Verisk Analytics, Inc.
Form 10-Q
July 30, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File Number: 001-34480

VERISK ANALYTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-2994223**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
545 Washington Boulevard Jersey City, NJ	**07310-1686**
(Address of principal executive offices)	**(Zip Code)**

(201) 469-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of July 26, 2013, there was the following number of shares outstanding of each of the issuer s classes of common stock:

Class	**Shares Outstanding**
Class A common stock $.001 par value	167,915,445

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Item 1. Financial Statements

VERISK ANALYTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2013 and December 31, 2012

	2013 (unaudited)	2012
	(In thousands, except for share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 172,587	$ 89,819
Available-for-sale securities	4,254	4,883
Accounts receivable, net of allowance for doubtful accounts of $4,936 and $4,753, respectively	186,549	178,430
Prepaid expenses	31,048	21,946
Deferred income taxes, net	10,463	10,397
Income taxes receivable	54,013	45,975
Other current assets	34,695	39,109
Total current assets	493,609	390,559
Noncurrent assets:		
Fixed assets, net	185,928	154,084
Intangible assets, net	486,532	520,935
Goodwill	1,249,271	1,247,459
Other assets	24,011	47,299
Total assets	$ 2,439,351	$ 2,360,336
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 157,961	$ 187,648
Short-term debt and current portion of long-term debt	137,870	195,263
Pension and postretirement benefits, current	1,734	1,734
Fees received in advance	287,571	200,705
Total current liabilities	585,136	585,350
Noncurrent liabilities:		
Long-term debt	1,266,910	1,266,162
Pension benefits	32,138	38,655
Postretirement benefits	2,267	2,627
Deferred income taxes, net	135,257	133,761
Other liabilities	52,138	78,190
Total liabilities	2,073,846	2,104,745
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $.001 par value; 1,200,000,000 shares authorized; 544,003,038 shares issued and 167,629,024 and 167,727,073 outstanding, respectively	137	137
Unearned KSOP contributions	(402)	(483)
Additional paid-in capital	1,116,948	1,044,746

Treasury stock, at cost, 376,374,014 and 376,275,965 shares, respectively	(1,733,283)	(1,605,376)
Retained earnings	1,070,443	905,727
Accumulated other comprehensive losses	(88,338)	(89,160)
Total stockholders equity	365,505	255,591
Total liabilities and stockholders equity	$ 2,439,351	$ 2,360,336

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VERISK ANALYTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

For The Three and Six Months Ended June 30, 2013 and 2012

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands, except for share and per share data)			
Revenues	$ 421,320	$ 373,226	$ 824,643	$ 719,727
Expenses:				
Cost of revenues (exclusive of items shown separately below)	174,663	147,074	339,112	280,404
Selling, general and administrative	61,152	62,473	120,180	116,452
Depreciation and amortization of fixed assets	16,811	13,090	32,025	24,734
Amortization of intangible assets	17,196	12,187	34,403	20,774
Total expenses	269,822	234,824	525,720	442,364
Operating income	151,498	138,402	298,923	277,363
Other income (expense):				
Interest expense	(19,704)	(17,377)	(39,794)	(33,762)
Investment income	40	156	88	261
Realized gain (loss) on available-for-sale securities, net	93	(30)	(100)	300
Total other expense, net	(19,571)	(17,251)	(39,806)	(33,201)
Income before income taxes	131,927	121,151	259,117	244,162
Provision for income taxes	(47,722)	(47,820)	(94,401)	(96,230)
Net income	$ 84,205	$ 73,331	$ 164,716	$ 147,932
Basic net income per share	$ 0.50	$ 0.44	$ 0.98	$ 0.89
Diluted net income per share	$ 0.49	$ 0.43	$ 0.95	$ 0.86
Weighted average shares outstanding:				
Basic	168,147,069	165,946,009	168,112,829	165,391,500
Diluted	172,467,688	171,901,349	172,614,164	171,626,084

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VERISK ANALYTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For The Three and Six Months Ended June 30, 2013 and 2012

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$ 84,205	$ 73,331	$ 164,716	$ 147,932
Other comprehensive income, net of tax:				
Unrealized foreign currency loss	(275)	(287)	(681)	(134)
Unrealized holding loss on available-for-sale securities	(84)	(116)	(314)	(313)
Pension and postretirement unfunded liability adjustment	948	452	1,817	1,380
Total other comprehensive income	589	49	822	933
Comprehensive income	$ 84,794	$ 73,380	$ 165,538	$ 148,865

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VERISK ANALYTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT) (UNAUDITED)

