is the placement of coverage, for which we earn core commissions. In connection with the new standard, contingent commissions will be estimated with an appropriate constraint applied and accrued relative to the recognition of the corresponding core commissions. The resulting effect on the timing of recognition of contingent commissions will more closely follow a similar pattern as our core commissions with true-ups recognized when payments are received or as additional information that affects the estimate becomes available. Contingent commissions have averaged approximately 3.6% of the previous year's total commissions and fees over the last three years and have primarily been received in the first and second quarters of the year.

Approximately 30% of the Company's commissions and fees is in the form of fees, which are predominantly in our National Programs and Services Segments, and to a lesser extent in the large accounts business within our Retail Segment, where we receive fees in lieu of a commission. In accordance with Topic 606, fee revenue from certain agreements will be recognized in earlier periods and others in later periods as compared to our current accounting treatment. The Company does not expect the overall impact of these changes to be significant on a full-year basis, but the timing of recognizing revenue will be impacted among quarters when compared to prior years.

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

Incremental cost to obtain The adoption of ASC 340 will result in the Company deferring certain cost 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 in the first year of the contract. These incremental costs will be deferred and amortized over a 15-year period, which is consistent with the analysis performed on acquired customer accounts and referenced in Note 4 to the Company's financial statements.

Cost to fulfill The adoption of ASC 340 will result in the Company deferring certain costs to fulfill a contract and 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 be impacted among quarters to better align with the associated revenue.

Topic 606 is effective for the Company beginning January 1, 2018. Entities are permitted to adopt the guidance under one of the following methods: the "full retrospective" method, which applies the guidance to each period presented (prior years restated), or the "modified retrospective" method, in which the guidance is only applied to the year of adoption, with the cumulative effect of initially applying the guidance recognized as an adjustment to retained earnings. The Company has elected to follow the modified retrospective method applied to contracts that are not completed as of the date of adoption. The estimated cumulative impact of adopting the standard on January 1, 2018 is an increase in stockholders' equity of between $70.0 million and $110.0 million.

In connection with the implementation of this standard, we expect to modify, and in some instances institute additional accounting procedures, processes and internal controls. Given the relative expected impacts of this standard to our revenue streams, we do not expect that these modifications and additions will materially change our internal controls over financial reporting.

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 in order to conform to the current year presentation.

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is processed into our systems and invoiced to the customer, whichever is later. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date, with the exception of our Arrowhead business which follows a policy of recognizing on the latter of effective or processed date into our systems, regardless of the billing arrangement. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances. Subsequent commission adjustments were recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments. Profit-sharing contingent commissions are recognized when determinable, which is generally when such commissions are received from insurance companies, or when we receive formal notification of the amount of such payments. Fee revenues and commissions for workers' compensation programs are recognized as services are rendered.

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 Brown & Brown disburses them. Where allowed by law, Brown & Brown 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 Brown & Brown 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 Brown & Brown. 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. Brown & Brown completed its most recent annual assessment as of November 30, 2017 and determined that the fair value of goodwill significantly exceeded the carrying value of such assets. In addition, as of December 31, 2017, there are no accumulated impairment losses.

The carrying value of amortizable intangible assets attributable to each business or asset group comprising Brown & Brown 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, Brown & Brown 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, 2017, 2016 and 2015.

Income Taxes

Brown & Brown 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 Brown & Brown's assets and liabilities.

Brown & Brown 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 EPS is computed based upon the weighted-average number of common shares (including participating securities) issued and outstanding during the period. Diluted EPS is computed based upon the weighted-average number of common shares issued and outstanding plus equivalent shares, assuming the exercise of stock options. The dilutive effect of stock options is computed by application of the treasury-stock method. The following is a reconciliation between basic and diluted weighted-average shares outstanding for the years ended December 31:

(in thousands, except per share data)	2017	2016	2015
Net income	$ 399,630	$ 257,491	$ 243,318
Net income attributable to unvested awarded performance stock	(9,746)	(6,705)	(5,695)
Net income attributable to common shares	**$ 389,884**	**$ 250,786**	**$ 237,623**
Weighted-average number of common shares outstanding – basic	139,697	139,779	141,113
Less unvested awarded performance stock included in weighted-average number of common shares outstanding – basic	(3,407)	(3,640)	(3,303)
Weighted-average number of common shares outstanding for basic earnings per common share	136,290	136,139	137,810
Dilutive effect of stock options	2,503	1,665	2,302
Weighted-average number of shares outstanding – diluted	**138,793**	**137,804**	**140,112**
Net income per share:			
Basic	**$ 2.86**	**$ 1.84**	**$ 1.72**
Diluted	**$ 2.81**	**$ 1.82**	**$ 1.70**

Fair Value of Financial Instruments

The carrying amounts of Brown & Brown'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, 2017 and 2016, approximate fair value because of the short-term maturity of these instruments. The carrying amount of Brown & Brown's long-term debt approximates fair value at December 31, 2017 and 2016 as our fixed-rate borrowings of $598.9 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. Of the $598.9 million, $100.0 million is related to short-term notes which approximates the carrying value due to the proximity to maturity. The estimated fair value of the $385.0 million remaining on the term loan under our Amended and Restated Credit Facility (as defined below) approximates the carrying value due to the variable interest rate based upon adjusted LIBOR. See Note 2 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 5 for information on the fair value of investments and Note 8 for information on the fair value of long-term debt.

Stock-Based Compensation

The Company has granted stock options and 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 a national reinsurance carrier for excess 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 Business Combinations

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 Accounting Standards Codification Topic 805 – Business Combinations ("ASC 805"). Such adjustments are presented in the "Other" category within the following two tables. All of these businesses were acquired primarily to expand Brown & Brown's core business and to attract and hire high-quality individuals. The recorded purchase price for all acquisitions consummated after January 1, 2009 included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the 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, 2017, several adjustments were made within the permitted measurement period that resulted in an increase in the aggregate purchase price of the affected acquisitions of $1.5 million relating to the assumption of certain liabilities. These measurement period adjustments have been reflected as current period adjustments for the year ended December 31, 2017 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 $41.5 million and $124.7 million in the years ended December 31, 2017 and 2016, respectively. We completed eleven acquisitions (excluding book of business purchases) during the year ended December 31, 2017. We completed eight acquisitions (excluding book of business purchases) during the year ended December 31, 2016.

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. 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	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)

(in thousands, except per share data)	For the Year Ended December 31, 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	$ 2.88	$ 1.87
Diluted	$ 2.83	$ 1.85
Weighted-average number of shares outstanding:		
Basic	136,290	136,139
Diluted	138,793	137,804

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)	For the 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	$ 1.86	$ 1.78
Diluted	$ 1.84	$ 1.75
Weighted-average number of shares outstanding:		
Basic	136,139	137,810
Diluted	137,804	140,112

Acquisitions in 2015

During the year ended December 31, 2015, Brown & Brown acquired the assets and assumed certain liabilities of thirteen insurance intermediaries and four books of business (customer accounts). The cash paid for these acquisitions was $136.0 million. 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 "Other" within the following two tables. All of these businesses were acquired primarily to expand Brown & Brown's core business and to attract and hire high-quality individuals.

