BROWN & BROWN INC
Form 10-Q
August 04, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-13619

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

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

Registrant's telephone number, including area code: (386) 252-9601

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares of the Registrant's common stock, $0.10 par value, outstanding as of August 1, 2017 was 139,920,874.

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, "we," "Brown & Brown" or the "Company"), makes "forward-looking statements" within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "estim "plan" and "continue" or similar words. We have based these statements on our current expectations about potential future events. Although we believe the expectations expressed in the forward-looking statements included in this Quarterly Report on Form 10-Q and the reports, statements, information and announcements incorporated by reference into this report are based upon reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include but are not limited to the following items, in addition to those matters described in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations":

- Future prospects;
- Material adverse changes in economic conditions in the markets we serve and in the general economy;
- Premium rates set by insurance companies and insurable exposure units, which have traditionally varied and are difficult to predict;
- Future regulatory actions and conditions in the states in which we conduct our business;
- The occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in California, Florida, Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Oregon, Pennsylvania, Texas, Virginia and Washington, because a significant portion of business written by us is for customers located in these states;
- Our ability to attract, retain and enhance qualified personnel;
- Competition from others in or entering into the insurance agency, wholesale brokerage, insurance programs and related service business;
- The integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration;
- Risks that could negatively affect our acquisition strategy, including continuing consolidation among insurance intermediaries and the increasing presence of private equity investors driving up valuations;
- Our ability to forecast liquidity needs through at least the end of 2017;
- Our ability to renew or replace expiring leases;
- Outcomes of existing or future legal proceedings and governmental investigations;
- Policy cancellations and renewal terms, which can be unpredictable;
- Potential changes to the tax rate that would affect the value of deferred tax assets and liabilities and the impact on income available for investment or distributable to shareholders;
- The inherent uncertainty in making estimates, judgments, and assumptions in the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP");
- Our ability to effectively utilize technology to provide improved value for our customers or carrier partners as well as applying effective internal controls and efficiencies in operations; and
- Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission ("SEC") filings.

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

realized, that those results or developments will result in the expected consequences for us or affect us, our business or our operations in the way we expect. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We assume no obligation to update any of the forward-looking statements.

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

(in thousands, except per share data)	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
REVENUES				
Commissions and fees	$464,724	$445,662	$909,290	$867,997
Investment income	351	502	594	920
Other income, net	1,230	354	21,501	1,774
Total revenues	466,305	446,518	931,385	870,691
EXPENSES				
Employee compensation and benefits	244,517	231,102	490,383	455,161
Other operating expenses	71,312	66,291	138,231	129,896
Loss/(gain) on disposal	9	(810)	(91)	(2,854)
Amortization	21,347	21,610	42,967	43,220
Depreciation	5,655	5,354	11,753	10,672
Interest	9,874	9,837	19,556	19,734
Change in estimated acquisition earn-out payables	5,589	4,057	9,617	3,236
Total expenses	358,303	337,441	712,416	659,065
Income before income taxes	108,002	109,077	218,969	211,626
Income taxes	41,900	42,827	82,757	83,306
Net income	$66,102	$66,250	$136,212	$128,320
Net income per share:				
Basic	$0.47	$0.47	$0.97	$0.92
Diluted	$0.46	$0.47	$0.96	$0.91
Dividends declared per share	$0.14	$0.12	$0.27	$0.25

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(in thousands, except per share data)	June 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$600,296	$515,646
Restricted cash and investments	276,634	265,637
Short-term investments	30,164	15,048
Premiums, commissions and fees receivable	499,670	502,482
Reinsurance recoverable	22,479	78,083
Prepaid reinsurance premiums	297,736	308,661
Other current assets	51,953	50,571
Total current assets	1,778,932	1,736,128
Fixed assets, net	72,747	75,807
Goodwill	2,692,104	2,675,402
Amortizable intangible assets, net	671,874	707,454
Investments	10,876	23,048
Other assets	52,476	44,895
Total assets	$5,279,009	$5,262,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$706,923	$647,564
Losses and loss adjustment reserve	22,479	78,083
Unearned premiums	297,736	308,661
Premium deposits and credits due customers	92,217	83,765
Accounts payable	103,211	69,595
Accrued expenses and other liabilities	176,971	201,989
Current portion of long-term debt	20,000	55,500
Total current liabilities	1,419,537	1,445,157
Long-term debt less unamortized discount and debt issuance costs	965,391	1,018,372
Deferred income taxes, net	373,089	357,686
Other liabilities	62,759	81,308
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued 148,264 shares and outstanding 139,999 shares at 2017, issued 148,107 shares and outstanding 140,104 shares at 2016	14,826	14,811
Additional paid-in capital	479,193	468,443
Treasury stock, at cost at 8,265 shares at 2017 and 8,003 shares at 2016, respectively	(268,842)	(257,683)
Retained earnings	2,233,056	2,134,640
Total shareholders' equity	2,458,233	2,360,211
Total liabilities and shareholders' equity	$5,279,009	$5,262,734

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(in thousands)	For the six months ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 136,212	$ 128,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	42,967	43,220
Depreciation	11,753	10,672
Non-cash stock-based compensation	15,326	6,674
Change in estimated acquisition earn-out payables	9,617	3,236
Deferred income taxes	14,793	15,907
Amortization of debt discount	79	79
Amortization and disposal of deferred financing costs	943	807
Accretion of discounts and premiums, investment	13	47
Income tax benefit from exercise of shares from the stock benefit plans	—	(6,816)
Net loss/(gain) on sales of investments, fixed assets and customer accounts	136	(2,700)
Payments on acquisition earn-outs in excess of original estimated payables	(7,109)	(3,550)
Changes in operating assets and liabilities, net of effect from acquisitions and divestitures:		
Premiums, commissions and fees receivable decrease (increase)	2,918	(34,099)
Reinsurance recoverables decrease	55,604	(28,844)

(increase)				
Prepaid reinsurance premiums decrease	10,925		10,736	
Other assets (increase)	(9,326	)	(11,272	)
Premiums payable to insurance companies decrease	59,219		90,068	
Premium deposits and credits due customers increase	8,500		12,049	
Losses and loss adjustment reserve (decrease) increase	(55,604	)	28,844	
Unearned premiums (decrease)	(10,925	)	(10,736	)
Accounts payable increase	38,510		34,156	
Accrued expenses and other liabilities (decrease)	(26,021	)	(29,765	)
Other liabilities (decrease)	(28,449	)	(18,346	)
Net cash provided by operating activities	270,081		238,687	
Cash flows from investing activities:				
Additions to fixed assets	(8,848	)	(8,944	)
Payments for businesses acquired, net of cash acquired	(11,526	)	(107,290	)
Proceeds from sales of fixed assets and customer accounts	669		3,291	
Purchases of investments	(5,916	)	(16,405	)
Proceeds from sales of investments	2,911		9,379	
Net cash used in investing activities	(22,710	)	(119,969	)
Cash flows from financing activities:				
Payments on acquisition earn-outs	(8,668	)	(7,012	)
Payments on long-term debt	(86,750	)	(20,625	)
Deferred debt issuance costs	(2,753	)	—	
Income tax benefit from exercise of shares from the stock benefit plans	—		6,816	

Issuances of common stock for employee stock benefit plans	500			916		
Repurchase shares to fund tax withholdings for non-cash stock-based compensation	(5,054	)		(6,273	)	
Purchase of treasury stock	(11,159	)		(11,250	)	
Settlement of accelerated share repurchase program	—			11,250		
Cash dividends paid	(37,840	)		(34,128	)	
Net cash used in financing activities	(151,724	)		(60,306	)	
Net increase in cash and cash equivalents inclusive of restricted cash	95,647			58,412		
Cash and cash equivalents inclusive of restricted cash at beginning of period	781,283			673,173		
Cash and cash equivalents inclusive of restricted cash at end of period	$	876,930		$	731,585	

See accompanying Notes to Condensed Consolidated Financial Statements. Refer to Note 8 for reconciliation of cash and cash equivalents inclusive of restricted cash.

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BROWN & BROWN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1· Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries (collectively, "Brown & Brown" or the "Company") is a diversified insurance agency, wholesale brokerage, insurance programs and services organization that markets and sells to its customers, insurance products and services, primarily in the property, 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.

NOTE 2· Basis of Financial Reporting

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes thereto set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities, at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

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 ended March 31, 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 six months ended June 30, 2016 were previously reported as $190.8 million. With the retrospective adoption, the net cash provided by operating activities for the six months ended June 30, 2016 is now reported as $238.7 million. The Company reflects cash collected from customers that is payable to insurance companies as restricted cash if segregation of this cash is required by the state of domicile for the office conducting this transaction or if required by contract with the relevant insurance company providing coverage. Cash collected from customers that is payable to insurance companies is reported in cash and cash equivalents if no such restriction is required.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)": Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) ("ASU 2016-15"), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts

and cash payments are presented and classified and applies to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. ASU 2016-15 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 has evaluated the impact of ASU 2016-15 and has determined 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

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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 as a component of equity on the Balance Sheet. Also 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 ASU 2016-08 is currently being evaluated along with ASU 2014-09. At this point in our evaluation the potential impact would primarily be limited to the claims administering activities within our Services Segment and therefore 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 is $204.2 million as of June 30, 2017.

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.

In May 2014, FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets, and supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. Specifically, in situations where multiple performance obligations exist within the 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 revenue is in the form of commissions paid by insurance carriers. These commissions are earned upon the effective date of bound coverage, and no significant performance obligation remains after coverage is bound. Approximately 20% of the commissions and fees revenue is in the form of fees, which the Company has evaluated and determined that only a small portion will be affected. The remaining revenue streams are currently being evaluated, and this evaluation will be concluded in the third quarter. Fees are predominantly in our National Programs and Services Segments, and to a lesser extent in the large accounts business within our Retail Segment. At the conclusion of this evaluation, it may be determined that fee revenue from certain

agreements will be recognized in earlier periods under the new guidance in comparison to our current accounting policies and others will be recognized in later periods. Based upon the work completed to date, management does not expect the overall impact to be material on a full-year basis, but may impact the timing of recognition between quarters. Additionally, management is evaluating the requirement per Accounting Standard Codification 340-40 ("ASC 340-40") to defer customer acquisition and contract fulfillment costs, and recognize these costs as the associated performance obligations are fulfilled. This evaluation includes evaluating the costs that would qualify for deferral as well as the timing of recognition of these costs in future periods. All customer acquisition and contract fulfillment costs are expensed as incurred today.

