CONSTELLATION BRANDS, INC.
Form PRE 14A
May 15, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under §240.14a-12

CONSTELLATION BRANDS, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Preliminary Copy

ANNUAL MEETING OF STOCKHOLDERS

June [8], 2009

To Our Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Constellation Brands, Inc. at the **Rochester Riverside Convention Center**, 123 East Main Street, Rochester, New York 14604, on Thursday, July 23, 2009 at 11:00 a.m. (local time).

The attached Notice of Annual Meeting of Stockholders and Proxy Statement describe in detail the matters expected to be acted upon at the meeting. Also contained in this package is the Company s 2009 Annual Report to stockholders that contains important business and financial information concerning the Company.

We hope you are able to attend this year s Annual Meeting.

Very truly yours,

RICHARD SANDS

Chairman of the Board

Please note that the Rochester Riverside Convention Center is located at the corner of East Main Street and South Avenue in downtown Rochester, New York. Parking is available at the South Avenue Garage, the entrance to which is located on Stone Street. Additional parking is also available at other public garages in the area.

Preliminary Copy

CONSTELLATION BRANDS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JULY 23, 2009

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Meeting) of CONSTELLATION BRANDS, INC. (the Company) will be held at the Rochester Riverside Convention Center, 123 East Main Street, Rochester, New York 14604, on Thursday, July 23, 2009 at 11:00 a.m. (local time) for the following purposes as more fully described in the attached Proxy Statement:

1. To elect as directors of the Company the nominees named in the Proxy Statement (Proposal No. 1).

2. To ratify the selection of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending February 28, 2010 (Proposal No. 2).

3. To amend the Company s certificate of incorporation to increase the number of authorized shares of the Company s Class A Common Stock from 315,000,000 shares to 322,000,000 shares and the Company s Class 1 Common Stock from 15,000,000 shares to 25,000,000 shares (Proposal No. 3).

4. To approve the First Amendment to the Company s Long-Term Stock Incentive Plan (Proposal No. 4).

5. To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on May 26, 2009 as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting or any adjournment thereof.

The Proxy Statement and proxy card or proxy cards are enclosed.

WE HOPE YOU WILL ATTEND THIS MEETING IN PERSON, BUT, IF YOU CANNOT, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD(S). RETURN THE PROXY CARD(S) IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

BY ORDER OF THE BOARD OF DIRECTORS

DAVID S. SORCE, *Secretary*

June [8], 2009

Preliminary Copy

CONSTELLATION BRANDS, INC.

207 High Point Drive, Building 100

Victor, New York 14564

PROXY STATEMENT

2009 ANNUAL MEETING OF STOCKHOLDERS

This Proxy Statement is being furnished to the holders of the common stock of CONSTELLATION BRANDS, INC. (the Company, we, our or us) in connection with the solicitation of proxies by the Board of Directors of the Company (the Board). The proxies are for use at the Annual Meeting of Stockholders of the Company and at any adjournment thereof (the Meeting). The Meeting will be held on Thursday, July 23, 2009 at 11:00 a.m. (local time) at the Rochester Riverside Convention Center, 123 East Main Street, Rochester, New York 14604.

This Proxy Statement and the accompanying proxy cards are being mailed to stockholders beginning on or about June [15], 2009.

The shares represented by your proxy, if the proxy is properly executed and returned, and not revoked, will be voted at the Meeting as therein specified. You may revoke your proxy at any time before the proxy is exercised by delivering to the Secretary of the Company a written revocation or a duly executed proxy bearing a later date. You may also revoke your proxy by attending the Meeting and voting in person.

The shares represented by your proxy will be voted **FOR** the election of the director nominees named herein (Proposal No. 1), unless you specifically withhold authority to vote for one or more of the director nominees. Further, unless you indicate otherwise, the shares represented by your proxy will be voted **FOR** the ratification of the selection of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending February 28, 2010 (Proposal No. 2), **FOR** the proposal to amend the Company s certificate of incorporation to increase the number of authorized shares of the Company s Class A Common Stock from 315,000,000 shares to 322,000,000 shares and the Company s Class 1 Common Stock from 15,000,000 shares to 25,000,000 shares (Proposal No. 3), and **FOR** the proposal to approve the First Amendment to the Company s Long-Term Stock Incentive Plan (Proposal No. 4).

The outstanding common stock of the Company currently consists of Class A Common Stock, par value $.01 per share (Class A Stock), and Class B Common Stock, par value $.01 per share (Class B Stock). The Company is also authorized to issue Class 1 Common Stock, par value $.01 per share (Class 1 Stock); however, no shares of Class 1 Stock were issued or outstanding as of May 26, 2009 (the Record Date). Only holders of Class A Stock and Class B Stock are entitled to vote on Proposal Nos. 1, 2 and 4 described above. With respect to Proposal No. 3 described above, holders of Class A Stock and Class B Stock are entitled to vote on the proposed increase to the number of authorized shares of Class A Stock and holders of Class A Stock, Class B Stock and Class 1 Stock are entitled to vote on the proposed increase to the number of authorized shares of Class 1 Stock. Because there were no holders of Class 1 Stock on the Record Date, only holders of Class A Stock and Class B Stock will vote with respect to Proposal No. 3. Accordingly, the Company has enclosed with the proxy materials a Class A Stock proxy card and/or a Class B Stock proxy card, depending on the holdings of

the stockholder to whom proxy materials are mailed. Stockholders who receive both a proxy card for Class A Stock and a proxy card for Class B Stock must sign and return *both* proxy cards in accordance with their respective instructions to ensure the voting of the shares of each class owned.

The cost of soliciting proxies will be borne by the Company. In addition to solicitation by use of the mail, directors, officers or regular employees of the Company, without extra compensation, may solicit proxies in person or by telephone, facsimile, Internet or electronic mail. The Company has requested persons holding stock for others in their names or in the names of nominees to forward these materials to the beneficial owners of such shares. If requested, the Company will reimburse such persons for their reasonable expenses in forwarding these materials.

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JULY 23, 2009

This Proxy Statement and the Company s Annual Report for the fiscal year ended February 28, 2009 are available on the Investors page of our Web site. This page can be found at www.cbrands.com/CBI/constellationbrands/Investors.

VOTING SECURITIES

The capital stock of the Company entitled to be voted at the Meeting that was outstanding as of the Record Date consisted of ________ shares of Class A Stock and ________ shares of Class B Stock. Each share of Class B Stock is convertible into one share of Class A Stock at any time at the option of the holder.

Of the ________ shares of Class A Stock outstanding on the Record Date, ________ shares were held by CHESS Depositary Nominees Pty Ltd. (ACN 071 346 506) (CDN), a wholly-owned subsidiary of ASX Limited (ACN 008 624 691), the Australian Stock Exchange (the ASX). CDN has issued Constellation CHESS Depositary Interests (Constellation CDIs) that represent beneficial interests in the Class A Stock held by CDN. Constellation CDIs are traded on the electronic transfer and settlement system operated by the ASX. As of the Record Date, there were ________ Constellation CDIs outstanding that were held by approximately ________ holders of record. All references in this Proxy Statement to outstanding shares of Class A Stock include the shares of Class A Stock held by CDN, and all references to holders of Class A Stock include CDN.

Holders of Constellation CDIs receive all the economic and other benefits of actual ownership of Class A Stock at a ratio of ten (10) Constellation CDIs to each share of Class A Stock. Constellation CDIs can be converted to Class A Stock at any time at the option of the holder of the Constellation CDIs at a ratio of one (1) share of Class A Stock for each ten (10) Constellation CDIs. Holders of Constellation CDIs have the right to attend meetings of stockholders of the Company and to direct the vote of the underlying shares of Class A Stock represented by their Constellation CDIs. CDN, as the holder of record of the underlying shares of Class A Stock represented by the Constellation CDIs, will vote such shares in accordance with the directions of the holders of the Constellation CDIs. If CDN does not receive a direction from a holder of Constellation CDIs as to how to vote the underlying shares represented by those Constellation CDIs, those shares will not be voted and will not be considered present at the Meeting for quorum purposes. A holder of Constellation CDIs will be entitled to vote at the Meeting only if such holder directs CDN to designate such holder as proxy to vote the underlying shares of Class A Stock represented by the Constellation CDIs held by such holder. A form to be used to direct CDN how to vote underlying shares of Class A Stock represented by Constellation CDIs is being delivered with this Proxy Statement to each holder of Constellation CDIs.

Only holders of record of Class A Stock and Class B Stock on the books of the Company at the close of business on May 26, 2009, the Record Date for eligibility to vote at the Meeting, are entitled to notice of and to vote at the Meeting and at any adjournment thereof. Under arrangements established between the Company and CDN in connection with the issuance of Constellation CDIs, the holders of Constellation CDIs are entitled to notice of and to attend the Meeting but may only vote at the Meeting as proxy for CDN in the circumstances described above. Except as otherwise required by Delaware law, the holders of Class A Stock and the holders of Class B Stock will vote together as a single class on all matters other than the election of the group of directors who are elected solely by the holders of Class A Stock. Each holder of Class A Stock is entitled to one (1) vote for each share of Class A Stock registered in such holder s name, and each holder of Class B Stock is entitled to ten (10) votes for each share of Class B Stock registered in such holder s name. Therefore, holders of Class A Stock are entitled to cast a total of ________ votes at the Meeting and holders of Class B Stock are entitled to cast a total of ________ votes at the Meeting.

The holders of shares representing a majority of the outstanding aggregate voting power of Class A Stock (including the underlying shares represented by Constellation CDIs) and Class B Stock, present at the Meeting in person or by proxy, will constitute a quorum. Shares represented by proxies marked as abstentions will be counted toward determining the presence of a quorum. Proxies relating to shares held in street name by brokers or other nominees that may be voted with respect to some, but not all, matters without instruction from the beneficial owner (broker non-votes) would be counted as shares present for purposes of determining whether a quorum is present at the Meeting. Under the rules of the New York Stock Exchange, brokers and nominees are generally permitted to vote with respect to Proposal No. 1 and Proposal No. 2 without receiving direction from the beneficial owner of Class A Stock or Class B Stock but are not permitted to vote with respect to Proposal Nos. 3 and 4 unless such direction is received. Accordingly, the Company expects to receive broker non-votes with respect to Proposal Nos. 3 and 4 but does not expect to receive broker non-votes with respect to Proposal Nos. 1 or 2 unless one or more beneficial owners have withheld discretionary authority from their respective brokers or nominees.

Under Delaware law and the Company s certificate of incorporation and by-laws, directors are elected by a plurality of the votes cast (the highest number of votes cast) by the holders of the shares entitled to vote, and actually voting, in person or by proxy. Pursuant to the Company s certificate of incorporation and based on the number of shares of Class A Stock and Class B Stock that were outstanding on the Record Date, the holders of Class A Stock (including the underlying shares represented by Constellation CDIs), voting as a separate class, are entitled to elect one-fourth of the number of directors to be elected at the Meeting (rounded up to the next number if the total number of directors to be elected is not evenly divisible by four). The holders of Class A Stock (including the underlying shares represented by Constellation CDIs) and Class B Stock, voting as a single class, are entitled to elect the remaining number of directors to be elected at the Meeting, with holders of Class A Stock having one (1) vote per share and holders of Class B Stock having ten (10) votes per share. Since the Board nominated nine (9) directors, the holders of Class A Stock will be entitled to elect three (3) directors and the holders of Class A Stock and Class B Stock, voting as a single class, will be entitled to elect six (6) directors. Because the directors are elected by a plurality of the votes cast in each election, votes that are withheld (including broker non-votes, if any) will not be counted and, therefore, will not affect the outcome of the elections.

The ratification of the selection of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending February 28, 2010 (Proposal No. 2) requires the affirmative

vote of a majority of the votes entitled to be cast by stockholders present in person or represented by proxy at the Meeting. With respect to this proposal, holders of Class A Stock (including the underlying shares represented by Constellation CDIs) and Class B Stock are entitled to vote as a single class at the Meeting, with holders of Class A Stock having one (1) vote per share and holders of Class B Stock having ten (10) votes per share. Abstentions will have the effect of negative votes. However, because broker non-votes, if any, are not considered entitled to vote, they will not affect the outcome of the vote.

The adoption of the proposal to amend the Company s certificate of incorporation (Proposal No. 3) requires the affirmative vote of the holders of a majority of the votes entitled to be cast by the Class A Stock (including the underlying shares represented by Constellation CDIs) and Class B Stock, voting together as a single class, with the holders of the Class A Stock having one (1) vote per share and the holders of the Class B Stock having ten (10) votes per share. Abstentions and broker non-votes, if applicable, will therefore have the effect of negative votes.

The adoption of the proposal to approve the amendment of the Company s Long-Term Stock Incentive Plan (Proposal No. 4) requires the affirmative vote of the holders of a majority of the votes entitled to be cast by stockholders present in person or represented by proxy at the Meeting. With respect to this proposal, holders of Class A Stock (including the underlying shares represented by Constellation CDIs) and Class B Stock are entitled to vote as a single class at the Meeting, with holders of Class A Stock having one (1) vote per share and holders of the Class B Stock having ten (10) votes per share. Abstentions will have the effect of negative votes. However, because broker non-votes are not considered entitled to vote, they will not affect the outcome of the vote with respect to this proposal.

BENEFICIAL OWNERSHIP

This section presents information concerning the beneficial ownership of our common stock by certain individuals, entities and groups. Determinations as to whether a particular individual, entity or group is the beneficial owner of our common stock have been made in accordance with Rule 13d-3 of the Securities Exchange Act of 1934. Under Rule 13d-3, a person is deemed to be the beneficial owner of any shares as to which such person: (i) directly or indirectly has or shares voting power or investment power, or (ii) has the right to acquire such voting or investment power within 60 days through the exercise of any stock option or other right. The fact that a person is the beneficial owner of shares for purposes of Rule 13d-3 does not necessarily mean that such person would be the beneficial owner of securities for other purposes. The percentages of beneficial ownership reported in this section were calculated on the basis of ________ shares of Class A Stock, ________ shares of Class B Stock, and no shares of Class 1 Stock outstanding as of the close of business on May [26], 2009, subject to adjustment as appropriate in each particular case in accordance with Rule 13d-3 of the Securities Exchange Act of 1934.

Beneficial Security Ownership of More Than 5% of the Company s Voting Common Stock

The following tables present, as of May [26], 2009, information regarding the beneficial ownership of Class A Stock or Class B Stock by each person who is known to be the beneficial owner of more than 5% of the Class A Stock or Class B Stock. Except as otherwise noted below, the address of each person or entity listed in the tables is c/o Constellation Brands, Inc., 207 High Point Drive, Building 100, Victor, New York 14564.