For The Year Ended December 31, 2012 and The Six Months Ended June 30, 2013

	Class A Common Stock	Par Value	Unearned KSOP Contributions	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Losses	Total Stockholders Equity (Deficit)
				(In thousands, except for share data)				
Balance, December 31, 2011	544,003,038	$ 137	$ (691)	$ 874,808	$ (1,471,042)	$ 576,585	$ (78,287)	$ (98,490)
Net income						329,142		329,142
Other comprehensive loss							(10,873)	(10,873)
Treasury stock acquired (3,491,591 shares)					(162,586)			(162,586)
KSOP shares earned			208	12,903				13,111
Stock options exercised, including tax benefit of $88,185 (6,880,678 shares reissued from treasury stock)				131,824	28,039			159,863
Restricted stock lapsed, including tax benefit of $202 (41,908 shares reissued from treasury stock)				34	167			201
Employee stock purchase plan (6,074 shares issued from treasury stock)				268	26			294
Stock based compensation				24,696				24,696
Other stock issuances (4,777 shares reissued from treasury stock)				213	20			233
Balance, December 31, 2012	544,003,038	137	(483)	1,044,746	(1,605,376)	905,727	(89,160)	255,591
Net income						164,716		164,716
Other comprehensive income							822	822
Treasury stock acquired (2,326,130 shares)					(137,634)			(137,634)
KSOP shares earned			81	7,276				7,357
Stock options exercised, including tax benefit of $31,242 (2,075,394 shares reissued from treasury stock)				52,759	9,062			61,821
Restricted stock lapsed, including tax benefit of $969 (136,940 shares reissued from treasury stock)				375	594			969
Employee stock purchase plan (15,173 shares issued from treasury stock)				805	68			873
Stock based compensation				10,955				10,955
Other stock issuances (574 shares reissued from treasury stock)				32	3			35
Balance, June 30, 2013	544,003,038	$ 137	$ (402)	$ 1,116,948	$ (1,733,283)	$ 1,070,443	$ (88,338)	$ 365,505

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VERISK ANALYTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For The Six Months Ended June 30, 2013 and 2012

	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 164,716	$ 147,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	32,025	24,734
Amortization of intangible assets	34,403	20,774
Amortization of debt issuance costs and original issue discount	1,368	1,096
Allowance for doubtful accounts	633	461
KSOP compensation expense	7,357	6,186
Stock based compensation	10,955	13,653
Realized loss (gain) on available-for-sale securities, net	100	(300)
Deferred income taxes	1,007	(535)
Loss on disposal of fixed assets	428	21
Excess tax benefits from exercised stock options	(63,934)	(31,624)
Other operating activities, net	28	(18)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(8,752)	(13,652)
Prepaid expenses and other assets	(1,696)	4,289
Income taxes	24,171	59,929
Accounts payable and accrued liabilities	(12,833)	(24,124)
Fees received in advance	86,866	77,038
Pension and postretirement benefits	(4,099)	(90,808)
Other liabilities	(26,052)	(7,617)
Net cash provided by operating activities	246,691	187,435
Cash flows from investing activities:		
Acquisitions, net of cash acquired of $0 and $29,387, respectively	(983)	(331,330)
Purchase of non-controlling interest in non-public companies		(2,000)
Earnout payments		(250)
Proceeds from release of acquisition related escrows	192	
Escrow funding associated with acquisitions		(17,000)
Purchases of fixed assets	(63,505)	(36,532)
Purchases of available-for-sale securities	(4,967)	(1,128)
Proceeds from sales and maturities of available-for-sale securities	5,826	1,203
Other investing activities, net	439	
Net cash used in investing activities	(62,998)	(387,037)
Cash flows from financing activities:		
Repayment of current portion of long-term debt	(45,000)	
(Repayment) proceeds of short-term debt, net	(10,000)	150,000
Excess tax benefits from exercised stock options	63,934	31,624
Repurchase of common stock	(135,595)	(106,305)
Proceeds from stock options exercised	30,528	33,453
Other financing activities, net	(4,111)	(3,441)
Net cash (used in) provided by financing activities	(100,244)	105,331
Effect of exchange rate changes	(681)	(134)
Increase (decrease) in cash and cash equivalents	82,768	(94,405)

Cash and cash equivalents, beginning of period	89,819	191,603
Cash and cash equivalents, end of period	$ 172,587	$ 97,198
Supplemental disclosures:		
Taxes paid	$ 71,029	$ 37,736
Interest paid	$ 39,029	$ 26,619
Noncash investing and financing activities:		
Repurchase of common stock included in accounts payable and accrued liabilities	$ 3,550	$ 1,936
Deferred tax asset (liability) established on date of acquisition	$ 343	$ (40,358)
Capital lease obligations	$ 2,106	$ 3,043
Capital expenditures included in accounts payable and accrued liabilities	$ 3,426	$ 1,864

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VERISK ANALYTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Amounts in thousands, except for share and per share data, unless otherwise stated)

1. Organization:

Verisk Analytics, Inc. and its consolidated subsidiaries (Verisk or the Company) enable risk-bearing businesses to better understand and manage their risks. The Company provides its customers proprietary data that, combined with analytic methods, create embedded decision support solutions. The Company is one of the largest aggregators and providers of data pertaining to property and casualty (P&C) insurance risks in the United States of America (U.S.). The Company offers solutions for detecting fraud in the U.S. P&C insurance, financial services, and healthcare industries and sophisticated methods to predict and quantify loss in diverse contexts ranging from natural catastrophes to supply chain to health insurance. The Company provides solutions, including data, statistical models or tailored analytics, all designed to allow clients to make more logical decisions.