ASU 2014-09 is effective for the Company beginning January 1, 2018, after FASB voted to delay the effective date by one year. At that time, the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach.

We do not anticipate a material change in our internal control framework necessitated by the adoption of ASU 2014-09.

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NOTE 3· Net Income Per Share

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

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands, except per share data)	2017	2016	2017	2016
Net income	$66,102	$66,250	$136,212	$128,320
Net income attributable to unvested awarded performance stock	(1,642)	(1,896)	(3,329)	(3,337)
Net income attributable to common shares	$64,460	$64,354	$132,883	$124,983
Weighted average number of common shares outstanding – basic	140,173	139,998	140,143	139,395
Less unvested awarded performance stock included in weighted average number of common shares outstanding – basic	(3,481)	(4,006)	(3,425)	(3,625)
Weighted average number of common shares outstanding for basic earnings per common share	136,692	135,992	136,718	135,770
Dilutive effect of stock options	2,409	1,589	2,346	1,490
Weighted average number of shares outstanding – diluted	139,101	137,581	139,064	137,260
Net income per share:				
Basic	$0.47	$0.47	$0.97	$0.92
Diluted	$0.46	$0.47	$0.96	$0.91

NOTE 4· Business Combinations

During the six months ended June 30, 2017, Brown & Brown acquired the assets and assumed certain liabilities of three insurance intermediaries. 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. The recorded purchase price for all acquisitions included an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the Condensed Consolidated Statement of Income when incurred.

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

Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company’s Condensed Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period, as defined in ASC 805. For the six months ended June 30, 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 $1.4 million relating to the assumption of certain liabilities. These measurement period adjustments have been reflected as current period adjustments in the six months ended June 30, 2017 in accordance with the guidance in ASU 2015-16 “Business Combinations”. The measurement period adjustments primarily impacted goodwill, with no effect on earnings or cash in the current period.

Cash paid for acquisitions was $11.5 million and $109.4 million in the six-month periods ended June 30, 2017 and 2016, respectively. We completed three acquisitions (excluding book of business purchases) in the six-month period

ended June 30, 2017. We completed five acquisitions (excluding book of business purchases) in the six-month period ended June 30, 2016.

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

(in thousands)

Name	Business Segment	Effective Date of Acquisition	Cash Paid	Other Payable	Recorded Earn-Out Payable	Net Assets Acquired	Maximum Potential Earn-Out Payable
Other	Various	Various	11,526	11,069	282	22,877	3,305
Total			$11,526	$11,069	$ 282	$ 22,877	$ 3,305

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

(in thousands)	Other	Total
Other current assets	93	93
Fixed assets	35	35
Goodwill	16,702	16,702
Purchased customer accounts	7,279	7,279
Non-compete agreements	552	552
Total assets acquired	24,661	24,661
Other current liabilities	(1,095)	(1,095)
Deferred income tax, net	(689)	(689)
Total liabilities assumed	(1,784)	(1,784)
Net assets acquired	$22,877	$22,877

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 $16.7 million, which is net of any opening balance sheet adjustments within the allowable measurement period, was allocated to the Retail, National Programs, Wholesale Brokerage and Service Segments in the amounts of $7.9 million, $7.3 million, $0.8 million and $0.7 million, respectively. Of the total goodwill of $16.7 million, the amount currently deductible for income tax purposes is $16.4 million and the remaining $0.3 million relates to the recorded earn-out payables and will not be deductible until it is earned and paid.

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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 June 30, 2017, included in the Condensed Consolidated Statement of Income for the three and six months ended June 30, 2017, were $0.5 million and $0.5 million, respectively. The income before income taxes, including the intercompany cost of capital charge, from the acquisitions completed through June 30, 2017, included in the Condensed Consolidated Statement of Income for the three and six months ended June 30, 2017, were $0.1 million and $0.1 million, respectively. If the acquisitions had occurred as of the beginning of the respective periods, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	For the three months ended June 30,		For the six months ended June 30,	
(in thousands, except per share data)	2017	2016	2017	2016
Total revenues	$467,369	$448,362	$934,477	$874,344
Income before income taxes	$108,412	$109,736	$220,119	$212,932
Net income	$66,353	$66,650	$136,916	$129,113
Net income per share:				
Basic	$0.47	$0.48	$0.98	$0.93
Diluted	$0.47	$0.47	$0.96	$0.92
Weighted average number of shares outstanding:				
Basic	136,692	135,992	136,718	135,770
Diluted	139,101	137,581	139,064	137,260

As of June 30, 2017 and 2016, the fair values of the estimated acquisition earn-out payables were re-evaluated and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820-Fair Value Measurement. The resulting additions, payments, and net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the three and six months ended June 30, 2017 and 2016, were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2017	2016	2017	2016
Balance as of the beginning of the period	$57,408	$69,095	$63,821	$78,387
Additions to estimated acquisition earn-out payables	493	1,787	282	2,393
Payments for estimated acquisition earn-out payables	(5,547)	(1,485)	(15,777)	(10,562)
Subtotal	52,354	69,397	48,326	70,218
Net change in earnings from estimated acquisition earn-out payables:				
Change in fair value on estimated acquisition earn-out payables	4,851	3,385	8,186	1,822
Interest expense accretion	738	672	1,431	1,414
Net change in earnings from estimated acquisition earn-out payables	5,589	4,057	9,617	3,236
Balance as of June 30,	$57,943	$73,454	$57,943	$73,454

Of the $57.9 million estimated acquisition earn-out payables as of June 30, 2017, $44.0 million was recorded as accounts payable and $13.9 million was recorded as other non-current liabilities. As of June 30, 2017, the maximum future acquisition contingency payments related to all acquisitions was $100.2 million inclusive of the $57.9 million estimated acquisition earn-out payables as of June 30, 2017. Included within the additions to estimated acquisition earn-out payables are any adjustments to opening balance sheet items within the allowable measurement period, which may therefore differ from previously reported amounts.

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NOTE 5· Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. The Company completed its most recent annual assessment as of November 30, 2016, and identified no impairment as a result of the evaluation.

The changes in the carrying value of goodwill by reportable segment for the six months ended June 30, 2017 are as follows:

(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Total
Balance as of January 1, 2017	$1,354,667	$901,294	$284,869	$134,572	$2,675,402
Goodwill of acquired businesses	7,929	7,314	770	689	16,702
Balance as of June 30, 2017	$1,362,596	$908,608	$285,639	$135,261	$2,692,104

NOTE 6· Amortizable Intangible Assets

Amortizable intangible assets at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017				December 31, 2016			
(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (Years)[1]	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (Years)[1]
Purchased customer accounts	$1,454,377	$(784,097)	$670,280	15.0	$1,447,680	$(741,770)	$705,910	15.0
Non-compete agreements	30,220	(28,626)	1,594	6.8	29,668	(28,124)	1,544	6.8
Total	$1,484,597	$(812,723)	$671,874		$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, 2017, 2018, 2019, 2020 and 2021 is estimated to be $85.2 million, $80.2 million, $75.7 million, $68.3 million, and $65.1 million, respectively.

NOTE 7· Long-Term Debt

Long-term debt at June 30, 2017 and December 31, 2016 consisted of the following:

(in thousands)	June 30, 2017	December 31, 2016
Current portion of long-term debt:		
Current portion of 5-year term loan facility expires June 28, 2022	$20,000	$55,000
Short-term promissory note	—	500
Total current portion of long-term debt	20,000	55,500
Long-term debt:		
Note agreements:		
4.500% senior notes, Series E, quarterly interest payments, balloon due 2018	100,000	100,000
4.200% senior notes, semi-annual interest payments, net of the unamortized discount, balloon due 2024	498,865	498,785
Total notes	598,865	598,785
Credit agreements:		
5-year term-loan facility, periodic interest and principal payments, LIBOR plus up to 1.750%, expires June 28, 2022	375,000	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	375,000	426,250
Debt issuance costs (contra)	(8,474)	(6,663)
Total long-term debt less unamortized discount and debt issuance costs	965,391	1,018,372
Current portion of long-term debt	20,000	55,500

Total debt	$985,391	$1,073,872

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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 Senior 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 Senior Notes were redeemed at maturity using cash proceeds to pay off the principal of $25.0 million plus any remaining accrued interest. As of June 30, 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 Insurance Group, LLC ("Wright") acquisition, with the $550.0 million term loan being funded as well as a drawdown of $375.0 million on the revolving loan facility. Use of these proceeds was to retire existing term loan debt and to facilitate the closing of the Wright acquisition as well as other acquisitions. The Credit Facility terminates on May 20, 2019, but either or both of the revolving Credit Facility and the term loans may be extended for two additional one-year periods at the Company's request and at the discretion of the respective lenders. Interest and facility fees in respect to the Credit Facility are based on the better of the Company's net debt leverage ratio or a non-credit enhanced senior unsecured long-term debt rating. Based on the Company's net debt leverage ratio, the rates of interest charged on the term loan are 1.000% 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 on 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 on the amounts of outstanding secured or unsecured letters of credit. The Credit Facility includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers.

On June 28, 2017, the Company entered into an amended and restated credit agreement (the "Amended and Restated Credit Agreement") with the lender 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 term loan principal amortization schedule was reset with payments due quarterly. 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 $2.7 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 the modified agreement, while also carrying forward $1.6 million on the Consolidated Balance Sheet the unamortized portion of the Original Credit Agreement debt issuance costs which will amortize over the term of the Amended and Restated Credit Agreement. On June 30, 2017, a scheduled principal payment of $5.0 million was satisfied per the terms of the Amended and Restated Credit Agreement. As of June 30, 2017, there was an outstanding debt balance issued under the terms of the Amended and Restated Credit Agreement of $395.0 million with no borrowings outstanding against the revolving loan. Per the terms of the Amended and Restated Credit Agreement, a scheduled principal payment of $5.0 million is due

September 30, 2017.

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 June 30, 2017 and December 31, 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 (SSAD) effective February 1, 2016, the company added 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 0.810%. 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 June 30, 2017 and December 31, 2016.

