BROWN & BROWN INC
Form 10-K
March 16, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

OR

o **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 1-13619
BROWN & BROWN, INC.
(Exact name of Registrant as specified in its charter)

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

Registrant's telephone number, including area code: (386) 252-9601
Registrant's Website: www.bbinsurance.com

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

Title of each class	Name of each exchange on which registered
COMMON STOCK, $0.10 PAR VALUE	**NEW YORK STOCK EXCHANGE**

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant, computed by reference to the last reported price at which the stock was sold on June 30, 2005 (the last day of the registrant's most recently completed second fiscal quarter), was $2,490,874,100.

The number of outstanding shares of the registrant's Common Stock, $.10 par value, outstanding as of March 10, 2006 was 139,397,938.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Brown & Brown, Inc.'s Proxy Statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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PART I

ITEM 1. *Business.*

Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, “we”, “Brown & Brown” or the “Company”), make “forward-looking statements” within the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995 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,” “expect,” “anticipate,” “believe,” “estimate,” “plan” and “con similar words. We have based these statements on our current expectations about future events. Although we believe the expectations expressed in the forward-looking statements included in this Form 10-K and those reports, statements, information and announcements are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include:

- material adverse changes in economic conditions in the markets we serve;
- future regulatory actions and conditions in the states in which we conduct our business;
- competition from others in the insurance agency, brokerage and service business;
- a significant portion of business written by Brown & Brown is for customers located in California, Florida, Georgia, New Jersey, New York, Pennsylvania and Washington. Accordingly, the occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in any of these states could have a material adverse effect on our business, although no such conditions have been encountered in the past;
- the integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration; and
- other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (“SEC”) filings.

Forward-looking statements that we make or that are made by others on our behalf are based on a knowledge of our business and the environment in which we operate, but because of the factors listed above, 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.

General

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

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We are compensated for our services primarily by commissions paid by insurance companies and fees paid by customers for certain services. The commission is usually a percentage of the premium paid by the insured. Commission rates generally depend upon the type of insurance, the particular insurance company and the nature of the services provided by us. In some cases, a commission is shared with other agents or brokers who have acted jointly with us in a transaction. We may also receive from an insurance company a "contingent commission", which is a profit-sharing commission based primarily on underwriting results, but may also contain considerations for volume, growth and/or retention. Fees are principally generated by our Services Division, which offers third-party claims administration, consulting for the self-funded workers' compensation insurance market, and managed healthcare services. The amount of our revenue from commissions and fees is a function of, among other factors, continued new business production, retention of existing customers, acquisitions and fluctuations in insurance premium rates and insurable exposure units.

Premium pricing within the property and casualty insurance underwriting industry has historically been cyclical, displaying a high degree of volatility based on prevailing economic and competitive conditions. From the mid-1980s through 1999, the property and casualty insurance industry experienced a "soft market" during which the underwriting capacity of insurance companies expanded, stimulating an increase in competition and a decrease in premium rates and related commissions. The effect of this softness in rates on our revenues was somewhat offset by our acquisitions and new business production. As a result of increasing "loss ratios" (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2003, the increases in premium rates began to moderate and, in certain lines of insurance, the premium rates decreased. In 2004, as general premium rates continued to moderate, the insurance industry experienced the worst hurricane season since 1992 when Hurricane Andrew hit south Florida. The insured losses from the 2004 hurricane season were absorbed relatively easily by the insurance industry and the general insurance premium rates continued to soften during 2005. During the third quarter of 2005, the insurance industry experienced the worst hurricane season ever recorded. Primarily as a result of these hurricanes, including Hurricanes Katrina, Rita and Wilma, the total insured losses are estimated to be in excess of $50 billion. The full impact that the 2005 insured losses will have on the insurance premium rates charged by insurance companies for 2006 is unknown, however, there appears to be a general consensus that there will be upward pressure on at least the insurance premium rates on coastal property, primarily in the southeastern part of the United States.

As of December 31, 2005, our activities were conducted in 170 locations in 34 states as follows:

Florida	38	Arkansas	3
California	12	Minnesota	3
Georgia	11	Nevada	3
New York	10	South Carolina	3
Texas	10	Wisconsin	3
New Jersey	8	Montana	2
Virginia	8	New Hampshire	2
Colorado	6	North Carolina	2
Washington	5	Connecticut	1
Arizona	4	Hawaii	1
Illinois	4	Kentucky	1
Indiana	4	Massachusetts	1
Louisiana	4	Missouri	1
Michigan	4	Nebraska	1
New Mexico	4	Ohio	1
Oklahoma	4	Tennessee	1

Pennsylvania	4	Utah	1

Business Combinations

Beginning in 1993 through 2005, we acquired 205 insurance intermediary operations, excluding acquired books of business (customer accounts), that had aggregate estimated annual revenues of $570.7 million for the 12 calendar months immediately preceding the dates of acquisition. Of these, 32 operations were acquired during 2005, with aggregate estimated annual revenues of $123.0 million for the 12 calendar months immediately preceding the dates of acquisition. During 2004, 32 operations were acquired with aggregate estimated annual revenues of $103.3 million for the 12 calendar months immediately preceding the dates of acquisition. During 2003, 23 operations were acquired, with aggregate estimated annual revenues of $42.6 million for the 12 calendar months immediately preceding the dates of acquisition. Additionally in 2003, we acquired the remaining 25% ownership of Florida Intracoastal Underwriters, Limited Company that we previously did not own.

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See Note 2 to the Consolidated Financial Statements for a summary of our 2005 acquisitions.

From January 1, 2006 through March 14, 2006, Brown & Brown acquired the assets and assumed certain liabilities of three insurance intermediary entities. See Note 17 to the Consolidated Financial Statements for a summary of our 2006 acquisitions.

DIVISIONS

Our business is divided into four reportable operating segments: (1) the Retail Division; (2) the National Programs Division; (3) the Brokerage Division; and (4) the Services Division. The Retail Division provides a broad range of insurance products and services to commercial, public entity, professional and individual customers. The National Programs Division is comprised of two units: Professional Programs, which provides professional liability and related package products for certain professionals; and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public entities, and market niches. The Brokerage Division markets and sells excess and surplus commercial insurance and reinsurance, primarily through independent agents and brokers. The Services Division provides clients with third-party claims administration, consulting for the workers' compensation insurance market, and comprehensive medical utilization management services in both workers' compensation and all-lines liability arenas.

The following table sets forth a summary of (1) the commissions and fees revenue (revenues from external customers) generated by each of our reportable operating segments for 2005, 2004 and 2003, and (2) the percentage of our total commissions and fees revenue represented by each segment for each such period:

(in thousands, except percentages)	**2005**	**%**	**2004**	**%**	**2003**	**%**
Retail Division	$489,566	63.1%	$457,936	71.8%	$395,385	72.5%
National Programs Division	133,147	17.2	111,907	17.5	90,385	16.6
Brokerage Division	125,537	16.2	41,585	6.5	31,738	5.8
Services Division	26,565	3.4	25,807	4.0	27,920	5.1
Other	728	0.1	1,032	0.2	(141)	(0.0)
Total	$775,543	100.0%	$638,267	100.0%	$545,287	100.0%

See Note 16 to the Consolidated Financial Statements for additional segment financial data relating to our business.

Retail Division

As of December 31, 2005, our Retail Division operated in 27 states and employed 2,718 persons. Our retail insurance agency business provides a broad range of insurance products and services to commercial, public entity, professional and individual customers. The categories of insurance principally sold by us include: property insurance relating to physical damage to property and resultant interruption of business or extra expense caused by fire, windstorm or other perils; casualty insurance relating to legal liabilities, workers' compensation, commercial and private passenger automobile coverages; and fidelity and surety bonds. We also sell and service group and individual life, accident, disability, health, hospitalization, medical and dental insurance.

No material part of our retail business is attributable to a single customer or a few customers. During 2005, commissions and fees from our largest single Retail Division customer represented less than one percent of the Retail Division's total commissions and fees revenue.

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

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National Programs Division

As of December 31, 2005, our National Programs Division employed 645 persons. Our National Programs Division consists of two units: Professional Programs and Special Programs.

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

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

- *Dentists*: The Professional Protector Plan® for Dentists offers comprehensive coverage for dentists, oral surgeons, dental schools and dental students, including practice protection and professional liability. This program, initiated in 1969, is endorsed by a number of state and local dental societies and is offered in 49 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico.

- *Lawyers*: The Lawyer's Protector Plan® (LPP®) was introduced in 1983, 10 years after we began marketing lawyers' professional liability insurance in 1973. This program is presently offered in 43 states, the District of Columbia and Puerto Rico.

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

- CalSurance®: CalSurance® offers professional liability programs designed for insurance agents, financial advisors, registered representatives, securities broker-dealers, benefit administrators, real estate brokers and real estate title agents. CalSurance® also sells commercial insurance packages directly to customers in certain industry niches including destination resort and luxury hotels, independent pizza restaurants, and others. An important aspect of CalSurance® is Lancer Claims Services, which provides specialty claims administration for insurance companies underwriting CalSurance® product lines.