Verisk was established to serve as the parent holding company of Insurance Services Office, Inc. (ISO). ISO was formed in 1971 as an advisory and rating organization for the P&C insurance industry to provide statistical and actuarial services, to develop insurance programs and to assist insurance companies in meeting state regulatory requirements. Over the past decade, the Company has broadened its data assets, entered new markets, placed a greater emphasis on analytics, and pursued strategic acquisitions. Verisk s common stock trades under the ticker symbol VRSK on the NASDAQ Global Select Market.

2. Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the U.S. (U.S. GAAP). The preparation of financial statements in conformity with these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include acquisition purchase price allocations, the fair value of goodwill, the realization of deferred tax assets, fair value of stock based compensation, liabilities for pension and postretirement benefits, and the estimate for the allowance for doubtful accounts. Actual results may ultimately differ from those estimates. Certain combinations have been made related to federal and state income taxes and to the segment reporting within revenue categories in the condensed consolidated financial statements and the notes to conform to the respective 2013 presentation.

The condensed consolidated financial statements as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012, in the opinion of management, include all adjustments, consisting of normal recurring accruals, to present fairly the Company s financial position, results of operations and cash flows. The operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements and related notes for the three and six months ended June 30, 2013 have been prepared on the same basis as and should be read in conjunction with the annual report on Form 10-K for the year ended December 31, 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (SEC). The Company believes the disclosures made are adequate to keep the information presented from being misleading.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU No. 2013-02). Under ASU No. 2013-02, an entity is required to provide information about the

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amounts reclassified out of accumulated other comprehensive income by component, either on the face of the financial statement where net income is presented or in the notes thereto. ASU No. 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. ASU 2013-02 was adopted by the Company on January 1, 2013. The Company elected to present the information as a separate disclosure in the notes to the condensed consolidated financial statements. Refer to Note 9 for further discussion.

In February 2013, the FASB issued ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* (ASU No. 2013-04). Under ASU No. 2013-04, an entity is required to measure and disclose the amounts and nature of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU No. 2013-04 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted. The Company has elected not to early adopt. The adoption of ASU 2013-04 will not have a material impact on the Company s condensed consolidated financial statements as the long-term debt resulting from joint and several liability arrangements has been measured on a gross basis and disclosed in Note 8. Other obligations resulting from joint and several liability arrangements, such as contingencies, retirement benefits and income taxes, are excluded from the scope of this ASU.

In March 2013, the FASB issued ASU No. 2013-05, *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* (ASU No. 2013-05). Under ASU No. 2013-05, an entity is required to release any related cumulative translation adjustment into net income upon cessation to have a controlling financial interest in a subsidiary or group of assets within a foreign entity. ASU 2013-05 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted. The Company has elected not to early adopt. The adoption of ASU 2013-05 is not expected to have a material impact on the Company s condensed consolidated financial statements.

3. Investments:

Available-for-sale securities consisted of the following:

	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
June 30, 2013				
Registered investment companies	$ 4,710	$	$ (456)	$ 4,254
December 31, 2012				
Registered investment companies	$ 4,830	$ 53	$	$ 4,883

In addition to the available-for-sale securities above, the Company has equity investments in non-public companies in which the Company acquired non-controlling interests and for which no readily determinable market value exists. These securities were accounted for under the cost method in accordance with Accounting Standards Codification (ASC) 323-10-25, *The Equity Method of Accounting for Investments in Common Stock*. At June 30, 2013 and December 31, 2012, the carrying value of such securities was $3,737 and $5,015, respectively, and has been included in Other assets in the accompanying condensed consolidated balance sheets.

4. Fair Value Measurements:

Certain assets and liabilities of the Company are reported at fair value in the accompanying condensed consolidated balance sheets. Such assets and liabilities include amounts for both financial and non-financial instruments. To increase consistency and comparability of assets and liabilities recorded at fair value, ASC 820-10, *Fair Value Measurements* (ASC 820-10), established a three-level fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value. ASC 820-10 requires disclosures detailing the extent to which companies measure assets and liabilities at fair value, the methods and assumptions used to measure fair value and the effect of fair value measurements on earnings. In accordance with ASC 820-10, the Company applied the following fair value hierarchy:

Level 1 - Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments.

Level 2 - Assets and liabilities valued based on observable market data for similar instruments.

Level 3 - Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which are internally-developed, and considers risk premiums that market participant would require.

The following table provides information for such assets and liabilities as of June 30, 2013 and December 31, 2012. The fair values of cash and cash equivalents (other than money-market funds, which are recorded on a reported net asset value basis disclosed below), accounts receivable, accounts payable and accrued liabilities, acquisition related liabilities prior to the adoption of ASC 805, *Business Combinations* (ASC 805), short-term debt, and short-term debt expected to be refinanced approximate their carrying amounts because of the short-term nature of these instruments.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
June 30, 2013			
Cash equivalents - money-market funds	$ 1,439	$	$ 1,439
Registered investment companies (1)	$ 4,254	$ 4,254	$
December 31, 2012			
Cash equivalents - money-market funds	$ 760	$	$ 760
Registered investment companies (1)	$ 4,883	$ 4,883	$

(1) Registered investment companies are classified as available-for-sale securities and are valued using quoted prices in active markets multiplied by the number of shares owned.