The 30-day Adjusted LIBOR Rate as of June 30, 2017 was 1.250%.

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

	For the six months ended June 30,	
(in thousands)	2017	2016
Cash paid during the period for:		
Interest	$18,556	$18,770
Income taxes	$77,343	$71,466

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

	For the six months ended June 30,	
(in thousands)	2017	2016
Other payable issued for purchased customer accounts	$11,069	$10,500
Estimated acquisition earn-out payables and related charges	$282	$2,393
Notes payable issued or assumed for purchased customer accounts	$—	$492

The following is a reconciliation of cash and cash equivalents inclusive of restricted cash as of June 30, 2017 and 2016.

	Balance as of June 30,	
(in thousands)	2017	2016
Table to reconcile cash and cash equivalents inclusive of restricted cash		
Cash and cash equivalents	$600,296	$453,939
Restricted cash	276,634	277,646
Total cash and cash equivalents inclusive of restricted cash at the end of the period	$876,930	$731,585

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

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

NOTE 9· Legal and Regulatory Proceedings

The Company is involved in numerous pending or threatened proceedings by or against Brown & Brown, Inc. or one or more of its subsidiaries that arise in the ordinary course of business. The damages that may be claimed against the Company in these various proceedings are in some cases substantial, including in certain instances claims for punitive or extraordinary damages. Some of these claims and lawsuits have been resolved, others are in the process of being resolved and others are still in the investigation or discovery phase. The Company will continue to respond appropriately to these claims and lawsuits and to vigorously protect its interests.

During the first quarter of 2017, the Company was successful in settling a lawsuit it had brought against certain former employees of Brown & Brown, their employer, AssuredPartners, Inc. and certain key executives of AssuredPartners. The settlement included a payment of $20,000,000 by AssuredPartners to Brown & Brown in exchange for releasing certain individuals from restrictive covenants in the employment contracts they had signed with the Company and provides protection for current Brown & Brown teammates from continued solicitation for employment by AssuredPartners.

The proceeds of the settlement were received in March 2017 and were recorded in the Other income line in the Statement of Income.

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

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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 on 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 10· Segment Information

Brown & Brown's business is divided into four reportable segments:(1) the Retail Segment, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers; (2) the National Programs Segment, which 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 $4.2 million and $3.7 million of total revenues for the three months ended June 30, 2017 and 2016, respectively. These operations earned $7.2 million and $6.5 million of total revenues for the six months ended June 30, 2017 and 2016, respectively. Long-lived assets held outside of the United States as of June 30, 2017 and 2016 were not material.

The accounting policies of the reportable segments are the same as those described in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2016. 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, corporate-related items, including the inter-company interest expense charge to the reporting segment, and the elimination of inter-segment activities.

	For the three months ended June 30, 2017					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$238,969	$113,675	$71,991	$41,580	$90	$466,305
Investment income	$1	$81	$—	$72	$197	$351
Amortization	$10,517	$6,847	$2,845	$1,137	$1	$21,347
Depreciation	$1,324	$1,604	$477	$390	$1,860	$5,655
Interest expense	$8,126	$8,918	$1,613	$946	$(9,729)	$9,874
Income before income taxes	$47,978	$23,397	$20,085	$8,449	$8,093	$108,002
Total assets	$4,090,094	$2,723,177	$1,204,184	$396,165	$(3,134,611)	$5,279,009
Capital expenditures	$1,404	$1,448	$1,014	$342	$1,608	$5,816

	For the three months ended June 30, 2016					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$234,560	$108,820	$61,287	$41,752	$99	$446,518
Investment income	$7	$239	$1	$83	$172	$502

Amortization	$10,893	$6,982	$2,591	$1,140	$4	$21,610
Depreciation	$1,616	$2,007	$488	$472	$771	$5,354
Interest expense	$9,986	$11,461	$685	$1,327	$(13,622)	$9,837
Income before income taxes	$49,150	$22,245	$16,287	$6,906	$14,489	$109,077
Total assets	$3,593,733	$2,556,293	$1,018,689	$327,957	$(2,289,795)	$5,206,877
Capital expenditures	$2,172	$1,314	$322	$276	$608	$4,692

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	For the six months ended June 30, 2017					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$478,256	$214,858	$137,238	$80,906	$20,127	$931,385
Investment income	$3	$155	$—	$152	$284	$594
Amortization	$21,164	$13,751	$5,776	$2,275	$1	$42,967
Depreciation	$2,713	$3,563	$967	$789	$3,721	$11,753
Interest expense	$16,702	$18,953	$3,288	$1,907	$(21,294)	$19,556
Income before income taxes	$96,833	$35,924	$35,350	$14,570	$36,292	$218,969
Total assets	$4,090,094	$2,723,177	$1,204,184	$396,165	$(3,134,611)	$5,279,009
Capital expenditures	$2,540	$2,528	$1,392	$492	$1,896	$8,848

	For the six months ended June 30, 2016					
(in thousands)	Retail	National Programs	Wholesale Brokerage	Services	Other	Total
Total revenues	$466,748	$209,890	$114,701	$78,320	$1,032	$870,691
Investment income	$28	$487	$4	$147	$254	$920
Amortization	$21,882	$14,090	$5,033	$2,205	$10	$43,220
Depreciation	$3,253	$3,936	$984	$959	$1,540	$10,672
Interest expense	$20,389	$24,051	$932	$2,563	$(28,201)	$19,734
Income before income taxes	$99,602	$36,048	$30,849	$11,958	$33,169	$211,626
Total assets	$3,593,733	$2,556,293	$1,018,689	$327,957	$(2,289,795)	$5,206,877
Capital expenditures	$3,221	$3,246	$914	$481	$1,082	$8,944

NOTE 11· Investments

At June 30, 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	$30,063	$ 3	$ (98)	$ 29,968
Corporate debt	1,832	16	—	1,848
Total	$31,895	$ 19	$ (98)	$ 31,816

At June 30, 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 $1.8 million issued by corporations with investment grade ratings. Of that total, $21.0 million is classified as short-term investments on the Consolidated Balance Sheet as maturities are less than one-year. Additionally, the Company holds $9.2 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 June 30, 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	$26,886	$ (98)	$ —	$ —	$26,886	$ (98)
Corporate debt	475	—	—	—	475	—
Total	$27,361	$ (98)	$ —	$ —	$27,361	$ (98)

The unrealized losses were caused by interest rate increases. At June 30, 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 on the ability and intent of the

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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 June 30, 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

At December 31, 2016, the Company held $26.2 million in fixed income securities composed of U.S. Treasury securities, securities issued by U.S. Government agencies and municipalities, and $2.4 million issued by corporations with investment grade ratings. Of that total, $5.6 million is classified as short-term investments on the Consolidated Balance Sheet as maturities are less than one-year. Additionally, the Company holds $9.5 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, 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 from corporate issuers were caused by interest rate increases. At December 31, 2016, the Company had 20 securities in an unrealized loss position. The corporate securities are highly rated securities with no indicators of potential impairment. Based on the ability and intent of the Company to hold these investments until recovery of fair value, which may be maturity, the bonds were not considered to be other-than-temporarily impaired at December 31, 2016.

The amortized cost and estimated fair value of the fixed maturity securities at June 30, 2017 by contractual maturity are set forth below:

(in thousands)	Amortized Cost	Fair Value
Years to maturity:		
Due in one year or less	$ 20,993	$ 20,940
Due after one year through five years	10,572	10,533
Due after five years	330	343
Total	$ 31,895	$ 31,816

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	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 $0.5 million. This along with maturing time deposits yielded total cash proceeds from the sale of investments of $2.9 million in the period of January 1, 2017 to June 30, 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 June 30, 2017 were insignificant.

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

At June 30, 2017, investments with a fair value of approximately $4.0 million were on deposit with state insurance departments to satisfy regulatory requirements.

NOTE 12· Reinsurance

Although the reinsurers are liable to the Company for amounts reinsured, our subsidiary, Wright National Flood Insurance Company ("Wright Flood") 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 are as follows:

	Period from January 1, 2017 to June 30, 2017	
(in thousands)	Written	Earned
Direct premiums	$277,930	$288,856
Ceded premiums	(277,925)	(288,851)
Net premiums	$5	$5

All premiums written by Wright Flood under the National Flood Insurance Program are 100% ceded to the Federal Emergency Management Agency, or FEMA, for which Wright Flood received a 30.9% expense allowance from January 1, 2017 through June 30, 2017. For the period from January 1, 2017 through June 30, 2017, the Company ceded $277.2 million of written premiums.

Effective April 1, 2014, Wright Flood 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. Wright Flood ceded $0.7 million for the period from January 1, 2017 through June 30, 2017. No loss data exists on this agreement.

Wright Flood 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 June 30, 2017, no ceded unpaid losses and loss adjustment expenses or incurred but not reported expenses for Homeowners, Private Passenger Auto Liability and Other Liability Occurrence existed.

As of June 30, 2017 the Condensed Consolidated Balance Sheet contained reinsurance recoverable of $22.5 million and prepaid reinsurance premiums of $297.7 million. There was no net activity in the reserve for losses and loss adjustment expense during the period January 1, 2017 through June 30, 2017, as Wright Flood's direct premiums written were 100% ceded to two reinsurers. The balance of the reserve for losses and loss adjustment expense, excluding related reinsurance recoverable, as of June 30, 2017 was $22.5 million.

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NOTE 13· Statutory Financial Data

Wright Flood maintains capital in excess of the minimum statutory amount of $7.5 million as required by regulatory authorities. The unaudited statutory capital and surplus of Wright Flood was $25.3 million at June 30, 2017 and $23.5 million as of December 31, 2016. For the period from January 1, 2017 through June 30, 2017, Wright Flood generated statutory net income of $1.6 million. For the period from January 1, 2016 through December 31, 2016, Wright Flood generated statutory net income of $8.2 million.

NOTE 14· Subsidiary Dividend Restrictions

Under the insurance regulations of Texas, where Wright Flood is incorporated, the maximum amount of ordinary dividends that Wright Flood 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 Wright Flood'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 2016 and the maximum dividend payout that may be made in 2017 without prior approval is $8.2 million.