For the year ended December 31, 2015, several adjustments were made within the permitted measurement period that resulted in a decrease in the aggregate purchase price of the affected acquisitions of $503,442 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	Effective Business Segment	Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-Out Payable	Net Assets Acquired	*Maximum Potential Earn-Out Payable*
Liberty Insurance Brokers, Inc. and Affiliates (Liberty)	Retail	February 1, 2015	$12,000	$ —	$ 2,981	$ 14,981	$ *3,750*
Spain Agency, Inc. (Spain)	Retail	March 1, 2015	20,706	—	2,617	23,323	*9,162*
Bellingham Underwriters, Inc. (Bellingham)	National Programs	May 1, 2015	9,007	500	3,322	12,829	*4,400*
Fitness Insurance, LLC (Fitness)	Retail	June 1, 2015	9,455	—	2,379	11,834	*3,500*
Strategic Benefit Advisors, Inc. (SBA)	Retail	June 1, 2015	49,600	400	13,587	63,587	*26,000*
Bentrust Financial, Inc. (Bentrust)	Retail	December 1, 2015	10,142	391	319	10,852	*2,200*
MBA Insurance Agency of Arizona, Inc. (MBA)	Retail	December 1, 2015	68	8,442	6,063	14,573	*9,500*
Smith Insurance, Inc. (Smith)	Retail	December 1, 2015	12,096	200	1,047	13,343	*6,350*
Other	Various	Various	12,926	95	4,584	17,605	*8,212*
Total			**$ 136,000**	**$ 10,028**	**$ 36,899**	**$ 182,927**	***$ 73,074***

The following table summarizes the estimated fair values of the aggregate assets and liabilities acquired as of the date of each acquisition. The data included in the "Other" column shows a negative adjustment for purchased customer accounts. This is driven mainly by the final valuation adjustment for the acquisition of Wright.

(in thousands)	Liberty	Spain	Belling-ham	Fitness	SBA	Bentrust	MBA	Smith	Other	Total
Other current assets	$ 2,486	$ 324	$ —	$ 9	$ 652	$ —	$ —	$ —	$ 169	$ 3,640
Fixed assets	40	50	25	17	41	36	33	73	59	374
Goodwill	10,010	15,748	9,608	8,105	39,859	8,166	13,471	10,374	21,040	136,381
Purchased customer accounts	4,506	7,430	3,223	3,715	23,000	2,789	7,338	3,526	(2,135)	53,392
Non-compete agreements	24	21	21	—	21	43	11	31	156	328
Other assets	—	—	—	—	14	—	—	—	—	14
Total assets acquired	**17,066**	**23,573**	**12,877**	**11,846**	**63,587**	**11,034**	**20,853**	**14,004**	**19,289**	**194,129**
Other current liabilities	(42)	(250)	(48)	(12)	—	(182)	(6,280)	(504)	(4,895)	(12,213)
Deferred income tax, net	—	—	—	—	—	—	—	—	2,576	2,576
Other liabilities	(2,043)	—	—	—	—	—	—	(157)	635	(1,565)
Total liabilities assumed	**(2,085)**	**(250)**	**(48)**	**(12)**	**—**	**(182)**	**(6,280)**	**(661)**	**(1,684)**	**(11,202)**
Net assets acquired	**$ 14,981**	**$ 23,323**	**$ 12,829**	**$ 11,834**	**$ 63,587**	**$ 10,852**	**$ 14,573**	**$ 13,343**	**$ 17,605**	**$ 182,927**

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 $136.4 million was allocated to the Retail, National Programs and Wholesale Brokerage Segments in the amounts of $113.8 million, $18.0 million and $4.6 million, respectively. Of the total goodwill of $136.4 million, $91.1 million is currently deductible for income tax purposes and $8.4 million is non-deductible. The remaining $36.9 million relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

For the acquisitions completed during 2015, 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, 2015, included in the Consolidated Statement of Income for the year ended December 31, 2015, were $28.2 million. The income before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through December 31, 2015, included in the Consolidated Statement of Income for the year ended December 31, 2015, was $1.5 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)	For the Year Ended December 31,
(in thousands, except per share data)	**2015**
Total revenues	$1,688,297
Income before income taxes	$ 411,497
Net income	$ 248,720
Net income per share:	
Basic	$ 1.76
Diluted	$ 1.73
Weighted-average number of shares outstanding:	
Basic	137,810
Diluted	140,112

As of December 31, 2017, the maximum future contingency payments related to all acquisitions totaled $88.4 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, 2017, 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, 2017, 2016 and 2015 were as follows:

	For the Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Balance as of the beginning of the period	$ 63,821	$ 78,387	$ 75,283
Additions to estimated acquisition earn-out payables	6,920	4,462	36,899
Payments for estimated acquisition earn-out payables	(43,766)	(28,213)	(36,798)
Subtotal	26,975	54,636	75,384
Net change in earnings from estimated acquisition earn-out payables:			
Change in fair value on estimated acquisition earn-out payables	6,874	6,338	13
Interest expense accretion	2,326	2,847	2,990
Net change in earnings from estimated acquisition earn-out payables	9,200	9,185	3,003
Balance as of December 31,	**$ 36,175**	**$ 63,821**	**$ 78,387**

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. 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 $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. Of the $78.4 million of estimated acquisition earn-out payables as of December 31, 2015, $25.3 million was recorded as accounts payable, and $53.1 million was recorded as another non-current liability.

Note 3 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, 2016	$ 1,345,636	$ 901,866	$ 226,961	$ 112,220	$2,586,683
Goodwill of acquired businesses	13,117	(1)	57,908	22,352	93,376
Goodwill of transferred businesses	571	(571)	—	—	—
Goodwill disposed of relating to sales of businesses	(4,657)	—	—	—	(4,657)
Balance as of December 31, 2016	$ 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**

Note 4 Amortizable Intangible Assets

Amortizable intangible assets at December 31, 2017 and 2016 consisted of the following:

	December 31, 2017				December 31, 2016			
(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	$ 1,464,274	$ (824,584)	$ 639,690	15.0	$ 1,447,680	$ (741,770)	$ 705,910	15.0
Non-compete agreements	30,287	(28,972)	1,315	6.8	29,668	(28,124)	1,544	6.8
Total	**$ 1,494,561**	**$ (853,556)**	**$ 641,005**		**$ 1,477,348**	**$ (769,894)**	**$ 707,454**	

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

Amortization expense for amortizable intangible assets for the years ending December 31, 2018, 2019, 2020, 2021 and 2022 is estimated to be $81.0 million, $76.5 million, $69.1 million, $65.9 million and $61.4 million, respectively.