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

- *Physicians*: Initiated in 1980, the Physicians' Protector Plan® offered professional liability insurance for physicians, surgeons and other healthcare providers in select states. The contract with the underwriting insurance company on this program expired in March 2003. Since a replacement insurance company or program could not be negotiated, we terminated this program in 2004.

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Special Programs. Special Programs markets targeted products and services to specific industries, trade groups, public entities, and market niches. All of the Special Programs, except for Parcel Insurance Plan® (PIP®), are marketed and sold primarily through independent agents, including certain of our retail offices. Parcel Insurance Plan® markets and sells its insurance product directly to insured customers. Under agency agreements with the insurance companies that underwrite these programs, we often have authority to bind coverages subject to established guidelines, to bill and collect premiums and, in some cases, to adjust claims.

Below are brief descriptions of the Special Programs:

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

- *Public Risk Underwriters*®, along with our offices in Ephrata, Washington, Norcross, Georgia, and Kokomo, Indiana are program administrators offering unique property and casualty insurance products, risk management consulting, third-party administration and related services designed for municipalities, schools, fire districts, and other public entities on a national basis.

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

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

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

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

- *AFC Insurance, Inc.* ("AFC") is a managing general underwriter, specializing in unique insurance products for the health and human service industry. AFC works with retail agents in all states and targets home healthcare, group homes for the mentally and physically challenged, and drug and alcohol facilities and programs for the developmentally disabled.

- *Acumen Re Management Corporation* is a reinsurance underwriting management organization, primarily acting as an outsourced specific excess workers' compensation facultative reinsurance underwriting facility.

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

  - *Wholesalers & Distributors Preferred Program*®. Introduced in 1997, this program provides property and casualty protection for businesses principally engaged in the wholesale-distribution industry.

- *Railroad Protector Plan*®. Also introduced in 1997, this program is designed for contractors, manufacturers and other entities that service the needs of the railroad industry.

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

- *Food Processors Preferred Program*^{SM}. This program, introduced in 1998, provides property and casualty insurance protection for businesses involved in the handling and processing of various foods.

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Brokerage Division

The Brokerage Division markets excess and surplus commercial insurance products and services to retail agencies (including our retail offices), and reinsurance products and services to insurance companies throughout the United States. Brokerage Division offices represent various U.S. and U.K. surplus lines insurance companies and certain offices are also Lloyd's of London correspondents. The Brokerage Division also represents admitted insurance companies for smaller agencies that do not have access to large insurance company representation. Excess and surplus insurance products include many insurance coverages, including, personal lines homeowners, yachts, jewelry, commercial property and casualty, commercial automobile, garage, restaurant, builder's risk and inland marine lines. Difficult-to-insure general liability and products liability coverages are a specialty, as is excess workers' compensation coverage. Retail agency business is solicited through mailings and direct contact with retail agency representatives. At December 31, 2005, the Brokerage Division employed 806 persons.

In September 2001, we established Brown & Brown Re, Inc., a subsidiary headquartered in New York, New York that specializes in treaty and facultative reinsurance brokerage services. Brown & Brown Re had approximately $2.0 million in commission revenues in 2005.

On January 1, 2006, we acquired the assets of Axiom Intermediaries, LLC. (Axiom) with estimated annualized revenues of $14.0 million. Brown & Brown Re will be merged into Axiom. The Axiom acquisition will substantially increase our treaty and facultative reinsurance brokerage services.

In March 2005, we acquired the assets of Hull & Company, Inc. (Hull) with estimated annualized revenues of $63.0 million which along with acquisitions of several other larger brokerage operations, essentially tripled the 2005 revenues of this Division over 2004 revenues.

Services Division

At December 31, 2005, our Services Division employed 285 persons and provided the following services: (1) insurance-related services, including comprehensive risk management and third-party administration (TPA) services for insurance entities and self-funded or fully-insured workers' compensation and liability plans; and (2) comprehensive medical utilization management services for both workers' compensation and all-lines liability insurance plans.

The Services Division's workers' compensation and liability plan TPA services include claims administration, access to major reinsurance markets, cost containment consulting, services for secondary disability, and subrogation recoveries and risk management services such as loss control. In 2005, our three largest workers' compensation contracts represented approximately 61.6% of our Services Divisions commissions and fees revenue, or approximately 2.1% of our total consolidated commissions and fees revenue. In addition, the Services Division provides managed care services, including medical networks, case management and utilization review services, certified by the American Accreditation Health Care Commission.

In 2004, we sold our Louisiana-based employee benefits TPA. In 2003, we sold a similar operation based in Florida. We currently have no operations in the employee benefits TPA business and have no current plans to re-enter this area of the services business.

Employees

At December 31, 2005, we had 4,540 employees. We have agreements with our sales employees and certain other employees that include provisions restricting their right to solicit our insured customers and employees after separation from employment with us. The enforceability of such agreements varies from state to state depending upon state statutes, judicial decisions and factual circumstances. The majority of these agreements are at-will and terminable by either party; however, the covenants not to solicit our insured customers and employees generally continue for a period of two years after cessation of employment.

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

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Competition

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

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

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

Regulation, Licensing and Agency Contracts

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

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

Available Information

We make available free of charge on our website, at www.bbinsurance.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and the rules promulgated thereunder, as soon as reasonably practicable after electronically filing or furnishing such material to the Securities and Exchange Commission.

The charters of the Audit, Compensation and Nominating/Governance Committees of our Board of Directors as well as our Corporate Governance Guidelines are also available on our website or upon request. Requests for copies of any of these documents should be directed in writing to Corporate Secretary, Brown & Brown, Inc., 3101 West Martin Luther King Jr. Blvd., Suite 400, Tampa, Florida 33607, or by telephone to (813) 222-4277.

ITEM 1A. ***Risk Factors***

As referenced, this Annual Report on Form 10-K includes certain forward-looking statements regarding various matters. The ultimate correctness of those forward-looking statements is dependent upon a number of known and unknown risks and events, and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be different from those expressed or implied by those statements. Undue reliance *should not be placed on those forward-looking statements. The following important factors, among others, as well as those factors set forth in our other SEC filings from time to time, could affect future results and events, causing results and events to differ materially from those expressed or implied in our forward-looking statements. The risks and uncertainties described below are not the only ones facing Brown & Brown Inc. and its subsidiaries. Additional risks and uncertainties, not presently known to us or otherwise, may also impair our business operations.*

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

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We are primarily engaged in insurance agency and brokerage activities and derive revenues principally from commissions paid by insurance companies. The amount of such commissions is highly dependent on premium rates charged by insurance companies. We do not determine insurance premiums. Premium rates are determined by insurance companies based on a fluctuating market. Historically, property and casualty premiums have been cyclical in nature and have varied widely based on market conditions. From the mid-1980s through 1999, general premium levels were depressed as a result of the expanded underwriting capacity of insurance companies and increased competition. In many cases, insurance companies lowered commission rates and increased volume requirements. Significant reductions in premium rates occurred during the years 1986 through 1999. As a result of increasing "loss ratios" (the comparison of incurred losses plus loss adjustment expenses against earned premiums) experience by insurance companies through 1999, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2004, there was a rapid transition as previously stable or increasing rates fell in most markets. These rate declines were most pronounced in the property and casualty market, with rates falling between 10% and 30% by year-end. Rate declines continued through 2005, although the pace of decline moderated in the latter part of the year.

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

OUR BUSINESS PRACTICES AND COMPENSATION ARRANGEMENTS ARE SUBJECT TO UNCERTAINTY DUE TO INVESTIGATIONS BY GOVERNMENTAL AUTHORITIES AND RELATED PRIVATE LITIGATION.

The business practices and compensation arrangements of the insurance intermediary industry, including us, are subject to uncertainty due to investigations by various governmental authorities and related private litigation. The legislatures of various states may adopt new laws addressing contingent commission arrangements, including laws prohibiting such arrangements, and addressing disclosure of such arrangements to insureds, and various state departments of insurance may adopt new regulations addressing these matters. While it is not possible to predict the outcome of the governmental inquiries and investigations into the insurance industry’s commission payment practices or the responses by the market and government regulators, any material decrease in our contingent commissions is likely to have an adverse effect on our results of operations.

WE ARE SUBJECT TO A NUMBER OF INVESTIGATIONS AND LEGAL PROCEEDINGS WHICH, IF DETERMINED UNFAVORABLY FOR US, MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

In addition to routine litigation and disclosed governmental investigations and requests for information, we have been named as a defendant in two purported class actions brought against a number of insurance intermediaries and insurance companies, and have received a derivative demand from counsel for a purported shareholder which could result in a purported securities class action based on claimed improprieties in the manner in which we are compensated by insurance companies. The final outcome of these and similar matters, and related costs, cannot be determined. An unfavorable resolution of these matters could adversely affect our results of operations.

OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION OR LIQUIDITY MAY BE MATERIALLY ADVERSELY AFFECTED BY ERRORS AND OMISSIONS AND THE OUTCOME OF CERTAIN FACTUAL AND POTENTIAL CLAIMS, LAWSUITS AND PROCEEDINGS.