NOTE 15· Shareholders' Equity

Between May 18, 2017 and June 30, 2017, the Company made share repurchases in the open market in total of 216,615 shares at a total cost of $11.2 million. After completing these share repurchases, the Company's outstanding Board approved share repurchase authorization is $356.1 million.

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.

ITEM 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion updates the MD&A contained in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2016, and the two discussions should be read together.

GENERAL

Company Overview — Second Quarter of 2017

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and the related Notes to those Financial Statements included elsewhere in this Quarterly Report on Form 10-Q. In addition, please see "Information Regarding Non-GAAP Financial 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.

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.

"Commissions and fees" is included in our Condensed Consolidated Statements of Income. The term "Organic Revenue", a non-GAAP financial measure, is our "core commissions and fees" (which are our commissions and fees less

profit-sharing contingent commissions and less guaranteed supplemental commissions, and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered) 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). “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

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paid to us by our carrier partners; and (iv) the net change in fees paid to us by our customers. We believe that Organic Revenue provides a meaningful representation of the Company's operating performance. The Company has historically viewed Organic Revenue growth as an important indicator when assessing and evaluating the performance of its four segments. Organic revenue is reported in the Results of Operations and in the Results of Operations - Segment sections of this Form 10-Q.

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 3.6% of the previous year's commissions and fees revenue. Profit-sharing contingent commissions are included in our commissions and fees in the Consolidated Statement of Income in the year received. For the three-month period ended June 30, 2017, profit-sharing contingent commissions were up $4.5 million as compared to the same period of the prior year.

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 on actual premiums written. For the twelve-month period ending December 31, 2016, we had earned $11.5 million of GSCs, of which $9.2 million remained accrued at December 31, 2016, the balance of which is typically collected over the first and second quarter. For the three-month periods ended June 30, 2017 and 2016, we earned and accrued $3.0 million and $2.8 million, respectively, from GSCs.

Combined, our profit-sharing contingent commissions and GSCs for the three months ended June 30, 2017 increased by $4.6 million compared to the second quarter of 2016, primarily in our National Programs Segment.

Fee revenues primarily relate to services other than securing coverage for our customers and are recognized as services are rendered, as well as fees negotiated in lieu of commissions. Fee revenues have historically been generated primarily by: (1) our Services Segment, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare Set-aside services, Social Security disability and Medicare benefits advocacy services, and claims adjusting services; (2) our National Programs and Wholesale Brokerage Segments, which earn fees primarily for the issuance of insurance policies on behalf of insurance companies; and to a lesser extent (3) our Retail Segment in our large-account customer base. Fee revenues, on a consolidated basis, as a percentage of our total commissions and fees, represented 31.3% in 2016, 30.6% in 2015 and 30.6% in 2014.

For the three-month period ended June 30, 2017, our total commissions and fees growth rate was 4.3% and our consolidated organic revenue growth rate was 1.6%. In the event that the gradual increases in insurable exposure units that occurred in the past few years continues through 2017 and premium rate changes are similar with 2016, we believe we will continue to see positive quarterly organic revenue growth rates in 2017.

Historically, investment income has consisted primarily of interest earnings on operating cash and where permitted, on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. Investment income also includes gains and losses realized from the sale of investments. Other income primarily reflects legal settlements and other miscellaneous income and for the three months ended June 30, 2017 increased by $0.8 million as compared to the same period of the prior year.

Income before income taxes for the three-month period ended June 30, 2017 decreased from the second quarter of 2016 by $1.1 million, primarily as a result of the change in estimated acquisition earn-out payables partially offset by acquisitions completed in the past twelve months and profits from existing customers and net new business.

Information Regarding Non-GAAP Measures

In the discussion and analysis of our results of operations, in addition to reporting financial results in accordance with generally accepted accounting principles ("GAAP"), we provide references to the following non-GAAP financial measures as defined in Regulation G of SEC rules: organic revenue and organic revenue growth. We view these non-GAAP financial measures as important indicators when assessing and evaluating our performance on a

consolidated basis and for each of our segments because they allow us to determine a 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. We believe that organic revenue provides a meaningful representation of our operating performance and view organic revenue growth as an important indicator when assessing and evaluating the performance of our four segments. We also use organic revenue growth for incentive compensation determinations for executive officers and other key employees.

These measures are not in accordance with, or an alternative to the GAAP information provided in this Quarterly Report on Form 10-Q. We present such non-GAAP supplemental financial information because we believe such information is of interest to the investment community and because we believe they provide additional meaningful methods of evaluating certain aspects of the Company's operating performance from period to period on a basis that may not be otherwise apparent on a GAAP basis. We believe these non-GAAP financial measures improve the comparability of results between periods by eliminating the impact of certain items that have a high degree of variability. Our industry peers may provide similar supplemental non-GAAP information with respect to one or more of these measures, although they may

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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 Condensed Consolidated Financial Statements. Tabular reconciliations of this supplemental non-GAAP financial information to our most comparable GAAP information are contained in this Quarterly Report on Form 10-Q under “Results of Operation - Segment Information.”

Acquisitions

Part of our continuing business strategy is to attract high-quality insurance intermediaries to join our operations. From 1993 through the second quarter of 2017, we acquired 482 insurance intermediary operations, excluding acquired books of business (customer accounts).

Critical Accounting Policies

We have had no changes to our Critical Accounting Policies. 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 in the “Notes to Consolidated Financial Statements” in our Annual Report on Form 10-K for the year ended December 31, 2016 on file with the Securities and Exchange Commission for details regarding our critical and significant accounting policies.

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RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

The following discussion and analysis regarding results of operations and liquidity and capital resources should be considered in conjunction with the accompanying Condensed Consolidated Financial Statements and related Notes. Financial information relating to our Condensed Consolidated Financial results for the three and six months ended June 30, 2017 and 2016 is as follows:

	For the three months ended June 30,			For the six months ended June 30,		
(in thousands, except percentages)	2017	2016	% Change	2017	2016	% Change
REVENUES						
Core commissions and fees	$449,891	$435,462	3.3 %	$861,767	$823,706	4.6 %
Profit-sharing contingent commissions	11,855	7,358	61.1 %	41,867	38,339	9.2 %
Guaranteed supplemental commissions	2,978	2,842	4.8 %	5,656	5,952	(5.0)%
Investment income	351	502	(30.1)%	594	920	(35.4)%
Other income, net	1,230	354	NMF	21,501	1,774	NMF
Total revenues	466,305	446,518	4.4 %	931,385	870,691	7.0 %
EXPENSES						
Employee compensation and benefits	244,517	231,102	5.8 %	490,383	455,161	7.7 %
Other operating expenses	71,312	66,291	7.6 %	138,231	129,896	6.4 %
Loss/(gain) on disposal	9	(810)	(101.1)%	(91)	(2,854)	(96.8)%
Amortization	21,347	21,610	(1.2)%	42,967	43,220	(0.6)%
Depreciation	5,655	5,354	5.6 %	11,753	10,672	10.1 %
Interest	9,874	9,837	0.4 %	19,556	19,734	(0.9)%
Change in estimated acquisition earn-out payables	5,589	4,057	37.8 %	9,617	3,236	197.2 %
Total expenses	358,303	337,441	6.2 %	712,416	659,065	8.1 %
Income before income taxes	108,002	109,077	(1.0)%	218,969	211,626	3.5 %
Income taxes	41,900	42,827	(2.2)%	82,757	83,306	(0.7)%
NET INCOME	$66,102	$66,250	(0.2)%	$136,212	$128,320	6.2 %
Organic revenue growth rate [1]	1.6 %	2.6 %		2.5 %	2.0 %	
Employee compensation and benefits relative to total revenues	52.4 %	51.8 %		52.7 %	52.3 %	
Other operating expenses relative to total revenues	15.3 %	14.8 %		14.8 %	14.9 %	
Capital expenditures	$5,816	$4,692		$8,848	$8,944	
Total assets at June 30				$5,279,009	$5,206,877	

(1) A non-GAAP financial measure

NMF = Not a meaningful figure

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions and GSCs, for the three months ended June 30, 2017 increased $19.1 million to $464.7 million, or 4.3% over the same period in 2016. Core commissions and fees revenue for the second quarter of 2017 increased $14.4 million, of which approximately $8.0 million represented core commissions and fees from agencies acquired since 2016 that had no comparable revenues in the same period of 2016. After accounting for divested business of $0.4 million, the remaining net increase of $6.8 million represented net new and renewal business, which reflects an organic revenue growth rate of 1.6%. Profit-sharing contingent commissions and GSCs for the second quarter of 2017 increased by $4.6 million, or 45.4%, compared to the same period in 2016. The net increase of $4.6 million in the second quarter was mainly driven by an increase in profit-sharing contingent commissions in the National Program Segment as a result of growth in written premium, along with the receipt of

certain contingent commissions that we did not qualify for in 2016 due to previous loss experience realized by insurance carriers.

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For the six months ended June 30, 2017 commissions and fees, including profit-sharing contingent commissions and GSCs, increased $41.3 million to $909.3 million, or 4.8% over the same period in 2016. Core commissions and fees revenue for the six months ended June 30, 2017 increased $38.1 million, of which approximately $18.6 million represented core commissions and fees from acquisitions that had no comparable revenues in the same period of 2016. After accounting for divested business of $0.8 million, the remaining net increase of $20.3 million represented net new and renewal business, which reflects an organic revenue growth rate of 2.5%. Profit-sharing contingent commissions and GSCs for the six months ended June 30, 2017 increased by $3.2 million, or 7.3%, compared to the same period in 2016. The net increase of $3.2 million in the first six months of 2017 was mainly driven by an increase in profit-sharing contingent commissions in the National Programs Segment, partially offset by a slight decrease in the Retail Segment as a result of loss experience for insurance carriers.

Investment Income

Investment income for the three months ended June 30, 2017 decreased $0.2 million, or 30.1% over the same period in 2016. Investment income for the six months ended June 30, 2017 decreased $0.3 million, or 35.4%, over the same period in 2016. This decrease was related to a one-time receipt of interest on premium tax refunds received in 2016.

Other Income, net

Other income for the three months ended June 30, 2017 was $1.2 million, compared with $0.4 million in the same period in 2016. Other income consists primarily of legal settlements and other miscellaneous income. The $0.8 million increase for the three months ended June 30, 2017 from the comparable period in 2016 was primarily a result of benefits received for the cash surrender value of life insurance policies.