Note 5 Investments

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**

At December 31, 2017, the Company held $30.0 million in fixed income securities composed of U.S Treasury securities, securities issued by U.S. Government agencies and Municipalities, and $1.1 million issued by corporations with investment-grade ratings. Of the total, $16.9 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, 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 from corporate issuers were caused by interest rate increases. At December 31, 2017, the Company had 27 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, 2017.

At December 31, 2016, the Company's amortized cost and fair values of fixed maturity securities are summarized as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities, obligations of U.S. Government agencies and Municipalities	$ 26,280	$ 11	$ (59)	$ 26,232
Corporate debt	2,358	13	(1)	2,370
Total	**$ 28,638**	**$ 24**	**$ (60)**	**$ 28,602**

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, 2016:

	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	$ 14,663	$ (59)	$ —	$ —	$ 14,663	$ (59)
Corporate debt	1,001	(1)	—	—	1,001	(1)
Total	**$ 15,664**	**$ (60)**	**$ —**	**$ —**	**$ 15,664**	**$ (60)**

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, 2016, the Company had 20 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, 2016.

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 amortized cost and estimated fair value of the fixed maturity securities at December 31, 2016 by contractual maturity are set forth below:

(in thousands)	Amortized Cost	Fair Value
Years to maturity:		
Due in one year or less	$ 5,551	$ 5,554
Due after one year through five years	22,757	22,708
Due after five years through ten years	330	340
Total	**$ 28,638**	**$ 28,602**

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 $5.8 million. 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.

Proceeds from the sales and maturity of the Company's investment in fixed-maturity securities were $6.0 million for the year ended December 31, 2016. This along with maturing time deposits and the utilization of funds from a money market account of $9.1 million yielded total cash proceeds from the sale of investments of $18.9 million in the period of January 1, 2016 to December 31, 2016. These proceeds were used to purchase additional fixed-maturity securities. The gains and losses realized on those sales for the period from January 1, 2016 to December 31, 2016 were insignificant. Additionally, there was a sale of the short-duration fixed income fund which resulted in cash proceeds of $1.7 million, as the fund was liquidated in the third quarter of 2016. Gains on this sale were also 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, 2017, investments with a fair value of approximately $4.1 million were on deposit with state insurance departments to satisfy regulatory requirements.

Note 6 Fixed Assets

Fixed assets at December 31 consisted of the following:

(in thousands)	2017	2016
Furniture, fixtures and equipment	$ 190,784	$ 177,823
Leasehold improvements	35,481	33,137
Land, buildings and improvements	7,643	3,375
Total cost	233,908	214,335
Less accumulated depreciation and amortization	(156,822)	(138,528)
Total	**$ 77,086**	**$ 75,807**

Depreciation and amortization expense for fixed assets amounted to $22.7 million in 2017, $21.0 million in 2016 and $20.9 million in 2015.

Note 7 Accrued Expenses and Other Liabilities

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

(in thousands)	2017	2016
Accrued incentive compensation	$ 106,923	$ 82,438
Accrued compensation and benefits	40,540	45,771
Accrued rent and vendor expenses	30,616	28,669
Deferred revenue	21,921	17,377
Reserve for policy cancellations	11,048	9,567
Accrued interest	6,749	6,441
Other	10,951	11,726
Total	**$ 228,748**	**$ 201,989**

Note 8 Long-Term Debt

Long-term debt at December 31, 2017 and 2016 consisted of the following:

(in thousands)	December 31, 2017	December 31, 2016
Current portion of long-term debt:		
Current portion of 5-year term loan facility expires 2019	$ 20,000	$ 55,000
4.500% senior notes, Series E, quarterly interest payments, balloon due 2018	100,000	—
Short-term promissory note	—	500
Total current portion of long-term debt	120,000	55,500
Long-term debt:		
Note agreements:		
4.500% senior notes, Series E, quarterly interest payments, balloon due 2018	—	100,000
4.200% senior notes, semi-annual interest payments, balloon due 2024	498,943	498,785
Total notes	498,943	598,785
Credit agreements:		
5-year term loan facility, periodic interest and principal payments, LIBOR plus up to 1.750%, expires June 28, 2022	365,000	426,250
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	—	—
Total credit agreements	365,000	426,250
Debt issuance costs (contra)	(7,802)	(6,663)
Total long-term debt less unamortized discount and debt issuance costs	856,141	1,018,372
Current portion of long-term debt	120,000	55,500
Total debt	**$ 976,141**	**$1,073,872**

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 are 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. As of December 31, 2017, there was an outstanding debt balance issued under the provisions of the Master Agreement of $100.0 million.

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, 2017, 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, 2017, there was an outstanding debt balance issued under the term loan of the Amended and Restated Credit Agreement of $385.0 million with no borrowings outstanding against the Facility. Per the terms of the Amended and Restated Credit Agreement, a scheduled principal payment of $5.0 million is due March 31, 2018.

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, 2017 and 2016, there was an outstanding debt balance of $500.0 million exclusive of the associated discount balance.

In conjunction with the acquisition of Social Security Advocates for the Disabled LLC ("SSAD") effective February 1, 2016, the Company agreed to a $0.5 million promissory note incurred as a payment to the sellers and payable after the one-year anniversary of the acquisition. The note had a nominal rate of interest, 0.81%. On March 10, 2017, the promissory note was settled, plus any outstanding accrued interest, using cash.

The Master Agreement and the Amended and Restated 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, 2017 and 2016.

The 30-day Adjusted LIBOR Rate as of December 31, 2017 was 1.625%.

Interest paid in 2017, 2016 and 2015 was $36.2 million, $37.7 million, and $37.5 million, respectively.

At December 31, 2017, maturities of long-term debt were $120.0 million in 2018, $30.0 million in 2019, $40.0 million in 2020, $40.0 million in 2021, $255.0 million in 2022 and $500.0 million in 2024.

Note 9 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 broad and complex 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 that is payable over eight years. 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.

We have 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. We are continuing to gather additional information related to estimates surrounding the re-measurement of our deferred tax liabilities and the transition tax on unrepatriated earnings.

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

(in thousands)	2017	2016	2015
Current:			
Federal	$ 129,954	$ 126,145	$ 118,490
State	21,392	21,110	17,625
Foreign	929	590	430
Total current provision	152,275	147,845	136,545
Deferred:			
Federal	18,999	15,551	18,416
State	2,984	2,612	4,280
Foreign	—	—	—
Tax Reform Act deferred tax revaluation	(124,166)	—	—
Total deferred provision	(102,183)	18,163	22,696
Total tax provision	**$ 50,092**	**$ 166,008**	**$ 159,241**

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:

	2017	2016	2015
Federal statutory tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	3.8	3.9	3.9
Non-deductible employee stock purchase plan expense	0.3	0.3	0.3
Non-deductible meals and entertainment	0.3	0.3	0.3
Tax Reform Act deferred tax revaluation and transition tax impact	(26.9)	—	—
Other, net	(1.4)	(0.3)	0.1
Effective tax rate	**11.1 %**	**39.2 %**	**39.6 %**

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 Brown & Brown's net deferred tax liabilities as of December 31 are as follows:

(in thousands)	2017	2016
Non-current deferred tax liabilities:		
Intangible assets	$ 306,351	$ 422,478
Fixed assets	2,723	6,425
Net unrealized holding (loss)/gain on available-for-sale securities	(6)	(12)
Total non-current deferred tax liabilities	309,068	428,891
Non-current deferred tax assets:		
Deferred compensation	36,701	44,912
Accruals and reserves	7,534	14,032
Deferred profit-sharing contingent commissions	7,107	10,567
Net operating loss carryforwards	2,434	2,394
Valuation allowance for deferred tax assets	(893)	(700)
Total non-current deferred tax assets	52,883	71,205
Net non-current deferred tax liability	**$ 256,185**	**$ 357,686**

Income taxes paid in 2017, 2016 and 2015 were $152.0 million, $143.1 million and $132.9 million, respectively.