The Company has not elected to carry its long-term debt at fair value. The carrying value of the long-term debt represents amortized cost. The Company assesses the fair value of its long-term debt based on quoted market prices if available, and if not, an estimate of interest rates available to the Company for debt with similar features, the Company s current credit rating and spreads applicable to the Company. The fair value of the long-term debt would be a Level 2 liability if the long-term debt was measured at fair value on the condensed consolidated balance sheets. The following table summarizes the carrying value and estimated fair value of the long-term debt as of June 30, 2013 and December 31, 2012, respectively:

	2013		2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial instrument not carried at fair value:				
Long-term debt excluding capitalized leases	$ 1,399,769	$ 1,496,142	$ 1,454,409	$ 1,575,950

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5. Acquisitions:

2012 Acquisitions

On December 20, 2012, the Company acquired the net assets of Insurance Risk Management Solutions (IRMS). IRMS provided integrated property risk assessment technology underlying one of the Company s geographic information system (GIS) underwriting solutions. At the end of 2012, the long-term contract with IRMS was expiring and precipitated a change in the business relationship. Instead of continuing forward with a new service agreement, the Company acquired IRMS as this will enable the Company to better manage, enhance and continue to use the solutions as part of its Risk Assessment segment. The Company paid a net cash purchase price of $26,422 and funded $1,000 of indemnity escrows.

On August 31, 2012, the Company acquired Argus Information & Advisory Services, LLC (Argus), a provider of information, competitive benchmarking, scoring solutions, analytics, and customized services to financial institutions and regulators in North America, Latin America, and Europe, for a net cash purchase price of approximately $404,995 and funded $20,000 of indemnity escrows. Argus leverages its comprehensive payment data sets and provides proprietary solutions to a client base that includes credit and debit card issuers, retail banks and other consumer financial services providers, payment processors, insurance companies, and other industry stakeholders. Within the Company s Decision Analytics segment, this acquisition enhances the Company s position as a provider of data, analytics, and decision-support solutions to financial institutions globally.

On July 2, 2012, the Company acquired the net assets of Aspect Loss Prevention, LLC (ALP), a provider of loss prevention and analytic solutions to the retail, entertainment, and food industries, for a net cash purchase price of approximately $6,917 and funded $800 of indemnity escrows. Within the Company s Decision Analytics segment, ALP further advances the Company s position as a provider of data, crime analytics, and decision-support solutions.

On March 30, 2012, the Company acquired 100% of the stock of MediConnect Global, Inc. (MediConnect), a service provider of medical record retrieval, digitization, coding, extraction, and analysis, for a net cash purchase price of approximately $331,405 and funded $17,000 of indemnity escrows. Within the Company s Decision Analytics segment, MediConnect further supports the Company s objective as the leading provider of data, analytics, and decision-support solutions to the healthcare and property casualty industry.

The preliminary allocations of the purchase prices for IRMS, Argus and ALP as disclosed as of December 31, 2012 are all subject to revisions as additional information is obtained about the facts and circumstances that existed as of the acquisition dates. The revisions may have an impact on the condensed consolidated financial statements. The allocations of the purchase prices will be finalized once all information is obtained, but not to exceed one year from the acquisition dates.

Supplemental information on an unaudited pro forma basis is presented below as if the acquisition of Argus occurred at the beginning of the year 2012. The pro forma information for the six months ended June 30, 2012 presented below is based on estimates and assumptions, which the Company believes are reasonable and not necessarily indicative of the consolidated financial position or results of operations in future periods or the results that actually would have been realized had these acquisitions been completed at the beginning of 2012. The unaudited pro forma information includes intangible asset amortization charges and incremental borrowing costs as a result of the acquisitions, net of related tax, estimated using the Company s effective tax rate for continuing operations for the six months ended June 30:

	2012 (unaudited)
Pro forma revenues	$ 747,161
Pro forma net income	$ 142,813
Pro forma basic income per share	$ 0.86
Pro forma diluted income per share	$ 0.83

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Acquisition Escrows

Pursuant to the related acquisition agreements, the Company has funded various escrow accounts to satisfy pre-acquisition indemnity and tax claims arising subsequent to the acquisition dates, as well as a portion of the contingent payments. At June 30, 2013 and December 31, 2012, the current portion of the escrows amounted to $31,716 and $29,277, and the noncurrent portion of the escrow amounted to $5,000 and $26,803, respectively. The current and noncurrent portions of the escrows have been included in Other current assets and Other assets in the accompanying condensed consolidated balance sheets, respectively.

6. Goodwill and Intangible Assets:

The following is a summary of the change in goodwill from December 31, 2012 through June 30, 2013, both in total and as allocated to the Company s operating segments:

	Risk Assessment	Decision Analytics	Total
Goodwill at December 31, 2012 (1)	$ 55,555	$ 1,191,904	$ 1,247,459
Current year acquisition		705	705
Purchase accounting reclassifications		1,107	1,107
Goodwill at June 30, 2013 (1)	$ 55,555	$ 1,193,716	$ 1,249,271

(1) These balances are net of accumulated impairment charges of $3,244 that occurred prior to December 31, 2012.

The Company finalized the purchase accounting for the acquisition of MediConnect during the quarter ended March 31, 2013. The impact of the finalization of the purchase accounting for MediConnect was immaterial to the condensed consolidated statements of operations for the three and six months ended June 30, 2013.