Other income for the six months ended June 30, 2017 was $21.5 million, compared with $1.8 million in the same period in 2016. The $19.7 million increase for the six months ended June 30, 2017 from the comparable period in 2016 was a result of a legal settlement recognized in the first quarter of 2017.

Employee Compensation and Benefits

Employee compensation and benefits expense as a percentage of total revenues increased to 52.4% for the three months ended June 30, 2017, from 51.8% for the three months ended June 30, 2016. Employee compensation and benefits for the second quarter of 2017 increased approximately 5.8%, or $13.4 million, over the same period in 2016. This net increase included (i) $3.9 million of compensation costs related to stand-alone acquisitions that had no comparable costs in the same period of 2016; (ii) an increase in staff salaries attributable to salary inflation and higher volumes in portions of our business; (iii) increased producer commissions due to higher revenue; and (iv) the additional cost associated with the Retail Segment's producer incentive bonus program introduced in 2017.

Employee compensation and benefits expense as a percentage of total revenues increased to 52.7% for the six months ended June 30, 2017, from 52.3% for the six months ended June 30, 2016. Employee compensation and benefits for the first half of 2017 increased, by approximately 7.7%, or $35.2 million, over the same period in 2016. This increase included (i) $9.4 million of compensation costs related to acquisitions that had no comparable costs in the same period of 2016; (ii) an increase in staff salaries attributable to salary inflation and higher volumes in portions of our business; (iii) increased producer commissions due to higher revenue; (iv) increased non-cash stock based compensation due to larger forfeiture credits recorded in the first quarter of 2016; and (v) the additional cost associated with the Retail segment producer incentive bonus program introduced in 2017.

Other Operating Expenses

As a percentage of total revenues, other operating expenses represented 15.3% in the second quarter of 2017, versus 14.8% reported in the second quarter of 2016. Other operating expenses for the second quarter of 2017 increased $5.0 million, or 7.6%, over the same period of 2016, of which $0.7 million was related to acquisitions that had no comparable costs in the same period of 2016. The remaining other operating expenses for both three-month periods ended June 30, 2017 and 2016, respectively, increased by $4.3 million, which was primarily attributable to (i) increased expenses associated with our investment in information technology and consulting; (ii) a credit of approximately $2.8 million associated with premium tax refunds recognized in the second quarter of 2016; and (iii) partially offset by the benefits from our strategic purchasing program.

Other operating expenses represented 14.8% of total revenues for the six months ended June 30, 2017, versus 14.9% for the six months ended June 30, 2016. Other operating expenses for the first half of 2017 increased $8.3 million, or

6.4%, over the same period of 2016, of which $3.0 million was related to acquisitions that had no comparable costs in the same period of 2016. The remaining other operating expenses for both of the six months ended June 30, 2017 and 2016, respectively, increased by $5.3 million, which was primarily attributable to (i) increased expenses associated with our investment in information technology; (ii) a credit of approximately $5.8 million associated with premium tax refunds recognized in the first half of 2016; and (iii) partially offset by the benefits from our strategic purchasing program.

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Gain on Disposal

Gain on disposal for the second quarter of 2017 decreased $0.8 million from the second quarter of 2016. Gain on disposal for the six months ended June 30, 2017 decreased $2.8 million from the six months ended June 30, 2016. The change in the gain on disposal for the three and six months ended June 30, 2017 was due to activity associated with book of business sales. Although we are not in the business of selling customer accounts or businesses, we periodically sell an office or a book of business (one or more customer accounts) because we believe doing so is in the Company’s best interest.

Amortization

Amortization expense for the second quarter of 2017 decreased $0.3 million, or 1.2%, over the second quarter of 2016. Amortization expense for the six months ended June 30, 2017 decreased $0.3 million, or 0.6%, over the six months ended June 30, 2016. These decreases reflect certain intangibles becoming fully amortized, partially offset with amortization of new intangibles from recently acquired businesses.

Depreciation

Depreciation expense for the second quarter of 2017 increased $0.3 million, or 5.6%, compared to the second quarter of 2016. Depreciation expense for the six months ended June 30, 2017 increased $1.1 million, or 10.1%, over the six months ended June 30, 2016. These changes were due primarily to the addition of fixed assets resulting from acquisitions completed since the first half of 2016, net of assets which became fully depreciated.

Interest Expense

Interest expense for the second quarter of 2017 remained flat compared to the second quarter of 2016. Interest expense for the six months ended June 30, 2017 decreased $0.2 million, or 0.9%, over the six months ended June 30, 2016. This decrease was due to a lower effective interest rate for our Credit Facility term loan and the scheduled amortized principal payments on the Credit Facility term loan, which has reduced the Company's average debt balance.

Change in Estimated Acquisition Earn-Out Payables

Accounting Standards Codification (“ASC”) Topic 805-Business Combinations is the authoritative guidance requiring an acquiring entity 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 Condensed 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 June 30, 2017 and 2016, the fair values of the estimated acquisition earn-out payables were re-evaluated based upon projected operating results and measured at fair value on a recurring basis using unobservable inputs (Level 3) as defined in ASC 820-Fair Value Measurement. The resulting net changes, as well as the interest expense accretion on the estimated acquisition earn-out payables, for the three and six month periods ended June 30, 2017 and 2016 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2017	2016	2017	2016
Change in fair value of estimated acquisition earn-out payables	$4,851	$3,385	$8,186	$1,822
Interest expense accretion	738	672	1,431	1,414
Net change in earnings from estimated acquisition earn-out payables	$5,589	$4,057	$9,617	$3,236

For the three months ended June 30, 2017 and 2016, the fair value of estimated earn-out payables was re-evaluated and increased by $4.9 million and $3.4 million, respectively, which resulted in charges to the Condensed Consolidated Statement of Income. For the six months ended June 30, 2017 and 2016, the fair value of estimated earn-out payables was re-evaluated and increased by $8.2 million and $1.8 million, respectively, which resulted in charges to the Condensed Consolidated Statement of Income.

As of June 30, 2017, the estimated acquisition earn-out payables equaled $57.9 million, of which $44.0 million was recorded as accounts payable and $13.9 million was recorded as other non-current liability.

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Income Taxes

The effective tax rate on income from operations for the three months ended June 30, 2017 and 2016 was 38.8% and 39.3%, respectively. The effective tax rate on income from operations for the six months ended June 30, 2017 and 2016 was 37.8% and 39.4% respectively. The decrease is related to the adoption in the first quarter of 2017, of FASB Accounting Standards Update 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, that 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.

RESULTS OF OPERATIONS — SEGMENT INFORMATION

As discussed in Note 10 to the Condensed Consolidated Financial Statements, we operate four reportable segments: Retail, National Programs, Wholesale Brokerage, and Services. On a segmented basis, changes in amortization, depreciation and interest expenses generally result from activity associated with acquisitions. Likewise, other income in each segment reflects net gains primarily from legal settlements and miscellaneous income. As such, in evaluating the operational efficiency of a segment, management focuses upon the organic revenue growth rate of core commissions and fees revenue, the ratio of total employee compensation and benefits to total revenues, and the ratio of other operating expenses to total revenues.

The reconciliation of commissions and fees, included in the Condensed Consolidated Statement of Income, to organic revenue for the three months ended June 30, 2017, and 2016, is as follows:

	For the three months ended June 30,	
(in thousands)	2017	2016
Commissions and fees	$464,724	$445,662
Less profit-sharing contingent commissions	11,855	7,358
Less guaranteed supplemental commissions	2,978	2,842
Core commissions and fees	449,891	435,462
Less acquisition revenues	7,989	—
Less divested business	—	384
Organic Revenue	$441,902	$435,078

The growth rates for organic revenue, a non-GAAP financial measure, for the three months ended June 30, 2017, by segment, are as follows:

2017	Retail[1]		National Programs		Wholesale Brokerage		Services		Total	
(in thousands, except percentages)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Commissions and Fees	$238,063	$234,247	$113,559	$108,542	$71,594	$61,203	$41,508	$41,670	$464,724	$445,66
Total Change	$3,816		$5,017		$10,391		$(162)		$19,062	
Total Growth %	1.6%		4.6%		17.0%		(0.4)%		4.3%	
Contingent Commissions	1,419	1,374	8,576	4,410	1,860	1,574	—	—	11,855	7,358
GSCs	2,677	2,345	—	4	301	493	—	—	2,978	2,842
Core Commissions and Fees	$233,967	$230,528	$104,983	$104,128	$69,433	$59,136	$41,508	$41,670	$449,891	$435,46
Acquisition Revenues	1,186	—	158	—	6,645	—	—	—	7,989	—

Divested Business	—	338	—	161	—	—	—	(115)	—	384
Organic Revenue[2]	$232,781	$230,190	$104,825	$103,967	$62,788	$59,136	$41,508	$41,785	$441,902	$435,07
Organic Revenue Growth[2]	$2,591		$858		$3,652		$(277)		$6,824	
Organic Revenue Growth %[2]	1.1 %		0.8 %		6.2 %		(0.7)%		1.6 %	

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

(2) A non-GAAP financial measure

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The reconciliation of commissions and fees, included in the Condensed Consolidated Statement of Income, to organic revenue for the three months ended June 30, 2016, and 2015, is as follows:

	For the three months ended June 30,	
(in thousands)	2016	2015
Commissions and fees	$445,662	$417,244
Less profit-sharing contingent commissions	7,358	3,573
Less guaranteed supplemental commissions	2,842	2,236
Core commissions and fees	435,462	411,435
Less acquisition revenues	15,910	—
Less divested business	—	2,443
Organic Revenue	$419,552	$408,992

The growth rates for organic revenue, a non-GAAP financial measure, for the three months ended June 30, 2016, by segment, are as follows:

2016	Retail[1]		National Programs		Wholesale Brokerage		Services		Total	
(in thousands, except percentages)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Commissions and Fees	$234,247	$220,383	$108,542	$103,184	$61,203	$55,318	$41,670	$38,359	$445,662	$417,244
Total Change	$13,864		$5,358		$5,885		$3,311		$28,418	
Total Growth %	6.3 %		5.2 %		10.6 %		8.6 %		6.8 %	
Contingent Commissions	1,374	1,015	4,410	1,529	1,574	1,029	—	—	7,358	3,573
GSCs	2,345	1,839	4	2	493	395	—	—	2,842	2,236
Core Commissions and Fees	$230,528	$217,529	$104,128	$101,653	$59,136	$53,894	$41,670	$38,359	$435,462	$411,435
Acquisition Revenues	9,743	—	414	—	3,129	—	2,624	—	15,910	—
Divested Business	—	621	—	178	—	—	—	1,644	—	2,443
Organic Revenue[2]	$220,785	$216,908	$103,714	$101,475	$56,007	$53,894	$39,046	$36,715	$419,552	$408,992
Organic Revenue Growth[2]	$3,877		$2,239		$2,113		$2,331		$10,560	
Organic Revenue Growth %[2]	1.8 %		2.2 %		3.9 %		6.3 %		2.6 %	

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

(2) A non-GAAP financial measure

The reconciliation of commissions and fees, included in the Condensed Consolidated Statement of Income, to organic revenue for the six months ended June 30, 2017, and 2016, is as follows:

	For the six months ended June 30,	
(in thousands)	2017	2016
Commissions and fees	$909,290	$867,997
Less profit-sharing contingent commissions	41,867	38,339
Less guaranteed supplemental commissions	5,656	5,952
Core commissions and fees	861,767	823,706
Less acquisition revenues	18,599	—
Less divested business	—	887
Organic Revenue	$843,168	$822,819

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The growth rates for organic revenue, a non-GAAP financial measure, for the six months ended June 30, 2017, by segment, are as follows:

2017	Retail[1]		National Programs		Wholesale Brokerage		Services		Total	
(in thousands, except percentages)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Commissions and Fees	$477,118	$465,934	$214,639	$209,349	$136,779	$114,541	$80,754	$78,173	$909,290	$867,9
Total Change	$11,184		$5,290		$22,238		$2,581		$41,293	
Total Growth %	2.4 %		2.5 %		19.4 %		3.3 %		4.8 %	
Contingent Commissions	20,936	22,136	14,290	9,654	6,641	6,549	—	—	41,867	38,339
GSCs	4,945	4,972	3	10	708	970	—	—	5,656	5,952
Core Commissions and Fees	$451,237	$438,826	$200,346	$199,685	$129,430	$107,022	$80,754	$78,173	$861,767	$823,7
Acquisition Revenues	2,374	—	158	—	15,217	—	850	—	18,599	—
Divested Business	—	841	—	249	—	—	—	(203)	—	887
Organic Revenue[2]	$448,863	$437,985	$200,188	$199,436	$114,213	$107,022	$79,904	$78,376	$843,168	$822,8
Organic Revenue Growth[2]	$10,878		$752		$7,191		$1,528		$20,349	
Organic Revenue Growth %[2]	2.5 %		0.4 %		6.7 %		1.9 %		2.5 %	

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

(2) A non-GAAP financial measure

The reconciliation of commissions and fees, included in the Condensed Consolidated Statement of Income, to organic revenue for the six months ended June 30, 2016, and 2015, is as follows:

	For the six months ended June 30,	
(in thousands)	2016	2015
Commissions and fees	$867,997	$821,025
Less profit-sharing contingent commissions	38,339	33,528
Less guaranteed supplemental commissions	5,952	5,592
Core commissions and fees	823,706	781,905
Less acquisition revenues	30,168	—
Less divested business	—	3,794
Organic Revenue	$793,538	$778,111

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The growth rates for organic revenue, a non-GAAP financial measure, for the six months ended June 30, 2016, by segment, are as follows:

2016	Retail[1]		National Programs		Wholesale Brokerage		Services		Total	
(in thousands, except percentages)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Commissions and Fees	$465,934	$438,362	$209,349	$202,458	$114,541	$107,042	$78,173	$73,163	$867,997	$821,0
Total Change	$27,572		$6,891		$7,499		$5,010		$46,972	
Total Growth %	6.3 %		3.4 %		7.0 %		6.8 %		5.7 %	
Contingent Commissions	22,136	19,843	9,654	7,546	6,549	6,139	—	—	38,339	33,528
GSCs	4,972	4,638	10	5	970	949	—	—	5,952	5,592
Core Commissions and Fees	$438,826	$413,881	$199,685	$194,907	$107,022	$99,954	$78,173	$73,163	$823,706	$781,9
Acquisition Revenues	20,832	—	1,680	—	3,383	—	4,273	—	30,168	—
Divested Business	—	1,125	—	670	—	—	—	1,999	—	3,794
Organic Revenue[2]	$417,994	$412,756	$198,005	$194,237	$103,639	$99,954	$73,900	$71,164	$793,538	$778,1
Organic Revenue Growth[2]	$5,238		$3,768		$3,685		$2,736		$15,427	
Organic Revenue Growth %[2]	1.3 %		1.9 %		3.7 %		3.8 %		2.0 %	

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

(2) A non-GAAP financial measure

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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 89% of the Retail Segment's commissions and fees revenue is commission-based. Because most of our other operating expenses are not correlated to changes in commissions on insurance premiums, a significant portion of any fluctuation in the commissions we receive, net of related producer compensation, 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 for the three and six months ended June 30, 2017 and 2016 is as follows:

	For the three months ended June 30,			For the six months ended June 30,		
(in thousands, except percentages)	2017	2016	% Change	2017	2016	% Change
REVENUES						
Core commissions and fees	$234,188	$230,783	1.5 %	$451,533	$439,322	2.8 %
Profit-sharing contingent commissions	1,419	1,374	3.3 %	20,936	22,136	(5.4)%
Guaranteed supplemental commissions	2,677	2,345	14.2 %	4,945	4,972	(0.5)%
Investment income	1	7	(85.7)%	3	28	(89.3)%
Other income, net	684	51	NMF	839	290	189.3 %
Total revenues	238,969	234,560	1.9 %	478,256	466,748	2.5 %
EXPENSES						
Employee compensation and benefits	127,821	121,897	4.9 %	257,063	245,934	4.5 %
Other operating expenses	38,255	37,850	1.1 %	75,052	75,424	(0.5)%
Loss/(gain) on disposal	(91)	(810)	(88.8)%	(246)	(2,854)	(91.4)%
Amortization	10,517	10,893	(3.5)%	21,164	21,882	(3.3)%
Depreciation	1,324	1,616	(18.1)%	2,713	3,253	(16.6)%
Interest	8,126	9,986	(18.6)%	16,702	20,389	(18.1)%
Change in estimated acquisition earn-out payables	5,039	3,978	26.7 %	8,975	3,118	187.8 %
Total expenses	190,991	185,410	3.0 %	381,423	367,146	3.9 %
Income before income taxes	$47,978	$49,150	(2.4)%	$96,833	$99,602	(2.8)%
Organic revenue growth rate [1]	1.1 %	1.8 %		2.5 %	1.3 %	
Employee compensation and benefits relative to total revenues	53.5 %	52.0 %		53.8 %	52.7 %	
Other operating expenses relative to total revenues	16.0 %	16.1 %		15.7 %	16.2 %	
Capital expenditures	$1,404	$2,172		$2,540	$3,221	
Total assets at June 30				$4,090,094	$3,593,733	

(1) A non-GAAP financial measure

NMF = Not a meaningful figure

The Retail Segment's total revenue during the three months ended June 30, 2017 increased 1.9%, or $4.4 million, over the same period in 2016, to $239.0 million. The $3.4 million increase in core commissions and fees revenue was driven by: (i) $2.6 million related to net new and renewal business; (ii) approximately $1.2 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2016; and (iii) an offsetting decrease of $0.4 million related to commissions and fees revenue from business divested in 2016 and 2017. Profit-sharing contingent commissions and GSCs for the second quarter of 2017 increased 10.1%, or $0.4 million, from the same period in 2016, to $4.1 million due to better performance realized by our insurance carrier partners. The Retail Segment's growth rate for total commissions and fees was 1.6% and the organic revenue growth

rate was 1.1% for the second quarter of 2017. The organic revenue growth rate was driven by revenue from net new and renewal business written during the preceding twelve months, and was partially offset by continued reductions in property insurance premium rates, particularly in catastrophe prone areas. The organic revenue growth rate was further moderated by timing items related to revenue that was recognized in previous quarters.

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Income before income taxes for the three months ended June 30, 2017 decreased 2.4%, or $1.2 million, over the same period in 2016, to $48.0 million. The primary factors affecting this decrease were: (i) total compensation which increased by $5.9 million or 4.9%, due primarily to salary inflation, additional teammates to support revenue growth and the incremental investment in our net growth-based incentive plan for our producers; (ii) a change in estimated acquisition earn-out payables that increased by $1.1 million to $5.0 million; partially offset by, (iii) the net increase in revenue as described above and (iv) a decrease in intercompany interest charges of $1.9 million.

The Retail Segment's total revenue during the six months ended June 30, 2017 increased 2.5%, or $11.5 million, over the same period in 2016, to $478.3 million. The $12.2 million increase in core commissions and fees revenue was driven by: (i) $10.9 million related to net new and renewal business; (ii) approximately $2.4 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2016; and (iii) an offsetting decrease of $1.1 million related to commissions and fees revenue from business divested in 2016 and 2017. Profit-sharing contingent commissions and GSCs for the first six months of 2017 decreased 4.5%, or $1.2 million, from the same period in 2016, to $25.9 million. The Retail Segment's growth rate for total commissions and fees was 2.4% and the organic revenue growth rate 2.5% for the first six months of 2017. The organic revenue growth rate was driven by revenue from net new and renewal business written during the preceding twelve months, some exposure unit growth, and modest increases in commercial auto rates, which was partially offset by continued reductions in property insurance premium rates, particularly in catastrophe-prone areas.

Income before income taxes for the six months ended June 30, 2017 decreased 2.8%, or $2.8 million, over the same period in 2016, to $96.8 million. The primary factors affecting this decrease were: (i) total compensation increased by $11.1 million or 4.5%, due primarily to salary inflation and the incremental investment in our net growth-based incentive plan; (ii) a change in estimated acquisition earn-out payables that increased $5.9 million to $9.0 million; (iii) a $2.6 million decrease in the benefit of gains on disposals to $0.2 million associated with book sales within certain businesses; partially offset by (iv) the net increase in revenue as described above and (v) a decrease in intercompany interest charges of $3.7 million.