At December 31, 2017, Brown & Brown had net operating loss carryforwards of $0.1 million and $52.2 million for federal and state income tax reporting purposes, respectively, portions of which expire in the years 2018 through 2037. The federal carryforward is derived from insurance operations acquired by Brown & Brown 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)	2017	2016	2015
Unrecognized tax benefits balance at January 1	$ 750	$ 584	$ 113
Gross increases for tax positions of prior years	1,070	412	773
Gross decreases for tax positions of prior years	—	(41)	—
Settlements	(126)	(205)	(302)
Unrecognized tax benefits balance at December 31	**$ 1,694**	**$ 750**	**$ 584**

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2017, 2016 and 2015 the Company had $228,608, $86,191 and $102,171 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 $1.7 million as of December 31, 2017, $750,258 as of December 31, 2016 and $583,977 as of December 31, 2015. 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 differs from the method used for book purposes, it will result in a current deferred tax asset as of December 31 each year which will reverse by the following March 31 when the related profit-sharing contingent commissions are recognized for financial accounting purposes.

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 2013 through 2016 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 2011 through 2017. In the United Kingdom, the Company's filings remain open for audit for the fiscal years 2016 and 2017.

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. The Company and one of its subsidiaries, The Advocator Group, LLC, is currently under examination by the State of Massachusetts for the fiscal year 2013 through 2014. There are no other federal or state income tax audits as of December 31, 2017.

As a result of the Tax Reform Act, the Company has recorded a transition tax of $3.2 million. As of December 31, 2017, the Company has estimated $20.9 million of cash and cash equivalent balances related to accumulated earnings associated with our international operations. We are continuing to gather additional information related to estimates surrounding the transition tax on unrepatriated earnings. In general, it is our practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations.

Note 10 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, Brown & Brown 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 contributions to the plan totaled $19.6 million in 2017, $19.3 million in 2016 and $17.8 million in 2015.

Note 11 Stock-Based Compensation

Performance Stock Plan

In 1996, Brown & Brown adopted and the shareholders approved a performance stock plan, under which until the suspension of the plan in 2010, up to 14,400,000 Performance Stock Plan ("PSP") shares could be granted to key employees contingent on the employees' future years of service with Brown & Brown 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 EPS. 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, 2017, 5,156,954 shares had been granted under the PSP. As of December 31, 2017, 847,238 shares had met the first condition of vesting and had been awarded, and 4,309,716 shares had satisfied both conditions of vesting and had been distributed to participants. Of the shares that have not vested as of December 31, 2017, the initial stock prices ranged from $15.58 to $25.68.

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, 2017, 2016 and 2015 is as follows:

	Weighted-Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2015	$ 8.71	1,928,631	1,903,213	25,418
Granted	$ —	—	—	—
Awarded	$ —	—	—	—
Vested	$ 5.55	(208,889)	(208,889)	—
Forfeited	$ 9.78	(117,528)	(100,110)	(17,418)
Outstanding at December 31, 2015	$ 9.03	1,602,214	1,594,214	8,000
Granted	$ —	—	—	—
Awarded	$ —	—	4,000	(4,000)
Vested	$ 6.39	(506,422)	(506,422)	—
Forfeited	$ 10.52	(92,517)	(88,517)	(4,000)
Outstanding at December 31, 2016	$ 10.23	1,003,275	1,003,275	—
Granted	$ —	—	—	—
Awarded	$ —	—	—	—
Vested	$ 9.61	(138,801)	(138,801)	—
Forfeited	$ 10.47	(17,236)	(17,236)	—
Outstanding at December 31, 2017	**$ 10.32**	**847,238**	**847,238**	**—**

The total fair value of PSP grants that vested during each of the years ended December 31, 2017, 2016 and 2015 was $6.3 million, $18.1 million and $6.8 million, respectively.

Stock Incentive Plan

On April 28, 2010, the shareholders of Brown & Brown, 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, 6,046,768 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 an amendment to the SIP to increase the shares available for issuance by an additional 1,200,000 and 1,300,000, respectively.

The Company has granted stock grants 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 four 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 growth and operating profit growth of a profit center, EBITDA growth, organic 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 15,700 shares were issued in January 2015, 16,860 shares were issued in January 2016 and 11,350 shares were issued in January 2017.

The following table sets forth information as of December 31, 2017, 2016 and 2015, 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
2017	120,667	575,789 (1)	163,404
2016	182,653	789,446 (2)	1,435,319
2015	164,646	316,520	—

(1) Of the 575,789 shares of performance-based restricted stock granted in 2017, the payout for 320,826 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 789,446 shares of performance-based restricted stock granted in 2016, the payout for 353,132 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, 2017, 4,197,920 shares were available for future grants. This amount is calculated assuming the maximum payout for all restricted stock grants.

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 EPS.

A summary of SIP activity for the years ended December 31, 2017, 2016 and 2015 is as follows:

	Weighted-Average Grant Date Fair Value	Granted Shares	Awarded Shares	Shares Not Yet Awarded
Outstanding at January 1, 2015	$ 28.19	6,659,047	1,060,890	5,598,157
Granted	$ 31.74	481,166	164,646	316,520
Awarded	$ —	—	—	—
Vested	$ —	—	—	—
Forfeited	$ 26.32	(863,241)	(95,542)	(767,699)
Outstanding at December 31, 2015	$ 28.74	6,276,972	1,129,994	5,146,978
Granted	$ 35.52	972,099	182,653	789,446 (1)
Awarded	$ 24.93	—	1,431,319	(1,431,319)
Vested	$ 27.31	(166,884)	(166,884)	—
Forfeited	$ 25.34	(954,131)	(175,788)	(778,343)
Outstanding at December 31, 2016	$ 29.96	6,128,056	2,401,294	3,726,762
Granted	$ 41.65	696,456	120,667	575,789 (2)
Awarded	$ 31.44	—	163,404	(163,404)
Vested	$ 25.22	(242,457)	(242,457)	—
Forfeited	$ 29.77	(171,060)	(38,106)	(132,954)
Outstanding at December 31, 2017	**$ 31.16**	**6,410,995**	**2,404,802**	**4,006,193**

(1) Of the 789,446 shares of performance-based restricted stock granted in 2016, the payout for 353,132 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 575,789 shares of performance-based restricted stock granted in 2016, the payout for 320,826 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%.