We may be subject to various actual and potential claims, lawsuits and other proceedings relating principally to alleged errors and omissions in connection with the placement of insurance in the ordinary course of business. Because we often assist clients with matters involving substantial amounts of money, including the placement of insurance and the handling of related claims, errors and omissions claims against us may arise which allege potential liability for all or part of the amounts in question. Claimants may seek large damage awards and these claims may involve potentially significant legal costs. Such claims, lawsuits and other proceedings could, for example, include claims for damages based on allegations that our employees or sub-agents improperly failed to procure coverage, report claims on behalf of clients, provide insurance companies with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our clients on a fiduciary basis. We have established provisions against these items which we believe to be adequate in the light of current information and legal advice, and we adjust such provisions from time to time according to developments.

While most of the errors and omissions claims made against us have, subject to our self-insured deductibles, been covered by our professional indemnity insurance, our business, results of operations, financial condition and liquidity may be adversely affected if, in the future, our insurance coverage proves to be inadequate or unavailable or there is an increase in liabilities for which we self-insure. Our ability to obtain professional indemnity insurance in the amounts and with the deductibles we desire in the future may be adversely impacted by general developments in the market for such insurance or our own claims experience. In addition, claims, lawsuits and other proceedings may harm our reputation or divert management resources away from operating our business.

WE DERIVE A SIGNIFICANT PORTION OF OUR COMMISSION REVENUES FROM TWO INSURANCE COMPANIES, THE LOSS OF WHICH COULD RESULT IN ADDITIONAL EXPENSE AND LOSS OF MARKET SHARE.

For the year ended December 31, 2005, approximately 8.0% and 5.4%, respectively, of our total revenues were derived from insurance policies underwritten by two separate insurance companies, respectively. Should either of these insurance companies seek to terminate their arrangements with us, we believe that other insurance companies are available to underwrite the business, although some additional expense and loss of market share could possibly result. No other insurance company accounts for 5% or more of our total revenues.

BECAUSE OUR BUSINESS IS HIGHLY CONCENTRATED IN CALIFORNIA, FLORIDA, GEORGIA, NEW JERSEY, NEW YORK, PENNSYLVANIA AND WASHINGTON, ADVERSE ECONOMIC CONDITIONS OR REGULATORY CHANGES IN THESE STATES COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

A significant portion of our business is concentrated in California, Florida, Georgia, New Jersey, New York, Pennsylvania and Washington. For the years ended December 31, 2005 and December 31, 2004, we derived $554.8 million, or 70.6%, and $468.7 million, or 72.5%, of our commissions and fees from our operations located in these states, respectively. We believe that these revenues are attributable predominately to clients in these states. We believe the regulatory environment for insurance agencies in these states currently is no more restrictive than in other states. The insurance business is a state-regulated industry, and therefore, state legislatures may enact laws that adversely affect the insurance industry. Because our business is concentrated in a few states, we face greater exposure to unfavorable changes in regulatory conditions in those states than insurance agencies whose operations are more diversified through a greater number of states. In addition, the occurrence of adverse economic conditions, natural or other disasters, or other circumstances specific to or otherwise significantly impacting these states could adversely affect our financial condition and results of operations.

OUR GROWTH STRATEGY DEPENDS IN PART ON THE ACQUISITION OF INSURANCE AGENCIES, WHICH MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS IN THE FUTURE AND WHICH, IF CONSUMMATED, MAY NOT BE ADVANTAGEOUS TO US.

Our growth strategy includes the acquisition of insurance agencies. Our ability to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations, and expand into new markets will require us to continue to implement and improve our operations, financial, and management information systems. Integrated, acquired entities may not achieve levels of revenue, profitability, or productivity comparable to our existing locations, or otherwise perform as expected. In addition, we compete for acquisition and expansion opportunities with entities that have substantially greater resources. Acquisitions also involve a number of special risks, such as: diversion of management's attention; difficulties in the integration of acquired operations and retention of personnel; entry into unfamiliar markets; unanticipated problems or legal liabilities; and tax and accounting issues, some or all of which could have a material adverse effect on the results of our operations and our financial condition.

OUR CURRENT MARKET SHARE MAY DECREASE AS A RESULT OF INCREASED COMPETITION FROM INSURANCE COMPANIES AND THE FINANCIAL SERVICES INDUSTRY.

The insurance agency business is highly competitive and we actively compete with numerous firms for clients and insurance companies, many of which have relationships with insurance companies or have a significant presence in niche insurance markets, that may give them an advantage over us. Because relationships between insurance agencies and insurance companies or clients are often local or regional in nature, this potential competitive disadvantage is particularly pronounced outside of Florida. A number of insurance companies are engaged in the direct sale of insurance, primarily to individuals, and do not pay commissions to agents and brokers. In addition, as and to the extent that banks, securities firms and insurance companies affiliate, the financial services industry may experience further consolidation, and we therefore may experience increased competition from insurance companies and the financial services industry, as a growing number of larger financial institutions increasingly, and aggressively, offer a wider variety of financial services, including insurance, than we currently offer.

PROPOSED TORT REFORM LEGISLATION, IF ENACTED, COULD DECREASE DEMAND FOR LIABILITY INSURANCE, THEREBY REDUCING OUR COMMISSION REVENUES.

Legislation concerning tort reform has been considered, from time to time, in the United States Congress and in several states. Among the provisions considered for inclusion in such legislation have been limitations on damage awards, including punitive damages, and various restrictions applicable to class action lawsuits. Enactment of these or similar provisions by Congress, or by states in which we sell insurance, could result in a reduction in the demand for liability insurance policies or a decrease in policy limits of such policies sold, thereby reducing our commission revenues.

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WE COMPETE IN A HIGHLY REGULATED INDUSTRY, WHICH MAY RESULT IN INCREASED EXPENSES OR RESTRICTIONS ON OUR OPERATIONS.

We conduct business in most states and are subject to comprehensive regulation and supervision by government agencies in the states in which we do business. The primary purpose of such regulation and supervision is to provide safeguards for policyholders rather than to protect the interests of stockholders. The laws of the various state jurisdictions establish supervisory agencies with broad administrative powers with respect to, among other things, licensing to transact business, licensing of agents, admittance of assets, regulating premium rates, approving policy forms, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, requiring participation in guarantee funds and shared market mechanisms, and restricting payment of dividends. Also, in response to perceived excessive cost or inadequacy of available insurance, states have from time to time created state insurance funds and assigned risk pools, which compete directly, on a subsidized basis, with private insurance providers. We act as agents and brokers for such state insurance funds in California and certain other states. These state funds could choose to reduce the sales or brokerage commissions we receive. Any such event, in a state in which we have substantial operations, such as Florida, Arizona or New York, could substantially affect the profitability of our operations in such state, or cause us to change our marketing focus. State insurance regulators and the National Association of Insurance Commissioners continually re-examine existing laws and regulations, and such re-examination may result in the enactment of insurance-related laws and regulations, or the issuance of interpretations thereof, that adversely affect our business. Although we believe that we are in compliance in all material respects with applicable local, state and federal laws, rules and regulations, there can be no assurance that more restrictive laws, rules or regulations will not be adopted in the future that could make compliance more difficult or expensive. Specifically, recently adopted federal financial services modernization legislation could lead to additional federal regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

PROFIT SHARING CONTINGENT COMMISSIONS AND OVERRIDES PAID BY INSURANCE COMPANIES ARE LESS PREDICTABLE THAN USUAL, WHICH IMPAIRS OUR ABILITY TO PREDICT THE AMOUNT OF SUCH COMMISSIONS THAT WE WILL RECEIVE.

We derive a portion of our revenues from profit sharing contingent commissions and overrides paid by insurance companies. The aggregate of these commissions generally accounts for 5.4% to 7.1% of the previous years total annual revenues over the last three years. Profit sharing contingent commissions are special revenue-sharing commissions paid by insurance companies based upon the volume and the growth and/or profitability of the business placed with such companies during the prior year. We primarily receive these commissions in the first and second quarters of each year. Override commissions are paid by insurance companies based on the volume of business that we place with them and are generally paid over the course of the year. Due to recent changes in our industry, including the agreement of at least one carrier with government regulators to cease payment of certain of such commissions and including changes in underwriting criteria due in part to the high loss ratios experienced by insurance companies, we cannot predict the payment of these commissions as well as we have been able to in the past. Further, we have no control over the ability of insurance companies to estimate loss reserves, which affects our ability to make profit-sharing calculations. Because these commissions affect our revenues, any decrease in their payment to us could adversely affect the results of our operations and our financial condition.

OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION OR LIQUIDITY MAY BE MATERIALLY ADVERSELY AFFECTED BY ERRORS AND OMISSIONS.

We have extensive operations and are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions. Because we often assist our clients with matters, including the placement of insurance coverage and the handling of related claims, that involve substantial amounts of money, errors and omissions claims against us may in turn allege our potential liability for all or part of the amounts in question, claimants can seek large damage awards and these claims can involve potentially significant defense costs. Errors and omissions could include, for example, our employees or sub-agents failing, whether negligently or intentionally, to place coverage or to notify insurance companies of claims on behalf of clients, to provide insurance companies with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our clients on a fiduciary basis. It is not always possible to prevent and detect errors and omissions and the precautions we take may not be effective in all cases. While most of the errors and omissions claims made against us have, subject to our self-insured deductibles, been covered by our professional liability insurance, our results of operations, financial condition or liquidity may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liabilities for which we self-insure. In addition, errors and omissions claims may harm our reputation or divert management resources away from operating our business.

