Verisk Analytics, Inc.
Form 10-Q
October 28, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
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 (State or other jurisdiction of incorporation or organization)	26-2994223 (I.R.S. Employer Identification No.)
545 Washington Boulevard Jersey City, NJ (Address of principal executive offices)	07310-1686 (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 ý No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ý	Accelerated filer ¨
Non-accelerated filer o (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 ý

As of October 24, 2014, 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	164,920,261

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Exhibit 32.1

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Item 1. Financial Statements
VERISK ANALYTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
As of September 30, 2014 and December 31, 2013

	2014 (unaudited)	2013
	(In thousands, except for share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 432,490	$ 165,801
Available-for-sale securities	3,730	3,911
Accounts receivable, net of allowance for doubtful accounts of $7,287 and $4,415, respectively	188,711	158,547
Prepaid expenses	31,150	25,657
Deferred income taxes, net	5,076	5,077
Income taxes receivable	30,112	67,346
Other current assets	14,383	34,681
Current assets held-for-sale	—	13,825
Total current assets	705,652	474,845
Noncurrent assets:		
Fixed assets, net	281,347	233,373
Intangible assets, net	406,560	447,618
Goodwill	1,184,374	1,181,681
Pension assets	72,512	60,955
Other assets	27,255	20,034
Noncurrent assets held-for-sale	—	85,945
Total assets	$ 2,677,700	$ 2,504,451
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 164,288	$ 188,264
Short-term debt and current portion of long-term debt	140,455	4,448
Pension and postretirement benefits, current	2,437	2,437
Fees received in advance	254,160	226,581
Current liabilities held-for-sale	—	9,449
Total current liabilities	561,340	431,179
Noncurrent liabilities:		
Long-term debt	1,136,205	1,271,439
Pension benefits	12,401	13,007
Postretirement benefits	3,611	2,061
Deferred income taxes, net	194,871	198,604
Other liabilities	43,288	36,043
Noncurrent liabilities held-for-sale	—	4,529
Total liabilities	1,951,716	1,956,862
Commitments and contingencies		
Stockholders' equity:		
	137	137

Class A common stock, $.001 par value; 1,200,000,000 shares authorized; 544,003,038 shares issued and 165,562,900 and 167,457,927 outstanding, respectively		
Unearned KSOP contributions	(197)	(306)
Additional paid-in capital	1,256,541	1,202,106
Treasury stock, at cost, 378,440,138 and 376,545,111 shares, respectively	(2,044,415)	(1,864,967)
Retained earnings	1,556,779	1,254,107
Accumulated other comprehensive losses	(42,861)	(43,488)
Total stockholders’ equity	725,984	547,589
Total liabilities and stockholders’ equity	$ 2,677,700	$ 2,504,451

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 Nine Months Ended September 30, 2014 and 2013

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except for share and per share data)			
Revenues	$ 448,665	$ 411,927	$ 1,281,862	$ 1,178,980
Expenses:				
Cost of revenues (exclusive of items shown separately below)	180,873	156,306	523,016	452,367
Selling, general and administrative	56,164	56,783	170,372	171,303
Depreciation and amortization of fixed assets	21,951	16,745	62,455	46,719
Amortization of intangible assets	14,187	15,258	42,620	49,371
Total expenses	273,175	245,092	798,463	719,760
Operating income	175,490	166,835	483,399	459,220
Other income (expense):				
Investment income and others	(285)	225	(76)	203
Interest expense	(17,498)	(18,692)	(52,396)	(58,486)
Total other expense, net	(17,783)	(18,467)	(52,472)	(58,283)
Income before income taxes	157,707	148,368	430,927	400,937
Provision for income taxes	(58,692)	(53,474)	(159,372)	(144,998)
Income from continuing operations	99,015	94,894	271,555	255,939
Income from discontinued operations, net of tax of $0 and $1,211, and $23,365 and $4,088, for the three and nine months ended September 30, 2014 and September 30, 2013, respectively (Note 6)	—	1,547	31,117	5,218
Net income	$ 99,015	$ 96,441	$ 302,672	$ 261,157
Basic net income per share:				
Income from continuing operations	$ 0.60	$ 0.56	$ 1.63	$ 1.52
Income from discontinued operations	—	0.01	0.19	0.03
Basic net income per share	$ 0.60	$ 0.57	$ 1.82	$ 1.55
Diluted net income per share:				
Income from continuing operations	$ 0.58	$ 0.55	$ 1.60	$ 1.48
Income from discontinued operations	—	0.01	0.18	0.03
Diluted net income per share	$ 0.58	$ 0.56	$ 1.78	$ 1.51
Weighted average shares outstanding:				
Basic	166,187,540	168,044,100	166,504,384	168,089,919
Diluted	169,522,448	172,154,553	169,815,867	172,460,960