Employee Stock Purchase Plan

The Company has a shareholder-approved Employee Stock Purchase Plan ("ESPP") with a total of 17,000,000 authorized shares of which 4,151,251 were available for future subscriptions as of December 31, 2017. 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 2017 was $8.64. The fair values of an ESPP share option as of the Subscription Periods beginning in August 2016 and 2015 were $7.61 and $6.43, respectively.

For the ESPP plan years ended July 31, 2017, 2016 and 2015, the Company issued 529,012, 514,665 and 539,389 shares of common stock, respectively. These shares were issued at an aggregate purchase price of $16.4 million, or $31.03 per share, in 2017, $15.0 million, or $29.23 per share, in 2016, and $14.4 million, or $26.62 per share, in 2015.

For the five months ended December 31, 2017, 2016 and 2015 (portions of the 2017-2018, 2016-2017 and 2015-2016 plan years), 217,514, 247,023 and 231,803 shares of common stock (from authorized but unissued shares), respectively, were subscribed to by ESPP participants for proceeds of approximately $8.2 million, $7.7 million and $6.8 million, respectively.

Incentive Stock Option Plan

On April 21, 2000, Brown & Brown adopted, and the shareholders approved, a qualified incentive stock option plan (the "ISOP") that provides for the granting of stock options to certain key employees for up to 4,800,000 shares of common stock. On December 31, 2008, the ISOP expired. The objective of the ISOP was to provide additional performance incentives to grow Brown & Brown's pre-tax income in excess of 15% annually. The options were granted at the most recent trading day's closing market price and vest over a period of 1-to-10 years , with a potential acceleration of the vesting period to 3-to-6 years based upon achievement of certain performance goals. All of the options expire 10 years after the grant date.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options on the grant date. The risk-free interest rate is based upon the U.S. Treasury yield curve on the date of grant with a remaining term approximating the expected term of the option granted. The expected term of the options granted is derived from historical data; grantees are divided into two groups based upon expected exercise behavior and are considered separately for valuation purposes. The expected volatility is based upon the historical volatility of the Company's common stock over the period of time equivalent to the expected term of the options granted. The dividend yield is based upon the Company's best estimate of future dividend yield.

A summary of stock option activity for the years ended December 31, 2017, 2016 and 2015 is as follows:

Stock Options	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term *(in years)*	Aggregate Intrinsic Value *(in thousands)*
Outstanding at January 1, 2015	470,356	$ 18.57	3.1	$ 5,087
Granted	—	$ —		
Exercised	(151,767)	$ 18.48		
Forfeited	(49,000)	$ 19.36		
Expired	—	$ —		
Outstanding at December 31, 2015	269,589	$ 18.48	2.2	$ 2,395
Granted	—	$ —		
Exercised	(64,589)	$ 18.48		
Forfeited	(30,000)	$ 18.48		
Expired	—	$ —		
Outstanding at December 31, 2016	175,000	$ 18.48	1.2	$ 4,616
Granted	—	$ —		
Exercised	(175,000)	$ 18.48		
Forfeited	—	$ —		
Expired	—	$ —		
Outstanding at December 31, 2017	**—**	**$ —**	**N/A**	**$ —**
Ending vested and expected to vest at December 31, 2017	—	$ —	N/A	$ —
Exercisable at December 31, 2017	—	$ —	N/A	$ —
Exercisable at December 31, 2016	175,000	$ 18.48	1.2	$ 4,616
Exercisable at December 31, 2015	**164,589**	**$ 18.48**	**2.2**	**$ 2,241**

The total intrinsic value of options exercised, determined as of the date of exercise, during the years ended December 31, 2017, 2016 and 2015 was $4.7 million, $1.0 million and $2.2 million, respectively. The total intrinsic value is calculated as the difference between the exercise price of all underlying awards and the quoted market price of the Company's stock for all in-the-money stock options at December 31, 2017, 2016 and 2015, respectively.

There are no option shares available for future grant under the ISOP since this plan expired as of December 31, 2008.

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)	2017	2016	2015
Stock Incentive Plan	$ 24,899	$ 11,049	$ 11,111
Employee Stock Purchase Plan	4,025	3,698	3,430
Performance Stock Plan	1,707	1,305	972
Incentive Stock Option Plan	—	—	—
Total	**$ 30,631**	**$ 16,052**	**$ 15,513**

Summary of Unamortized Compensation Expense

As of December 31, 2017, there was approximately $87.9 million of unamortized compensation expense related to all non-vested stock-based compensation arrangements granted under the Company's stock-based compensation plans. That expense is expected to be recognized over a weighted-average period of 3.62 years.

Note 12 Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

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. While these referenced funds are not restricted, they do represent premium payments from customers to be paid to insurance carriers and this change in classification should not be viewed as a source of operating cash.

	For the Year Ended December 31,		
(in thousands)	2017	2016	2015
Cash paid during the period for:			
Interest	$ 36,172	$ 37,652	$ 37,542
Income taxes	$ 152,024	$ 143,111	$ 132,874

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

	For the Year Ended December 31,		
(in thousands)	2017	2016	2015
Other payables issued for purchased customer accounts	$ 11,708	$ 10,664	$ 10,029
Estimated acquisition earn-out payables and related charges	$ 6,921	$ 4,463	$ 36,899
Notes payable issued or assumed for purchased customer accounts	$ —	$ 492	$ —
Notes received on the sale of fixed assets and customer accounts	$ —	$ 22	$ 7,755

The following is a reconciliation of cash and cash equivalents inclusive of restricted cash as of December 31, 2017, 2016 and 2015.

	Balance as of December 31,		
(in thousands)	2017	2016	2015
Table to reconcile cash and cash equivalents inclusive of restricted cash			
Cash and cash equivalents	$ 573,383	$ 515,646	443,420
Restricted cash	250,705	265,637	229,753
Total cash and cash equivalents inclusive of restricted cash at the end of the period	**$ 824,088**	**$ 781,283**	**673,173**

Note 13 Commitments and Contingencies

Operating Leases

Brown & Brown 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. Brown & Brown anticipates that most of these leases will be renewed or replaced upon expiration. At December 31, 2017, the aggregate future minimum lease payments under all non-cancelable lease agreements were as follows:

(in thousands)	
2018	$ 42,970
2019	39,005
2020	34,236
2021	27,715
2022	21,996
Thereafter	44,496
Total minimum future lease payments	**$ 210,418**

Rental expense in 2017, 2016 and 2015 for operating leases totaled $51.0 million, $49.3 million and $46.0 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, 2017 and 2016. 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 14 Quarterly Operating Results (Unaudited)

Quarterly operating results for 2017 and 2016 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
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	$ 0.50	$ 0.47	$ 0.54	$ 1.35
Diluted	$ 0.49	$ 0.46	$ 0.53	$ 1.32 (1)
2016				
Total revenues	$ 424,173	$ 446,518	$ 462,274	$ 433,664
Total expenses	$ 321,624	$ 337,441	$ 345,302	$ 338,763
Income before income taxes	$ 102,549	$ 109,077	$ 116,972	$ 94,901
Net income	$ 62,070	$ 66,250	$ 71,545	$ 57,626
Net income per share:				
Basic	$ 0.45	$ 0.47	$ 0.51	$ 0.41
Diluted	$ 0.44	$ 0.47	$ 0.50	$ 0.41

(1) Includes $0.85 impact associated with recording impact of Tax Reform Act.