Goodwill and intangible assets with indefinite lives are subject to impairment testing annually as of June 30, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Goodwill impairment testing compares the carrying value of each reporting unit to its fair value. If the fair value of the reporting unit exceeds the carrying value of the net assets, including goodwill assigned to that reporting unit, goodwill is not impaired. If the carrying value of the reporting unit s net assets including goodwill exceeds the fair value of the reporting unit, then the Company will determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then an impairment loss is recorded for the difference between the carrying amount and the implied fair value of goodwill. The Company completed the required annual impairment test as of June 30, 2013, which resulted in no impairment of goodwill.

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The Company s intangible assets and related accumulated amortization consisted of the following:

	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
June 30, 2013				
Technology-based	8 years	$ 313,590	$ (190,837)	$ 122,753
Marketing-related	5 years	79,101	(46,703)	32,398
Contract-based	6 years	6,555	(6,555)	
Customer-related	13 years	413,043	(81,662)	331,381
Total intangible assets		$ 812,289	$ (325,757)	$ 486,532
December 31, 2012				
Technology-based	8 years	$ 313,590	$ (177,929)	$ 135,661
Marketing-related	5 years	79,101	(41,079)	38,022
Contract-based	6 years	6,555	(6,555)	
Customer-related	13 years	413,043	(65,791)	347,252
Total intangible assets		$ 812,289	$ (291,354)	$ 520,935

Amortization expense related to intangible assets for the three months ended June 30, 2013 and 2012 was $17,196 and $12,187, respectively. Amortization expense related to intangible assets for the six months ended June 30, 2013 and 2012 was $34,403 and $20,774, respectively. Estimated amortization expense in future periods through 2018 and thereafter for intangible assets subject to amortization is as follows:

Year	Amount
2013	$ 29,903
2014	57,168
2015	51,252
2016	49,421
2017	48,518
2018 and Thereafter	250,270
	$ 486,532

7. Income Taxes:

The Company s effective tax rate for the three and six months ended June 30, 2013 was 36.17%, and 36.43%, respectively, compared to the effective tax rate for the three and six months ended June 30, 2012 of 39.47% and 39.41%, respectively. The effective tax rate for the three and six months ended June 30, 2013 is lower than the June 30, 2012 effective tax rate primarily due to the continued execution of tax planning strategies and the benefits of the Research & Development (R&D) tax credit. The American Taxpayer Relief Act of 2012 was enacted on January 2, 2013, which retroactively extended the R&D tax credit for the years 2012 and 2013 and enabled the Company to recognize the tax benefit of the 2012 credit in the first quarter of 2013. The difference between statutory tax rates and the Company s effective tax rate is primarily attributable to state taxes and nondeductible share appreciation from the ISO 401(k) Savings and Employee Stock Ownership Plan (KSOP).

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8. Debt:

The following table presents short-term and long-term debt by issuance as of June 30, 2013 and December 31, 2012:

	Issuance Date	Maturity Date	2013	2012
Short-term debt and current portion of long-term debt:				
Syndicated revolving credit facility	Various	Various	$	$ 10,000
Aviva Investors senior notes:				
6.46% Series A senior notes	4/27/2009	4/27/2013		30,000
New York Life senior notes:				
5.87% Series A senior notes	10/26/2007	10/26/2013	17,500	17,500
Principal senior notes:				
6.16% Series B senior notes	8/8/2006	8/8/2013	25,000	25,000
Prudential senior notes:				
6.13% Series G senior notes	8/8/2006	8/8/2013	75,000	75,000
5.84% Series H senior notes	10/26/2007	10/26/2013	17,500	17,500
6.28% Series I senior notes	4/29/2008	4/29/2013		15,000
Capital lease obligations	Various	Various	2,870	5,263
Short-term debt and current portion of long-term debt			137,870	195,263
Long-term debt:				
Verisk senior notes:				
5.800% senior notes, less unamortized discount of $810 and $862, respectively	4/6/2011	5/1/2021	449,190	449,138
4.875% senior notes, less unamortized discount of $1,867 and $2,037, respectively	12/8/2011	1/15/2019	248,133	247,963
4.125% senior notes, less unamortized discount of $2,554 and $2,692, respectively	9/12/2012	9/12/2022	347,446	347,308
New York Life senior notes:				
5.87% Series A senior notes	10/26/2007	10/26/2015	17,500	17,500
6.35% Series B senior notes	4/29/2008	4/29/2015	50,000	50,000
Prudential senior notes:				
5.84% Series H senior notes	10/26/2007	10/26/2015	17,500	17,500
6.28% Series I senior notes	4/29/2008	4/29/2015	85,000	85,000
6.85% Series J senior notes	6/15/2009	6/15/2016	50,000	50,000
Capital lease obligations	Various	Various	2,141	1,753
Long-term debt			1,266,910	1,266,162
Total debt			$ 1,404,780	$ 1,461,425

As of June 30, 2013, the Company has an $850,000 committed senior unsecured Syndicated Revolving Credit Facility (the Credit Facility) with Bank of America N.A., JPMorgan Chase Bank N.A., and a syndicate of banks. Borrowings may be used for general corporate purposes, including working capital needs and capital expenditures, acquisitions and the share repurchase program (the Repurchase Program). As of June 30, 2013 and December 31, 2012, the Company had $0 and $10,000, respectively, outstanding under the Credit Facility.