Class A Stock

	Amount and Nature of Beneficial Ownership							
	Sole	Shared	Sole		Total Shares (1)		Percent of Class (1)	
Name and Address of	Power	Power	Power	Shared Power				
Beneficial Owner	to Vote	to Vote	to Dispose	to Dispose	Class A Only	If Class B Converted	Class A Only	If Class B Converted
Richard Sands	4,090,740(2)	153,234(3)	3,951,115(2)	2,072,654(3)	6,163,394	21,581,770	3.1%	10.2%
Robert Sands	4,124,730(4)	153,234(5)	3,989,180(4)	2,072,654(5)	6,197,384	21,610,120	3.2%	10.2%
Abigail Bennett	114,253(6)	1,919,420(7)	110,953(6)		2,033,673	18,629,017	1.0%	8.8%
Zachary Stern	106,492	1,919,420(7)	106,492		2,025,912	8,021,256	1.0%	4.0%
CWC Partnership-I		768(8)		472,376(8)	472,376	6,571,456	0.2%	3.3%
Trust for the benefit of Andrew Stern, M.D. under the Will of Laurie Sands		768(9)		1,920,188(9)	1,920,188	8,582,900	1.0%	4.2%
Stockholders Group Pursuant to Section 13(d)(3) of the Securities Exchange Act of 1934 (10)		8,368,704(10)		10,012,949(10)	10,288,124	32,959,092	5.2%	14.9%
FMR LLC 82 Devonshire Street Boston, MA 02109 (11)	117,752		25,932,002		25,932,002	NA	13.3%	NA
UBS AG Bahnhofstrasse 45 PO Box CH-8021 Zurich, Switzerland (12)	14,447,404			16,363,651	16,363,651	NA	8.4%	NA
M&G Investment Management Limited Governor s House Laurence Pountney Hill		12,527,755		12,527,755	12,527,755	NA	6.4%	NA

London, EC4R 0HH (13)						
AXA Assurances I.A.R.D. Mutuelle 26, rue Drouot 75009 Paris, France (14)	6,227,609	10,652,799	10,652,799	NA	5.5%	NA

Class B Stock

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership Sole Power to Vote	Shared Power to Vote	Sole Power to Dispose	Shared Power to Dispose	Total	Percent of Class
Richard Sands	7,258,232(2)	2,164,800(3)	1,958,232(2)	8,160,144(3)	15,418,376	64.9%
Robert Sands	7,252,592(4)	2,164,800(5)	1,952,592(4)	8,160,144(5)	15,412,736	64.9%
Abigail Bennett		5,995,344(7)	10,600,000(6)		16,595,344	69.9%
Zachary Stern		5,995,344(7)			5,995,344	25.3%
CWC Partnership-I		667,368(8)		6,099,080(8)	6,099,080	25.7%
Trust for the benefit of Andrew Stern, M.D. under the Will of Laurie Sands		667,368(9)		6,662,712(9)	6,662,712	28.1%
RES Business Holdings LP		5,300,000(15)		5,300,000(15)	5,300,000	22.3%
RES Business Management LLC		5,300,000(16)		5,300,000(16)	5,300,000	22.3%
RSS Business Holdings LP		5,300,000(17)		5,300,000(17)	5,300,000	22.3%
RSS Business Management LLC		5,300,000(18)		5,300,000(18)	5,300,000	22.3%
Stockholders Group Pursuant to Section 13(d)(3) of the Securities Exchange Act of 1934 (10)		16,675,624(10)		12,070,968(10)	22,670,968	95.5%

(1) The numbers and percentages reported do not take into account shares of Class A Stock that can be received upon the conversion of shares of Class 1 Stock that can be purchased by exercising stock options that are exercisable on or within sixty (60) days after May [26], 2009 (the Class 1 Option Shares). These shares are not taken into account because, in accordance with the Company s certificate of incorporation, any shares of Class A Stock issued upon conversion of shares of Class 1 Stock must be sold immediately in connection with the conversion and, therefore, cannot be held by the beneficial owner of the Class 1 Shares. However, the numbers of shares and percentages of ownership taking into account the shares of Class A Stock that can be received upon the conversion of Class 1 Option Shares are provided in footnotes where appropriate.

(2) The reported shares of Class A Stock with respect to which Richard Sands has sole power to vote or dispose (i) include 1,518,498 shares of Class A Stock that can be purchased by exercising stock options that are exercisable on or within sixty (60) days after May [26], 2009, and (ii) as noted in footnote (1), exclude 142,497 shares of Class A Stock that can be received upon conversion of Class 1 Option Shares. If the shares of Class A Stock that can be received upon the conversion of Mr. Sands Class 1 Option Shares were included in the shares of Class A Stock beneficially owned by Mr. Sands, Mr. Sands would beneficially own a total of (i) 6,305,891 shares of Class A Stock, representing 3.2% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by Mr. Sands were not converted, and (ii) 21,724,267 shares of Class A Stock, representing 10.2% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by Mr. Sands were converted. The reported shares of Class B Stock over which Richard Sands has the sole power to vote or dispose includes 1,350,000 shares held by a family trust of which Richard Sands is the sole trustee, and the reported shares of Class B Stock over which Richard Sands has the sole power to vote includes 5,300,000 shares of Class B Stock held by RES Business Holdings LP. The reporting of these shares as beneficially owned by Mr. Sands shall not be construed as an admission that Mr. Sands is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise.

(3)

The reported shares are held by various family partnerships, family trusts and a foundation where, in most cases, Richard Sands serves as a partner, trustee, director or officer. The reporting of these shares as beneficially owned by Mr. Sands shall not be construed as an admission that Mr. Sands is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise. The reported shares are also included in the shares reported as beneficially owned by Robert Sands and the stockholders group described in footnote (10), and the shares reported as beneficially owned by CWC Partnership-I and the trust described in footnote (9) are included in the reported shares. Amounts reflected in the tables above do not include 29,120 shares of Class A Stock owned by

Mr. Sands spouse, individually and as custodian for their children. Mr. Sands disclaims beneficial ownership of such shares.

(4) The reported shares of Class A Stock with respect to which Robert Sands has sole power to vote or dispose (i) include 1,284,348 shares of Class A Stock that can be purchased by exercising stock options that are exercisable on or within sixty (60) days after May [26], 2009, and 154,728 shares of Class A Stock held by family limited liability companies of which Robert Sands is the general manager, and (ii) as noted in footnote (1), exclude 122,797 shares of Class A Stock that can be received upon conversion of Class 1 Option Shares. If the shares of Class A Stock that can be received upon the conversion of Mr. Sands Class 1 Option Shares were included in the shares of Class A Stock beneficially owned by Mr. Sands, Mr. Sands would beneficially own a total of (i) 6,320,181 shares of Class A Stock, representing 3.2% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by Mr. Sands were not converted, and (ii) 21,732,917 shares of Class A Stock, representing 10.2% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by Mr. Sands were converted. The reported shares of Class B Stock over which Robert Sands has the sole power to vote or dispose includes 1,350,000 shares held by a family trust of which Robert Sands is the sole trustee, and the reported shares of Class B Stock over which Robert Sands has the sole power to vote includes 5,300,000 shares of Class B Stock held by RSS Business Holdings LP. The reporting of these shares as beneficially owned by Mr. Sands shall not be construed as an admission that Mr. Sands is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise.

(5) The reported shares are held by various family partnerships, family trusts and a foundation where, in most cases, Robert Sands serves as a partner, trustee, director or officer. The reporting of these shares as beneficially owned by Mr. Sands shall not be construed as an admission that Mr. Sands is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise. The reported shares are also included in the shares reported as beneficially owned by Richard Sands and the stockholders group described in footnote (10), and the shares reported as beneficially owned by CWC Partnership-I and the trust described in footnote (9) are included in the reported shares. Amounts reflected in the tables above do not include 28,792 shares of Class A Stock owned by Mr. Sands spouse. Mr. Sands disclaims beneficial ownership of such shares.

(6) The amounts reflected as shares of Class A Stock over which Abigail Bennett has the sole power to vote and dispose (i) include 3,550 shares of Class A Stock that can be purchased by exercising stock options that are exercisable on or within sixty (60) days after May [26], 2009, and (ii) as noted in footnote (1), exclude 2,825 shares of Class A Stock that can be received upon conversion of Class 1 Option Shares. The amount reflected as shares of Class B Stock over which Abigail Bennett has the sole power to dispose includes 5,300,000 shares of Class B Stock owned by RES Business Holdings LP and 5,300,000 shares of Class B Stock owned by RSS Business Holdings LP. Ms. Bennett disclaims beneficial ownership with respect to all such shares. If the shares of Class A Stock that can be received upon the conversion of Ms. Bennett s Class 1 Option Shares were included in the shares of Class A Stock beneficially owned by Ms. Bennett, Ms. Bennett would beneficially own a total of (i) 2,036,498 shares of Class A Stock, representing 1.0% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by Ms. Bennett were not converted, and (ii) 18,631,842 shares of Class A Stock, representing 8.8% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by Ms. Bennett were converted.

(7) Abigail Bennett and Zachary Stern are the niece and nephew, respectively, of Richard and Robert Sands. The amounts reflected as shares of Class A Stock and Class B Stock over which Abigail Bennett and Zachary Stern each have shared power to vote represent 471,608 shares of Class A Stock and 5,431,712 shares of Class B Stock held by CWC Partnership-I and 1,447,812 shares of Class A Stock and 563,632 shares of Class B Stock held by another family partnership. The reporting of such shares as beneficially owned by Ms. Bennett and Mr. Stern shall not be construed as an admission that either of them is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise. Ms. Bennett and Mr. Stern have shared voting power with respect to these shares pursuant to a Voting Agreement between the two partnerships that survives so long as either partnership owns any shares or the agreement is otherwise terminated. Ms. Bennett and Mr. Stern must exercise such voting power jointly and were granted an irrevocable proxy enabling them to vote the shares directly. In the event of the death or incapacity of either of Ms. Bennett or Mr. Stern, the other would have the unilateral power to vote the shares. The Voting Agreement provides for the appointment of successor proxies and establishes mechanics for the voting of the shares in the event of a dispute between Ms. Bennett and Mr. Stern as to the voting of the shares.

(8) CWC Partnership-I is a New York general partnership of which Richard Sands and Robert Sands are managing partners. The reported shares include 768 shares of Class A Stock and 667,368 shares of Class B Stock owned by a partnership in which CWC Partnership-I is a partner. The reporting of such shares as beneficially owned by CWC Partnership-I shall not be construed as an admission that CWC Partnership-I is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise. The reported shares are also

included in the shares reported as beneficially owned by Richard Sands, Robert Sands, the trust described in footnote (9) and the stockholders group described in footnote (10), and 471,608 shares of Class A Stock and 5,431,712 shares of Class B Stock included in the reported shares are also included in the shares reported as beneficially owned by Abigail Bennett and Zachary Stern.

(9) The reported shares are directly or indirectly held by various family partnerships in which the trust is a partner. The reporting of these shares as beneficially owned by the trust shall not be construed as an admission that the trust is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise. The reported shares are also included in the shares reported as beneficially owned by Richard Sands, Robert Sands and the stockholders group described in footnote (10), of the reported shares 1,919,420 shares of Class A Stock and 5,995,344 shares of Class B Stock are also included in the shares reported as beneficially owned by Abigail Bennett and Zachary Stern, and the shares reported as beneficially owned by CWC Partnership-I are included in the reported shares.

(10) The stockholders group, as reported, consists of Richard Sands, Robert Sands, CWC Partnership-I and another family partnership. The reporting of shares as beneficially owned by the stockholders group shall not be construed as an admission that an agreement to act in concert exists or that the stockholders group is the beneficial owner of such shares for purposes of Sections 13(d) or 13(g) of the Securities Exchange Act of 1934 or otherwise. The shares reported as beneficially owned by Richard Sands, Robert Sands, CWC Partnership-I, and the trust described in footnote (9) are included in the shares reported as beneficially owned by the stockholders group. If the shares of Class A Stock that can be received upon the conversion of Richard Sands and Robert Sands Class 1 Option Shares were included in the shares of Class A Stock beneficially owned by the stockholders group, the stockholders group would beneficially own a total of (i) 10,553,418 shares of Class A Stock, representing 5.3% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by the stockholders group were not converted, and (ii) 33,224,386 shares of Class A Stock, representing 15.0% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by the stockholders group were converted. Certain shares of Class A Stock and Class B Stock are currently pledged as follows: (i) an aggregate of 16,256,902 shares of Class B Stock are currently pledged to a financial institution to secure obligations of a Sands family investment vehicle under a credit facility, (ii) an aggregate of 3,500,000 shares of Class A Stock (which number includes 355,889 shares not reported as beneficially owned by the stockholders group) and 3,500,000 shares of Class B Stock are currently pledged to a second financial institution to secure obligations of the same Sands family investment vehicle under a separate credit facility, and (iii) 3,499,030 shares of Class A Stock are currently pledged to a third financial institution to secure loans (including advances made with respect to letters of credit) to Richard Sands. Except as noted above, all of these pledged shares are included in the shares reported as beneficially owned by the stockholders group. Subject to the terms of the various credit facilities, the number of shares of Class A Stock and Class B Stock pledged to secure the credit facilities may increase or decrease from time to time and may be moved by the applicable pledgors among the various financial institutions from time to time. In the event of noncompliance with certain covenants under the credit facilities, the financial institutions have certain remedies including the right to sell the pledged shares subject to certain protections afforded to the borrowers and pledgors.

(11) Information concerning FMR LLC presented in the table is based solely on the information reported in Amendment 8 to the Schedule 13G of FMR LLC filed on February 17, 2009 (the FMR Filing). The number of shares equals the number of shares of Class A Stock reported to be beneficially owned by FMR LLC and Edward C. Johnson 3d. The FMR Filing indicates that each of FMR LLC and Mr. Johnson, through control over various entities, has sole dispositive power with respect to all 25,932,002 shares. The FMR Filing further indicates that FMR LLC has sole voting power with respect to 117,752 of these shares; however, the FMR Filing is internally inconsistent as to the number of shares with respect to which Mr. Johnson has sole voting power.

(12) Information concerning UBS AG presented in the table is based solely on the information reported in Amendment 3 to the Schedule 13G of UBS AG filed on February 11, 2009.

(13) Information concerning M&G Investment Management Limited (M&G) presented in the table is based solely on the information reported in Amendment 1 to the Schedule 13G of M&G filed on February 6, 2009 (the M&G Filing). The M&G Filing is a joint filing with M&G Investment Funds 1 and indicates that of the 12,527,755 shares of Class A Stock beneficially owned by M&G, M&G Investment Funds 1 has shared voting and dispositive power with respect to 12,300,000 shares.

(14) Information concerning AXA Assurances I.A.R.D. Mutuelle (AXA Assurances) presented in the table is based solely on the information reported in the Schedule 13G of AXA Assurances filed on February 13, 2009 (the AXA Filing). The AXA Filing is a joint filing with AXA Assurances Via Mutuelle, AXA, and AXA Financial, Inc. The AXA Filing indicates that (i) each of the filers other than AXA

Financial, Inc., through control over various entities, beneficially owns all of the reported shares, and (ii) of the reported shares AXA Financial, Inc., through control of various entities, has sole voting power with respect to 308,449 shares and sole dispositive power with respect to 383,069 shares.

(15) The shares held by RES Business Holdings LP are included in the number of shares beneficially owned by Richard Sands, the stockholders group described in footnote (10), RES Business Management LLC and Abigail Bennett. Assuming the conversion of Class B Stock beneficially owned by RES Business Holdings LP into Class A Stock, RES Business Holdings LP would beneficially own 5,300,000 shares of Class A Stock, representing 2.6% of the outstanding Class A Stock after such conversion.

(16) The amount reflected represents 5,300,000 shares of Class B Stock held by RES Business Holdings LP. Assuming the conversion of Class B Stock beneficially owned by RES Business Management LLC into Class A Stock, RES Business Management LLC would beneficially own 5,300,000 shares of Class A Stock, representing 2.6% of the outstanding Class A Stock after such conversion.

(17) The shares owned by RSS Business Holdings LP are included in the number of shares beneficially owned by Robert Sands, the stockholders group described in footnote (10), RSS Business Management LLC and Abigail Bennett. Assuming the conversion of Class B Stock beneficially owned by RSS Business Holdings LP into Class A Stock, RSS Business Holdings LP would beneficially own 5,300,000 shares of Class A Stock, representing 2.6% of the outstanding Class A Stock after such conversion.

(18) The amount reflected represents 5,300,000 shares of Class B Stock owned by RSS Business Holdings LP. Assuming the conversion of Class B Stock beneficially owned by RSS Business Management LP into Class A Stock, RSS Business Management LLC would beneficially own 5,300,000 shares of Class A Stock, representing 2.6% of the outstanding Class A Stock after such conversion.