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

Note 15 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 a 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, and Retail operations in Bermuda and the Cayman Islands. These operations earned $15.9 million, $14.5 million and $13.4 million of total revenues for the years ended December 31, 2017, 2016 and 2015, respectively. Long-lived assets held outside of the United States during each of these three years were not material. Additionally, we have licenses to operate as a broker in various Canadian provinces.

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.

For the 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

For the 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

For the year ended December 31, 2015

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	**$ 870,346**	**$ 428,734**	**$ 216,996**	**$ 145,365**	**$ (932)**	**$1,660,509**
Investment income	$ 87	$ 210	$ 150	$ 42	$ 515	$ 1,004
Amortization	$ 45,145	$ 28,479	$ 9,739	$ 4,019	$ 39	$ 87,421
Depreciation	$ 6,558	$ 7,250	$ 2,142	$ 1,988	$ 2,952	$ 20,890
Interest expense	$ 41,036	$ 55,705	$ 891	$ 5,970	$ (64,354)	$ 39,248
Income before income taxes	$ 181,938	$ 67,673	$ 64,708	$ 19,713	$ 68,527	$ 402,559
Total assets (1)	**$ 3,507,476**	**$ 2,503,537**	**$ 895,782**	**$ 285,459**	**$(2,212,410)**	**$4,979,844**
Capital expenditures	$ 6,797	$ 6,001	$ 3,084	$ 1,088	$ 1,405	$ 18,375

(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").

Notes
to Consolidated Financial Statements

Note 16 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:

	2017		2016	
(in thousands)	Written	Earned	Written	Earned
Direct premiums	$ 604,623	$ 592,267	$ 591,142	$ 592,123
Assumed premiums	—	—	—	—
Ceded premiums	604,610	592,254	591,124	592,105
Net premiums	**$ 13**	**$ 13**	**$ 18**	**$ 18**

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, 2017 through December 31, 2017. As of December 31, 2017 and 2016, the Company ceded $602.9 million and $589.5 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 excess flood premiums, excluding fees, to Arch Reinsurance Company and receives a 30.5% commission. WNFIC ceded $1.7 million and $1.6 million for the years ended December 31, 2017 and 2016. As of December 31, 2017, WNFIC had $1.1 million in paid excess flood losses, $16,606 in loss adjustment expenses, case reserves of $838,307 and incurred but not reported of $1.5 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, 2017, 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, 2017, the Consolidated Balance Sheet contained Reinsurance recoverable of $477.8 million and Prepaid reinsurance premiums of $321.0 million. As of December 31, 2016, the Consolidated Balance Sheet contained reinsurance recoverable of $78.1 million and prepaid reinsurance premiums of $308.7 million. There was $1.1 million net activity in the reserve for losses and loss adjustment expense for the year ended December 31, 2017, and no net activity in the reserve for losses and loss adjustment expense for the year ended December 31, 2016, 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 $477.8 million as of December 31, 2017 and $78.1 million as of December 31, 2016.

Note 17 Statutory Financial Information

WNFIC maintains capital in excess of the minimum statutory amount of $7.5 million as required by regulatory authorities. The statutory capital and surplus of WNFIC was $28.7 million as of December 31, 2017 and $23.5 million as of December 31, 2016. As of December 31, 2017 and 2016, WNFIC generated statutory net income of $4.8 million and $8.2 million, respectively.

Note 18 Subsidiary Dividend Restrictions

Under the insurance regulations of Texas, where WNFIC is 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 2017 and the maximum dividend payout that may be made in 2018 without prior approval is $4.8 million.

Note 19 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.

Between May 18, 2017 and July 14, 2017, the Company made share repurchases in the open market in total of 348,460 shares at a total cost of $14.9 million.

On August 14, 2017, the Company entered into an accelerated share repurchase agreement ("ASR") with an investment bank to purchase an aggregate $50.0 million of the Company's common stock. As part of the ASR, the Company received an initial delivery of 967,888 shares of the Company's common stock with a fair market value of approximately $42.5 million. Upon maturity of the program, the Company received 108,288 shares, relieving the remaining balance of $7.5 million at settlement on October 16, 2017 for a total delivery of 1,076,176 shares of the Company's common stock.

On November 14, 2017, the Company entered into an ASR with an investment bank to purchase an aggregate $75.0 million of the Company's common stock. As part of the ASR, the Company received an initial delivery of 1,290,486 shares of the Company's common stock with a fair market value of approximately $63.8 million. Upon maturity of the program, the Company received 168,227 shares, relieving the remaining balance of $11.2 million at settlement on February 9, 2018 for a total delivery of 1,458,713 shares of the Company's common stock.

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. At December 31, 2017, the remaining amount authorized by our Board of Directors for share repurchases was $238.7 million. Under the authorized repurchase programs, the Company has repurchased a total of approximately 10.7 million shares for an aggregate cost of approximately $386.3 million between 2014 and 2017.

Note 20 Subsequent Event

On February 26, 2018, the Company's Board of Directors authorized a 2-for-1 stock split of the Company's common stock. The stock split will be effectuated by distributing one additional share to each shareholder of record on March 14, 2018 for every share of common stock then owned.

The Company expects the additional shares issued in connection with the split to be distributed on March 28, 2018. As a result of the stock split, the number of outstanding shares of common stock will increase from approximately 138 million to approximately 276 million.