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WE HAVE NOT DETERMINED THE AMOUNT OF RESOURCES AND THE TIME THAT WILL BE NECESSARY TO ADEQUATELY RESPOND TO RAPID TECHNOLOGICAL CHANGE IN OUR INDUSTRY, WHICH MAY ADVERSELY AFFECT OUR BUSINESS AND OPERATING RESULTS.

Frequent technological changes, new products and services and evolving industry standards are all influencing the insurance business. The Internet, for example, is increasingly used to transmit benefits and related information to clients and to facilitate business-to-business information exchange and transactions. We believe that the development and implementation of new technologies will require additional investment of our capital resources in the future. We have not determined, however, the amount of resources and the time that this development and implementation may require, which may result in short-term, unexpected interruptions to our business, or may result in a competitive disadvantage in price and/or efficiency, as we endeavor to develop or implement new technologies.

QUARTERLY AND ANNUAL VARIATIONS IN OUR COMMISSIONS THAT RESULT FROM THE TIMING OF POLICY RENEWALS AND THE NET EFFECT OF NEW AND LOST BUSINESS PRODUCTION MAY HAVE UNEXPECTED EFFECTS ON OUR RESULTS OF OPERATIONS.

Our commission income (including contingent commissions but excluding fees), can vary quarterly or annually due to the timing of policy renewals and the net effect of new and lost business production. The factors that cause these variations are not within our control. Specifically, consumer demand for insurance products can influence the timing of renewals, new business and lost business, which includes generally policies that are not renewed, and cancellations. In addition, as discussed, we rely on insurance companies for the payment of certain commissions. Because these payments are processed internally by these insurance companies, we may not receive a payment that is otherwise expected from a particular insurance company in one of our quarters or years until after the end of that period, which can adversely affect our ability to budget for significant future expenditures. Quarterly and annual fluctuations in revenues based on increases and decreases associated with the timing of policy renewals have had an adverse effect on our financial condition in the past, and we may experience such effects in the future.

WE MAY EXPERIENCE VOLATILITY IN OUR STOCK PRICE THAT COULD AFFECT YOUR INVESTMENT.

The market price of our common stock may be subject to significant fluctuations in response to various factors, including: quarterly fluctuations in our operating results; changes in securities analysts' estimates of our future earnings; and our loss of significant customers or significant business developments relating to us or our competitors. Our common stock's market price also may be affected by our ability to meet analysts' expectations and any failure to meet such expectations, even if minor, could cause the market price of our common stock to decline. In addition, stock markets have generally experienced a high level of price and volume volatility, and the market prices of equity securities of many companies have experienced wide price fluctuations not necessarily related to the operating performance of such companies. These broad market fluctuations may adversely affect our common stock's market price. In the past, securities class action lawsuits frequently have been instituted against companies following periods of volatility in the market price of such companies' securities. If any such litigation is instigated against us, it could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business, results of operations and financial condition.

THE LOSS OF ANY MEMBER OF OUR SENIOR MANAGEMENT TEAM, PARTICULARLY OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, J. HYATT BROWN, COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND FUTURE OPERATING RESULTS.

We believe that our future success depends, in part, on our ability to attract and retain experienced personnel, including its senior management, brokers and other key personnel. The loss of any of our senior managers or other key personnel, or our inability to identify, recruit and retain such personnel, could materially and adversely affect our business, operating results and financial condition. Although we operate with a decentralized management system, the loss of the services of J. Hyatt Brown, our Chairman, and Chief Executive Officer, who beneficially owned approximately 16% of our outstanding common stock as of February 2, 2006, and is key to the development and implementation of our business strategy, could adversely affect our financial condition and future operating results. We maintain a $5 million "key man" life insurance policy with respect to Mr. Brown. We also maintain a $20 million insurance policy on the lives of Mr. Brown and his wife. Under the terms of an agreement with Mr. and Mrs. Brown, at the option of the Brown estate, we will purchase, upon the death of the later to die of Mr. Brown or his wife, shares of our common stock owned by Mr. and Mrs. Brown up to the maximum number that would exhaust the proceeds of the policy.

CERTAIN OF OUR EXISTING STOCKHOLDERS HAVE SIGNIFICANT CONTROL.

At February 2, 2006, our executive officers, directors and certain of their family members collectively beneficially owned approximately 20% of our outstanding common stock, of which J. Hyatt Brown, our Chairman and Chief Executive Officer, beneficially owned approximately 16%. As a result, our executive officers, directors and certain of their family members have significant influence over (1) the election of our Board of Directors, (2) the approval or disapproval of any other matters requiring stockholder approval, and (3) the affairs and policies of Brown and Brown.

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RECENTLY ENACTED CHANGES IN THE SECURITIES LAWS AND REGULATIONS MAY TO INCREASE OUR COSTS.

The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of that Act, the Securities and Exchange Commission and the New York Stock Exchange have promulgated new rules on a variety of subjects. Compliance with these new rules has increased our legal and financial and accounting costs, and we expect these increased costs to continue indefinitely. We also expect these developments to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our board of directors or qualified executive officers.

DUE TO INHERENT LIMITATIONS, THERE CAN BE NO ASSURANCE THAT OUR SYSTEM OF DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES WILL BE SUCCESSFUL IN PREVENTING ALL ERRORS OR FRAUD, OR IN INFORMING MANAGEMENT OF ALL MATERIAL INFORMATION IN TIMELY MANNER.

Our management, including our CEO and CFO, does not expect that our disclosure controls and internal controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system reflects 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 simply because of 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 may not be detected.

IF WE RECEIVE OTHER THAN AN UNQUALIFIED OPINION ON THE ADEQUACY OF OUR INTERNAL CONTROL OVER FINANCIAL REPORTING AS OF DECEMBER 31, 2006 AND FUTURE YEAR-ENDS AS REQUIRED BY SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002, INVESTORS COULD LOSE CONFIDENCE IN THE RELIABILITY OF OUR FINANCIAL STATEMENTS, WHICH COULD RESULT IN A DECREASE IN THE VALUE OF YOUR SHARES.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include an annual report on internal control over financial reporting on Form 10-K that contains an assessment by management of the effectiveness of the company’s internal control over financial reporting. In addition, the public accounting firm auditing the company’s financial statements must attest to and report on management’s assessment of the effectiveness of the company’s internal control over financial reporting. While we continuously conduct a rigorous review of our internal control over financial reporting in order to assure compliance with the Section 404 requirements, if our independent auditors interpret the Section 404 requirements and the related rules and regulations differently from us or if our independent auditors are not satisfied with our internal control over financial reporting or with the level at which it is documented, operated or reviewed, they may decline to attest to management’s assessment or issue a qualified report. A qualified opinion could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

THERE ARE INHERENT UNCERTAINTIES INVOLVED IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS USED IN THE PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP IN THE UNITED STATES OF AMERICA ANY CHANGES IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS.

The consolidated and condensed Consolidated Financial Statements included in the periodic reports we file with the Securities and Exchange Commission are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The preparation of financial statements in accordance with GAAP in the United States of America involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations.

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ITEM 1B. ***Unresolved Staff Comments.***

None.

ITEM 2. ***Properties.***

We lease our executive offices, which are located at 220 South Ridgewood Avenue, Daytona Beach, Florida 32114, and 3101 W. Martin Luther King Jr. Blvd., Suite 400, Tampa, Florida 33607. We lease offices at each of our 170 locations with the exception of the following, where we own the buildings in which our offices are located: Dansville and Jamestown, New York. In addition, we own a building in Loreauville, Louisiana where we no longer have an office, as well as a parcel of undeveloped property outside of Lafayette, Louisiana. There are no outstanding mortgages on our owned properties. Our operating leases expire on various dates. These leases generally contain renewal options and rent escalation clauses based on increases in the lessors' operating expenses and other charges. We expect that most leases will be renewed or replaced upon expiration. We believe that our facilities are suitable and adequate for present purposes, and that the productive capacity in such facilities is substantially being utilized. From time to time, we may have unused space and seek to sublet such space to third parties, depending on the demand for office space in the locations involved. In the future, we may need to purchase, build or lease additional facilities to meet the requirements projected in our long-term business plan. See Note 13 to the Consolidated Financial Statements for additional information on our lease commitments.

ITEM 3. ***Legal Proceedings***.

See Note 13 to the Consolidated Financial Statements for information regarding our legal proceedings.

ITEM 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during our fourth quarter ended December 31, 2005.

PART II

ITEM 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol "BRO". The table below sets forth, for the quarterly periods indicated, the intra-day high and low sales prices for our common stock as reported on the NYSE Composite Tape and dividends declared on our common stock. All per share amounts have been restated to give effect to the two-for-one common stock split effected on November 28, 2005.