Beneficial Security Ownership of Directors and Executive Officers

The Board has established guidelines for the minimum amounts of our common stock that our non-management directors and executive officers should beneficially own. These guidelines for stock ownership consider the length of a director s tenure on the Board or an executive officer s tenure as an executive officer. We allow individuals five years in which to reach the applicable ownership guideline. Ownership guidelines can be satisfied through the beneficial ownership of stock, vested stock options, and/or Class A Stock underlying Constellation CDIs.

The guideline for non-management directors is the beneficial ownership of two times the annual retainer fee paid to them. The guideline for executive officers is based on each officer s position in the organization and is a multiple of annual base salary. The Chairman of the Board and the President and Chief Executive Officer each has a stock ownership guideline of four (4) times his annual base salary. Each of the other executive officers has a stock ownership guideline of two (2) times his annual base salary. As of May [26], 2009, each of our non-management directors and each of our executive officers had either met his or her respective target or was within the five-year window for doing so, except for ________ executive officers who, after meeting the ownership guidelines in the past, have fallen below the applicable amount primarily due to the decline in the market price of our Class A Stock that has occurred during the past year.

The following table sets forth, as of May [26], 2009, the beneficial ownership of Class A Stock, Class B Stock, and Class 1 Stock by our directors, the named executive officers (as defined under the heading Compensation Tables and Related Information below), and all of our directors and executive officers as a group. The Class A Stock information in the table below does not include shares of Class A Stock that are issuable upon the conversion of either Class B Stock or Class 1 Stock, although such information is provided in footnotes where applicable. Unless otherwise noted, the individuals listed in the table have sole voting and dispositive power with respect to the shares attributed to them.

Name of Beneficial Owner	Class A Stock (1) Shares Beneficially Owned				Class B Stock		Class 1 Stock (1)	
	Outstanding Shares	Shares Acquirable within 60 days (2)	Total Shares	Percent of Class Beneficially Owned	Shares Beneficially Owned	Percent of Class Beneficially Owned	Shares Acquirable within 60 days (3)	Percent of Class Beneficially Owned
Richard Sands (4)	4,644,896	1,518,498	6,163,394	3.1%	15,418,376	64.9%	142,497	(5)
Robert Sands (4)	4,913,036	1,284,348	6,197,384	3.2%	15,412,736	64.9%	122,797	(5)
Alexander L. Berk	75,653	590,250	665,903	*(6)		*	208,900	(5)
Jose F. Fernandez	62,409	246,475	308,884	*(6)		*	53,475	(5)
Robert Ryder	47,546		47,546	*(6)		*	81,425	(5)
Barry A. Fromberg	10,687	3,737	14,424	*(6)		*	12,738	(5)
Jeananne K. Hauswald	11,679	43,563	55,242	*(6)		*	12,738	(5)
James A. Locke III	25,933	61,563	87,496	*(6)(7)	264	*	12,738	(5)
Thomas C. McDermott	17,541	68,563	86,104	*(6)		*	12,738	(5)
Peter M. Perez	3,631		3,631	*(6)		*	9,512	(5)
Paul L. Smith (8)	12,112	9,049	21,161	*(6)		*	12,738	(5)
Peter H. Soderberg	5,193	1,120	6,313	*(6)		*	12,738	(5)
Mark Zupan	4,073		4,073	*(6)		*	11,059	(5)
All Executive Officers and Directors as a Group (17 persons) (9)	8,020,102	5,950,176	13,970,278	6.9%(9)	22,671,232	95.5%	905,796	(5)

* Percentage does not exceed one percent (1%) of the outstanding shares of such class.

(1) The numbers and percentages reported with respect to Class A Stock do not take into account shares of Class A Stock that can be received upon the conversion of Class 1 Option Shares. These shares are not taken into account because, in accordance with the Company s certificate of incorporation, any shares of Class A Stock issued upon conversion of shares of Class 1 Stock must be sold immediately in connection with the conversion and, therefore, cannot be held by the beneficial owner of the Class 1 Shares. However, the numbers of shares and percentages of ownership taking into account the shares of Class A Stock that can be received upon the conversion of Class 1 Option Shares are provided in footnotes where appropriate.

(2) Reflects the number of shares of Class A Stock that can be purchased by exercising stock options that are exercisable on or within sixty (60) days after May [26], 2009.

(3) Reflects the number of shares of Class 1 Stock that can be purchased by exercising stock options that are exercisable on or within sixty (60) days after May [26], 2009.

(4) See tables and footnotes under the heading Beneficial Security Ownership of More Than 5% of the Company s Voting Common Stock for information with respect to sole and shared voting or dispositive power and for the numbers and percentages of shares of Class A Stock that would be beneficially owned if Class 1 Option Shares were included in the number of shares of Class A Stock beneficially owned and assuming the conversion of Class B Stock into Class A Stock. Of the number of shares reported, 2,072,654 shares of Class A Stock and 8,160,144 shares of Class B Stock are included in the numbers reported by both Richard Sands and Robert Sands. Of the shares reported as beneficially owned by Richard Sands, 4,229,637 shares of Class A Stock and 12,548,950 shares of Class B Stock are currently pledged, and of the shares reported as beneficially owned by Robert Sands, 4,332,924 shares of Class A Stock and 14,237,310 shares of Class B Stock are currently pledged. Of the shares described as currently pledged in the preceding sentence, 1,919,420 shares of Class A Stock and 6,994,718 shares of Class B Stock are included in the shares reported as beneficially owned by both Richard Sands and Robert Sands. All of the shares described as currently pledged are pledged under the Sands Facilities as described in footnote 10 to the table under the heading Beneficial Ownership of More Than 5% of the Company s Voting Common Stock.

(5) As there are no shares of Class 1 Stock currently outstanding, the percentages of Class 1 Stock beneficially owned by each named individual and the executive officers and directors as a group, when calculated in accordance with Rule 13d-3 of the Securities Exchange

Act of 1934, would be 100%.

(6) If the shares of Class A Stock that can be received upon the conversion of the named individual s Class 1 Option Shares were included in the shares of Class A Stock beneficially owned by the individual, the individual would beneficially own the shares of Class A Stock as

noted below, which for each individual represents less than one percent (1%) of the outstanding Class A Stock: Alexander L. Berk 876,244; Jose F. Fernandez 362,359; Robert Ryder 128,971; Barry A. Fromberg 27,162; Jeananne K. Hauswald 67,980; James A. Locke III 100,234; Thomas C. McDermott 98,842; Peter M. Perez 13,143; Paul L. Smith 33,899; Peter H. Soderberg 19,051; and Mark Zupan 15,132.

(7) Assuming the conversion of Mr. Locke s 264 shares of Class B Stock into Class A Stock, Mr. Locke would beneficially own 87,760 shares of Class A Stock (100,498 shares of Class A Stock if the shares of Class A Stock that can be received upon the conversion of Mr. Locke s Class 1 Option Shares were included), representing less than one percent (1%) of the outstanding Class A Stock after such conversion.

(8) Of the number of shares reported as beneficially owned by Mr. Smith, 8,000 shares of Class A Stock have been pledged.

(9) This group consists of our executive officers and directors as of May [26], 2009. Assuming the conversion into Class A Stock of a total of 22,671,232 shares of Class B Stock beneficially owned by the executive officers and directors as of May [26], 2009 as a group, this group would beneficially own 36,646,751 shares of Class A Stock, representing 16.4% of the outstanding Class A Stock after such conversion. If the shares of Class A Stock that can be received upon the conversion of this group s Class 1 Option Shares were included in the shares of Class A Stock beneficially owned by this group of executive officers and directors, this group would beneficially own (i) 14,881,315 shares of Class A Stock, representing 7.4% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by this group were not converted, and (ii) 37,552,547 shares of Class A Stock, representing 16.7% of the outstanding Class A Stock, if the shares of Class B Stock beneficially owned by this group were converted.

EXECUTIVE OFFICERS

Information concerning the Company s executive officers and their terms of office can be found in Part I to the Company s Annual Report on Form 10-K for the year ended February 28, 2009.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

Since the commencement of our last fiscal year on March 1, 2008, we have made a number of key decisions impacting the compensation of our named executive officers. In May 2008, we entered into employment agreements with each of our executive officers in order to standardize our relationships with our most senior employees. In August 2008, the Human Resources Committee of the Board, or the Committee, engaged a new consultant, Watson Wyatt Worldwide, to provide advice regarding executive compensation decisions, and, based on the input from that new consultant, the Committee revised our peer group of companies effective for the Committee s executive compensation review in January 2009. In April 2009, the Committee reviewed our performance for fiscal 2009 and approved payments to our named executive officers and other participants under the Annual Management Incentive Plan, our primary mechanism for granting annual bonuses. The Committee also revised the Annual Management Incentive Plan for fiscal 2010 by adopting a new bonus calculation methodology and by expressly granting the Committee the authority to adjust bonuses downward at its discretion. At that time, we also entered into agreements with Alexander L. Berk regarding his retirement from our company after the recent sale of the majority of our value spirits brands. These and other compensation-related decisions and programs are further described in this Compensation Discussion and Analysis.

Philosophy and Objectives

As a leading international producer and marketer of beverage alcohol with a strong portfolio of premium wine brands complemented by premium spirits and imported beer, we operate in a highly competitive and complex business environment on a global basis. The ability to attract, motivate and retain employees throughout the organization is critical to our long-term success in this environment. Accordingly, the objective of our executive compensation program is to attract, motivate and retain key executives by providing a compensation package that is competitive with the pay practices of other companies of comparable size, status, and industry.

Our executive compensation program, discussed in detail below, consists of both fixed compensation (in the form of base salary) and variable compensation (in the form of cash bonus payments and equity awards). We have designed the elements of executive compensation to operate together in a manner that seeks to reward our executives for their respective abilities and day-to-day service, assistance with the achievement of annual goals and financial targets, and contributions toward enhancing long-term stockholder value.

Our fiscal year ends on the last day of February of each calendar year. Throughout this discussion, fiscal years are referred to by the calendar year in which that fiscal year ends. For example, the fiscal year ending February 28, 2009 is referred to as fiscal 2009.

How Executive Compensation is Established

The Committee discharges the Board s responsibilities relating to the compensation of executives, including the annual review and approval of executive officer compensation. Management personnel within our Human Resources Department support the Committee in its work. Executive officers, including the Chairman of the Board, the President and Chief Executive Officer, and the Executive Vice President and Chief Human Resources and Administrative Officer, may make recommendations or provide information to, or answer questions from, the Committee as the Committee fulfills its responsibilities regarding executive compensation. The Committee also engages a consultant to assist the Committee with its review and analysis of executive compensation data and to receive advice on matters relating to executive officer compensation. In August 2008, the Committee engaged Watson Wyatt Worldwide as its consultant. The Committee decided that this was appropriate as a matter of best practices and in order to receive the benefit of additional perspectives on executive compensation matters. Watson Wyatt does not currently provide other human resource consulting services for us. Prior to August 2008, Mercer provided us advice on executive compensation matters. Mercer is one of the companies that we use as a consultant for other human resource matters that arise from time to time, including for advice on Board compensation matters. Mercer also provides administration and recordkeeping services to our 401(k) and Profit Sharing Plan and similar services for certain benefit arrangements outside of the United States.

In making its compensation decisions, the Committee compares elements of compensation against a specific peer group of consumer product companies that we believe to be comparable in terms of business type, financial metrics, and performance. The peer group used prior to January 2009 (including for the establishment of executive officer compensation amounts described in the tables and narratives found later in this Proxy Statement) consisted of the following companies:

Anheuser-Busch Companies, Inc.	Avon Products, Inc.
Brown-Forman Corporation	Dean Foods Company
Fortune Brands, Inc.	General Mills, Inc.
Hormel Foods Corporation	Molson Coors Brewing Company
The Pepsi Bottling Group, Inc.	PepsiAmericas, Inc.
Smithfield Foods, Inc.	Starbucks Corporation
Wm. Wrigley Jr. Company	

In September 2008, Watson Wyatt and the Committee reviewed the composition of our peer group and ultimately adopted a new peer group consisting of the companies listed below. In establishing this peer group, the Committee sought to ensure that the peer group consisted of companies with appropriate size, type and complexity by reviewing metrics such as gross revenues, enterprise value, international operations, and market capitalization. The Committee determined that revenues from our Crown Imports and Matthew Clark joint ventures should be considered for the purpose of determining the appropriateness of the composition of this peer group. The Committee reviewed data regarding this peer group prior to setting new base salaries, short-term incentive targets and equity grants for fiscal 2010:

Brown-Forman Corporation	Campbell Soup
ConAgra Foods, Inc.	Dean Foods Company
Del Monte Foods Company	Dr. Pepper Snapple Group, Inc.
Fortune Brands, Inc.	H. J. Heinz Company
The Hershey Company	Hormel Foods Corporation
The J. M. Smucker Company	Kellogg Company
Lorillard, Inc.	Molson Coors Brewing Company
PepsiAmericas, Inc.	Reynolds American Inc.

In addition to its review of peer group executive compensation data, the Committee may consider general survey data. For example, the Committee considered general executive compensation survey data provided by its consultant with respect to the compensation paid to the Chairman of the Board as described below. The Committee also considered general survey data prior to granting restricted stock awards to executive officers in April 2008.

As discussed in more detail below, the Committee generally reviews the executive compensation program on an annual basis with awards and adjustments being made at a regularly scheduled meeting of the Committee, usually in early April. At that time, the Committee considers company and individual performance, executive compensation information and materials from its compensation consultant, and compensation and benefit recommendations from management. As part of the annual review process, the Committee also reviews tally sheets setting forth and comparing current and proposed base salaries, cash bonuses, equity incentives, and perquisites. Compensation

decisions may be made at other times of the year in the case of promotions, new hires, or changes in responsibilities.

The Committee generally attempts to maintain an executive officer compensation program that will result in named executive officers target cash compensation approximating the midpoint of that provided by peer group companies. In determining long-term incentive grants, the Committee considers historical awards and the value realizable by named executive officers from those awards and compares those opportunities against the peer group. The Committee previously set long-term incentive awards, which then consisted of stock option grants, below peer group median levels. As a result of its analysis of stock performance and peer group and general survey data concerning long-term incentive awards in April 2008 and in order to diversify long-term awards as well as motivate and retain executives, the Committee decided at that time to award executive officers restricted stock as well as stock options. In setting these restricted stock award amounts, the Committee sought to align our long-term incentive grants to peer group median levels in existence at that time. Due to subsequent changes in the composition of the peer group and subsequent changes in market practices, long-term incentive grants now approximate the 75th percentile of the peer group.

The Committee desires to keep a significant portion of our executive officers compensation at risk and based on performance and also desires to align our executive officers interests with the interests of our stockholders. Accordingly, a significant percentage of annual compensation opportunity is allocated to incentive compensation in the form of annual cash bonus payments and equity grants. The Committee, however, does not have a policy regarding the specific allocation of compensation between long-term and currently paid out compensation or between cash and non-cash compensation. Similarly, the Committee does not have a policy regarding the allocation of different forms of non-cash compensation. Rather, the Committee generally determines the allocation for named executive officers, except for the Chairman of the Board, based on its analysis of the various individual components of the compensation program. The compensation of the Chairman of the Board is analyzed against the compensation paid to the Chief Executive Officer. This approach results in a majority of the compensation opportunity for each of our named executive officers being provided through short-term incentives and long-term equity grants.

Elements of Compensation and Analysis of Compensation Decisions

The elements of compensation for our executive officers consist of the following:

- base salary;
- annual cash bonus awards;
- long-term equity-based incentive awards; and
- perquisites and other benefits.

Base Salary

We set base salary levels for our executive officers to provide current compensation for the day-to-day services the executive officers provide during the fiscal year, taking into account their individual roles and responsibilities as well as their respective experience and abilities. The fundamental objective in setting base salary levels for our executive officers, as with all components of executive compensation, is to pay competitive amounts to attract, motivate and retain high-quality executives.