GAAP Reconciliation

Income Before Income Taxes to EBITDAC(1) and Income Before Income Taxes Margin(2) to EBITDAC Margin(3)

(in thousands, except per share data)	2017	2016	2015	2014	2013	2012
Retail						
Total revenues	**$ 943,460**	**$ 917,406**	**$ 870,346**	**$ 823,686**	**$ 737,349**	**$ 652,064**
Income before income taxes	196,616	188,001	181,938	157,491	161,787	141,918
Amortization	42,164	43,447	45,145	42,935	38,523	35,117
Depreciation	5,210	6,191	6,558	6,449	5,874	5,209
Interest	31,133	38,216	41,036	43,502	34,658	27,021
Change in estimated acquisition earn-out payables	8,087	10,253	2,006	7,458	(1,427)	1,988
EBITDAC	$ 283,210	$ 286,108	$ 276,683	$ 257,835	$ 239,415	$ 211,253
National Programs						
Total revenues	**$ 479,813**	**$ 448,516**	**$ 428,734**	**$ 404,239**	**$ 301,372**	**$ 260,368**
Income before income taxes	109,961	91,762	67,673	73,178	61,223	53,986
Amortization	27,277	27,920	28,479	25,129	14,953	14,296
Depreciation	6,325	7,868	7,250	7,805	5,492	4,671
Interest	35,561	45,738	55,705	49,663	24,014	25,697
Change in estimated acquisition earn-out payables	786	207	158	315	(808)	(1,075)
EBITDAC	$ 179,910	$ 173,495	$ 159,265	$ 156,090	$ 104,874	$ 97,575
Wholesale Brokerage						
Total revenues	**$ 271,737**	**$ 243,103**	**$ 216,996**	**$ 211,911**	**$ 193,710**	**$ 168,239**
Income before income taxes	68,844	62,623	64,708	8,276	47,501	37,834
Amortization	11,456	10,801	9,739	10,703	10,719	10,441
Depreciation	1,885	1,975	2,142	2,470	2,674	2,619
Interest	6,263	3,976	891	1,294	2,316	3,594
Change in estimated acquisition earn-out payables	327	(274)	830	2,550	1,986	110
EBITDAC	$ 88,775	$ 79,101	$ 78,310	$ 25,293	$ 65,196	$ 54,598
Services						
Total revenues	**$ 165,372**	**$ 156,365**	**$ 145,365**	**$ 136,558**	**$ 131,489**	**$ 117,486**
Income before income taxes	30,498	24,338	19,713	17,870	25,791	17,233
Amortization	4,548	4,485	4,019	4,135	3,698	3,680
Depreciation	1,600	1,881	1,988	2,213	1,623	1,278
Interest	3,522	4,950	5,970	7,678	7,322	8,602
Change in estimated acquisition earn-out payables	—	(1,001)	9	(385)	2,782	395
EBITDAC	$ 40,168	$ 34,653	$ 31,699	$ 31,511	$ 41,216	$ 31,188

(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.

GAAP Reconciliation

Income Before Income Taxes to EBITDAC[1] and Income Before Income Taxes Margin[2] to EBITDAC Margin[3]

(in thousands, except per share data)	2017	2016	2015	2014	2013	2012
Corporate						
Total revenues	**$ 20,965**	**$ 1,239**	**$ (932)**	**$ (598)**	**$ (641)**	**$ 1,875**
Income before income taxes	43,803	56,775	68,527	82,934	61,307	53,840
Amortization	1	10	39	39	39	39
Depreciation	7,678	3,088	2,952	1,958	1,822	1,596
Interest	(38,163)	(53,399)	(64,354)	(73,729)	(51,870)	(48,817)
Change in estimated acquisition earn-out payables	—	—	—	—	—	—
EBITDAC	$ 13,319	$ 6,474	$ 7,164	$ 11,202	$ 11,298	$ 6,658
Total						
Total revenues	**$1,881,347**	**$1,766,629**	**$1,660,509**	**$1,575,796**	**$1,363,279**	**$1,200,032**
Income before income taxes	449,722	423,499	402,559	339,749	357,609	304,811
Income before income taxes margin	23.9%	24.0%	24.2%	21.6%	26.2%	25.4%
Amortization	85,446	86,663	87,421	82,941	67,932	63,573
Depreciation	22,698	21,003	20,890	20,895	17,485	15,373
Interest	38,316	39,481	39,248	28,408	16,440	16,097
Change in estimated acquisition earn-out payables	9,200	9,185	3,003	9,938	2,533	1,418
EBITDAC	$ 605,382	$ 579,831	$ 553,121	$ 481,931	$ 461,999	$ 401,272
EBITDAC Margin	32.2%	32.8%	33.3%	30.6%	33.9%	33.4%

(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, 2017 and 2016, the related consolidated statements of income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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, 2017, 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 28, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

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 28, 2018

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, 2017, 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, 2017, 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, 2017, of the Company and our report dated February 28, 2018, expressed an unqualified opinion on those financial statements.

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 28, 2018

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").

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, 2017. Management's internal control over financial reporting as of December 31, 2017 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 28, 2018

J. Powell Brown
Chief Executive Officer

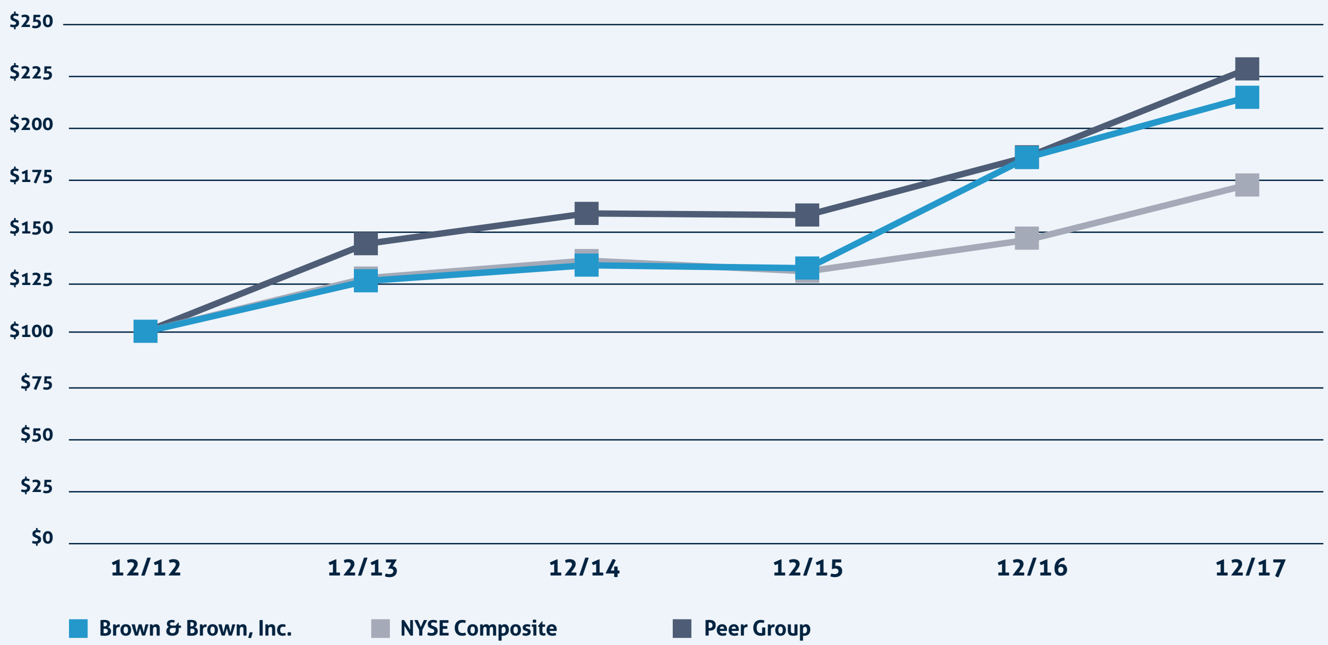
R. Andrew Watts
Executive Vice President, Chief Financial Officer
and Treasurer

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, 2012 for the purposes of arriving at a peer group average. The total return calculations are based upon an assumed $100 investment on December 31, 2012, with all dividends reinvested.