	High	Low	Cash Dividends Per Common Share
2004			
First Quarter	$ 19.72	$ 16.01	$ 0.035
Second Quarter	$ 21.84	$ 18.47	$ 0.035
Third Quarter	$ 23.08	$ 20.18	$ 0.035
Fourth Quarter	$ 23.38	$ 19.30	$ 0.040

2005						
First Quarter	$	24.27	$	21.13	$	0.040
Second Quarter	$	23.75	$	21.00	$	0.040
Third Quarter	$	25.39	$	21.31	$	0.040
Fourth Quarter	$	31.90	$	23.85	$	0.050

On March 10, 2006, there were 139,397,938 shares of our common stock outstanding, held by approximately 1,238 shareholders of record.

We intend to continue to pay quarterly dividends, subject to continued capital availability and a determination that cash dividends continue to be in the best interests of our stockholders. Our dividend policy may be affected by, among other items, our views on potential future capital requirements, including those relating to creation and expansion of sales distribution channels and investments and acquisitions, legal risks, stock repurchase programs and challenges to our business model.

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Equity Compensation Plan Information

The following table sets forth information as of December 31, 2005, with respect to compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	2,016,988	$10.69	15,187,482
Equity compensation plans not approved by shareholders	-	-	-
Total	2,016,988	$10.69	15,187,482

Sales of Unregistered Securities

We made no sales of unregistered securities during the fourth quarter of 2005.

Issuer Purchases of Equity Securities

We did not purchase any shares of Brown & Brown, Inc. common stock during the fourth quarter of 2005.

ITEM 6. *Selected Financial Data.*

The following selected Consolidated Financial Data for each of the five fiscal years in the period ended December 31, 2005 have been derived from our Consolidated Financial Statements. Such data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this Annual Report and with our Consolidated Financial Statements and related Notes thereto in Item 8 of Part II of this Annual Report.

(in thousands, except per share data, number of employees and percentages) (1)	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
REVENUES					
Commissions & fees (2)	$ 775,543	$ 638,267	$ 545,287	$ 452,289	$ 359,697
Investment income	6,578	2,715	1,428	2,945	3,686
Other income	3,686	5,952	4,325	508	1,646

Total revenues	785,807	646,934	551,040	455,742	365,029
EXPENSES					
Employee compensation and benefits	374,943	314,221	268,372	224,755	187,653
Non-cash stock grant compensation	3,337	2,625	2,272	3,823	1,984
Other operating expenses	105,622	84,927	74,617	66,554	56,815
Amortization	33,245	22,146	17,470	14,042	15,860
Depreciation	10,061	8,910	8,203	7,245	6,536
Interest	14,469	7,156	3,624	4,659	5,703
Total expenses	541,677	439,985	374,558	321,078	274,551
Income before income taxes and minority interest	244,130	206,949	176,482	134,664	90,478
Income taxes	93,579	78,106	66,160	49,271	34,834
Minority interest, net of tax	-	-	-	2,271	1,731
Net income	$ 150,551	$ 128,843	$ 110,322	$ 83,122	$ 53,913
EARNINGS PER SHARE INFORMATION					
Net income per share - diluted	$ 1.08	$ 0.93	$ 0.80	$ 0.61	$ 0.43
Weighted average number of shares outstanding - diluted	139,776	138,888	137,794	136,086	126,444
Dividends declared per share	$ 0.1700	$ 0.1450	$ 0.1213	$ 0.1000	$ 0.0800
YEAR-END FINANCIAL POSITION					
Total assets	$ 1,608,660	$ 1,249,517	$ 865,854	$ 754,349	$ 488,737
Long-term debt	$ 214,179	$ 227,063	$ 41,107	$ 57,585	$ 78,195
Shareholders' equity (3)	$ 764,344	$ 624,325	$ 498,035	$ 391,590	$ 175,285
Total shares outstanding	139,383	138,318	137,122	136,356	126,388
OTHER INFORMATION					
Number of full-time equivalent employees	4,540	3,960	3,517	3,384	2,921
Revenue per average number of employees	$ 184,896	$ 173,046	$ 159,699	$ 144,565	$ 144,166
Book value per share at year-end	$ 5.48	$ 4.51	$ 3.63	$ 2.87	$ 1.39
Stock price at year-end	$ 30.54	$ 21.78	$ 16.31	$ 16.16	$ 13.65
Stock price earnings multiple at year-end	28.35	23.41	20.38	26.49	32.12
Return on beginning shareholders' equity	24%	26%	28%	47%	46%

(1) All share and per share information has been restated to give effect to a two-for-one common stock split that became effective November 28, 2005.

(2) See Note 2 to the Consolidated Financial Statements for information regarding business purchase transactions which impact the comparability of this information.

(3) Shareholders’ equity as of December 31, 2005, 2004, 2003, 2002 and 2001 included net increases of $4,446,000, $4,467,000, $4,227,000, $2,106,000 and $4,393,000, respectively, as a result of the Company’s applications of Statement of Financial Accounting Standards (SFAS) 115, “Accounting for Certain Investments in Debt and Equity Securities,” and SFAS 133, “Accounting for Derivatives Instruments and Hedging Activities.”

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ITEM 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

GENERAL

The following discussion should be read in conjunction with our Consolidated Financial Statements and the related Notes to those Consolidated Financial Statements, included elsewhere in this Annual Report. All share and per share information has been restated to give effect to a two-for-one common stock split that become effective November 28, 2005.

We are a diversified insurance agency, brokerage and services organization headquartered in Daytona Beach and Tampa, Florida. Since 1993, our stated corporate objective has been to increase our net income per share by at least 15% every year. We have increased revenues from $95.6 million in 1993 (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to $785.8 million in 2005, a compound annual growth rate of 19.2%. In the same period, we increased net income from $8.0 million (as originally stated, without giving effect to any subsequent acquisitions accounted for under the pooling-of-interests method of accounting) to $150.6 million in 2005, a compound annual growth rate of 27.7%. We have also increased net income per share 15.0% or more for 13 consecutive years, excluding the effect of a one-time investment gain of $1.3 million in 1994 and favorable adjustments to our income tax reserves of $0.7 million in 1994 and $0.5 million in 1995, respectively. Since 1993, excluding the historical impact of poolings, our pre-tax margins (income before income taxes and minority interest divided by total revenues) improved in all but one year, and in that year, the pre-tax margin was essentially flat. These improvements have resulted primarily from net new business growth (new business production offset by lost business), revenues generated by acquisitions and continued operating efficiencies. Our revenue growth in 2005 was driven by: (i) net new business growth; and (ii) the acquisition of 32 agency entities and several books of business (customer accounts), generating total annualized revenues of approximately $125.9 million.

Our commissions and fees revenue are comprised of commissions paid by insurance companies and fees paid directly by customers. Commission revenues generally represent a percentage of the premium paid by the insured and are materially affected by fluctuations in both premium rate levels charged by insurance companies and the insureds' underlying "insurable exposure units," which are units that insurance companies use to measure or express insurance exposed to risk (such as property values, sales and payroll levels) so as to determine what premium to charge the insured. These premium rates are established by insurance companies based upon many factors, including reinsurance rates, none of which we control. Beginning in 1986 and continuing through 1999, commission revenues were adversely influenced by a consistent decline in premium rates resulting from intense competition among property and casualty insurance companies for market share. Among other factors, this condition of a prevailing decline in premium rates, commonly referred to as a "soft market," generally resulted in flat to reduced commissions on renewal business. The effect of this softness in rates on our commission revenues was somewhat offset by our acquisitions and net new business production. As a result of increasing "loss ratios" (the comparison of incurred losses plus adjustment expenses against earned premiums) of insurance companies through 1999, there was a general increase in premium rates beginning in the first quarter of 2000 and continuing into 2003. During 2003, the increases in premium rates began to moderate, and in certain lines of insurance, premium rates decreased. In 2004, as general premium rates continued to moderate, the insurance industry experienced the worst hurricane season since 1992 when Hurricane Andrew hit south Florida. The insured losses from the 2004 hurricane season were absorbed relatively easily by the insurance industry and the general insurance premium rates continued to soften during 2005. During the third quarter of 2005, the insurance industry experienced the worst hurricane season ever recorded. Primarily as a result of these hurricanes, including Hurricanes Katrina, Rita and Wilma, the total insured losses are estimated to be in excess of $50 billion. The full impact that the 2005 insured losses will have on the insurance premium rates charged by insurance companies for 2006 is unknown, however, there appears to be a general consensus that there will be upward pressure on at least the insurance premium rates on coastal property, primarily in the southeastern part of the United States.

The volume of business from new and existing insured customers, fluctuations in insurable exposure units and changes in general economic and competitive conditions further impact our revenues. For example, the increasing costs of litigation settlements and awards have caused some customers to seek higher levels of insurance coverage. Conversely, level rates of inflation and the general decline of economic activity in recent years have limited the increases in the values of insurable exposure units. Still, our revenues continue to grow as a result of an intense focus on net new business growth and acquisitions. We anticipate that results of operations will continue to be influenced by these competitive and economic conditions in 2006.