We generally seek to pay our named executive officers base compensation near the 50th percentile of similarly situated executives in the peer group. Under certain circumstances, however, the Committee may decide to approve an individual executive officer s salary at a level above or below the peer group median. For example, the executive compensation analysis performed for us in January 2009 found that, using our new peer group, the base salary of Messrs. Berk and Fernandez exceeded the 75th percentile of the peer group. These variations may occur due to reasons such as the specific expertise of an executive, the complexity or criticality of the business managed by the executive, and concerns regarding internal pay equity.

The Committee considers base salary adjustments on an annual basis as part of its comprehensive review of executive compensation matters, usually in early April. The Committee may also approve mid-year base salary adjustments in the event of a new hire, promotion or other significant change in responsibilities. No named executive officer received such a mid-year salary adjustment during fiscal 2009. Salaries for our named executive officers for fiscal 2009 and, where appropriate, fiscal 2008 and fiscal 2007 appear in the Summary Compensation Table below.

Annual Cash Bonus Awards

In addition to their base salaries, our named executive officers, like other eligible members of management, have the opportunity to earn annual cash bonuses based on Company performance. The Committee views these annual bonuses as an integral element of the entire compensation package.

Annual Management Incentive Plan Fiscal 2009

Our Annual Management Incentive Plan serves as the primary mechanism for granting annual performance-based incentive bonuses. The Committee administers this plan for executive officers in order to accomplish the following objectives:

- to motivate and provide a concrete incentive to executive officers to achieve certain specific business initiatives and specified financial performance goals;
- to support our annual planning, budget and strategic planning processes;
- to provide compensation opportunities which are competitive with those of other beverage alcohol, industry-related or peer companies in order to attract and retain key executives; and
- to help control overhead by designing a portion of annual compensation as a variable rather than a fixed expense.

The Committee meets annually within two and a half months of the conclusion of each fiscal year to evaluate performance and certify and approve awards for the recently concluded fiscal year and within 90 days of the conclusion of each fiscal year to approve a specific program for executive officers under the Annual Management Incentive Plan for the new fiscal year. For the fiscal 2009 program, payouts for named executive officers depended on three key variables:

- the executive officer s management position at the Company;
- the executive officer s base salary earned in fiscal 2009; and
- Company performance for fiscal 2009 with respect to certain specified financial performance goals we have established to allow us to pursue our business aims and initiatives.

Specifically, the Committee established individual incentive award opportunities (based on a percentage of each executive officer s salary) depending on the executive s position and responsibilities with us. The Committee established these opportunities based on the following principles:

- Competitiveness with the market We generally position the target incentive award opportunities near the peer group median for named executive officers. Positioning target opportunities near the peer group median underscores the Committee s philosophy that compensation levels should approximate peer group median levels when performance meets expectations and that pay should exceed peer group median levels when performance exceeds expectations.
- Placement of an appropriate amount of pay at risk We place more pay at risk for our more senior executives (such as our Chief Executive Officer) who have more control over our performance, and provide similarly positioned executives (such as our Executive Vice Presidents) with comparable award opportunities.

In April 2008, the Committee approved the executive officer award program under the plan for fiscal 2009. All of the named executive officers participated in the plan. To provide continuing incentives throughout the year, the Committee provided for a range of possible awards for executive officers from a threshold level to a maximum level, including a target level award and other intermediate points between threshold and maximum. The fiscal 2009 program included the following award schedule for threshold, target and maximum levels of achievement in terms of a percentage of fiscal 2009 base salary:

Annual Management Incentive Plan

Award Schedule for Executive Officers

Name	Threshold	Target	Maximum
Chairman of the Board	30%	120%	240%
President and Chief Executive Officer	30%	120%	240%
Other Executive Officers	17.5%	70%	140%

These percentages assume that the same threshold, target or maximum performance is achieved for each applicable performance criteria selected under the plan, which were weighted in the final calculation of the award payment as described below. Accordingly, an incentive award payment under the fiscal 2009 program could have been less than the threshold percentage set forth above even if a threshold level was achieved for one criterion, but a payment could not exceed the maximum percentage of base salary set forth above.

The Committee established the objective performance criteria on which payouts were based for fiscal 2009 from the list of performance criteria set forth in the plan. The Committee chose measures that it believed would provide an appropriate link between the level of our performance and the corresponding payout under the plan depending on the executive s management position and duties. For the fiscal 2009 program, the Committee again chose the fiscal year earnings before interest and taxes, or EBIT, and free cash flow, or FCF, as the applicable performance criteria, as these criteria represent key drivers of the our short-term business success. We believe that EBIT serves as a measure of our profitability, while FCF reflects our ability to generate the cash required to operate the business and pay down debt. EBIT for the Company is the sum of its operating income plus equity in earnings of equity method investees. For award opportunities based on the performance of business divisions

within our Constellation Wines reporting segment, EBIT was calculated based on EBIT adjusted for intra-Company transfers and transactions occurring within this segment. For the Company, FCF is equal to net cash provided by (used in) operating activities less purchases of property, plant and equipment. The program provided that divisional FCF results would be calculated before tax payments as we generally manage taxes at the corporate level. In each case in accordance with the provisions of Internal Revenue Code Section 162(m), the plan provides that the effects of extraordinary items, such as certain unusual or nonrecurring items of gain or loss, the effects of mergers, acquisitions, divestitures, spin-offs or significant transactions, among other items specified in the plan, are excluded in calculating the performance achieved with respect to each criterion.

The Committee established the following criteria weightings for named executive officers to determine award amounts payable under the fiscal 2009 program:

Annual Management Incentive Plan

Performance Criteria Weightings for Fiscal 2009

	Corporate	**Corporate**	**Divisional**	**Divisional**
Name	**EBIT**	**FCF**	**EBIT**	**FCF**
Richard Sands	80%	20%		
Robert Sands	80%	20%		
Robert Ryder	80%	20%		
Alexander L. Berk	40%		40%	20%
Jose F. Fernandez	40%		40%	20%

The Committee set the target level for each performance criterion at the corresponding level of expected performance for fiscal 2009 under our operating plan. This operating plan was reviewed with and approved by the Board in April 2008. As a result, if our performance at the conclusion of fiscal 2009 matched the expected performance as set at the beginning of that year, the executive officers would have received target level bonuses. With the assistance of the Human Resources Department, the Committee then established a range of performance level award opportunities from threshold to maximum by considering a variety of factors, including the minimal acceptable growth for each performance criterion, our strategic direction and focus, and the various risks and uncertainties we face. The Committee established performance targets intended to be appropriately challenging at all levels, including the threshold level, but attainable with increasing difficulty for each level beyond threshold upon achievement of the strategic objectives of the business. Threshold levels are expected to be challenging but achievable under normal circumstances and were achieved in fiscal 2009 with respect to all measures applicable to our named executive officers. Threshold levels were not met, however, with respect to two divisional measures that were applicable to an executive officer who was not a named executive officer in fiscal 2009. Target levels will be achieved if the Company performs as expected under our operating plan. Maximum levels were set to be achievable only with exceptional performance.

These fiscal 2009 performance levels included the following with respect to the named executive officers:

Annual Management Incentive Plan

Performance Levels for Fiscal 2009

Performance Criteria	Threshold Performance Level	Target Performance Level	Maximum Performance Level
Corporate EBIT	$835 million	$945 million	$993 million
Corporate FCF	$296 million	$340 million	$404 million
Divisional EBIT applicable to Mr. Berk (EBIT of Constellation Spirits and Crown Imports segments)	$297 million	$330 million	$347 million

The divisional EBIT performance levels applicable to Mr. Fernandez and divisional FCF performance levels applicable to Messrs. Berk and Fernandez are not disclosed because we believe that disclosure of such performance objectives and results for the respective divisions with respect to these criteria, which are not otherwise subject to public disclosure requirements, are not material and would be competitively harmful by enabling competitors to identify our detailed and confidential financial targets and strategies.

In April 2009, the Committee met to review our actual performance and to consider payouts to participants. After reviewing our fiscal year performance against the applicable performance criteria adopted under the fiscal 2009 program, the Committee certified awards to the named executive officers as follows:

Annual Management Incentive Plan

Performance Criteria Results for Fiscal 2009

Performance Criteria	Fiscal 2009 Results As Calculated in Accordance with the Plan
Corporate EBIT	$886,252,000, equal to 42% of target payout (for performance between threshold and target levels)

	(3,708)	
Premiums payable to insurance companies increase	39,686	26,209
Premium deposits and credits due customers (decrease)	(4,703)	(9,004)
Accounts payable increase	14,394	136
Accrued expenses (decrease)	(18,315)	(17,678)
Other liabilities increase (decrease)	9	(1,386)
Net cash provided by operating activities	184,987	162,368
Cash flows from investing activities:		
Additions to fixed assets	(6,262)	(8,194)
Payments for businesses acquired, net of cash acquired	(38,773)	(187,042)
Proceeds from sales of fixed assets and customer accounts	634	2,703
Purchases of investments	(4,247)	(3,950)
Proceeds from sales of investments	4,098	810

Net cash used in investing activities		(44,550)		(195,673)
Cash flows from financing activities:				
Proceeds from long-term debt		—		25,000
Payments on long-term debt		(8,266)		(10,767)
Borrowings on revolving credit facility		7,580		—
Payments on revolving credit facility		(7,580)		—
Issuances of common stock for employee stock benefit plans		501		535
Cash dividends paid		(21,235)		(19,697)
Net cash (used in) provided by financing activities		(29,000)		(4,929)
Net increase (decrease) in cash and cash equivalents		111,437		(38,234)
Cash and cash equivalents at beginning of period		78,557		38,234
Cash and cash equivalents at end of period	$	189,994	$	—

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 · Nature of Operations

Brown & Brown, Inc., a Florida corporation, and its subsidiaries is a diversified insurance agency, wholesale brokerage, insurance programs and services organization that markets and sells to its customers insurance products and services, primarily in the property and casualty area. Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, professional, public and quasi-public entities, and individual customers; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial insurance and reinsurance, primarily through independent agents and brokers; the National Programs Division, which is composed 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 and quasi-public entities and market niches; and the Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services.

NOTE 2 · Basis of Financial Reporting

The accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited, condensed, consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

NOTE 3 · Net Income Per Share

Basic net income per share is computed by dividing net income available to shareholders by the weighted average number of shares outstanding for the period. Basic net income per share excludes dilution. Diluted net income per share reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted to common stock.

The following table sets forth the computation of basic net income per share and diluted net income per share:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands, except per share data)	2009	2008	2009	2008
Net income	$ 40,668	$ 40,398	$ 88,680	$ 92,158

Weighted average number of common shares Outstanding	141,523	140,723	141,540	140,713
Dilutive effect of stock options using the treasury stock method	365	542	325	617
Weighted average number of shares Outstanding	141,888	141,265	141,865	141,330
Net income per share:				
Basic	$ 0.29	$ 0.29	$ 0.63	$ 0.65
Diluted	$ 0.29	$ 0.29	$ 0.63	$ 0.65

NOTE 4 · New Accounting Pronouncements

Business Combinations — In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (“SFAS 141R”). SFAS 141R requires an acquirer to recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, (with only limited exceptions) upon initially obtaining control of an acquired entity even if the acquirer has not acquired 100% of its target. Additionally, the fair value of contingent consideration arrangements (such as earnout purchase arrangements) at the acquisition date must be included in the purchase price consideration. Transaction costs are expensed as incurred. SFAS 141R also modifies the recognition of pre-acquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141R amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Effective January 1, 2009, the Company adopted SFAS 141R on a prospective basis. As a result, the recorded purchase price for all acquisitions consummated after January 1, 2009 will include an estimation of the fair value of liabilities associated with any potential earnout provisions. Subsequent changes in these earnout obligations will be recorded in the consolidated statement of income when incurred. Potential earnout obligations are typically based upon future earnings of the acquired entities, usually between one to three years.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (“FSP 142-3”). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. This pronouncement requires enhanced disclosures concerning a company’s treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of FSP 142-3 did not have any material impact on our consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, Accounting for Defensive Intangible Assets (“EITF 08-7”). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period the asset diminished in value. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141R and SFAS 157. EITF 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of EITF 08-7 did not have any material impact on our consolidated financial statements.

Subsequent Events - In May 2009, the FASB issued SFAS No. 165 Subsequent Events, (“SFAS 165”), which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS 165 is effective on a prospective basis for interim or annual periods ending after June 15, 2009, and was adopted on June 1, 2009. This standard did not have a material impact on the Company’s financial condition, results of operations and cash flows.

Subsequent events have been evaluated through the date and time the condensed consolidated financial statements were issued on August 10, 2009. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in our condensed consolidated financial statements.

International Accounting Standards — International Financial Reporting Standards (“IFRS”) are a set of standards and interpretations adopted by the International Accounting Standards board. The Securities and Exchange Commission is currently considering a potential IFRS adoption process in the United States, which could, in the near

term, provide domestic issuers with an alternative accounting method and which could ultimately replace U.S. GAAP reporting requirements with IFRS reporting requirements. We are currently investigating the implications should we be required to adopt IFRS in the future.

NOTE 5 · Business Combinations

Acquisitions in 2009

For the six months ended June 30, 2009, Brown & Brown acquired the assets and assumed certain liabilities of six insurance intermediaries and a book of business (customer accounts). The aggregate purchase price of these acquisitions was $41,415,000 including $36,285,000 of net cash payments, the assumption of $1,323,000 of liabilities and $3,807,000 of recorded earn-out payables. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profit earned over a one- to three-year period within a minimum and maximum price range. The recorded purchase price for all acquisitions consummated after January 1, 2009 will include an estimation of the fair value of liabilities associated with any potential earn-out provisions. Subsequent changes in the fair value of earn-out obligations will be recorded in the consolidated statement of income when incurred.

The fair value of earn-out obligations is based on the present value of the expected future payments to be made to the sellers of the acquired businesses in accordance with the provisions outlined in the respective purchase agreements. In determining fair value, the acquired business's future performance is estimated using financial projections developed by management for the acquired business and reflects market participant assumptions regarding revenue growth and/or profitability. The expected future payments are estimated on the basis of the earn-out formula and performance targets specified in each purchase agreement compared to the associated financial projections. These payments are then discounted to present value using a risk-adjusted rate that takes into consideration the likelihood that the forecasted earn-out payments will be made. The change to the fair value of earn-out obligations recorded in net income for the three or six months ended June 30, 2009 was not material.

All of these acquisitions have been accounted for as business combinations and are as follows:

(in thousands) Name	Business Segment	2009 Date of Acquisition	Net Cash Paid	Note Payable	Recorded Earn-out Payable	Recorded Purchase Price	Maximum Potential Earn-out Payable
Conner Strong Companies, Inc.	Retail	January 2	$ 23,621	$ —	$ —	$ 23,621	$ —
Other	Various	Various	12,664	—	3,807	16,471	8,666
Total			$ 36,285	$ —	$ 3,807	$ 40,092	$ 8,666

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

(in thousands)	Conner Strong	Other	Total
Fiduciary cash	$ —	$ —	$ —
Other current assets	556	1,310	1,866
Fixed assets	52	96	148
Goodwill	14,062	8,062	22,124
Purchased customer accounts	9,100	8,114	17,214
Noncompete agreements	—	65	65
Other assets	—	(2)	(2)
Total assets acquired	23,770	17,645	41,415

Other current liabilities	(149)	(1,174)	(1,323)
Total liabilities assumed	(149)	(1,174)	(1,323)
Net assets acquired	$ 23,621	$ 16,471	$ 40,092

The weighted average useful lives for the above acquired amortizable intangible assets are as follows: purchased customer accounts, 14.9 years; and noncompete agreements, 5.0 years.

Goodwill of $22,124,000, of which $19,072,000 is expected to be deductible for income tax purposes, was assigned to the Retail, Wholesale Brokerage, National Programs and Services Divisions in the amounts of $18,112,000, $93,000, $3,919,000 and $0, respectively.