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 Nine Months Ended September 30, 2014 and 2013

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$ 99,015	$ 96,441	$ 302,672	$ 261,157
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(547)	275	213	(406)
Unrealized holding (loss) gain on available-for-sale securities	(40)	139	(3)	(175)
Pension and postretirement liability adjustment	103	1,332	417	3,149
Total other comprehensive (loss) income	(484)	1,746	627	2,568
Comprehensive income	$ 98,531	$ 98,187	$ 303,299	$ 263,725

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(UNAUDITED)
For The Year Ended December 31, 2013 and The Nine Months Ended September 30, 2014

	Class A Common Stock Issued	Par Value	Unearned KSOP Contributions	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Losses	Total Stockholders' Equity
	(In thousands, except for share data)							
Balance, December 31, 2012	544,003,038	$ 137	$ (483)	$ 1,044,746	$ (1,605,376)	$ 905,727	$ (89,160)	$ 255,591
Net income	—	—	—	—	—	348,380	—	348,380
Other comprehensive income	—	—	—	—	—	—	45,672	45,672
Treasury stock acquired (4,532,552 shares)	—	—	—	—	(278,938)	—	—	(278,938)
KSOP shares earned	—	—	177	14,753	—	—	—	14,930
Stock options exercised, including tax benefit of $57,065 (4,076,750 shares reissued from treasury stock)	—	—	—	119,236	18,523	—	—	137,759
Restricted stock lapsed, including tax benefit of $991 (150,668 shares reissued from treasury stock)	—	—	—	333	658	—	—	991
Employee stock purchase plan (27,879 shares reissued from treasury stock)	—	—	—	1,533	129	—	—	1,662
	—	—	—	21,087	—	—	—	21,087

Stock based compensation								
Other stock issuances (8,109 shares reissued from treasury stock)	—	—	—	418	37	—	—	455
Balance, December 31, 2013	544,003,038	137	(306)	1,202,106	(1,864,967)	1,254,107	(43,488)	547,589
Net income	—	—	—	—	—	302,672	—	302,672
Other comprehensive income	—	—	—	—	—	—	627	627
Treasury stock acquired (2,958,525 shares)	—	—	—	—	(184,933)	—	—	(184,933)
KSOP shares earned	—	—	109	11,504	—	—	—	11,613
Stock options exercised, including tax benefit of $11,368 (904,043 shares reissued from treasury stock)	—	—	—	27,323	4,659	—	—	31,982
Restricted stock lapsed, including tax benefit of $508 (134,225 shares reissued from treasury stock)	—	—	—	(186)	694	—	—	508
Employee stock purchase plan (21,255 shares reissued from treasury stock)	—	—	—	1,104	112	—	—	1,216
Stock based compensation	—	—	—	16,082	—	—	—	16,082
Net share settlement of	—	—	—	(1,613)	—	—	—	(1,613)

restricted stock awards								
Other stock issuances (3,975 shares reissued from treasury stock)	—	—	—	221	20	—	—	241
Balance, September 30, 2014	544,003,038	$ 137	$ (197)	$ 1,256,541	$ (2,044,415)	$ 1,556,779	$ (42,861)	$ 725,984

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 Nine Months Ended September 30, 2014 and 2013