9. Stockholders Equity:

The Company has 1,200,000,000 shares of authorized Class A common stock. The common shares have rights to any dividend declared by the board of directors, subject to any preferential or other rights of any outstanding preferred stock, and voting rights to elect all twelve members of the board of directors.

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Share Repurchase Program

The Company has authorized repurchases up to $1,200,000 of its common stock through its Repurchase Program, including the additional $300,000 authorized by the board of directors in June 2013. As of June 30, 2013, the Company had $306,557 available to repurchase shares. The Company has no obligation to repurchase stock under this program and intends to use this authorization as a means of offsetting dilution from the issuance of shares under the KSOP, the Verisk 2013 Equity Incentive Plan (the 2013 Incentive Plan), the Verisk 2009 Equity Incentive Plan (the 2009 Incentive Plan), and the ISO 1996 Incentive Plan (the 1996 Incentive Plan), while providing flexibility to repurchase additional shares if warranted. This authorization has no expiration date and may be increased, reduced, suspended, or terminated at any time. Repurchased shares will be recorded as treasury stock and will be available for future issuance as part of the Repurchase Program.

During the six months ended June 30, 2013, the Company repurchased 2,326,130 shares of common stock as part of this program at a weighted average price of $59.17 per share. The Company utilized cash from operations to fund these repurchases. As treasury stock purchases are recorded based on trade date, the Company has included $3,550 in Accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets for those purchases that have not settled as of June 30, 2013.

Treasury Stock

As of June 30, 2013, the Company s treasury stock consisted of 376,374,014 shares of common stock. During the six months ended June 30, 2013, the Company reissued 2,228,081 shares of common stock from the treasury shares at a weighted average price of $4.37 per share.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding, using the treasury stock method, if the dilutive potential common shares, including stock options and nonvested restricted stock, had been issued.

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three and six months ended June 30, 2013 and 2012:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator used in basic and diluted EPS:				
Net income	$ 84,205	$ 73,331	$ 164,716	$ 147,932
Denominator:				
Weighted average number of common shares used in basic EPS	168,147,069	165,946,009	168,112,829	165,391,500
Effect of dilutive shares:				
Potential common shares issuable from stock options and stock awards	4,320,619	5,955,340	4,501,335	6,234,584
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	172,467,688	171,901,349	172,614,164	171,626,084
Basic net income per share	$ 0.50	$ 0.44	$ 0.98	$ 0.89
Diluted net income per share	$ 0.49	$ 0.43	$ 0.95	$ 0.86

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The potential shares of common stock that were excluded from diluted EPS were 925,109 and 781,505 for the six months ended June 30, 2013 and 2012, respectively, because the effect of including these potential shares was anti-dilutive.

Accumulated Other Comprehensive Losses

The following is a summary of accumulated other comprehensive losses as of June 30, 2013 and December 31, 2012:

	2013	2012
Unrealized foreign currency losses	$ (1,641)	$ (960)
Unrealized (losses) gains on available-for-sale securities, net of tax	(242)	72
Pension and postretirement unfunded liability adjustment, net of tax	(86,455)	(88,272)
Accumulated other comprehensive losses	$ (88,338)	$ (89,160)

The before tax and after tax amounts of other comprehensive income for the six months ended June 30, 2013 and 2012 are summarized below:

	Before Tax	Tax Benefit (Expense)	After Tax
June 30, 2013			
Unrealized foreign currency loss	$ (681)	$	$ (681)
Unrealized loss on available-for-sale securities before reclassifications	(1,248)	477	(771)
Amount reclassified from accumulated other comprehensive income (1)	739	(282)	457
Unrealized loss on available-for-sale securities	(509)	195	(314)
Pension and postretirement unfunded liability adjustment before reclassifications	5,555	(2,023)	3,532
Amortization of prior service credit reclassified from accumulated other comprehensive income (2)	75	(29)	46
Amortization of net actuarial loss reclassified from accumulated other comprehensive income (2)	(2,852)	1,091	(1,761)
Pension and postretirement unfunded liability adjustment	2,778	(961)	1,817
Total other comprehensive income	$ 1,588	$ (766)	$ 822
June 30, 2012			
Unrealized foreign currency loss	$ (134)	$	$ (134)
Unrealized loss on available-for-sale securities before reclassifications	(809)	314	(495)
Amount reclassified from accumulated other comprehensive income (1)	300	(118)	182
Unrealized loss on available-for-sale securities	(509)	196	(313)
Pension and postretirement unfunded liability adjustment before reclassifications	4,836	(1,962)	2,874

Amortization of prior service credit reclassified from accumulated other comprehensive income (2)	208	(79)	129
Amortization of net actuarial loss reclassified from accumulated other comprehensive income (2)	(2,626)	1,003	(1,623)
Pension and postretirement unfunded liability adjustment	2,418	(1,038)	1,380
Total other comprehensive income	$ 1,775	$ (842)	$ 933

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(1) This accumulated other comprehensive loss component, before tax, is included under Realized gain (loss) on available-for-sale securities, net in the accompanying condensed consolidated statements of operations.