The results of operations for the acquisitions completed during 2009 have been combined with those of the Company since their respective acquisition dates. The total revenues and net loss from the acquisitions completed during 2009 included in the Condensed Consolidated Statement of Income for the three months ended June 30, 2009 was $3,359,000 and $26,000, respectively. The total revenues and net income from the acquisitions completed during 2009 included in the Condensed Consolidated Statement of Income for the six months ended June 30, 2009 was $6,364,000 and $474,000, respectively. If the acquisitions had occurred as of the beginning of each period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED) (in thousands, except per share data)	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Total revenues	$ 246,723	$ 245,956	$ 512,685	$ 507,766
Income before income taxes	67,097	68,046	147,139	154,348
Net income	40,740	41,279	89,258	94,090
Net income per share:				
Basic	$ 0.29	$ 0.29	$ 0.63	$ 0.67
Diluted	$ 0.29	$ 0.29	$ 0.63	$ 0.67
Weighted average number of shares outstanding:				
Basic	141,523	140,723	141,540	140,713
Diluted	141,888	141,265	141,865	141,330

Acquisitions in 2008

For the six months ended June 30, 2008, Brown & Brown acquired the assets and assumed certain liabilities of 20 insurance intermediaries, the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price of these acquisitions was $194,400,000, including $182,698,000 of net cash payments, the issuance of $4,713,000 in notes payable and the assumption of $6,989,000 of liabilities. All of these acquisitions were acquired primarily to expand Brown & Brown's core businesses and to attract and hire high-quality individuals. Acquisition purchase prices are typically based on a multiple of average annual operating profits earned over a one- to three-year period within a minimum and maximum price range. The initial asset allocation of an acquisition is based on the minimum purchase price, and any subsequent earn-out payment is allocated to goodwill. Acquisitions are initially recorded at preliminary fair values. Subsequently, the Company completes the final fair value allocations and any adjustments to assets or liabilities acquired are recorded in the current period.

All of these acquisitions have been accounted for as business combinations and are as follows:

(in thousands) Name	Business Segment	2008 Date of Acquisition	Net Cash Paid	Notes Payable	Recorded Purchase Price
LDP Consulting Group, Inc.	Retail	January 24	39,226	—	39,226
Powers & Effler Insurance Brokers	Retail	April 1	25,029	—	25,029
HBA Insurance Group, Inc.	Retail	June 1	48,297	2,000	50,297

Other	Various	Various	70,146	2,713	72,859
Total			$ 182,698	$ 4,713	$ 187,411

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

(in thousands)	LDP	Powers	HBA	Other	Total
Fiduciary cash	$ 173	$ —	$ —	$ —	$ 173
Other current assets	1,121	75	—	1,201	2,397
Fixed assets	19	353	652	451	1,475
Goodwill	29,108	17,220	35,149	44,034	125,511
Purchased customer accounts	13,958	7,545	14,390	28,421	64,314
Noncompete agreements	55	11	141	301	508
Other Assets	11	—	—	11	22
Total assets acquired	44,445	25,204	50,332	74,419	194,400
Other current liabilities	(5,219)	(175)	(35)	(1,560)	(6,989)
Total liabilities assumed	(5,219)	(175)	(35)	(1,560)	(6,989)
Net assets acquired	$ 39,226	$ 25,029	$ 50,297	$ 72,859	$ 187,411

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

Goodwill of $125,511,000, all of which is expected to be deductible for income tax purposes, was assigned to the Retail, Wholesale Brokerage, National Programs and Services Divisions in the amounts of $121,568,000, $3,623,000, $320,000 and $0, respectively.

The results of operations for the acquisitions completed during 2008 have been combined with those of the Company since their respective acquisition dates. If the acquisitions had occurred as of the beginning of each period, the Company's results of operations would be as shown in the following table. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions actually been made at the beginning of the respective periods.

(UNAUDITED)	For the three months ended June 30,		For the six months ended June 30,	
(in thousands, except per share data)	2008	2007	2008	2007
Total revenues	$ 247,078	$ 265,896	$ 518,419	$ 544,217
Income before income taxes	68,337	90,937	157,777	195,672
Net income	41,456	55,977	96,181	119,739
Net income per share:				
Basic	$ 0.29	$ 0.40	$ 0.68	$ 0.85
Diluted	$ 0.29	$ 0.40	$ 0.68	$ 0.85
Weighted average number of shares outstanding:				
Basic	140,723	140,384	140,713	140,303
Diluted	141,265	141,120	141,330	141,170

For acquisitions consummated prior to January 1, 2009, additional consideration paid to sellers as a result of purchase price "earn-out" provisions are recorded as adjustments to intangible assets when the contingencies are settled. The net additional consideration paid by the Company in 2009 as a result of these adjustments totaled $5,280,000, of which $5,224,000 was allocated to goodwill, $31,000 to noncompete agreements and $25,000 to purchased customer accounts. Of the $5,280,000 net additional consideration paid, $2,488,000 was paid in cash and $2,792,000 was issued in notes payable. The net additional consideration paid by the Company in 2008 as a result of these adjustments totaled $7,157,000, of which $7,106,000 was allocated to goodwill, $30,000 to non-compete agreements and $21,000 of net liabilities were forgiven. Of the $7,157,000 net additional consideration paid, $4,517,000 was paid in cash and $2,640,000 was issued in notes payable. As of June 30, 2009, the maximum future contingency payments related to acquisitions totaled $203,216,000, of which $3,807,000 is recorded as non-current other liabilities.

NOTE 6 · Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. Brown & Brown completed its most recent annual assessment as of November 30, 2008 and identified no impairment as a result of the evaluation.

The changes in goodwill for the six months ended June 30, 2009 are as follows:

(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Total
Balance as of January 1, 2009	$ 620,588	$ 246,216	$ 147,298	$ 9,270	$ 1,023,372
Goodwill of acquired businesses	22,478	200	4,670	—	27,348
Goodwill disposed of relating to sales of businesses	—	—	—	—	—
Balance as of June 30, 2009	$ 643,066	$ 246,416	$ 151,968	$ 9,270	$ 1,050,720

NOTE 7 · Amortizable Intangible Assets

Amortizable intangible assets at June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009				December 31, 2008			
(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Life (years)
Purchased customer accounts	$ 742,126	$ (256,047)	$ 486,079	14.9	$ 724,953	$ (231,748)	$ 493,205	14.9
Noncompete agreements	24,551	(22,609)	1,942	7.3	24,455	(22,033)	2,422	7.3
Total	$ 766,677	$ (278,656)	$ 488,021		$ 749,408	$ (253,781)	$ 495,627	

Amortization expense for other amortizable intangible assets for the years ending December 31, 2009, 2010, 2011, 2012 and 2013 is estimated to be $49,807,000, $49,224,000, $47,791,000, $47,175,000, and $46,274,000, respectively.

NOTE 8 · Investments

Investments consisted of the following:

	June 30, 2009 Carrying Value		December 31, 2008 Carrying Value	
(in thousands)	Current	Non-Current	Current	Non-Current
Available-for-sale marketable equity securities	$ 25	$ —	$ 46	$ —
Non-marketable equity securities and certificates of deposit	7,615	287	7,465	287
Total investments	$ 7,640	$ 287	$ 7,511	$ 287

The following table summarizes available-for-sale securities:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable equity securities:				
June 30, 2009	$ 25	$ 1	$ —	$ 26
December 31, 2008	$ 25	$ 21	$ —	$ 46

The following table summarizes the proceeds and realized gains/(losses) on non-marketable equity securities and certificates of deposit for the three and six months ended June 30, 2009 and 2008:

(in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses
For the three months ended:			
June 30, 2009	$ 3,536	$ —	$ —
June 30, 2008	$ 657	$ 464	$ (9)
For the six months ended:			
June 30, 2009	$ 4,098	$ —	$ —
June 30, 2008	$ 707	$ 542	$ (9)

NOTE 9 · Long-Term Debt

Long-term debt at June 30, 2009 and December 31, 2008 consisted of the following:

(in thousands)	2009	2008
Unsecured senior notes	$ 250,000	$ 250,000
Acquisition notes payable	4,230	9,665
Revolving credit facility	—	—
Other notes payable	74	113
Total debt	254,304	259,778
Less current portion	(4,015)	(6,162)
Long-term debt	$ 250,289	$ 253,616

In 2004, the Company completed a private placement of $200.0 million of unsecured senior notes (the "Notes"). The $200.0 million is divided into two series: (1) Series A, which closed on September 15, 2004, for $100.0 million due in 2011 and bearing interest at 5.57% per year; and (2) Series B, which closed on July 15, 2004, for $100.0 million due in 2014 and bearing interest at 6.08% per year. Brown & Brown used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of June 30, 2009 and December 31, 2008, there was an outstanding balance of $200.0 million on the Notes.

On December 22, 2006, the Company entered into a Master Shelf and Note Purchase Agreement (the "Master Agreement") with a national insurance company (the "Purchaser"). The Purchaser also purchased Notes issued by the Company in 2004. The Master Agreement provides for a $200.0 million private uncommitted "shelf" facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per year. On February 1, 2008, $25.0 million in Series D Senior Notes due January 15, 2015, with a fixed interest rate of 5.37% per year were issued. As of June 30, 2009 and December 31, 2008 there was an outstanding balance of $50.0 million under the Master Agreement.

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement (the "Loan Agreement") with a national banking institution that was dated as of June 3, 2008, amending and restating the existing Revolving Loan Agreement dated September 29, 2003, as amended (the "Revolving Agreement"), in order to increase the lending commitment to $50.0 million (subject to potential increases up to $100.0 million) and to extend the

maturity date from December 20, 2011 to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $75.0 million. After a series of amendments that provided covenant exceptions for the notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $20.0 million. The calculation of interest and fees is generally based on the Company's quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization, and non-cash stock-based compensation. Interest is charged at a rate equal to 0.50% to 1.00% above the London Interbank Offering Rate ("LIBOR") or 1.00% below the base rate, each as more fully defined in the Loan Agreement. Fees include an upfront fee, an availability fee of 0.10% to 0.20%, and a letter of credit usage fee of 0.50% to 1.00%. The Loan Agreement contains various covenants, limitations, and events of default customary for similar facilities for similar borrowers. The 90-day LIBOR was 0.595% and 1.43% as of June 30, 2009 and December 31, 2008, respectively. There were no borrowings against this facility at June 30, 2009 or December 31, 2008.

All three of these outstanding credit agreements require Brown & Brown to maintain certain financial ratios and comply with certain other covenants. Brown & Brown was in compliance with all such covenants as of June 30, 2009 and December 31, 2008.

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Acquisition notes payable represent debt incurred to former owners of certain insurance operations acquired by Brown & Brown. These notes and future contingent payments are payable in monthly, quarterly and annual installments through April 2011, including interest in the range from 0.0% to 6.0%.

NOTE 10 · Supplemental Disclosures of Cash Flow Information and Non-Cash Financing and Investing Activities

(in thousands)	For the six months ended June 30, 2009	2008
Cash paid during the period for:		
Interest	$ 7,323	$ 6,915
Income taxes	$ 24,226	$ 44,431

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

(in thousands)	For the six months ended June 30, 2009	2008
Unrealized holding (loss) gain on available-for-sale securities, net of tax benefit of $7 for 2009; net of tax benefit of $3 for 2008	$ (13)	$ (5)
Notes payable issued or assumed for purchased customer accounts	$ 6,599	$ 7,353
Notes receivable on the sale of fixed assets and customer accounts	$ (981)	$ 162

NOTE 11 · Comprehensive Income

The components of comprehensive income, net of related income tax effects, are as follows:

(in thousands)	For the three months ended June 30, 2009	2008	For the six months ended June 30, 2009	2008
Net income	$ 40,668	$ 40,398	$ 88,680	$ 92,158
Net unrealized holding loss (gain) on available-for-sale securities	1	(6)	(13)	(5)
Comprehensive income	$ 40,669	$ 40,392	$ 88,667	$ 92,153

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NOTE 12 · Legal and Regulatory Proceedings

Legal Proceedings

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

Although the ultimate outcome of such matters cannot be ascertained and liabilities in indeterminate amounts may be imposed on Brown & Brown, Inc. or its subsidiaries, on the basis of present information, availability of insurance and legal advice, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the Company's consolidated financial position. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters.

Governmental Investigations Regarding Compensation Practices

As disclosed in prior years, offices of the Company are parties to profit-sharing contingent commission agreements with certain insurance companies, including agreements providing for potential payment of revenue-sharing commissions by insurance companies based primarily on the overall profitability of the aggregate business written with those insurance companies and/or additional factors such as retention ratios and the overall volume of business that an office or offices place with those insurance companies. Additionally, to a lesser extent, some offices of the Company are parties to override commission agreements with certain insurance companies, which provide for commission rates in excess of standard commission rates to be applied to specific lines of business, such as group health business, and which are based primarily on the overall volume of business that such office or offices placed with those insurance companies. The Company has not chosen to discontinue receiving profit-sharing contingent commissions or override commissions.

Governmental agencies such as departments of insurance and offices of attorneys general, in a number of states have looked or are looking into issues related to compensation practices in the insurance industry, and the Company continues to respond to written and oral requests for information and/or subpoenas seeking information related to this topic. The Company is currently in litigation commenced by the Company against the Attorney General's Office in Connecticut in an effort to protect the confidentiality of information sought by, or produced in response to, a subpoena. In addition, agencies in Arizona, Virginia, Washington and Florida have concluded their respective investigations of subsidiaries of Brown & Brown, Inc. based in those states.

The Company cannot currently predict the impact or resolution of the various governmental inquiries or related matters and thus cannot reasonably estimate a range of possible loss, which could be material, or whether the resolution of these matters may harm the Company's business and/or lead to a decrease in or elimination of profit-sharing contingent commissions and override commissions, which could have a material adverse impact on the Company's consolidated financial condition.

For a more complete discussion of the foregoing matters, please see Item 3 of Part I of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for our fiscal year ended December 31, 2008 and Note 13 to the Consolidated Financial Statements contained in Item 8 of Part II thereof.

NOTE 13 · Segment Information

Brown & Brown's business is divided into four reportable segments: the Retail Division, which provides a broad range of insurance products and services to commercial, governmental, professional and individual customers; the Wholesale Brokerage Division, which markets and sells excess and surplus commercial and personal lines insurance, and reinsurance, primarily through independent agents and brokers; the National Programs Division, which is composed 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 designed for specific industries, trade groups, public and quasi-public entities, and market niches; and the Services Division, which provides insurance-related services, including third-party administration, consulting for the workers' compensation and employee benefit self-insurance markets, managed healthcare services and Medicare set-aside services. Brown & Brown conducts all of its operations within the United States of America except for one start-up wholesale brokerage operation based in London, England that commenced business in March 2008 and had $2.6 million of revenues for the year ended December 31, 2008, and $3.1 million of revenues for the first six months of 2009.

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Summarized financial information concerning Brown & Brown's reportable segments for the six months ended June 30, 2009 and 2008 is shown in the following table. The "Other" column includes any income and expenses not allocated to reportable segments and corporate-related items, including the inter-company interest expense charge to the reporting segment.