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National Programs Segment

The National Programs Segment manages over 50 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, Arrowhead Insurance 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 for the three and six months ended June 30, 2017 and 2016 is as follows:

	For the three months ended June 30,			For the six months ended June 30,		
(in thousands, except percentages)	2017	2016	% Change	2017	2016	% Change
REVENUES						
Core commissions and fees	$104,983	$104,128	0.8 %	$200,346	$199,685	0.3 %
Profit-sharing contingent commissions	8,576	4,410	94.5 %	14,290	9,654	48.0 %
Guaranteed supplemental commissions	—	4	(100.0)%	3	10	(70.0)%
Investment income	81	239	(66.1)%	155	487	(68.2)%
Other income, net	35	39	(10.3)%	64	54	18.5 %
Total revenues	113,675	108,820	4.5 %	214,858	209,890	2.4 %
EXPENSES						
Employee compensation and benefits	49,081	46,714	5.1 %	97,828	93,408	4.7 %
Other operating expenses	23,130	19,359	19.5 %	44,089	38,253	15.3 %
Loss/(gain) on disposal	100	—	— %	100	—	— %
Amortization	6,847	6,982	(1.9)%	13,751	14,090	(2.4)%
Depreciation	1,604	2,007	(20.1)%	3,563	3,936	(9.5)%
Interest	8,918	11,461	(22.2)%	18,953	24,051	(21.2)%
Change in estimated acquisition earn-out payables	598	52	NMF	650	104	NMF
Total expenses	90,278	86,575	4.3 %	178,934	173,842	2.9 %
Income before income taxes	$23,397	$22,245	5.2 %	$35,924	$36,048	(0.3)%
Organic revenue growth rate [1]	0.8 %	2.2 %		0.4 %	1.9 %	
Employee compensation and benefits relative to total revenues	43.2 %	42.9 %		45.5 %	44.5 %	
Other operating expenses relative to total revenues	20.3 %	17.8 %		20.5 %	18.2 %	
Capital expenditures	$1,448	$1,314		$2,528	$3,246	
Total assets at June 30				$2,723,177	$2,556,293	

(1) A non-GAAP financial measure

NMF = Not a meaningful figure

The National Program Segment's revenue for the three months ended June 30, 2017 increased 4.5%, or $4.9 million, from the same period in 2016, to $113.7 million. The $0.9 million net increase in core commissions and fees revenue was driven by: (i) $0.9 million related to net new and renewal business; (ii) approximately $0.2 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2016; and (iii) a decrease of $0.2 million related to commissions and fees revenue recorded in the second quarter of 2016

from businesses since divested. Profit-sharing contingent commissions and GSCs were $8.6 million for the second quarter of 2017, which was an increase of $4.2 million from the second quarter of 2016, primarily related to new or increased contingent commissions due to improvement of our carrier partners' loss ratios.

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The National Programs Segment’s growth rate for total commissions and fees was 4.6% and the organic revenue growth rate was 0.8% for the three months ended June 30, 2017. This organic revenue growth rate was mainly due to strong growth in our lender placed coverage program, commercial and residential earthquake programs and our all-risk program that continue to build momentum. The growth from these and other programs was substantially offset by continued downward rate pressure for our coastal property programs and the impact related to a change in carrier risk appetite.

Income before income taxes for the three months ended June 30, 2017 increased 5.2%, or $1.2 million, from the same period in 2016, to $23.4 million. The increase was driven by the net revenue growth noted above, and continued expense management initiatives as we grow and scale our programs along with a $2.5 million decrease in the intercompany interest expense charge for acquisitions. We charge our segments an intercompany interest charge associated with the cost of capital for each business they acquire. This intercompany interest charge is reduced each year according to a fixed amortization schedule.

The National Programs Segment's revenue for the six months ended June 30, 2017 increased 2.4%, or $5.0 million, from the same period in 2016, to $214.9 million. The $0.7 million increase in core commissions and fees revenue was driven by: (i) $0.8 million related to net new and renewal business, (ii) approximately $0.2 million related to core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2016, and (iii) a decrease of $0.3 million related to commissions and fees revenue from business divested in 2016 and 2017.

Profit-sharing contingent commissions and GSCs were $14.3 million for the first six months of 2017, which was an increase of $4.6 million from the same period in 2016.

The National Programs Segment’s growth rate for total commissions and fees was 2.5% and the organic revenue growth rate was 0.4% for the six months ended June 30, 2017. This organic revenue growth rate was mainly due to strong growth in our lender placed coverage program, commercial and residential earthquake programs and our all-risk programs that continue to build momentum. The growth from these and other programs was substantially offset by continued downward rate pressure for our coastal property programs and the impact related to carrier risk appetite at certain programs.

Income before income taxes for the six months ended June 30, 2017 decreased 0.3%, or $0.1 million, from the same period in 2016, to $35.9 million. The decrease was driven by $5.8 million in prior year credits related to premium taxes and a $2.4 million increase in employee compensation and benefits. This decrease was partially offset by a $5.1 million decrease in the intercompany interest expense charge for acquisitions along with additional profit associated with the overall growth in revenue. We charge our segments an intercompany interest charge associated with the cost of capital for each business they acquire. This intercompany interest charge is reduced each year according to a fixed amortization schedule.

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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 for the three and six months ended June 30, 2017 and 2016 is as follows:

	For the three months ended June 30,			For the six months ended June 30,		
(in thousands, except percentages)	2017	2016	% Change	2017	2016	% Change
REVENUES						
Core commissions and fees	$69,433	$59,136	17.4 %	$129,430	$107,022	20.9 %
Profit-sharing contingent commissions	1,860	1,574	18.2 %	6,641	6,549	1.4 %
Guaranteed supplemental commissions	301	493	(38.9)%	708	970	(27.0)%
Investment income	—	1	(100.0)%	—	4	(100.0)%
Other income, net	397	83	NMF	459	156	194.2 %
Total revenues	71,991	61,287	17.5 %	137,238	114,701	19.6 %
EXPENSES						
Employee compensation and benefits	35,934	30,522	17.7 %	69,420	56,912	22.0 %
Other operating expenses	11,085	10,699	3.6 %	22,445	19,966	12.4 %
Loss/(gain) on disposal	—	—	— %	—	—	— %
Amortization	2,845	2,591	9.8 %	5,776	5,033	14.8 %
Depreciation	477	488	(2.3)%	967	984	(1.7)%
Interest	1,613	685	135.5 %	3,288	932	NMF
Change in estimated acquisition earn-out payables	(48)	15	NMF	(8)	25	(132.0)%
Total expenses	51,906	45,000	15.3 %	101,888	83,852	21.5 %
Income before income taxes	$20,085	$16,287	23.3 %	$35,350	$30,849	14.6 %
Organic revenue growth rate [1]	6.2 %	3.9 %		6.7 %	3.7 %	
Employee compensation and benefits relative to total revenues	49.9 %	49.8 %		50.6 %	49.6 %	
Other operating expenses relative to total revenues	15.4 %	17.5 %		16.4 %	17.4 %	
Capital expenditures	$1,014	$322		$1,392	$914	
Total assets at June 30				$1,204,184	$1,018,689	

(1) A non-GAAP financial measure

NMF = Not a meaningful figure

The Wholesale Brokerage Segment's total revenues for the three months ended June 30, 2017 increased 17.5%, or $10.7 million, from the same period in 2016, to $72.0 million. The $10.3 million net increase in core commissions and fees revenue was driven primarily by: (i) $6.6 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2016; and (ii) $3.7 million related to net new and renewal business. Contingent commissions and GSCs for the second quarter of 2017 were substantially in line with the prior year, only increasing $0.1 million compared to the second quarter of 2016, to $2.2 million. The Wholesale Brokerage Segment's growth rate for total commissions and fees was 17.0% and the organic revenue growth rate was 6.2% for the second quarter of 2017. The organic revenue growth rate was driven by net new and renewal business and modest increases in exposure units, partially offset by contraction in insurance premium rates for catastrophe prone properties.

Income before income taxes for the three months ended June 30, 2017 increased 23.3%, or $3.8 million, over the same period in 2016, to $20.1 million, primarily due to: (i) the net increase in revenue as described above, offset by; (ii) an increase in employee compensation and benefits of $5.4 million, of which $3.9 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; (iii) a $0.4 million increase in other operating expenses, of which $0.7 million was related to acquisitions that had no comparable expenses in the same period of 2016, while existing other operating expenses decreased $0.3 million; and (iv) higher intercompany interest charges related to acquisitions completed in the previous year.

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The Wholesale Brokerage Segment's total revenues for the six months ended June 30, 2017 increased 19.6%, or $22.5 million, from the same period in 2016, to $137.2 million. The $22.4 million net increase in core commissions and fees revenue was driven primarily by: (i) $15.2 million related to the core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2016; and (ii) $7.2 million related to net new and renewal business. Contingent commissions and GSCs for the first six months of 2017 decreased $0.2 million compared to the same period of 2016, to $7.3 million. This decrease in contingent commissions was driven by an increase in loss ratios with certain carriers, and offset by contingent commissions received from acquisitions that had no comparable contingent revenue during the same period of 2016. The Wholesale Brokerage Segment's growth rate for total commissions and fees was 19.4% and the organic revenue growth rate was 6.7% for the first six months of 2017, and was driven by net new and renewal business and modest increases in exposure units, partially offset by significant contraction in insurance premium rates for catastrophe-prone properties.

Income before income taxes for the six months ended June 30, 2017 increased 14.6%, or $4.5 million, over the same period in 2016, to $35.4 million, primarily due to: (i) the net increase in revenue as described above, offset by; (ii) an increase in employee compensation and benefits of $12.5 million, of which $9.1 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; (iii) a $2.5 million increase in other operating expenses, of which $2.7 million was related to acquisitions that had no comparable expenses in the same period of 2016, while existing other operating expenses decreased $0.2 million; and (iv) an increase of $2.4 million in intercompany interest expense related to acquisitions completed in the previous twelve months.