We also earn "contingent commissions," which are profit-sharing commissions based primarily on underwriting results, but may also reflect considerations for volume, growth and/or retention. These commissions are primarily received in the first and second quarters of each year, based on underwriting results and other aforementioned considerations for the prior year(s), and, over the last three years, have averaged approximately 6.0% of the previous year's total commissions and fees revenue. Contingent commissions are included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" excludes contingent commissions and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered.

Fee revenues are generated primarily by our Services Division, which provides insurance-related services, including third-party administration and consulting for the self-funded workers' compensation markets. In each of the past three years, fee revenues generated by the Services Division have declined as a percentage of our total commissions and fees, from 5.1% in 2003 to 3.4% in 2005. This declining trend is anticipated to continue as the revenues from our other reportable segments grow at a faster pace.

Investment income consists primarily of interest earnings on premiums and advance premiums collected and held in a fiduciary capacity before being remitted to insurance companies. Our policy is to invest available funds in high-quality, short-term fixed income investment securities. Investment income also includes gains and losses realized from the sale of investments.

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Acquisitions

During 2005, we acquired the assets of 32 insurance intermediary operations and several books of business (customer accounts). The aggregate purchase price was $288.6 million, including $244.0 million of net cash payments, the issuance of $38.1 million in notes payable and the assumption of $6.5 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $125.9 million.

During 2004, we acquired the assets of 29 insurance intermediary operations, several books of business (customer accounts) and the outstanding stock of three general insurance agencies. The aggregate purchase price was $199.3 million, including $190.6 million of net cash payments, the issuance of $1.4 million in notes payable and the assumption of $7.3 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $104.1 million.

During 2003, we acquired the assets and certain liabilities of 23 insurance intermediary operations, as well as the remaining 25% minority interest in Florida Intracoastal Underwriters, and several books of business (customer accounts). The aggregate purchase price was $86.2 million including $84.5 million of net cash payments, the issuance of $1.5 million in notes payable and the assumption of $0.2 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $45.8 million.

Critical Accounting Policies

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

We believe that, of our significant accounting policies (see “Note 1 - Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements), the following critical accounting policies may involve a higher degree of judgment and complexity.

Revenue Recognition

Commission revenues are recognized as of the effective date of the insurance policy or the date the policy premium is billed to the customer, whichever is later. At that date, the earnings process has been completed, and we can reliably estimate the impact of policy cancellations for refunds and establish reserves accordingly. Management determines the policy cancellation reserve based upon historical cancellation experience adjusted by known circumstances. Subsequent commission adjustments are recognized upon notification from the insurance companies. Contingent commissions from insurance companies are recognized when determinable, which is when such commissions are received. Fee revenues are recognized as services are rendered.

Business Acquisitions and Purchase Price Allocations

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

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, “Business Combinations,” all of our business combinations initiated after June 30, 2001 have been accounted for using the purchase method. In connection with these acquisitions, we record the estimated value of the net tangible assets purchased and the value of the identifiable intangible assets purchased, which typically consist of purchased customer accounts and noncompete agreements. Purchased customer accounts include the physical records and files obtained from acquired businesses that contain information about insurance policies, customers and other matters essential to policy renewals, but it primarily represents the present value of the underlying cash flows expected to be received over the estimated future renewal periods of insurance policies comprising those purchased customer accounts. The valuation of purchased customer accounts involves significant estimates and assumptions concerning matters such as cancellation frequency, expenses and discount rates. Any change in these assumptions could affect the carrying value of purchased customer accounts. Noncompete agreements are valued based on the duration and any unique features of each specific agreement. Purchased customer accounts and noncompete agreements are amortized on a straight-line basis over the related estimated lives and contract periods, which range from five to 15 years. The excess of the purchase price of an acquisition over the fair value of the identifiable tangible and intangible assets is assigned to goodwill and is no longer amortized, in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets” (SFAS No. 142).

Intangible Assets Impairment

Effective January 1, 2002, we adopted SFAS No. 142, which requires that goodwill be subject to at least an annual assessment for impairment by applying a fair-value based test. Amortizable intangible assets are amortized over their useful lives and are subject to lower-of-cost-or-market impairment testing. SFAS No. 142 requires us to compare the fair value of each reporting unit with its carrying value to determine if there is potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Fair value is estimated based on multiples of revenues, earnings before interest, income taxes, depreciation and amortization (EBITDA), and pre-tax income.

Management assesses the recoverability of our goodwill on an annual basis, and of our amortizable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) significant decline in our market capitalization. If the recoverability of these assets is unlikely because of the existence of one or more of the above-referenced factors, an impairment analysis is performed. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or related assumptions change in the future, we may be required to revise the assessment and, if appropriate, record an impairment charge. We completed our most recent evaluation of impairment for goodwill as of November 30, 2005 and identified no impairment as a result of the evaluation.

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Reserves for Litigation

We are subject to numerous litigation claims that arise in the ordinary course of business. In accordance with SFAS No. 5, "Accounting for Contingencies," if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss is estimable, an accrual for the costs to resolve these claims is recorded in accrued expenses in the accompanying Consolidated Balance Sheets. Professional fees related to these claims are included in other operating expenses in the accompanying Consolidated Statements of Income. Management, with the assistance of outside counsel, determines whether it is probable that a liability has been incurred and estimates the amount of loss based upon analysis of individual issues. New developments or changes in settlement strategy in dealing with these matters may significantly affect the required reserves and impact our net income.

Derivative Instruments

In 2002, we entered into one derivative financial instrument - an interest rate exchange agreement, or "swap" - to manage the exposure to fluctuations in interest rates on our $90 million variable rate debt. As of December 31, 2005, we maintained this swap agreement, whereby we pay a fixed rate on the notional amount to a bank and the bank pays us a variable rate on the notional amount equal to a base London InterBank Offering Rate (LIBOR). We have assessed this derivative as a highly effective cash flow hedge, and accordingly, changes in the fair market value of the swap are reflected in other comprehensive income. The fair market value of this instrument is determined by quotes obtained from the related counter-parties in combination with a valuation model utilizing discounted cash flows. The valuation of this derivative instrument is a significant estimate that is largely affected by changes in interest rates. If interest rates increase or decrease, the value of this instrument will change accordingly.

New Accounting Pronouncements

See Note 1 of the Notes to Consolidated Financial Statements for a discussion of the effects of the adoption of new accounting standards.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

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

Financial information relating to our Consolidated Financial Results is as follows (in thousands, except percentages):

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	$ 740,567	21.9%	$ 607,615	18.5%	$ 512,753
Contingent commissions	34,976	14.1%	30,652	(5.8)%	32,534
Investment income	6,578	142.3%	2,715	90.1%	1,428
Other income, net	3,686	(38.1)%	5,952	37.6%	4,325
Total revenues	785,807	21.5%	646,934	17.4%	551,040
EXPENSES					
Employee compensation and benefits	374,943	19.3%	314,221	17.1%	268,372

Non-cash stock grant compensation		3,337	27.1%		2,625	15.5%		2,272
Other operating expenses		105,622	24.4%		84,927	13.8%		74,617
Amortization		33,245	50.1%		22,146	26.8%		17,470
Depreciation		10,061	12.9%		8,910	8.6%		8,203
Interest		14,469	102.2%		7,156	97.5%		3,624
Total expenses		541,677	23.1%		439,985	17.5%		374,558
Income before income taxes	$	244,130	18.0%	$	206,949	17.3%	$	176,482
Net internal growth rate - core commissions and fees		3.1%			4.3%			5.9
Employee compensation and benefits ratio		47.7%			48.6%			48.7
Other operating expenses ratio		13.4%			13.1%			13.5
Capital expenditures	$	13,426		$	10,152		$	15,946
Total assets at December 31	$	1,608,660		$	1,249,517		$	865,854

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Commissions and Fees

Commissions and fees revenue, including contingent commissions, increased 21.5% in 2005, 17.1% in 2004 and 20.6% in 2003. Core commissions and fees revenue increased 3.1% in 2005, 4.3% in 2004 and 5.9% in 2003, when excluding commissions and fees revenue generated from acquired operations and also from divested operations. The 2005 results reflect the continued moderation of the premium rate growth that began in 2004 compared with the slightly higher premium growth rates that occurred in 2003.

Investment Income

Investment income increased to $6.6 million in 2005, compared with $2.7 million in 2004 and $1.4 million in 2003. The increases in 2005 over 2004, and 2004 over 2003 were primarily the result of higher investment yields earned each sequential year along with higher average available cash balances for each successive year.

Other Income, net

Other income consists primarily of gains and losses from the sale and disposition of assets. In 2005, gains of $2.7 million were recognized from the sale of customer accounts as compared with $4.8 million and $4.0 million in 2004 and 2003, respectively. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth. For these reasons, in 2004, we sold all four of our retail offices in North Dakota and our sole remaining operation in the medical third-party administration services business.