	For the six months ended June 30, 2009					
(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Other	Total
Total revenues	$ 307,163	$ 83,441	$ 101,313	$ 16,355	$ 1,677	$ 509,949
Investment income	152	47	2	12	557	770
Amortization	14,975	5,117	4,562	231	19	24,904
Depreciation	3,061	1,436	1,324	188	623	6,632
Interest	16,511	7,449	2,861	359	(19,914)	7,266
Income before income taxes	69,893	11,568	41,678	3,625	19,422	146,186
Total assets	1,739,230	654,210	644,934	45,582	(853,744)	2,230,212
Capital expenditures	2,101	1,884	2,193	87	(3)	6,262

	For the six months ended June 30, 2008					
(in thousands)	Retail	Wholesale Brokerage	National Programs	Services	Other	Total
Total revenues	$ 304,456	$ 92,682	$ 82,901	$ 15,911	$ 2,485	$ 498,435
Investment income	749	824	186	(1)	2,150	3,908
Amortization	12,675	5,033	4,550	231	19	22,508
Depreciation	2,959	1,444	1,322	220	593	6,538
Interest	13,579	9,313	4,056	366	(20,136)	7,178
Income before income taxes	82,652	14,270	26,887	3,573	23,796	151,178
Total assets	1,582,866	683,470	564,174	43,022	(800,699)	2,072,833
Capital expenditures	2,157	3,262	1,368	126	1,281	8,194

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

THE FOLLOWING DISCUSSION UPDATES THE MD&A CONTAINED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED IN 2008, AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.

GENERAL

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

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

Our culture is a strong, decentralized sales culture with a focus on consistent, sustained growth over the long term. Our senior leadership group includes 11 executive officers with regional responsibility for oversight of designated operations within the Company. Effective July 1, 2009, J. Powell Brown, who previously served as President of Brown & Brown, Inc., succeeded his father, J. Hyatt Brown, when he retired from the position of Chief Executive Officer. Mr. Hyatt Brown will continue to serve as Chairman of the Board, and will continue to be actively involved with acquisitions and recruitment.

We have increased annual 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 $977.6 million in 2008, a compound annual growth rate of 16.8%. In the same period, we increased annual 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 $166.1 million in 2008, a compound annual growth rate of 22.4%. From 1993 through 2006, 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 resulted primarily from net new business growth (new business production offset by lost business), revenues generated by acquisitions, and continued operating efficiencies.

We experienced increased overall revenue growth in 2008, which was primarily attributable to our acquisition in 2008 of 45 agency entities and several books of business (customer accounts) that generated total annualized revenues of approximately $120.2 million. In the first six months of 2009, we acquired six agency entities and a book of business (customer accounts) that generated total annualized revenues of approximately $17.8 million.

Despite this increased overall revenue growth, however, the past two years have posed significant challenges for us and for our industry in the form of a prevailing decline in insurance premium rates, commonly referred to as a "soft

market,” increased significant governmental involvement in the Florida insurance marketplace and beginning in the second half of 2008, increased pressure on the number of insurable exposure units as the consequence of the general weakening of the economy in the United States. Due to these challenges, among others, we have suffered substantial loss of revenues. While insurance premium rates declined during most of 2008 in most lines of coverage, the rate of the decline seemed to slow in the second half of 2008 and the first six months of 2009. For the remaining six months of 2009, continued declining exposure units are likely to have a greater negative impact on our commissions and fees revenues than will any declining insurance premium rates.

We also earn "profit-sharing 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 the other aforementioned considerations for the prior year(s). Over the last three years, profit-sharing contingent commissions have averaged approximately 6.1% of the previous year's total commissions and fees revenue. Profit-sharing contingent commissions are typically included in our total commissions and fees in the Consolidated Statements of Income in the year received. The term "core commissions and fees" that we use herein excludes profit-sharing contingent commissions and therefore represents the revenues earned directly from specific insurance policies sold, and specific fee-based services rendered. In 2007 and 2008, six national insurance companies announced the replacement of the current loss-ratio based profit-sharing contingent commission calculation with a more guaranteed fixed-based methodology, referred to as "Guaranteed Supplemental Commissions" ("GSC"). Since this new GSC is not subject to the uncertainty of loss ratios, earnings are accrued throughout the year based on actual premiums written and included in our calculations of "core commissions and fees." During 2008, $13.4 million was earned from GSC, of which most was collected in the first quarter of 2009. For the six months ended June 30, 2009 and 2008, $8.4 million and $6.5 million, respectively was earned from GSC.

Fee revenues are generated primarily by: (1) our Services Division, which provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability arenas, as well as Medicare set-aside services, and (2) our Wholesale Brokerage and National Program Divisions which earn fees primarily for the issuance of insurance policies on behalf of insurance carriers. Fee revenues, as a percentage of our total commissions and fees, represented 13.7% in 2008, 14.3% in 2007 and 14.1% in 2006.

Investment income historically 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. As a result of the bank liquidity and solvency issues in the United States in the last quarter of 2008, we moved substantial amounts of our cash into non-interest bearing checking accounts so that they would be fully insured by the Federal Depository Insurance Corporation ("FDIC") or into money-market investment funds, (a portion of which recently became FDIC insured) of SunTrust and Wells Fargo, two large banks. Investment income also includes gains and losses realized from the sale of investments.

Florida Insurance Overview

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

In August 2002, the Florida Legislature created "Citizens Property Insurance Corporation" ("Citizens") to be the "insurer of last resort" in Florida and Citizens therefore charged insurance rates that were higher than those prevailing in the general private insurance marketplace. In each of 2004 and 2005, four major hurricanes made landfall in Florida, and as a result of the significant insurance property losses, insurance rates increased in 2006. To counter the increased property insurance rates, the State of Florida instructed Citizens to essentially cut its property insurance rates in half beginning in January 2007. By state law, Citizens has guaranteed these rates through January 1, 2010. Therefore, Citizens became one of the most, if not the most, competitive risk-bearers for a large percentage of the commercial habitational coastal property exposures, such as condominiums, apartments, and certain assisted living facilities.

Additionally, Citizens became the only reasonably available insurance market for certain homeowner policies throughout Florida. By the end of 2007 and throughout 2008 and the first six months of 2009, Citizens was one of the largest underwriters of coastal property exposures in Florida.

Since Citizens became the principal direct competitor of the insurance carriers that underwrite the condominium program administered by Florida Intracoastal Underwriters ("FIU"), one of our subsidiaries, and the excess and surplus lines insurers represented by our Florida-based wholesale brokers such as Hull & Company, another of our subsidiaries, these operations lost significant amounts of revenue to Citizens during 2007. During 2008, FIU's revenues were relatively flat and therefore, Citizens's impact was not as dramatic as in 2007. However, Citizens continued to be very competitive against the excess and surplus lines insurers and therefore significantly negatively affected the revenues of our Florida-based wholesale brokerage operations.

Citizens's impact on our Florida Retail Division was less severe than on our National Program and Wholesale Brokerage Divisions, because to our Florida Retail Division, Citizens represents another risk-bearer with which to write business, although at slightly lower commission rates and greater difficulty in placing coverage. Citizens's rates for 2009 will remain relatively unchanged. Based on new legislation passed into law during the second quarter of 2009, however, Citizens's rates will increase by approximately 10% effective January 1, 2010.

Company Overview – Second Quarter of 2009

For the tenth consecutive quarter, we recorded negative internal revenue growth of our core commissions and fees revenues as a direct result of the continuing "soft market," the competitiveness of Citizens, and the general weakness of the economy since the second half of 2008. Our total commissions and fees revenues excluding the effect of recent acquisitions, profit-sharing contingencies and sales of books of businesses over the last three months, had a negative internal growth rate of (4.7)%. Offsetting the negative internal growth rate was a strong quarter of revenue from acquisitions completed in 2008 and the first six months of 2009.

Acquisitions

During the first six months of 2009, we acquired the assets and assumed certain liabilities of six insurance intermediary operations, and a book of business (customer accounts). The aggregate purchase price was $41.4 million, including $36.3 million of net cash payments, the issuance, the assumption of $1.3 million of liabilities and $3.8 million of recorded earn-out payables. These acquisitions had estimated aggregate annualized revenues of $17.8 million.

During the first six months of 2008, we acquired the assets and assumed certain liabilities of 21 insurance intermediary operations, the stock of one insurance intermediary and several books of business (customer accounts). The aggregate purchase price was $194.4 million, including $182.7 million of net cash payments, the issuance of $4.7 million in notes payable and the assumption of $7.0 million of liabilities. These acquisitions had estimated aggregate annualized revenues of $77.7 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 and reporting policies, the more critical policies include our accounting for revenue recognition, business acquisitions and purchase price allocations, intangible asset impairments and reserves for litigation. In particular, the accounting for these areas requires significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in our consolidated financial position or consolidated results of operations. Refer to Note 1 in the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2008 on file with the Securities and Exchange Commission ("SEC") for details regarding our critical and significant accounting policies. In addition, refer to Note 4 in the "Notes to Condensed Consolidated Financial Statements" in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, for a description of the new accounting rules governing business acquisitions.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

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

Financial information relating to our Condensed Consolidated Financial Results for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,			For the six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
REVENUES						
Commissions and fees	$ 237,789	$ 233,423	1.9%	$ 471,827	$ 450,604	4.7%
Profit-sharing contingent commissions	6,806	5,412	25.8%	36,732	41,759	(12.0)%
Investment income	460	1,909	(75.9)%	770	3,908	(80.3)%
Other income, net	1,314	976	34.6%	620	2,164	(71.3)%
Total revenues	246,369	241,720	1.9%	509,949	498,435	2.3%
EXPENSES						
Employee compensation and benefits	122,625	120,514	1.8%	249,966	241,701	3.4%
Non-cash stock-based compensation	1,695	1,800	(5.8)%	3,511	3,744	(6.2)%
Other operating expenses	35,620	34,384	3.6%	71,484	65,588	9.0%
Amortization	12,519	11,392	9.9%	24,904	22,508	10.6%
Depreciation	3,299	3,292	0.2%	6,632	6,538	1.4%
Interest	3,632	3,744	(3.0)%	7,266	7,178	1.2%
Total expenses	179,390	175,126	2.4%	363,763	347,257	4.8%
Income before income taxes	66,979	66,594	0.6%	146,186	151,178	(3.3)%
Income taxes	26,311	26,196	0.4%	57,506	59,020	(2.6)%
NET INCOME	$ 40,668	$ 40,398	0.7%	$ 88,680	$ 92,158	(3.8)%
Net internal growth rate – core commissions and fees	(4.7)%	(7.9)%		(3.5)%	(6.1)%	
Employee compensation and benefits ratio	49.8%	49.9%		49.0%	48.5%	
Other operating expenses ratio	14.5%	14.2%		14.0%	13.2%	
Capital expenditures	$ 3,104	$ 4,133		$ 6,262	$ 8,194	
Total assets at June 30, 2009 and 2008				$ 2,230,212	$ 2,072,833	

Commissions and Fees

Commissions and fees, including profit-sharing contingent commissions, for the second quarter of 2009 increased $5.8 million, or 2.4%, over the same period in 2008. Profit-sharing contingent commissions for the second quarter of 2009 increased $1.4 million over the second quarter of 2008, to $6.8 million. Core commissions and fees are our commissions and fees, less (i) profit-sharing contingent commissions and (ii) divested business (commissions and fees generated from offices, books of business or niches sold or terminated). Core commissions and fees revenue for the second quarter of 2009 increased $6.1 million, of which approximately $17.1 million represents core commissions and fees from acquisitions that had no comparable operations in the same period of 2008. After divested business of $1.7 million, the remaining net decrease of $11.0 million represents net lost business, which reflects a (4.7)% internal growth rate for core commissions and fees.

Commissions and fees, including profit-sharing contingent commissions, for the six months ended June 30, 2009 increased $16.2 million, or 3.3%, over the same period in 2008. For the six months ended June 30, 2009, profit-sharing contingent commissions decreased $5.0 million from the comparable period in 2008, to $36.7 million. Core commissions and fees revenue for the first six months of 2009 increased $24.8 million, of which approximately $40.4 million of the total increase represents core commissions and fees from acquisitions that had no comparable operations in the same period of 2008. After divested business of $3.6 million, the remaining net decrease of $15.6 million represents net lost business, which reflects a (3.5)% internal growth rate for core commissions and fees.

Investment Income

Investment income for the three months ended June 30, 2009 decreased $1.4 million, or 75.9%, from the same period in 2008. Investment income for the six months ended June 30, 2009 decreased $3.1 million, or 80.3%, from the same period in 2008. These decreases are primarily due to substantially lower interest yields on short-term money-market investments.

Other Income, net

Other income for the three months ended June 30, 2009 increased $0.3 million, or 34.6%, from the same period in 2008. Other income for the six months ended June 30, 2009 decreased $1.5 million, or 71.3%, from the same period in 2008. Other income consists primarily of gains and losses from the sale and disposition of assets. Although we are not in the business of selling customer accounts, we periodically will sell an office or a book of business (one or more customer accounts) that does not produce reasonable margins or demonstrate a potential for growth.

Employee Compensation and Benefits

Employee compensation and benefits for the second quarter of 2009 increased $2.1 million, or 1.8%, over the same period in 2008. This increase is primarily related to the addition of new employees from acquisitions completed since May 1, 2008. Employee compensation and benefits as a percentage of total revenue decreased marginally to 49.8% for the second quarter of 2009, from 49.9% for the second quarter of 2008. Of the $2.1 million increase in employee compensation and benefits, $5.1 million relates to acquisitions that resulted in stand-alone offices which had no comparable operations in the same period of 2008. Therefore, excluding the impact of these acquisitions of stand-alone offices, there was a net reduction of $3.0 million in employee compensation and benefits in the offices that operated in both periods.

Employee compensation and benefits for the six months ended June 30, 2009 increased $8.3 million, or 3.4%, over the same period in 2008. This increase is primarily related to the addition of new employees from acquisitions completed during 2008. Employee compensation and benefits as a percentage of total revenue increased to 49.0% for

the six months ended June 30, 2009, from 48.5% for the six months ended June 30, 2008. Of the $8.3 million increase in employee compensation and benefits, $14.8 million relates to acquisitions that resulted in stand-alone offices which had no comparable operations in the same period of 2008. Therefore, excluding the impact of these acquisitions of stand-alone offices, there was a net reduction of $6.5 million in employee compensation and benefits in the offices that operated in both periods.

Non-Cash Stock-Based Compensation

Non-cash stock-based compensation for the three and six months ended June 30, 2009 decreased approximately $0.1 million, or 5.8% and $0.2 million or 6.2%, from the same periods in 2008, respectively. For the entire year of 2009, we expect the total non-cash stock-based compensation expense to be slightly more than the total annual cost of $7.3 million in 2008. The increased annual estimated cost primarily relates to new grants of performance stock (“PSP”) and incentive stock options issued in February 2008.

Other Operating Expenses

Other operating expenses for the second quarter of 2009 increased $1.2 million, or 3.6%, from the same period in 2008. Other operating expenses as a percentage of total revenue increased to 14.5% for the second quarter of 2009, from 14.2% for the second quarter of 2008. Acquisitions since May 1, 2008 that resulted in stand-alone offices resulted in approximately $1.5 million of increased other operating expenses. Therefore, there was a net reduction in other operating expenses of approximately $0.3 million with respect to offices in existence in the second quarters of both 2009 and 2008.

Other operating expenses for the six months ended June 30, 2009 increased $5.9 million, or 9.0%, over the same period in 2008. Other operating expenses as a percentage of total revenue increased to 14.0% for the six months ended June 30, 2009, from 13.2% for the six months ended June 30, 2008. Acquisitions since February 1, 2008 that resulted in stand-alone offices resulted in approximately $3.8 million of increased other operating expenses. Therefore, there was a net increase in other operating expenses of approximately $2.1 million with respect to offices in existence in the first six months of both 2009 and 2008. Of this increase, $2.1 million was the result of increased error and omission expenses and reserves, while the remaining net costs were attributable to various other expense categories.

Amortization

Amortization expense for the second quarter of 2009 increased $1.1 million, or 9.9%, over the second quarter of 2008. Amortization expense for the six months ended June 30, 2009 increased $2.4 million, or 10.6%, over the same period of 2008. These increases are primarily due to the amortization of additional intangible assets as the result of new acquisitions.