	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 302,672	$ 261,157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	63,450	49,729
Amortization of intangible assets	42,731	49,796
Amortization of debt issuance costs and original issue discount	1,989	2,048
Allowance for doubtful accounts	953	1,188
KSOP compensation expense	11,613	11,174
Stock based compensation	16,323	16,745
Gain on sale of discontinued operations	(65,410)	—
Realized (gain) loss on available-for-sale securities, net	(122)	99
Deferred income taxes	(3,348)	5,888
Loss on disposal of fixed assets	510	476
Excess tax benefits from exercised stock options and restricted stock awards	(16,665)	(81,689)
Other operating activities, net	—	448
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(23,530)	9,475
Prepaid expenses and other assets	(12,102)	(4,727)
Income taxes	45,369	48,554
Accounts payable and accrued liabilities	(2,164)	12,267
Fees received in advance	26,651	43,372
Pension and postretirement benefits	(9,763)	(6,532)
Other liabilities	(522)	(33,016)
Net cash provided by operating activities	378,635	386,452
Cash flows from investing activities:		
Acquisitions	(4,001)	(983)
Purchase of non-controlling interest in non-public companies	(5,000)	—
Proceeds from sale of discontinued operations	151,170	—
Proceeds from release of acquisition related escrows	—	280
Purchases of fixed assets	(102,992)	(107,915)
Purchases of available-for-sale securities	(83)	(5,003)
Proceeds from sales and maturities of available-for-sale securities	381	5,825
Other investing activities, net	—	439
Net cash provided by (used in) investing activities	39,475	(107,357)
Cash flows from financing activities:		
Repayment of current portion of long-term debt	—	(145,000)
Repayment of short-term debt, net	—	(10,000)
Repurchases of Class A common stock	(183,093)	(160,970)
Excess tax benefits from exercised stock options and restricted stock awards	16,665	81,689
Proceeds from stock options exercised	20,855	51,326
Net share settlement of restricted stock awards	(1,613)	—
Other financing activities, net	(4,448)	(5,350)
Net cash used in financing activities	(151,634)	(188,305)
Effect of exchange rate changes	213	(406)

Increase in cash and cash equivalents	266,689	90,384
Cash and cash equivalents, beginning of period	165,801	89,819
Cash and cash equivalents, end of period	$ 432,490	$ 180,203
Supplemental disclosures:		
Taxes paid	$ 140,462	$ 102,203
Interest paid	$ 50,567	$ 58,018
Noncash investing and financing activities:		
Repurchases of Class A common stock included in accounts payable and accrued liabilities	$ 4,878	$ 2,622
Deferred tax liability established on date of acquisition	$ —	$ (1,187)
Tenant improvement included in other liabilities	$ 8,856	$ —
Capital lease obligations	$ 4,682	$ 9,014
Capital expenditures included in accounts payable and accrued liabilities	$ 1,662	$ 2,890

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 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”) upon completion of the initial public offering ("IPO"), which occurred on October 9, 2009. 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. For 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 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, assets and liabilities for pension and postretirement benefits, and the estimate for the allowance for doubtful accounts. Actual results may ultimately differ from those estimates. The results of operations for the Company's mortgage services business are reported as a discontinued operation for the periods presented herein (See Note 6).

The condensed consolidated financial statements as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013, 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 nine months ended September 30, 2014 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 nine months ended September 30, 2014 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, 2013. 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 March 2013, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("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 reporting periods beginning after December 15, 2013. ASU No. 2013-05 was adopted by the Company on January 1, 2014. The adoption of ASU No. 2013-05 did not have a material impact on the Company’s condensed consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU No. 2013-11”). Under ASU No. 2013-11, an unrecognized tax benefit should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with the exception that these unrecognized tax benefits are not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the tax law. An additional exception applies when the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets.

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ASU No. 2013-11 is effective for reporting periods beginning after December 15, 2013. The Company adopted the standard on January 1, 2014. The adoption of ASU No. 2013-11 did not have a material impact on the Company's condensed consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU No. 2014-08"). Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The amendments in this ASU further require additional disclosures on discontinued operations in the financial statements. ASU No. 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications as held-for-sale) that have not been reported in the financial statements previously issued. The Company has elected not to early adopt and will assess the impact of this standard when applicable circumstances are required to be reported in discontinued operations under the existing guidance and this ASU.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU No. 2014-09"). The objective of ASU No. 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU No. 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the contract's performance obligations; and recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt ASU No. 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements nor decided upon the method of adoption.

3. Investments:

Available-for-sale securities consisted of the following:

	Adjusted Cost	Gross Unrealized Loss	Fair Value
September 30, 2014			
Registered investment companies	$ 3,922	$ (192)	$ 3,730
December 31, 2013			
Registered investment companies	$ 4,098	$ (187)	$ 3,911

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 September 30, 2014 and December 31, 2013, the carrying value of such securities was $8,487 and $3,602, respectively, and has been included in "Other assets" in the accompanying condensed consolidated balance sheets.

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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 participants would require.

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, accrued liabilities, and short-term debt approximate their carrying amounts because of the short-term nature of these instruments.