Employee Compensation and Benefits

Employee compensation and benefits increased approximately 19.3% in 2005, 17.1% in 2004 and 19.4% in 2003, primarily as a result of acquisitions and an increase in commissions paid on net new business. Employee compensation and benefits as a percentage of total revenues were 47.7% in 2005, 48.6% in 2004 and 48.7% in 2003, reflecting a gradual improvement in personnel efficiencies as revenues grow. We had 4,540 full-time equivalent employees at December 31, 2005, compared with 3,960 at December 31, 2004 and 3,517 at December 31, 2003.

Non-Cash Stock Grant Compensation

Non-cash stock grant compensation expense represents the expense required to be recorded under Accounting Principles Board Opinion (APB) No. 25, “Accounting for Stock Issued to Employees,” relating to our stock performance plan, which is more fully described in Note 11 of the Notes to Consolidated Financial Statements.

The annual cost of this stock performance plan increases only when our average stock price over a 20-trading-day period increases by increments of 20% or more from the price at the time of the original grant, or when additional shares are granted and the average stock price increases.

Since the first vesting condition for performance stock grants issued in 2001 was satisfied in 2002, when a 20-trading-day average stock price of $17.50 was reached, we issued another significant set of performance stock grants in January 2003 at a grant price per share of $17.50. There will be no expense relating to this set of performance stock grants until the 20-trading-day average stock price exceeds the $17.50 performance stock grant price by an increment of 20%. Additionally, other grants are periodically issued to new and existing employees.

During 2004, the average stock price exceeded the $21.00 average price for a 20-trading-day period required for the first 20% of the shares granted in January 2003 to be awarded, and therefore we began the annual expensing of such shares. As a result, the 2004 expense increased to $2.6 million from $2.3 million in 2003. During 2005, the average stock price exceeded the $28.00 average price for a 20-trading-day period required for the second and third 20% increments of the shares granted in January 2003 to be awarded, and as a result, the 2005 expense increased to $3.3 million from $2.6 million in 2004.

During 2003, since the average price of our stock never exceeded any of the 20% thresholds of the grants priced at $17.50 per share, the only expense related to our stock performance plan was the annual expense of grants issued prior to 2003, which was then partially offset by expense credits from forfeitures. As a result, the 2003 expense decreased to $2.3 million from $3.8 million in 2002.

Other Operating Expenses

As a percentage of total revenues, other operating expenses increased to 13.4% in 2005 from 13.1% in 2004, which in turn was a decrease from 13.5% in 2003. Legal and professional fee expenses increased $4.4 million in 2005 over the amount expended in 2004, which in turn was $1.2 million greater than what was expended in 2003. The increase in legal and professional fee expenses was primarily the result of the various ongoing investigations and litigation relating to agent and broker compensation, including contingent commissions, by state regulators and, to a lesser extent, by the requirements of compliance with the Sarbanes-Oxley Act of 2002. Offsetting these expenses in 2004 was approximately $1.0 million in reductions to our litigation and claims reserve. Excluding the impact of these increased legal and professional fee expenses, other operating expenses declined as a percentage of total revenues each year from 2003 to 2005, which is attributable to the effective cost containment measures brought about by our initiative designed to identify areas of excess expense. This decrease is also due to the fact that, in a net internal revenue growth environment, certain significant other operating expenses such as office rent, office supplies, data processing, and telephone costs, increase at a slower rate than commissions and fees revenue increase during the same period.

Amortization

Amortization expense increased $11.1 million, or 50.1% in 2005, increased $4.7 million, or 26.8% in 2004, and increased $3.4 million, or 24.4% in 2003. As part of our annual impairment assessment as of November 30, 2004, management determined that the maximum amortization period for the intangible asset, purchased customer accounts, should be reduced from 20 years to 15 years. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in the 2005 and 2004 amortization expense of $6.4 million, and $0.5 million, a decrease in net income of $3.9 million and $0.3 million, and a decrease of $0.03 and nil ($0) earnings per share, respectively. The remaining increases in 2005 and 2004 were due to the amortization of additional intangible assets as a result of new acquisitions.

Depreciation

Depreciation increased 12.9% in 2005, 8.6% in 2004 and 13.2% in 2003. These increases were primarily due to the purchase of new computers, related equipment and software, and the depreciation associated with new acquisitions.

Interest Expense

Interest expense increased $7.3 million, or 102.2%, in 2005 and $3.5 million or 97.5% in 2004 as a result of the funding of $200 million of unsecured senior notes in the third quarter of 2004.

Income Taxes

The effective tax rate on income from operations was 38.3% in 2005, 37.7% in 2004 and 37.5% in 2003. The higher effective tax rate in 2005, compared with 2004 and 2003, was primarily the result of increased amounts of business conducted in states having higher state tax rates.

RESULTS OF OPERATIONS - SEGMENT INFORMATION

As discussed in Note 16 of the Notes to Consolidated Financial Statements, we operate in four reportable segments: the Retail, National Programs, Brokerage and Service Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses are the result of new acquisitions within that division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. Additionally, increases in non-cash stock grant compensation is more dependent on increases in the Company’s 20 trading-day average stock price than on the divisional results. As such, in evaluating the operational efficiency of a division, management places greater emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of employee compensation and benefits to total revenues, and the gradual improvement of the ratio of other operating expenses to total revenues.

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Retail Division

The Retail Division provides a broad range of insurance products and services to commercial, public entity, professional and individual insured customers. More than 96% of the Retail Division's commissions and fees revenue are commission-based. Since the majority of our operating expenses do not change as premiums fluctuate, we believe that most of any fluctuation in the commissions that we receive will be reflected in our pre-tax income. The Retail Division's commissions and fees revenue accounted for 72.5% of our total consolidated commissions and fees revenue in 2003 but declined to 63.1% in 2005, mainly due to continued acquisitions in the National Programs and Brokerage Divisions.

Financial information relating to Brown & Brown's Retail Division is as follows (in thousands, except percentages):

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	$ 461,236	6.8%	$ 431,767	16.4%	$ 371,004
Contingent commissions	28,330	8.3%	26,169	7.3%	24,381
Investment income	159	(72.0)%	567	930.9%	55
Other income, net	1,477	(48.1)%	2,845	(20.3)%	3,570
Total revenues	491,202	6.5%	461,348	15.6%	399,010
EXPENSES					
Employee compensation and benefits	233,124	3.4%	225,438	15.4%	195,323
Non-cash stock grant compensation	2,198	37.5%	1,599	(12.9)%	1,835
Other operating expenses	81,063	4.2%	77,780	15.3%	67,487
Amortization	19,368	26.5%	15,314	22.7%	12,476
Depreciation	5,641	(1.6)%	5,734	(0.6)%	5,771
Interest	20,927	(4.2)%	21,846	23.2%	17,732
Total expenses	362,321	4.2%	347,711	15.7%	300,624
Income before income taxes	$ 128,881	13.4%	$ 113,637	15.5%	$ 98,386
Net internal growth rate - core commissions and fees	0.6%		2.7%		4.0%
Employee compensation and benefits ratio	47.5%		48.9%		49.0%
Other operating expenses ratio	16.5%		16.9%		16.9%
Capital expenditures	$ 6,186		$ 5,568		$ 5,904
Total assets at December 31	$ 1,002,781		$ 843,823		$ 623,648

The Retail Division's total revenues in 2005 increased $29.9 million to $491.2 million, a 6.5% increase over 2004. Of this increase, approximately $28.9 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2004. The remaining increase was primarily due to net new business growth.

The Retail Division's net internal growth rate in core commissions and fees revenue was 0.6% in 2005, excluding revenues recognized in 2005 from new acquisitions and the 2004 commissions and fees revenue from divested business. The net internal growth rate of core commissions and fees revenue for the Retail Division in 2004 and 2003 was 2.7% and 4.0%, respectively. The decline in the net internal growth rate from core commissions and fees revenue from 2003 to 2005 primarily reflects the softening of insurance premium rates during that period.

Income before income taxes in 2005 increased $15.2 million to $128.9 million, a 13.4% increase over 2004. This increase was due to revenues from acquisitions, a positive net internal growth rate and the continued focus on holding our general expense growth rate to a lower percentage than our revenue growth rate.

The Retail Division's total revenues in 2004 increased $62.3 million to $461.3 million, a 15.6% increase over 2003. Of this increase, approximately $59.9 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2003. The remaining increase was primarily due to net new business growth. During 2004, we sold our four retail offices in North Dakota and other books of businesses in various offices. With respect to these assets sold during 2004, $6.7 million of core commissions and fees revenue were earned in 2003 for which there were no revenues recognized in the comparable 2004 period. Therefore, the Retail Division's net internal growth rate in core commissions and fees revenue was 2.7% in 2004, excluding revenues recognized in 2004 from new acquisitions and the 2003 core commissions and fees revenue from divested business.

Income before income taxes in 2004 increased $15.3 million to $113.6 million, a 15.5% increase over 2003. This increase was due to revenues from acquisitions, a positive net internal growth rate and the continued focus on holding our general expense growth rate to a lower percentage than our revenue growth rate.

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National Programs Division

The National Programs Division is comprised of two units: Professional Programs, which provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents; and Special Programs, which markets targeted products and services designated for specific industries, trade groups, public entities and market niches. Like the Retail Division, the National Programs Division's revenues are primarily commission-based.