Depreciation

Depreciation expense for the second quarter of 2009 of $3.3 million was essentially flat with the second quarter of 2008. Depreciation expense for the six months ended June 30, 2009 increased $0.1 million, or 1.4%, over the same period of 2008. These increases are primarily due to the purchase of new computers, related equipment and software, and the depreciation associated with acquisitions completed since February 1, 2008.

Interest Expense

Interest expense for the second quarter of 2009 decreased $0.1 million, or 3.0%, from the same period in 2008. For the six months ended June 30, 2009, interest expense increased $0.1 million, or 1.2%, over the same period in 2008. This increase is primarily due to the additional $25.0 million of unsecured Series D Senior Notes issued in the first quarter of 2008.

RESULTS OF OPERATIONS - SEGMENT INFORMATION

As discussed in Note 13 of the Notes to Condensed Consolidated Financial Statements, we operate in four reportable segments: the Retail, Wholesale Brokerage, National Programs and Services Divisions. On a divisional basis, increases in amortization, depreciation and interest expenses are the result of acquisitions within a given division in a particular year. Likewise, other income in each division primarily reflects net gains on sales of customer accounts and fixed assets. As such, in evaluating the operational efficiency of a division, management places emphasis on the net internal growth rate of core commissions and fees revenue, the gradual improvement of the ratio of employee compensation and benefits to total revenues, and the gradual improvement of the percentage of other operating expenses to total revenues.

The internal growth rates for our core commissions and fees for the three months ended June 30, 2009 and 2008, by divisional units are as follows (in thousands, except percentages):

2009	For the three months ended June 30,						
	2009	2008	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Florida Retail	$ 43,991	$ 45,334	$ (1,343)	(3.0)%	$ 2,536	$ (3,879)	(8.6)%
National Retail	78,857	73,603	5,254	7.1%	9,345	(4,091)	(5.6)%
Western Retail	24,646	23,688	958	4.0%	4,467	(3,509)	(14.8)%
Total Retail(1)	147,494	142,625	4,869	3.4%	16,348	(11,479)	(8.0)%
Wholesale Brokerage	41,409	44,370	(2,961)	(6.7)%	364	(3,325)	(7.5)%
Professional Programs	9,531	9,335	196	2.1%	—	196	2.1%
Special Programs	31,096	27,412	3,684	13.4%	314	3,370	12.3%
Total National Programs	40,627	36,747	3,880	10.6%	314	3,566	9.7%
Services	8,259	7,982	277	3.5%	—	277	3.5%
Total Core Commissions and Fees	$ 237,789	$ 231,724	$ 6,065	2.6%	$ 17,026	$ (10,961)	(4.7)%

(1) The Retail segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 13 which includes corporate and consolidation items.

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,	
	2009	2008
Total core commissions and fees	$ 237,789	$ 231,724
Profit-sharing contingent commissions	6,806	5,412
Divested business	—	1,699

Total commission and fees	$	244,595	$	238,835

2008	For the three months ended June 30,						
	2008	2007	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Florida Retail	$ 45,806	$ 50,858	$ (5,052)	(9.9)%	$ 2,827	$ (7,879)	(15.5)%
National Retail	73,920	63,847	10,073	15.8%	14,393	(4,320)	(6.8)%
Western Retail	24,588	23,898	690	2.9%	3,587	(2,897)	(12.1)%
Total Retail(1)	144,314	138,603	5,711	4.1%	20,807	(15,096)	(10.9)%
Wholesale Brokerage	44,362	45,369	(1,007)	(2.2)%	5,294	(6,301)	(13.9)%
Professional Programs	9,353	9,080	273	3.0%	—	273	3.0%
Special Programs	27,412	22,599	4,813	21.3%	147	4,666	20.6%
Total National Programs	36,765	31,679	5,086	16.1%	147	4,939	15.6%
Services	7,982	9,184	(1,202)	(13.1)%	—	(1,202)	(13.1)%
Total Core Commissions and Fees	$ 233,423	$ 224,835	$ 8,588	3.8%	$ 26,248	$ (17,660)	(7.9)%

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 13 which includes corporate and consolidation items.

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the three months ended June 30, 2008 and 2007 is as follows (in thousands, except percentages):

	For the three months ended June 30,	
	2008	2007
Total core commissions and fees	$ 233,423	$ 224,835
Profit-sharing contingent commissions	5,412	2,746
Divested business	—	2,895
Total commission and fees	$ 238,835	$ 230,476

The internal growth rates for our core commissions and fees for the six months ended June 30, 2009 and 2008, by divisional units are as follows (in thousands, except percentages):

2009	For the six months ended June 30,						
	2009	2008	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Florida Retail	$ 84,122	$ 86,561	$ (2,439)	(2.8)%	$ 6,203	$ (8,642)	(10.0)%
National Retail	156,384	143,759	12,625	8.8%	20,788	(8,163)	(5.7)%
Western Retail	49,939	44,775	5,164	11.5%	12,033	(6,869)	(15.3)%
Total Retail(1)	290,445	275,095	15,350	5.6%	39,024	(23,674)	(8.6)%
Wholesale Brokerage	75,871	81,248	(5,377)	(6.6)%	1,082	(6,459)	(7.9)%
Professional Programs	20,103	19,580	523	2.7%	—	523	2.7%
Special Programs	69,064	55,212	13,852	25.1%	314	13,538	24.5%
Total National Programs	89,167	74,792	14,375	19.2%	314	14,061	18.8%
Services	16,344	15,915	429	2.7%	—	429	2.7%
Total Core Commissions and Fees	$ 471,827	$ 447,050	$ 24,777	5.5%	$ 40,420	$ (15,643)	(3.5)%

(1) The Retail segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 13 which includes corporate and consolidation items.

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the six months ended June 30,	
	2009	2008
Total core commissions and fees	$ 471,827	$ 447,050
Profit-sharing contingent commissions	36,732	41,759
Divested business	—	3,554
Total commission and fees	$ 508,559	$ 492,363

2008	For the six months ended June 30,						
	2008	2007	Total Net Change	Total Net Growth %	Less Acquisition Revenues	Internal Net Growth $	Internal Net Growth %
Florida Retail	$ 87,441	$ 94,749	$ (7,308)	(7.7)%	$ 3,748	$ (11,056)	(11.7)%
National Retail	144,605	115,548	29,057	25.1%	34,235	(5,178)	(4.5)%
Western Retail	46,292	46,324	(32)	(0.1)%	3,849	(3,881)	(8.4)%
Total Retail(1)	278,338	256,621	21,717	8.5%	41,832	(20,115)	(7.8)%
Wholesale Brokerage	81,401	82,636	(1,235)	(1.5)%	10,273	(11,508)	(13.9)%
Professional Programs	19,738	19,518	220	1.1%	—	220	1.1%
Special Programs	55,212	47,083	8,129	17.3%	278	7,851	16.7%
Total National Programs	74,950	66,601	8,349	12.5%	278	8,071	12.1%
Services	15,915	18,138	(2,223)	(12.3)%	—	(2,223)	(12.3)%
Total Core Commissions and Fees	$ 450,604	$ 423,996	$ 26,608	6.3%	$ 52,383	$ (25,775)	(6.1)%

(1) The Retail segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 13 which includes corporate and consolidation items.

The reconciliation of the above internal growth schedule to the total Commissions and Fees included in the Condensed Consolidated Statements of Income for the six months ended June 30, 2008 and 2007 is as follows (in thousands, except percentages):

	For the six months ended June 30,	
	2008	2007
Total core commissions and fees	$ 450,604	$ 423,996
Profit-sharing contingent commissions	41,759	46,803
Divested business	—	5,236
Total commission and fees	$ 492,363	$ 476,035

Retail Division

The Retail Division provides a broad range of insurance products and services to commercial, public and quasi-public, professional and individual insured customers. More than 96.1% of the Retail Division's commissions and fees revenues 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 net of related compensation that we receive will be reflected in our pre-tax income.

Financial information relating to Brown & Brown's Retail Division for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,			For the six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
REVENUES						
Commissions and fees	$ 147,041	$ 143,880	2.2%	$ 289,722	$ 277,690	4.3%
Profit-sharing contingent commissions	1,264	1,981	(36.2)%	17,434	23,909	(27.1)%
Investment income	88	558	(84.2)%	152	749	(79.7)%
Other income (loss), net	720	824	(12.6)%	(145)	2,108	(106.9)%
Total revenues	149,113	147,243	1.3%	307,163	304,456	0.9%
EXPENSES						
Employee compensation and benefits	73,980	72,200	2.5%	150,560	144,357	4.3%
Non-cash stock-based compensation	1,179	904	30.4%	2,369	1,819	30.2%
Other operating expenses	25,053	23,615	6.1%	49,794	46,415	7.3%
Amortization	7,543	6,457	16.8%	14,975	12,675	18.1%
Depreciation	1,517	1,499	1.2%	3,061	2,959	3.4%
Interest	7,988	7,248	10.2%	16,511	13,579	21.6%
Total expenses	117,260	111,923	4.8%	237,270	221,804	7.0%
Income before income taxes	$ 31,853	$ 35,320	(9.8)%	$ 69,893	$ 82,652	(15.4)%
Net internal growth rate – core commissions and fees	(8.0)%	(10.9)%		(8.6)%	(7.8)%	
Employee compensation and benefits ratio	49.6%	49.0%		49.0%	47.4%	
Other operating expenses ratio	16.8%	16.0%		16.2%	15.2%	
Capital expenditures	$ 955	$ 989		$ 2,101	$ 2,157	
Total assets at June 30, 2009 and 2008				$ 1,739,230	$ 1,582,866	

The Retail Division's total revenues during the three months ended June 30, 2009 increased 1.3%, or $1.9 million, over the same period in 2008, to $149.1 million. Profit-sharing contingent commissions for the second quarter of 2009 decreased $0.7 million, or 36.2%, from the second quarter of 2008. Of the $3.2 million net increase in commissions and fees, (i) an increase of approximately $16.4 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2008; (ii) a decrease of $1.7 million related to commissions and fees recorded in the second quarter of 2008 from business divested during 2009; and (iii) the remaining net decrease of $11.5 million is primarily due to net lost business. The Retail Division's internal growth rate for core commissions and fees was (8.0)% for the second quarter of 2009 and was driven primarily by a combination of reduced insurable exposure units resulting from a slowing economy, as well as a continuation of declining insurance property rates, although declining at a slower rate than the previous quarter.

Income before income taxes for the three months ended June 30, 2009 decreased 9.8%, or $3.5 million from the same period in 2008, to $31.9 million. This decrease is primarily due to net lost business, less profit-sharing contingent commission revenues, and less investment and other income.

The Retail Division's total revenues during the six months ended June 30, 2009 increased 0.9%, or $2.7 million, to $307.2 million. Profit-sharing contingent commissions for the six months ended June 30, 2009, decreased $6.5 million, from the same period in 2008. Of the $12.0 million net increase in commissions and fees, (i) an increase of approximately $39.0 million related to the core commissions and fees from acquisitions that had no comparable revenues in the same period of 2008; (ii) a decrease of $3.2 million related to commissions and fees recorded in the six months ended June 30, 2008 from business divested during 2009; and (iii) the remaining net decrease of $23.8 million is primarily due to net lost business in core commissions and fees. The Retail Division's internal growth rate for core commissions and fees was (8.6)% for the six months ended June 30, 2009 and was driven primarily by a combination of reduced insurable exposure units resulting from a slowing economy, as well as a continuation of declining insurance property rates, although declining at a slower rate than the previous year.

Income before income taxes for the six months ended June 30, 2009 decreased 15.4%, or $12.8 million, to $69.9 million. This decrease is primarily due to net lost business, less profit-sharing contingent commission revenues, and less investment and other income.

Wholesale Brokerage Division

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

Financial information relating to our Wholesale Brokerage Division for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,			For the six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
REVENUES						
Commissions and fees	$ 41,409	$ 44,362	(6.7)%	$ 75,871	$ 81,401	(6.8)%
Profit-sharing contingent commissions	2,784	1,467	89.8%	7,154	10,136	(29.4)%
Investment income	18	365	(95.1)%	47	824	(94.3)%
Other income, net	249	154	61.7%	369	321	15.0%
Total revenues	44,460	46,348	(4.1)%	83,441	92,682	(10.0)%
EXPENSES						
Employee compensation and benefits	20,958	22,648	(7.5)%	41,465	45,539	(8.9)%
Non-cash stock-based compensation	248	200	24.0%	501	397	26.2%
Other operating expenses	7,849	8,709	(9.9)%	15,905	16,686	(4.7)%
Amortization	2,558	2,535	0.9%	5,117	5,033	1.7%
Depreciation	720	706	2.0%	1,436	1,444	(0.6)%
Interest	3,548	4,516	(21.4)%	7,449	9,313	(20.0)%
Total expenses	35,881	39,314	(8.7)%	71,873	78,412	(8.3)%
Income before income taxes	$ 8,579	$ 7,034	22.0%	$ 11,568	$ 14,270	(18.9)%

Net internal growth rate – core commissions and fees	(7.5)%	(13.9)%	(7.9)%	(13.9)%
Employee compensation and benefits ratio	47.1%	48.9%	49.7%	49.1%
Other operating expenses ratio	17.7%	18.8%	19.1%	18.0%
Capital expenditures	$ 840	$ 2,016	$ 1,884	$ 3,262
Total assets at June 30, 2009 and 2008			$ 654,210	$ 683,470

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The Wholesale Brokerage Division's total revenues for the three months ended June 30, 2009 decreased 4.1%, or $1.9 million, from the same period in 2008, to $44.5 million. Profit-sharing contingent commissions for the second quarter of 2009 increased $1.3 million over the same quarter of 2008. Of the $3.0 million net decrease in commissions and fees, (i) an increase of approximately $0.3 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2008; and (ii) the remaining net decrease of $3.3 million is primarily due to net lost business in core commissions and fees. As such, the Wholesale Brokerage Division's internal growth rate for core commissions and fees was (7.5)% for the second quarter of 2009. The majority of the net lost business was attributable to a $1.9 million impact of primarily the decreasing property rates and reduced insurable exposure units in Florida, and a $ 1.2 million impact of the slowing residential home-builders' market on one of our Wholesale Brokerage operations that focuses on that industry in the southwestern region of the United States.

Income before income taxes for the three months ended June 30, 2009 increased 22.0%, or $1.5 million from the same period in 2008, to $8.6 million, primarily due to the increased profit-sharing contingent commissions, a $1.7 million reduction in employee compensation and a $0.9 million reduction in other operating expenses.

The Wholesale Brokerage Division's total revenues for the six months ended June 30, 2009 decreased 10.0%, or $9.2 million, to $83.4 million from the same period in 2008. Profit-sharing contingent commissions for the six months ended June 30, 2009 decreased $3.0 million from the same period in 2008. Of the $5.5 million decrease in commissions and fees, (i) an increase of approximately $1.1 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2008; (ii) a decrease of $0.1 million related to commissions and fees recorded in the six months ended June 30, 2008 from business divested during 2009; and (iii) the remaining net decrease of $6.5 million is primarily due to net lost business in core commissions and fees. As such, the Wholesale Brokerage Division's internal growth rate for core commissions and fees was (7.9)% for the six months ended June 30, 2008. The majority of the net lost business was attributable to a $3.3 million impact of primarily the decreasing property rates and reduced insurable exposure units in Florida, and a $ 2.1 million impact of the slowing residential home-builders' market on one of our Wholesale Brokerage operations that focuses on that industry in the southwestern region of the United States. Our Wholesale Brokerage operations in other parts of the country are being negatively affected by a combination of declining premium rates and increased competition from the standard lines carriers.

Income before income taxes for the six months ended June 30, 2009 decreased 18.9%, or $2.7 million, to $11.6 million from the same period in 2008, primarily due to net lost business and a decrease in profit-sharing contingent commissions. However, the revenue reduction was somewhat offset by $4.1 million lower employee compensation and benefit cost and $0.8 million in lower other operating costs.