(2) These accumulated other comprehensive loss components, before tax, are included under Cost of revenues and Selling, general and administrative in the accompanying condensed consolidated statements of operations. These components are also included in the computation of net periodic (benefit) cost (see Note. 11 Pension and Postretirement Benefits for additional details).

10. Equity Compensation Plans:

All of the Company s outstanding equity awards, including stock options and restricted stock, are covered under the 2013 Incentive Plan, 2009 Incentive Plan or 1996 Incentive Plan. Awards under the 2013 Incentive Plan may include one or more of the following types: (i) stock options (both nonqualified and incentive stock options), (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance awards (including cash), and (vi) other share based awards. Employees, directors and consultants are eligible for awards under the 2013 Incentive Plan. The Company issued common stock under these plans from the Company s treasury shares. On May 15, 2013, the Company s shareholders approved the 2013 Incentive Plan effective March 15, 2013. There are 15,700,000 shares of common stock available for issuance under the 2013 Incentive Plan. Shares subject to awards granted subsequent to March 15, 2013, whether under the 2013 Incentive Plan or the 2009 Incentive Plan, with certain exceptions, will reduce the number of shares available for issuance under the 2013 Incentive Plan. Cash received from stock option exercises for the six months ended June 30, 2013 and 2012 was $30,528 and $33,453, respectively.

On April 1, 2013, the Company granted 804,726 nonqualified stock options and 208,881 shares of restricted stock to key employees, as well as 20,445 deferred stock units to the directors of the Company. The nonqualified stock options have an exercise price equal to the closing price of the Company s common stock on the grant date, with a ten-year contractual term and a service vesting period of four years. The restricted stock is valued at the closing price of the Company s common stock on the grant date and has a service vesting period of four years. The Company recognizes the expense of the restricted stock ratably over the vesting period. The restricted stock is not assignable or transferrable until it becomes vested. The deferred stock units are valued at the closing price of the Company s common stock on the grant date, have a one-year vesting period, and will be distributed to the directors upon retirement or other separation from the board of directors.

On July 1, 2013, the Company granted 7,535 shares of common stock, 27,494 nonqualified stock options that were immediately vested, 54,032 nonqualified stock options with a one-year service vesting period, and 11,319 deferred stock units to the directors of the Company. The nonqualified stock options have an exercise price equal to the closing price of the Company s common stock at the grant date and a ten-year contractual term. As of June 30, 2013, there were 14,419,876 shares of common stock reserved and available for future issuance under the 2013 Incentive Plan.

The fair value of the stock options granted during the six months ended June 30, 2013 and 2012 was estimated using a Black-Scholes valuation model that uses the weighted average assumptions noted in the following table:

	2013	2012
Option pricing model	Black-Scholes	Black-Scholes
Expected volatility	29.84%	32.25%
Risk-free interest rate	0.66%	0.97%
Expected term in years	4.5	4.8
Dividend yield	0.00%	0.00%
Weighted average grant date fair value per stock option	$ 15.87	$ 13.70

The expected term for a majority of the stock options granted was estimated based on studies of historical experience and projected exercise behavior. However, for certain stock options granted, for which no historical

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exercise pattern exists, the expected term was estimated using the simplified method. The risk-free interest rate is based on the yield of U.S. Treasury zero coupon securities with a maturity equal to the expected term of the equity award. The volatility factor was based on the average volatility of the Company s peers, calculated using historical daily closing prices over the most recent period that is commensurate with the expected term of the stock option award. The expected dividend yield was based on the Company s expected annual dividend rate on the date of grant.

A summary of the stock options outstanding as of December 31, 2012 and June 30, 2013 and changes during the interim period are presented below:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2012	12,573,298	$ 22.21	$ 361,653
Granted	804,726	$ 61.14	
Exercised	(2,075,394)	$ 14.74	$ 89,711
Cancelled or expired	(97,689)	$ 40.56	
Outstanding at June 30, 2013	11,204,941	$ 26.23	$ 375,068
Options exercisable at June 30, 2013	8,645,315	$ 21.42	$ 330,913
Options exercisable at December 31, 2012	8,796,996	$ 18.37	$ 286,806

Intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the quoted price of the Company s common stock as of the reporting date. In accordance with ASC 718, *Stock Compensation*, excess tax benefit from exercised stock options is recorded as an increase to additional paid-in capital and a corresponding reduction in income taxes payable. This tax benefit is calculated as the excess of the intrinsic value of options exercised in excess of compensation recognized for financial reporting purposes. The amount of the tax benefit that has been realized, as a result of those excess tax benefits, is presented as a financing cash inflow within the accompanying condensed consolidated statements of cash flows. For the six months ended June 30, 2013 and 2012, the Company recorded excess tax benefit from stock options exercised of $32,211 and $49,974, respectively. The Company realized $63,934 and $31,624 of tax benefit within the Company s quarterly tax payments through June 30, 2013 and 2012, respectively.

The Company estimates expected forfeitures of equity awards at the date of grant and recognizes compensation expense only for those awards that the Company expects to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Changes in the forfeiture assumptions may impact the total amount of expense ultimately recognized over the requisite service period and may impact the timing of expense recognized over the requisite service period.