The following table summarizes fair value measurements by level for cash equivalents and registered investment companies that were measured at fair value on a recurring basis:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
September 30, 2014			
Cash equivalents - money-market funds	$ 2,679	$ —	$ 2,679
Registered investment companies (1)	$ 3,730	$ 3,730	$ —
December 31, 2013			
Cash equivalents - money-market funds	$ 889	$ —	$ 889
Registered investment companies (1)	$ 3,911	$ 3,911	$ —

(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 September 30, 2014 and December 31, 2013, respectively:

	2014 Carrying Value	Estimated Fair Value	2013 Carrying Value	Estimated Fair Value
Financial instrument not carried at fair value:				
	$ 1,265,668	$ 1,368,846	$ 1,265,129	$ 1,335,844

Long-term debt excluding capitalized leases

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5. Acquisitions:
In the first quarter of 2014, the Company acquired the net assets of Inovatus, LLC for approximately $4,000. The assets primarily consisted of software and are embedded in our existing models focusing on reducing fraud and premium leakage for personal auto insurance carriers. The technology is included in the Company's Decision Analytics segment as part of its solutions to leverage data and analytics to help insurance companies improve results.
2014 Pending Acquisition

In January 2014, the Company entered into an agreement to acquire 100 percent of the stock of Eagleview Technology Corporation (“EVT”), the parent company of Pictometry International Corp. and Eagle View Technologies, Inc., for a purchase price of $650,000, which will be funded by the Company's operating cash and borrowings from the senior unsecured Syndicated Revolving Credit Facility (the "Credit Facility"). EVT is a provider of geo-referenced aerial image capture and visual-centric data analytics and solutions to insurers, contractors, government, and commercial customers in the United States. This acquisition is expected to advance the Company's position in the imagery analytics market, adding new municipal and commercial customers. The transaction is expected to support the aerial imagery solution development in the Company's Decision Analytics segment. The purchase price to be paid will be adjusted subsequent to close to reflect final balances of certain working capital accounts and other closing adjustments. The closing of the transaction is subject to the completion of customary closing conditions, including receipt of regulatory and shareholder approvals. On March 28, 2014, the Company received a request for additional information (the “Second Request”) from the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company is continuing to work with the Federal Trade Commission and has extended the term of the Purchase Agreement to December 31, 2014.

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 September 30, 2014 and December 31, 2013, the current portion of the escrows amounted to $5,637 and $27,967, respectively, and there was no noncurrent portion amount of the escrow at either date. The current portion of the escrows has been included in “Other current assets” in the accompanying condensed consolidated balance sheets.
6. Discontinued Operations:

On March 11, 2014, the Company sold 100 percent of the stock of the Company’s mortgage services business, Interthinx, which was a guarantor subsidiary, in exchange for a purchase price of $155,000. Upon completion of the sale, Interthinx ceased being a guarantor. The cash received will be adjusted subsequent to close to reflect final balances of certain working capital accounts and other closing adjustments. The Company recognized income from discontinued operations, net of tax, of $31,117 during 2014. Results of operations for the mortgage services business are reported as a discontinued operation for the three and nine months ended September 30, 2014 and for all prior periods presented.

The mortgage services business meets the criteria for being reported as a discontinued operation and has been segregated from continuing operations. The following table summarizes the results from the discontinued operation for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues from discontinued operations	$ —	$ 26,670	$ 11,512	$ 84,260
Income from discontinued operations before income taxes (including gain on sale of $65,410 in 2014)	$ —	$ 2,758	$ 54,482	$ 9,306
	—	(1,211)	(23,365)	(4,088)

Provision for income taxes (including tax on the gain on sale of $27,067 in 2014)				
Income from discontinued operations, net of tax	$ —	$ 1,547	$ 31,117	$ 5,218

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7. Goodwill and Intangible Assets:
The following is a summary of the change in goodwill from December 31, 2013 through September 30, 2014, both in total and as allocated to the Company’s operating segments:

	Risk Assessment	Decision Analytics	Total
Goodwill at December 31, 2013 (1)	$ 55,555	$ 1,126,126	$ 1,181,681
Current year acquisition	—	2,995	2,995
Sale of discontinued operations	—	(302)	(302)
Goodwill at September 30, 2014 (1)	$ 55,555	$ 1,128,819	$ 1,184,374

(1) These balances are net of accumulated impairment charges of $3,244 that occurred prior to December 31, 2011.

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, 2014, which resulted in no impairment of goodwill.