Financial information relating to our National Programs Division is as follows (in thousands, except percentages):

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	$ 131,149	18.1%	$ 111,080	28.0%	$ 86,787
Contingent commissions	1,998	141.6%	827	(77.0)%	3,598
Investment income	367	164.0%	139	(2.8)%	143
Other income (loss), net	416	804.3%	46	(154.8)%	(84)
Total revenues	133,930	19.5%	112,092	23.9%	90,444
EXPENSES					
Employee compensation and benefits	54,238	19.8%	45,278	37.4%	32,951
Non-cash stock grant compensation	359	52.8%	235	36.6%	172
Other operating expenses	20,414	23.1%	16,581	26.5%	13,110
Amortization	8,103	37.8%	5,882	31.1%	4,488
Depreciation	1,998	26.2%	1,583	31.0%	1,208
Interest	10,433	21.3%	8,603	26.3%	6,810
Total expenses	95,545	22.2%	78,162	33.1%	58,739
Income before income taxes	$ 38,385	13.1%	$ 33,930	7.0%	$ 31,705
Net internal growth rate - core commissions and fees	3.9%		4.5%		11.2%
Employee compensation and benefits ratio	40.5%		40.4%		36.4%
Other operating expenses ratio	15.2%		14.8%		14.5%
Capital expenditures	$ 3,067		$ 2,693		$ 2,874
Total assets at December 31	$ 445,146		$ 359,551		$ 273,363

Total revenues in 2005 increased $21.8 million to $133.9 million, a 19.5% increase over 2004. Of this increase, approximately $17.9 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2004. The National Program Division's net internal growth rate for core commissions and fees revenue was 3.9%, excluding core commissions and fees revenue recognized in 2005 from new acquisitions. The majority of the internally generated growth in the 2005 core commissions and fees revenue was primarily related to increasing insurance premium rates in our condominium program at our Florida Intracoastal Underwriters (FIU) profit center that occurred as a result of the 2005 and 2004 hurricane seasons.

Income before income taxes and minority interest in 2005 increased $4.5 million to $38.4 million, a 13.1% increase over 2004, of which the majority related to the revenues derived from acquisitions completed in 2005 and the increased earnings at FIU.

Total revenues in 2004 increased $21.6 million to $112.1 million, a 23.9% increase over 2003. Of this increase, approximately $21.6 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2003. During 2004, we discontinued several programs, including our professional medical program, which generated approximately $1.2 million in revenues in 2003 but for which there were no comparable revenues in 2004. Therefore, the National Program Division's net internal growth rate for core commissions and fees revenue in 2004 was 4.5%, excluding core commissions and fees revenue recognized in 2004 from new acquisitions and the 2003 core commissions and fees revenue from divested business. The net internal growth rate for core commissions and fees revenue for the National Programs Division in 2003 was 11.2%. The decline in the net internal growth rates from core commissions and fees revenue from 2003 to 2004 was primarily related to declining insurance premium rates in our condominium program with our FIU profit center.

Income before income taxes and minority interest in 2004 increased $2.2 million to $33.9 million, a 7.0% increase over 2003, of which the majority related to the revenues derived from acquisitions completed in 2004, but offset primarily by lower earnings at FIU. The ratio of employee compensation and benefits to total revenues and the ratio of other operating expenses to total revenue were higher in 2004 than 2003, primarily due to two reasons: (1) 2004 total revenues reflected $2.8 million less profit-sharing contingency commissions income than in 2003 due primarily to the impact of the 2004 hurricanes in Florida, and (2) the 2003 and 2004 acquisitions reporting in this Division accounted for 27% of the Division's total revenues, but operated at a lower aggregate operating profit margin of approximately 38.0%, thereby diluting the historical aggregate operating profit margin of this Division.

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Brokerage Division

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

Financial information relating to our Brokerage Division is as follows (in thousands, except percentages):

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	$ 120,889	218.7%	$ 37,929	39.5%	$ 27,183
Contingent commissions	4,648	27.1%	3,656	(19.7)%	4,555
Investment income	1,599	-	-	-	-
Other (loss) income, net	(23)	(227.8)%	18	800.0%	2
Total revenues	127,113	205.5%	41,603	31.1%	31,740
EXPENSES					
Employee compensation and benefits	59,432	200.4%	19,782	47.3%	13,426
Non-cash stock grant compensation	164	64.0%	100	(39.0)%	164
Other operating expenses	19,808	153.9%	7,800	38.9%	5,614
Amortization	5,672	649.3%	757	142.6%	312
Depreciation	1,285	153.0%	508	53.5%	331
Interest	12,446	843.6%	1,319	72.4%	765
Total expenses	98,807	226.5%	30,266	46.8%	20,612
Income before income taxes	$ 28,306	149.7%	$ 11,337	1.9%	$ 11,128
Net internal growth rate - core commissions and fees	24.9%		14.1%		19.7%
Employee compensation and benefits ratio	46.8%		47.5%		42.3%
Other operating expenses ratio	15.6%		18.7%		17.7%
Capital expenditures	$ 1,969		$ 694		$ 824
Total assets at December 31	$ 476,653		$ 128,699		$ 74,390

Total revenues in 2005 increased $85.5 million to $127.1 million, a 205.5% increase over 2004. Of this increase, approximately $73.3 million related to core commissions and fees revenue from acquisitions for which there were no comparable revenues in 2004. The majority of this acquired revenue was from the March 1, 2005 acquisition of Hull & Company, which represented the largest acquisition in our history. Commissions and fees revenue of Hull & Company for the twelve months preceding March 1, 2005 was approximately $63.0 million. The Brokerage Division's net internal growth rate for core commissions and fees revenue in 2005 was 24.9%, excluding core commissions and fees revenue recognized in 2005 from new acquisitions. The strong net internal growth rate was generated primarily from two of our operations, one of which focuses on property accounts in the southeastern United States, and the other which focuses on construction accounts in the western part of the United States. In addition to the increase in net new business, both of these markets experienced increases in insurance premium rates during 2005.

As a result of the Brokerage Division’s significant acquisitions in 2005 and late 2004, as well as the net new business growth from existing operations, income before income taxes in 2005 increased $17.0 million to $28.3 million, a 149.7% increase over 2004. The ratio of employee compensation and benefits to total revenues and the ratio of other operating expenses to total revenue improved in 2005 over 2004, primarily due to two reasons: (1) the majority of the operations acquired in 2005 and 2004 operated at higher operating profit margins than the Brokerage Division's 2004 combined margins, and (2) during 2005, one of our largest brokerage profit center's branch improved their operating profit margins by over 9%.

Total revenues in 2004 increased $9.9 million to $41.6 million, a 31.1% increase over 2003. Of this increase, approximately $7.0 million related to core commissions and fees revenues from acquisitions for which there were no comparable revenues in 2003. The Brokerage Division’s net internal growth rate for core commissions and fees revenues in 2004 was 14.1%, excluding core commissions and fees revenues recognized in 2004 from new acquisitions. The net internal growth rate for core commissions and fees revenues for the Brokerage Division in 2003 was 19.7%. The decline in the net internal growth rates from core commissions and fees revenues in 2004 from 2003 was primarily related to the decline in the net new business generated by our reinsurance brokerage unit and the gradual softening of insurance premium rates.

As a result of the Brokerage Division’s net new business growth, income before income taxes in 2004 increased $0.2 million to $11.3 million, a 1.9% increase over 2003. The ratio of employee compensation and benefits to total revenues and the ratio of other operating expenses to total revenue were higher in 2004 than 2003, primarily due to two reasons: (1) 2004 total revenues reflected $0.9 million less profit-sharing contingency commissions than in 2003, and (2) during 2004, we started several new profit center branches and the start-up salaries and operational costs diluted the Division’s normal operating profit margins.

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Services Division

The Services Division provides insurance-related services, including third-party administration, consulting for the workers' compensation and employee benefit self-insurance markets, and managed healthcare services. Unlike our other segments, approximately 98.0% of the Services Division's 2005 commissions and fees revenue is generated from fees, which are not significantly affected by fluctuations in general insurance premiums.

Financial information relating to our Services Division is as follows (in thousands, except percentages):

	2005	Percent Change	2004	Percent Change	2003
REVENUES					
Commissions and fees	$ 26,565	2.9%	$ 25,807	(7.6)%	$ 27,920
Contingent commissions	-	-	-	-	-
Investment income	-	-	-	-	-
Other income, net	952	(5.0)%	1,002	49.3%	671
Total revenues	27,517	2.6%	26,809	(6.2)%	28,591
EXPENSES					
Employee compensation and benefits	15,582	4.2%	14,961	(5.8)%	15,876
Non-cash stock grant compensation	122	13.0%	108	(32.9)%	161
Other operating expenses	4,339	(11.0)%	4,873	(23.9)%	6,407
Amortization	43	19.4%	36	(2.7)%	37
Depreciation	435	12.4%	387	(8.5)%	423
Interest	4	(94.2)%	69	(57.4)%	162
Total expenses	20,525	0.4%	20,434	(11.4)%	23,066
Income before income taxes	$ 6,992	9.7%			