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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 for the three and six months ended June 30, 2017 and 2016 is as follows:

	For the three months ended June 30,			For the six months ended June 30,		
(in thousands, except percentages)	2017	2016	% Change	2017	2016	% Change
REVENUES						
Core commissions and fees	$41,508	$41,670	(0.4)%	$80,754	$78,173	3.3 %
Profit-sharing contingent commissions	—	—	— %	—	—	— %
Guaranteed supplemental commissions	—	—	— %	—	—	— %
Investment income	72	83	(13.3)%	152	147	3.4 %
Other income, net	—	(1)	(100.0)%	—	—	— %
Total revenues	41,580	41,752	(0.4)%	80,906	78,320	3.3 %
EXPENSES						
Employee compensation and benefits	19,963	19,631	1.7 %	39,613	38,507	2.9 %
Other operating expenses	10,695	12,264	(12.8)%	21,697	22,139	(2.0)%
Loss/(gain) on disposal	—	—	— %	55	—	— %
Amortization	1,137	1,140	(0.3)%	2,275	2,205	3.2 %
Depreciation	390	472	(17.4)%	789	959	(17.7)%
Interest	946	1,327	(28.7)%	1,907	2,563	(25.6)%
Change in estimated acquisition earn-out payables	—	12	(100.0)%	—	(11)	(100.0)%
Total expenses	33,131	34,846	(4.9)%	66,336	66,362	— %
Income before income taxes	$8,449	$6,906	22.3 %	$14,570	$11,958	21.8 %
Organic revenue growth rate [1]	(0.7)%	6.3 %		1.9 %	3.8 %	
Employee compensation and benefits relative to total revenues	48.0 %	47.0 %		49.0 %	49.2 %	
Other operating expenses relative to total revenues	25.7 %	29.4 %		26.8 %	28.3 %	
Capital expenditures	$342	$276		$492	$481	
Total assets at June 30				$396,165	$327,957	

(1) A non-GAAP financial measure

The Services Segment's total revenues for the three months ended June 30, 2017 decreased 0.4%, or $0.2 million, over the same period in 2016, to $41.6 million. The $0.2 million decrease in core commissions and fees revenue was driven primarily by: (i) $0.3 million related to net lost business that was primarily driven by lower weather-related storm claim activity as compared to the same period in 2016 and (ii) partially offset by an increase of $0.1 million related to commissions and fees revenue recorded in the second quarter of 2016 from net transferred/divested business. The Services Segment's growth rate for total commissions and fees was (0.4)% and the organic revenue growth rate was (0.7)% for the second quarter of 2017. The organic revenue growth rate was primarily due to the volume of weather-related claims.

Income before income taxes for the three months ended June 30, 2017 increased 22.3%, or $1.5 million, over the same period in 2016, to $8.4 million due to a combination of organic revenue growth from higher margin businesses and continued expense management.

The Services Segment's total revenues for the six months ended June 30, 2017 increased 3.3%, or $2.6 million, over the same period in 2016, to $80.9 million. The $2.6 million increase in core commissions and fees revenue was driven by: (i) $1.5 million related to net new and renewal business; (ii) approximately $0.9 million related to core commissions and fees revenue from acquisitions that had no comparable revenues in the same period of 2016; and (iii) $0.2 million related to commissions and fees revenue from net transferred/divested business in 2016 and 2017. The Services Segment's growth rate for total commissions and fees was 3.3% and the organic revenue growth rate was 1.9%

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for the first six months of 2017. This organic revenue growth rate was driven primarily by an increase in weather-related claims and growth in our Social Security disability advocacy businesses.

Income before income taxes for the six months ended June 30, 2017 increased 21.8%, or $2.6 million, over the same period in 2016, to $14.6 million due to a combination of organic revenue growth from higher margin businesses and continued expense management.

Other

As discussed in Note 10 of the Notes to Condensed Consolidated Financial Statements, the "Other" column in the Segment Information table includes any income and expenses not allocated to reportable segments, and corporate-related items, including the inter-company interest expense charges to reporting segments.

LIQUIDITY AND CAPITAL RESOURCES

Our 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. If necessary, we also have available 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 Amended and Restated Credit Agreement (as defined below), will be sufficient to satisfy our normal liquidity needs, including principal payments on our long-term debt, for at least the next twelve months.

Contractual Cash Obligations

As of June 30, 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	$995,000	$20,000	$160,000	$315,000	$500,000
Other liabilities[1]	51,601	2,825	14,195	2,034	32,547
Operating leases	204,226	41,931	71,831	48,959	41,505
Interest obligations	200,625	35,557	61,537	57,156	46,375
Unrecognized tax benefits	749	—	749	—	—
Maximum future acquisition contingency payments[2]	100,239	62,604	37,635	—	—
Total contractual cash obligations	$1,552,440	$162,917	$345,947	$423,149	$620,427

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

(2) Includes $58.0 million of current and non-current estimated earn-out payables.

Debt

Total debt at June 30, 2017 was $985.4 million net of unamortized discount and debt issuance costs, which was a decrease of $88.5 million compared to December 31, 2016. The decrease includes the repayment of $86.8 million in principal including the 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, net of the amortization of discounted debt related to our 4.200% Notes due 2024 and debt issuance cost amortization of $1.0 million. During the quarter, the Company also added $2.7 million in debt issuance costs related to the Amended and Restated Credit Agreement.

On June 28, 2017, the Company entered into an amended and restated credit agreement (the "Amended and Restated Credit Agreement") with the lender 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 term loan principal amortization schedule was reset with payments due quarterly. 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 $2.7 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 the modified agreement, while also carrying forward $1.6 million on the Consolidated Balance Sheet the unamortized portion of the Original Credit Agreement debt issuance costs which will amortize over the term of the Amended and Restated Credit Agreement. On June 30, 2017, a scheduled principal payment of $5.0 million

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was satisfied per the terms of the Amended and Restated Credit Agreement. As of June 30, 2017, there was an outstanding debt balance issued under the terms of the Amended and Restated Credit Agreement of $395.0 million with no borrowings outstanding against the revolving loan. Per the terms of the Amended and Restated Credit Agreement, a scheduled principal payment of $5.0 million is due September 30, 2017.

Off-Balance Sheet Arrangements

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

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates, 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 June 30, 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 June 30, 2017, we had $395.0 million of borrowings outstanding under our term loan which bears interest on a floating basis tied to the London Interbank Offered Rate (LIBOR) and 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 June 30, 2017, an immediate 10% hypothetical change of foreign currency exchange rates would not have a material effect on our Consolidated Financial Statements.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation (the “Evaluation”) required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 and 15d-15 under the Exchange Act (“Disclosure Controls”) as of June 30, 2017. Based upon the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our senior management, including our CEO and CFO, to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There has not been any change in our internal control over financial reporting identified in connection with the Evaluation that occurred during the quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Control Over Financial Reporting

Our management, including our CEO and CFO, does not expect that our Disclosure Controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control

system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple

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error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO and CFO Certifications

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are supplied in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This Item 4 of Part I of this Quarterly Report on Form 10-Q contains the information concerning the evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

PART II

ITEM 1. Legal Proceedings

In Item 3 of Part I of the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2016, certain information concerning litigation claims arising in the ordinary course of business was disclosed. Such information was current as of the date of filing. During the Company's fiscal quarter ended June 30, 2017, no new legal proceedings, or material developments with respect to existing legal proceedings, occurred which require disclosure in this Quarterly Report on Form 10-Q.

ITEM 1A. Risk Factors

There were no material changes in the risk factors previously disclosed in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about our repurchase of shares of our common stock during the three months ended June 30, 2017:

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Value that May Yet be Purchased Under the Plans or Programs(2)
April 1, 2017 to April 30, 2017	629	$ 42.35	—	$ 367,342,175
May 1, 2017 to May 31, 2017	157,399	42.46	157,399	360,659,316
June 1, 2017 to June 30, 2017	110,865	42.95	104,216	356,183,463
Total	268,893	$ 42.66	261,615	$ 356,183,463

(1) We purchased 268,893 shares during the quarter ended June 30, 2017 of which 261,615 shares were purchased as part of publicly announced plans as authorized by our Board of Director and 7,278 shares were acquired from our teammates in the net exercise of stock options under our equity compensation plans or to cover required tax withholdings on the vesting of shares in our equity compensation plans.

(2) As announced on July 21, 2014, our Board of Directors approved the purchasing of up to $200.0 million of the Company's outstanding common stock of which $150.0 million have been purchased with the last settlement on August 11, 2015. On July 20, 2015, the Company's Board of Directors authorized the purchasing of up to an additional $400.0 million of the Company's outstanding common stock On November 11, 2015, the Company entered into an accelerated share repurchase program with an investment bank to purchase an aggregate $75.0

million of the Company's common stock, all of which has been settled with the latest settlement on January 6, 2016 in which the Company received 363,209 shares. Between October 25, 2016 and November 4, 2016, the Company made share repurchases in the open market of 209,618 shares at a total cost of $7.7 million. Between May 18, 2017 and June 30, 2017, the Company made share repurchases in the open market in total of 261,615 shares at a total cost of $11.2 million. After completing these open market share repurchases the Company's outstanding Board-approved share repurchase authorization is $356.2 million. As of June 30, 2017, a total of 8,264,812 shares have been repurchased since the first quarter of 2014.

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ITEM 6. Exhibits

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

3.1	Articles of Amendment to Articles of Incorporation (adopted April 24, 2003) (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 2003(Commission file number 001-13619)), and Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended March 31, 1999 (Commission file number 001-13619)).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on October 12, 2016).
10.1	Amended and Restated Credit Agreement, dated June 28, 2017, among the Registrant and the lenders named therein, JPMorgan Chase Bank, N.A. as administrative agent, Bank of America, N.A., Royal Bank of Canada, and SunTrust Bank as co-syndication agents, and U.S. Bank National Association, BMO Harris Bank N.A., Fifth Third Bank, Wells Fargo Bank, National Association, and PNC Bank, National Association as co-documentation agents.
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
32.1	Section 1350 Certification by the Chief Executive Officer of the Registrant.
32.2	Section 1350 Certification by the Chief Financial Officer of the Registrant.
101.INS	XBRL Instance Document. (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURE

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

BROWN & BROWN, INC.

/s/ R. Andrew Watts

Date: August 4, 2017 R. Andrew Watts

Executive Vice President, Chief Financial Officer and Treasurer

(duly authorized officer, principal financial officer and principal accounting officer)