A summary of the status of the restricted stock awarded as of December 31, 2012 and June 30, 2013 and changes during the interim period is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2012	331,013	$ 42.78
Granted	208,881	$ 61.14
Vested	(131,831)	$ 42.08
Forfeited	(14,944)	$ 52.61
Outstanding at June 30, 2013	393,119	$ 52.40

As of June 30, 2013, there was $50,716 of total unrecognized compensation costs, exclusive of the impact of vesting upon retirement eligibility, related to nonvested share-based compensation arrangements granted under the 2009 and 2013 Incentive Plans. That cost is expected to be recognized over a weighted average period of 2.85 years. As of June 30, 2013, there were 2,559,626 and 393,119 nonvested stock options and restricted stock, respectively, of which 2,116,211 and 316,002 are expected to vest. The total grant date fair value of options vested during the six months ended June 30, 2013 and 2012 was $8,581 and $10,053, respectively. The total grant date fair value of restricted stock vested during the six months ended June 30, 2013 and 2012 was $2,849 and $1,263, respectively.

The Company s employee stock purchase plan (ESPP) commenced on October 1, 2012 and offers eligible employees the opportunity to authorize payroll deductions of up to 20.00% of their regular base salary and up to 50.00% of their short-term incentive compensation, both of which in total may not exceed $25 in any calendar year, to purchase shares of the Company s common stock at a 5.00% discount of its fair market value at the time of purchase. In accordance with ASC 718, the ESPP is noncompensatory as the purchase discount is 5.00% or less from the fair market value, substantially all employees that meet limited employment qualifications may participate, and it incorporates no option features. During the six months ended June 30, 2013, the Company issued 15,173 shares of common stock at a weighted discounted price of $57.56.

On April 20, 2013, the employee stock ownership plan (ESOP) refinanced its intercompany loan between the Company and the KSOP, thereby extending the allocation of the remaining unreleased shares through 2016. As a part of this new loan agreement, the Company is required to contribute an additional $9,000, plus interest, of cash or shares to the ESOP by 2016. Earlier contribution is at the Company s discretion.

11. Pension and Postretirement Benefits:

The Company maintained a qualified defined benefit pension plan for certain of its employees through membership in the Pension Plan for Insurance Organizations (the Pension Plan), a multiple-employer trust. The Company has applied a cash balance formula to determine future benefits. Under the cash balance formula, each participant has an account, which is credited annually based on salary rates determined by years of service, as well as the interest earned on the previous year-end cash balance. The Company also has a non-qualified supplemental cash balance plan (SERP) for certain employees. The SERP is funded from the general assets of the Company. Effective February 29, 2012, the Company instituted a hard freeze, which eliminated all future compensation and service credits, to all participants in the Pension Plan and SERP.

The Company also provides certain healthcare and life insurance benefits for both active and retired employees. The Postretirement Health and Life Insurance Plan (the Postretirement Plan) is contributory, requiring participants to pay a stated percentage of the premium for coverage. As of October 1, 2001, the Postretirement Plan was amended to freeze benefits for current retirees and certain other employees at the January 1, 2002 level. Also, as of October 1, 2001, the Postretirement Plan had a curtailment, which eliminated retiree life insurance for all active employees and healthcare benefits for almost all future retirees, effective January 1, 2002.

The components of net periodic (benefit) cost for the three and six months ended June 30 are summarized below:

	Pension Plan and SERP		Postretirement Plan	
	For the Three Months Ended June 30,			
	2013	2012	2013	2012
Service cost	$	$	$	$
Interest cost	4,496	4,883	150	175
Expected return on plan assets	(7,643)	(7,279)	(213)	(120)
Amortization of prior service credit			(37)	(37)
Amortization of net actuarial loss	1,263	610	150	137
Net periodic (benefit) cost	$ (1,884)	$ (1,786)	$ 50	$ 155
Employer contributions	$ 101	$ 72,362	$ 235	$ 5,583

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	For the Six Months Ended June 30,			
	2013	2012	2013	2012
Service cost	$	$ 282	$	$
Interest cost	8,923	10,037	300	350
Expected return on plan assets	(15,240)	(14,347)	(425)	(120)
Curtailment gain		(779)		
Amortization of prior service credit		(133)	(75)	(75)
Amortization of net actuarial loss	2,552	2,351	300	275
Net periodic (benefit) cost	$ (3,765)	$ (2,589)	$ 100	$ 430
Employer contributions	$ 201	$ 79,355	$ 235	$ 9,652

The expected contributions to the Pension Plan, SERP and Postretirement Plan for the year ending December 31, 2013 are consistent with the amounts previously disclosed as of December 31, 2012.

12. Segment Reporting:

ASC 280-10, *Disclosures About Segments of an Enterprise and Related Information* (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that a public business enterprise report financial and descriptive information about its reportable operating segments.

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. The Company s Chief Executive Officer and President is identified as the CODM as defined by ASC 280-10. To align with the internal management of the Company s business operations based on service offerings, the Company is organized into the following two operating segments, which are also the Company s reportable segments:

Decision Analytics: The Company develops solutions that its customers use to analyze the three key processes in managing risk: prediction of loss , detection and prevention of fraud and quantification of loss . The Company s combination of algorithms and analytic methods incorporates its proprietary data to generate solutions i