	12/12	12/13	12/14	12/15	12/16	12/17
Brown & Brown, Inc.	100.00	124.74	132.41	130.98	185.09	214.61
NYSE Composite	100.00	126.06	134.62	129.40	144.72	171.65
Peer Group	100.00	142.91	157.73	156.96	185.44	228.52

Comparison of 5 Year Cumulative Total Return*
Among Brown & Brown, Inc., the NYSE Composite Index, and a Peer Group



**$100 invested on 12/31/12 in stock or index, including reinvesting 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 2017, filed with the Securities and Exchange Commission, certificates of the Chief Executive 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 2017 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 2, 2018
9:00 a.m. (EDT)
The Shores Resort
2637 South 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
333 SE 2nd Avenue
Suite 3600
Miami, Florida 33131

Stock Listing
The New York Stock Exchange Symbol: BRO

On February 23, 2018, there were 137,800,585 shares of our common stock outstanding, held by approximately 1,245 shareholders of record.

Market Price of Common Stock

	Stock Price Range		Cash Dividends per Common Share
2017	High	Low	
First Quarter	$ 45.77	$ 41.68	$ 0.14
Second Quarter	$ 44.57	$ 41.10	$ 0.14
Third Quarter	$ 48.97	$ 42.30	$ 0.14
Fourth Quarter	$ 52.42	$ 48.07	$ 0.15
2016			
First Quarter	$ 35.91	$ 28.41	$ 0.12
Second Quarter	$ 37.49	$ 34.23	$ 0.12
Third Quarter	$ 38.11	$ 35.81	$ 0.12
Fourth Quarter	$ 45.62	$ 36.05	$ 0.14

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.

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Ten-Year Statistical Summary

(in thousands, except per share data and other information)	2017	2016	2015
Revenues			
Commissions and fees	$ 1,857,270	$ 1,762,787	$ 1,656,951
Investment income	1,626	1,456	1,004
Other income, net	22,451	2,386	2,554
Total revenues	**1,881,347**	**1,766,629**	**1,660,509**
Expenses			
Employee compensation and benefits	994,652	925,217	856,952
Other operating expenses	283,470	262,872	251,055
(Gain)/Loss on disposal	(2,157)	(1,291)	(619)
Amortization	85,446	86,663	87,421
Depreciation	22,698	21,003	20,890
Interest	38,316	39,481	39,248
Change in estimated acquisition earn-out payables	9,200	9,185	3,003
Total expenses	**1,431,625**	**1,343,130**	**1,257,950**
Income before income taxes	449,722	423,499	402,559
Income taxes	50,092	166,008	159,241
Net income	**$ 399,630**	**$ 257,491**	**$ 243,318**
Compensation and benefits as % of total revenue	52.9%	52.4%	51.6%
Operating expenses as % of total revenue	15.1%	14.9%	15.1%
Earnings per Share Information			
Net income per share—diluted	$ 2.81	$ 1.82	$ 1.70
Weighted average number of shares outstanding—diluted	138,793	137,804	140,112
Dividends paid per share	$ 0.56	$ 0.50	$ 0.45
Year-End Financial Position			
Total assets	$ 5,747,550	$ 5,262,734	$ 4,979,844
Long-term debt	$ 856,141	$ 1,018,372	$ 1,071,618
Shareholders' equity	$ 2,582,699	$ 2,360,211	$ 2,149,776
Total shares outstanding	138,105	140,104	138,985
Other Information			
Number of full-time equivalent employees at year-end	8,491	8,297	7,807
Total revenues per average number of employees (2)	$ 224,137	$ 219,403	$ 215,686
Stock price at year-end	$ 51.46	$ 44.86	$ 32.10
Stock price earnings multiple at year-end (4)	18.3	24.6	18.9
Return on beginning shareholders' equity (5)	17%	12%	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,

2014	2013	2012	2011	2010	2009	2008
$ 1,567,460	$ 1,355,503	$ 1,189,081	$ 1,005,962	$ 966,917	$ 964,863	$ 965,983
747	638	797	1,267	1,326	1,161	6,079
7,589	7,138	10,154	6,313	5,249	1,853	5,492
1,575,796	**1,363,279**	**1,200,032**	**1,013,542**	**973,492**	**967,877**	**977,554**
811,112	705,603	624,371	519,869	494,665	492,038	493,097
235,328	195,677	174,389	144,079	135,851	143,389	137,352
47,425	—	—	—	—	—	—
82,941	67,932	63,573	54,755	51,442	49,857	46,631
20,895	17,485	15,373	12,392	12,639	13,240	13,286
28,408	16,440	16,097	14,132	14,471	14,599	14,690
9,938	2,533	1,418	(2,206)	(1,674)	—	—
1,236,047	**1,005,670**	**895,221**	**743,021**	**707,394**	**713,123**	**705,056**
339,749	357,609	304,811	270,521	266,098	254,754	272,498
132,853	140,497	120,766	106,526	104,346	101,460	106,374
$ 206,896	**$ 217,112**	**$ 184,045**	**$ 163,995**	**$ 161,752**	**$ 153,294**	**$ 166,124**
51.5%	51.8%	52.0%	51.3%	50.8%	50.8%	50.4%
14.9%	14.4%	14.5%	14.2%	14.0%	14.8%	14.1%
$ 1.41	$ 1.48	$ 1.26	$ 1.13	$ 1.12	$ 1.08	$ 1.18
142,891	142,624	142,010	140,264	139,318	137,507	136,884
$ 0.41	$ 0.37	$ 0.35	$ 0.33	$ 0.31	$ 0.30	$ 0.29
$ 4,931,027	$ 3,620,232	$ 3,103,650	$ 2,587,148	$ 2,380,738	$ 2,212,435	$ 2,105,409
$ 1,142,948[1]	$ 379,171	$ 449,136	$ 250,033	$ 250,067	$ 250,209	$ 253,616
$ 2,113,745	$ 2,007,141	$ 1,807,333	$ 1,643,963	$ 1,506,344	$ 1,369,874	$ 1,241,741
143,486	145,419	143,878	143,352	142,795	142,076	141,544
7,591	6,992	6,438	5,557	5,286	5,206	5,398
$ 216,114	$ 203,020	$ 191,729[3]	$ 186,949	$ 185,568	$ 182,549	$ 187,181
$ 32.91	$ 31.39	$ 25.46	$ 22.63	$ 23.94	$ 17.97	$ 20.90
23.3	21.1	20.2	20.0	21.4	16.6	17.9
10%	12%	11%	11%	12%	12%	15%

(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.