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

	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
September 30, 2014				
Technology-based	8 years	$ 296,502	$ (191,911)	$ 104,591
Marketing-related	5 years	71,047	(52,153)	18,894
Contract-based	6 years	6,555	(6,555)	—
Customer-related	13 years	388,505	(105,430)	283,075
Total intangible assets		$ 762,609	$ (356,049)	$ 406,560
December 31, 2013				
Technology-based	8 years	$ 294,940	$ (180,581)	$ 114,359
Marketing-related	5 years	71,047	(44,274)	26,773
Contract-based	6 years	6,555	(6,555)	—
Customer-related	13 years	388,505	(82,019)	306,486
Total intangible assets		$ 761,047	$ (313,429)	$ 447,618

Amortization expense related to intangible assets for the three months ended September 30, 2014 and 2013 was $14,187 and $15,258, respectively. Amortization expense related to intangible assets for the nine months ended September 30, 2014 and 2013 was $42,620 and $49,371 respectively. Estimated amortization expense for the remainder of 2014 and the years through 2019 and thereafter for intangible assets subject to amortization is as follows:

Year	Amount
2014	$ 14,154
2015	50,870
2016	49,040
2017	48,136
2018	47,390
2019 and thereafter	196,970
	$ 406,560

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8. Income Taxes:
The Company’s effective tax rate for the three and nine months ended September 30, 2014 was 37.22% and 36.98%, respectively, compared to the effective tax rate for the three and nine months ended September 30, 2013 of 36.04% and 36.16%, respectively. The effective tax rate for the three and nine months ended September 30, 2014 is higher than the September 30, 2013 effective tax rate primarily due to greater tax benefits realized from tax planning strategies, as well as favorable audit settlements and resolution of uncertain tax positions in the prior period. 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”).
9. Debt:
The following table presents short-term and long-term debt by issuance as of September 30, 2014 and December 31, 2013:

	Issuance Date	Maturity Date	2014	2013
Short-term debt and current portion of long-term debt:				
Prudential shelf notes:				
6.28% Series I shelf notes	4/29/2008	4/29/2015	$ 85,000	$ —
New York Life shelf notes:				
6.35% Series B shelf notes	4/29/2008	4/29/2015	50,000	—
Capital lease obligations	Various	Various	5,455	4,448
Short-term debt and current portion of long-term debt			140,455	4,448
Long-term debt:				
Senior notes:				
4.125% senior notes, less unamortized discount of $2,207 and $2,415, respectively	9/12/2012	9/12/2022	347,793	347,585
4.875% senior notes, less unamortized discount of $1,445 and $1,699, respectively	12/8/2011	1/15/2019	248,555	248,301
5.800% senior notes, less unamortized discount of $680 and $757, respectively	4/6/2011	5/1/2021	449,320	449,243
Prudential shelf notes:				
5.84% Series H shelf notes	10/26/2007	10/26/2015	17,500	17,500
6.28% Series I shelf notes	4/29/2008	4/29/2015	—	85,000
6.85% Series J shelf notes	6/15/2009	6/15/2016	50,000	50,000
New York Life shelf notes:				
5.87% Series A shelf notes	10/26/2007	10/26/2015	17,500	17,500
6.35% Series B shelf notes	4/29/2008	4/29/2015	—	50,000
Capital lease obligations	Various	Various	5,537	6,310
Long-term debt			1,136,205	1,271,439
Total debt			$ 1,276,660	$ 1,275,887

As of September 30, 2014, the Company had a $975,000 committed Credit Facility with Bank of America N.A., JPMorgan Chase Bank N.A., and a syndicate of banks. The Credit Facility 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 September 30, 2014 and December 31, 2013, the Company had no outstanding borrowings under the Credit Facility. On October 21, 2014, the Company amended the Credit Facility which increased the borrowing capacity to $990,000 and extended the maturity date to October 2019. The Company amortizes all one-time fees and third party costs associated with the execution and amendment of the Credit Facility through the maturity date.
10. 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

Since May 2010, the Company has authorized repurchases of up to $1,500,000 of its common stock through its Repurchase Program, including the additional authorization of $300,000 announced on June 4, 2014. Since the introduction of share repurchase as a feature of the Company's capital management strategies in 2010, the Company has repurchased shares with an aggregate value of $1,219,680. As of September 30, 2014, the Company had $280,320 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. Shares that are repurchased under the Repurchase Program will be recorded as treasury stock and will be available for future issuance.