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, governmental entities and market niches. Like the Retail and Wholesale Brokerage Divisions, the National Programs Division's revenues are primarily commission-based.

Financial information relating to our National Programs Division for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,			For the six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
REVENUES						
Commissions and fees	$ 40,627	$ 36,765	10.5%	$ 89,167	$ 74,950	19.0%
Profit-sharing contingent commissions	2,758	1,964	40.4%	12,144	7,714	57.4%
Investment income	1	77	(98.7)%	2	186	(98.9)%
Other income, net	6	25	(76.0)%	—	51	NMF%
Total revenues	43,392	38,831	11.7%	101,313	82,901	22.2%
EXPENSES						
Employee compensation and benefits	17,438	15,962	9.2%	37,060	32,551	13.9%
Non-cash stock-based compensation	260	202	28.7%	513	402	27.6%
Other operating expenses	6,061	6,921	(12.4)%	13,315	13,133	1.4%
Amortization	2,293	2,275	0.8%	4,562	4,550	0.3%
Depreciation	664	681	(2.5)%	1,324	1,322	0.2%
Interest	1,392	1,939	(28.2)%	2,861	4,056	(29.5)%
Total expenses	28,108	27,980	0.5%	59,635	56,014	6.5%
Income before income taxes	$ 15,284	$ 10,851	40.9%	$ 41,678	$ 26,887	55.0%
Net internal growth rate – core commissions and fees	9.7%	(15.6)%		18.8%	12.1%	
Employee compensation and benefits ratio	40.2%	41.1%		36.6%	39.3%	
Other operating expenses ratio	14.0%	17.8%		13.1%	15.8%	
Capital expenditures	$ 1,110	$ 972		$ 2,193	$ 1,368	
Total assets at June 30, 2009 and 2008				$ 644,934	$ 564,174	

Total revenues for National Programs for the three months ended June 30, 2009 increased 11.7%, or $4.6 million, over the same period in 2008, to $43.4 million. Profit-sharing contingent commissions for the second quarter

of 2009 increased $0.8 million over the second quarter of 2008. Of the $3.9 million net increase in commissions and fees, (i) an increase of approximately $0.3 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2008; and (ii) the remaining net increase of approximately $3.6 million is primarily due to net new business. Therefore, the National Programs Division's internal growth rate for core commissions and fees was 9.7% for the three months ended June 30, 2009. The Professional Programs Unit within the National Programs Division had a 2.1% internal growth rate due to continued stabilizing professional liability rates. Additionally, the Special Programs Unit had a 12.3% internal growth rate, primarily due to approximately $3.3 million of net new business generated by our Proctor Financial Services subsidiary and to the approximately $0.5 million net increase in core commissions and fees in our condominium program at our Florida Intracoastal Underwriters ("FIU") subsidiary.

Income before income taxes for the three months ended June 30, 2009 increased 40.9%, or $4.4 million, over the same period in 2008, to $15.3 million. This increase is primarily due to net new business and an increase in profit-sharing contingent commissions.

Total revenues for National Programs for the six months ended June 30, 2009 increased 22.2%, or $18.4 million, to $101.3 million. Profit-sharing contingent commissions for the six months ended June 30, 2009 increased $4.4 million over the same period in 2008. Of the $14.2 million net increase in commissions and fees; (i) an increase of approximately $0.3 million related to core commissions and fees from acquisitions that had no comparable revenues in the same period of 2008; (ii) a decrease of $0.2 million related to commissions and fees recorded in the six months ended June 30, 2008 from business divested during 2009; and (iii) the remaining net increase of approximately $14.1 million is primarily due to net new business. Therefore, the National Programs Division's internal growth rate for core commissions and fees was 18.8%. The Professional Programs Unit within the National Programs Division had a 2.7% internal growth rate due to stabilizing professional liability rates. Additionally, the Special Programs Unit had a 24.5% internal growth rate, primarily due to; (i) approximately $13.8 million of net new business generated by our Proctor Financial Services subsidiary, most of which will be non-recurring; and (ii) approximately $0.7 million net increase in core commissions and fees in our FIU subsidiary.

Income before income taxes for the six months ended June 30, 2009 increased 55.0%, or $14.8 million, to $41.7 million, over the same period in 2008. This increase is primarily due to net new business generated by our Proctor Financial Services subsidiary.

Services Division

The Services Division provides insurance-related services, including third-party claims administration and comprehensive medical utilization management services in both the workers' compensation and all-lines liability areas, as well as Medicare set-aside services. Unlike our other segments, approximately 98% of the Services Division's 2008 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 for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	For the three months ended June 30,			For the six months ended June 30,		
	2009	2008	% Change	2009	2008	% Change
REVENUES						
Commissions and fees	$ 8,259	$ 7,982	3.5%	$ 16,344	$ 15,915	2.7%
Profit-sharing contingent commissions	—	—	—%	—	—	—%
Investment income	6	(6)	(200.0)%	12	(1)	NMF%
Other income (loss), net	(1)	(3)	(66.7)%	(1)	(3)	(66.7)%
Total revenues	8,264	7,973	3.6%	16,355	15,911	2.8%
EXPENSES						
Employee compensation and benefits	4,687	4,482	4.6%	9,454	9,037	4.6%
Non-cash stock-based compensation	41	35	17.1%	82	70	17.1%
Other operating expenses	1,263	1,263	—%	2,416	2,414	0.1%
Amortization	116	116	—%	231	231	—%
Depreciation	88	108	(18.5)%	188	220	(14.5)%
Interest	166	172	(3.5)%	359	366	(1.9)%

Total expenses	6,361	6,176	3.0%	12,730	12,338	3.2%
Income before income taxes	$ 1,903	$ 1,797	5.9%	$ 3,625	$ 3,573	1.5%
Net internal growth rate – core commissions and fees	3.5%	(13.1)%		2.7%	(12.3)%	
Employee compensation and benefits ratio	56.7%	56.2%		57.8%	56.8%	
Other operating expenses ratio	15.3%	15.8%		14.8%	15.2%	
Capital expenditures	$ 80	$ 71		$ 87	$ 126	
Total assets at June 30, 2009 and 2008				$ 45,582	$ 43,022	

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The Services Division's total revenues for the three months ended June 30, 2009 increased 3.6%, or $0.3 million, from the same period in 2008, to $8.3 million. Core commissions and fees reflect an internal growth rate of 3.5% for the second quarter of 2009, primarily due to net new business.

Income before income taxes for the three months ended June 30, 2009 increased 5.9%, or $0.1 million, from the same period in 2008 to $1.9 million, primarily due to net new business.

The Services Division's total revenues for the six months ended June 30, 2009 increased 2.8%, or $0.4 million, to $16.4 million from the same period in 2008. Core commissions and fees reflect an internal growth rate of 2.7% for the six months ended June 30, 2009, primarily due to net new business.

Income before income taxes for the six months ended June 30, 2009 increased 1.5%, or $0.1 million, to $3.6 million from the same period in 2008 primarily due to net new business.

Other

As discussed in Note 13 of the Notes to Condensed Consolidated Financial Statements, the "Other" column in the Segment Information table includes any income and expenses not allocated to reportable segments, and corporate-related items, including the inter-company interest expense charged to the reporting segment.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents of $190.0 million at June 30, 2009 reflected an increase of $111.5 million over the $78.5 million balance at December 31, 2008. For the six-month period ended June 30, 2009, $185.0 million of cash was provided from operating activities. Also during this period, $38.8 million of cash was used for acquisitions, $6.3 million was used for additions to fixed assets, $8.3 million was used for payments on long-term debt and $21.2 million was used for payment of dividends.

Our ratio of current assets to current liabilities (the "current ratio") was 1.12 and 1.00 at June 30, 2009 and December 31, 2008, respectively.

Contractual Cash Obligations

As of June 30, 2009, our contractual cash obligations were as follows:

	Payments Due by Period				
(in thousands)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	$ 254,295	$ 4,006	$ 100,289	$ —	$ 150,000
Capital lease obligations	9	9	—	—	—
Other long-term liabilities	15,223	9,481	3,698	752	1,292
Operating leases	97,203	27,154	37,892	18,915	13,242
Interest obligations	61,029	14,461	24,409	17,675	4,484
Unrecognized tax benefits	429	—	429	—	—
Maximum future acquisition contingency payments	199,409	72,457	124,113	2,839	—
Total contractual cash obligations	$ 627,597	$ 127,568	$ 290,830	$ 40,181	$ 169,018

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In 2004, we completed a private placement of $200.0 million of unsecured senior notes (the “Notes”). The $200.0 million is divided into two series: Series A, for $100.0 million due in 2011 and bearing interest at 5.57% per year; and Series B, for $100.0 million due in 2014 and bearing interest at 6.08% per year. The closing on the Series B Notes occurred on July 15, 2004. The closing on the Series A Notes occurred on September 15, 2004. Brown & Brown used the proceeds from the Notes for general corporate purposes, including acquisitions and repayment of existing debt. As of June 30, 2009 and December 31, 2008 there was an outstanding balance of $200.0 million on the Notes.

On December 22, 2006, we entered into a Master Shelf and Note Purchase Agreement (the “Master Agreement”) with a national insurance company (the “Purchaser”). The Purchaser also purchased Notes issued by the Company in 2004. The Master Agreement provides for a $200.0 million private uncommitted “shelf” facility for the issuance of senior unsecured notes over a three-year period, with interest rates that may be fixed or floating and with such maturity dates, not to exceed ten years, as the parties may determine. The Master Agreement includes various covenants, limitations and events of default similar to the Notes issued in 2004. The initial issuance of notes under the Master Agreement occurred on December 22, 2006, through the issuance of $25.0 million in Series C Senior Notes due December 22, 2016, with a fixed interest rate of 5.66% per annum. On February 1, 2008 we issued $25.0 million in Series D Senior Notes due January 15, 2015 with a fixed interest rate of 5.37% per annum. As of June 30, 2009 and December 31, 2008 there was an outstanding balance of $50.0 million under the Master Agreement.

On June 12, 2008, the Company entered into an Amended and Restated Revolving Loan Agreement (the “Loan Agreement”) with a national banking institution that was dated as of June 3, 2008, amending and restating the existing Revolving Loan Agreement dated September 29, 2003, as amended (the “Revolving Agreement”), in order to increase the lending commitment to $50.0 million (subject to potential increases up to $100.0 million) and to extend the maturity date from December 20, 2011 to June 3, 2013. The Revolving Agreement initially provided for a revolving credit facility in the maximum principal amount of $75.0 million. After a series of amendments that provided covenant exceptions for the notes issued or to be issued under the Master Agreement and relaxed or deleted certain other covenants, the maximum principal amount was reduced to $20.0 million. The calculation of interest and fees is generally based on the Company’s quarterly ratio of funded debt to earnings before interest, taxes, depreciation, amortization, and non-cash stock-based compensation. Interest is charged at a rate equal to 0.50% to 1.00% above the London Interbank Offering Rate (“LIBOR”) or 1.00% below the base rate, each as more fully defined in the Loan Agreement. Fees include an upfront fee, an availability fee of 0.10% to 0.20%, and a letter of credit usage fee of 0.50% to 1.00%. The Loan Agreement contains various covenants, limitations, and events of default customary for similar facilities for similar borrowers. The 90-day LIBOR was 0.595% and 1.43% as of June 30, 2009 and December 31, 2008, respectively. There were no borrowings against this facility at June 30, 2009 or December 31, 2008.

All three of these outstanding credit agreements require us to maintain certain financial ratios and comply with certain other covenants. We were in compliance with all such covenants as of June 30, 2009 and December 31, 2008.

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

We believe that our existing cash, cash equivalents, short-term investment portfolio and funds generated from operations, together with our Master Agreement and Loan Agreement described above, will be sufficient to satisfy our normal liquidity needs through at least the next 12 months. Additionally, we believe that funds generated from future operations will be sufficient to satisfy our normal liquidity needs, including the required annual principal payments on our long-term debt.

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

In addition, we currently have a shelf registration statement with the SEC registering the potential sale of an indeterminate amount of debt and equity securities in the future, from time to time, to augment our liquidity and capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our invested assets are held as cash and cash equivalents, restricted cash and investments, available-for-sale marketable equity securities, non-marketable equity securities and certificates of deposit. These investments are subject to interest rate risk and equity price risk. The fair values of our cash and cash equivalents, restricted cash and investments, and certificates of deposit at June 30, 2009 and December 31, 2008 approximated their respective carrying values due to their short-term duration and therefore such market risk is not considered to be material.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation (the "Evaluation") required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 and 15d-15 under the Exchange Act ("Disclosure Controls") as of June 30, 2009. Based on the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our senior management including our CEO and CFO, to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There has not been any change in our internal control over financial reporting identified in connection with the Evaluation that occurred during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Control Over Financial Reporting

Our management, including our CEO and CFO, does not expect that our Disclosure Controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

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

CEO and CFO Certifications

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

PART II

ITEM 1. LEGAL PROCEEDINGS

In Item 3 of Part I of the Company's Annual Report on Form 10-K for its fiscal year ending December 31, 2008, certain information concerning certain legal proceedings and other matters was disclosed. Such information was current as of the date of filing. During the Company's fiscal quarter ending June 30, 2009, no new legal proceedings, or material developments with respect to existing legal proceedings, occurred which require disclosure in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There were no material changes in the risk factors previously disclosed in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders was held on April 29, 2009. At the meeting, two matters were submitted to a vote of security holders. Set forth below are the voting results for each of these matters.

1. Election of twelve directors.

	For	Withheld
J. Hyatt Brown	123,213,932	10,994,233
Samuel P. Bell, III	131,701,416	2,506,749
Hugh M. Brown	133,469,472	738,693
J. Powell Brown	131,729,736	2,478,429
Bradley Currey, Jr.	131,617,607	2,590,558
Jim W. Henderson	131,739,233	2,468,932
Theodore J. Hoepner	131,611,552	2,596,613
Toni Jennings	133,474,593	733,572
Wendell S. Reilly	133,493,055	715,110
John R. Riedman	123,277,270	10,930,895
Jan E. Smith	131,815,864	2,392,301
Chilton D. Varner	133,476,664	731,501

2. Ratification of the appointment of Deloitte & Touche LLP as Brown & Brown, Inc.'s independent registered public accountants for the fiscal year ending December 31, 2009

For	Against	Abstain
134,023,506	97,369	87,295

ITEM 5. OTHER INFORMATION

As previously disclosed in the Company's Current Report on Form 8-K filed on May 5, 2009, in connection with J. Hyatt Brown's retirement effective July 1, 2009 from the position of Chief Executive Officer of the Company, the Company's Board of Directors agreed with Mr. Brown to amend his employment agreement effective July 1, 2009 to remove all provisions relating to a "change in control" of the Company, including a requirement that Mr. Brown be paid certain amounts in the event of the termination of his employment or the occurrence of certain other "adverse consequences" following a change in control of the Company.

On August 10, 2009, the Company and Mr. Brown executed this new employment agreement, which memorializes the removal of all provisions relating to a "change in control" of the Company. This employment agreement is attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

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

3.1 Articles of Amendment to Articles of Incorporation (adopted April 24, 2003) (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended June 30, 2003), and Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3a to Form 10-Q for the quarter ended June 30, 1999).

3.2	Bylaws (incorporated by reference to Exhibit 3b to Form 10-K for the year ended December 31, 2002).
10.1	Employment Agreement with J. Hyatt Brown, dated and effective as of July 1, 2009.
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
32.1	Section 1350 Certification by the Chief Executive Officer of the Registrant.
32.2	Section 1350 Certification by the Chief Financial Officer of the Registrant.

SIGNATURE

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

BROWN & BROWN, INC.

/s/ CORY T. WALKER

Date: August 10, 2009

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