During the nine months ended September 30, 2014, the Company repurchased 2,958,525 shares of common stock as part of the Repurchase Program at a weighted average price of $62.51 per share. The Company utilized cash from operations to fund these repurchases.

Treasury Stock

As of September 30, 2014, the Company’s treasury stock consisted of 378,440,138 shares of Class A common stock. During the nine months ended September 30, 2014, the Company reissued 1,063,498 shares of Class A common stock from the treasury shares at a weighted average price of $5.16 per share.

Earnings Per Share (“EPS”)

Basic EPS is computed by dividing income from continuing operations, income from discontinued operations and net income, respectively, 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, nonvested restricted stock, and nonvested restricted stock units, had been issued.

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The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator used in basic and diluted EPS:				
Income from continuing operations	$ 99,015	$ 94,894	$ 271,555	$ 255,939
Income from discontinued operations, net of tax of $0 and $1,211, and $23,365 and $4,088 for the three and nine months ended September 30, 2014 and September 30, 2013, respectively (Note 6)	—	1,547	31,117	5,218
Net income	$ 99,015	$ 96,441	$ 302,672	$ 261,157
Denominator:				
Weighted average number of common shares used in basic EPS	166,187,540	168,044,100	166,504,384	168,089,919
Effect of dilutive shares:				
Potential common shares issuable from stock options and stock awards	3,334,908	4,110,453	3,311,483	4,371,041
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	169,522,448	172,154,553	169,815,867	172,460,960

The potential shares of common stock that were excluded from diluted EPS were 1,857,450 and 844,413 for the three months ended September 30, 2014 and 2013, and 1,574,984 and 601,195 for the nine months ended September 30, 2014 and 2013, respectively, because the effect of including these potential shares was anti-dilutive.

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Accumulated Other Comprehensive Losses

The following is a summary of accumulated other comprehensive losses as of September 30, 2014 and December 31, 2013:

	2014	2013
Foreign currency translation adjustment	$ (1,587)	$ (1,800)
Unrealized holding losses on available-for-sale securities, net of tax	(78)	(75)
Pension and postretirement adjustment, net of tax	(41,196)	(41,613)
Accumulated other comprehensive losses	$ (42,861)	$ (43,488)

The before tax and after tax amounts of other comprehensive income for the three and nine months ended September 30, 2014 and 2013 are summarized below:

	Before Tax	Tax Benefit (Expense)	After Tax
For the Three Months Ended September 30, 2014			
Foreign currency translation adjustment	$ (547)	$ —	$ (547)
Unrealized holding loss on available-for-sale securities before reclassifications	(72)	28	(44)
Amount reclassified from accumulated other comprehensive losses (1)	7	(3)	4
Unrealized holding loss on available-for-sale securities	(65)	25	(40)
Pension and postretirement adjustment before reclassifications	606	(315)	291
Amortization of net actuarial loss and prior service benefit reclassified from accumulated other comprehensive losses (2)	(303)	115	(188)
Pension and postretirement adjustment	303	(200)	103
Total other comprehensive income	$ (309)	$ (175)	$ (484)
For the Three Months Ended September 30, 2013			
Foreign currency translation adjustment	$ 275	$ —	$ 275
Unrealized holding gain on available-for-sale securities before reclassifications	221	(80)	141
Amount reclassified from accumulated other comprehensive income (1)	1	(3)	(2)
Unrealized holding gain on available-for-sale securities	222	(83)	139
Pension and postretirement adjustment before reclassifications	3,033	(776)	2,257
Amortization of net actuarial loss and prior service benefit reclassified from accumulated other comprehensive losses (2)	(1,517)	592	(925)
Pension and postretirement adjustment	1,516	(184)	1,332
Total other comprehensive income	$ 2,013	$ (267)	$ 1,746

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	Before Tax	Tax Benefit (Expense)	After Tax
For the Nine Months Ended September 30, 2014			
Foreign currency translation adjustment	$ 213	$ —	$ 213
Unrealized holding loss on available-for-sale securities before reclassifications	(127)	49	(78)
Amount reclassified from accumulated other comprehensive losses (1)	122	(47)	75
Unrealized holding loss on available-for-sale securities	(5)	2	(3)
Pension and postretirement adjustment before reclassifications	1,700	(759)	941
Amortization of net actuarial loss and prior service benefit reclassified from accumulated other comprehensive losses (2)	(850)	326	(524)
Pension and postretirement adjustment	850	(433)	417