

Verisk Analytics, Inc.
Form 10-Q
November 01, 2011

Table of Contents

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

FORM 10-Q

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

**For the quarterly period ended September 30, 2011
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 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 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

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a 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

As of October 28, 2011 there was the following number of shares outstanding of each of the issuer's classes of common stock:

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Class	Shares Outstanding
Class A common stock \$.001 par value	163,540,097

**Verisk Analytics, Inc.
Index to Form 10-Q
Table of Contents**

	Page Number
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Changes in Stockholders' Deficit</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	46
<u>Item 4. Controls and Procedures</u>	46
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	46
<u>Item 1A. Risk Factors</u>	46
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
<u>Item 3. Defaults Upon Senior Securities</u>	47
<u>Item 4. (Removed and Reserved)</u>	47
<u>Item 5. Other Information</u>	47
<u>Item 6. Exhibits</u>	47
<u>SIGNATURES</u>	48
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	

[EX-101 CALCULATION LINKBASE DOCUMENT](#)

[EX-101 LABELS LINKBASE DOCUMENT](#)

[EX-101 PRESENTATION LINKBASE DOCUMENT](#)

[EX-101 DEFINITION LINKBASE DOCUMENT](#)

Table of Contents**Item 1. Financial Statements**

VERISK ANALYTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
As of September 30, 2011 and December 31, 2010

	2011		2010
	unaudited		
	(In thousands, except for share and per share data)		
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 52,846	\$	54,974
Available-for-sale securities	4,828		5,653
Accounts receivable, net of allowance for doubtful accounts of \$4,432 and \$4,028 (including amounts from related parties of \$471 and \$515, respectively) (1)	152,803		126,564
Prepaid expenses	23,591		17,791
Deferred income taxes, net	3,681		3,681
Federal and foreign income taxes receivable	2,141		15,783
State and local income taxes receivable	3,606		8,923
Other current assets	28,268		7,066
Total current assets	271,764		240,435
Noncurrent assets:			
Fixed assets, net	110,328		93,409
Intangible assets, net	232,533		200,229
Goodwill	712,561		632,668
Deferred income taxes, net	23,340		21,879
State income taxes receivable	1,708		1,773
Other assets	27,699		26,697
Total assets	\$ 1,379,933	\$	1,217,090
LIABILITIES AND STOCKHOLDERS DEFICIT			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 146,358	\$	111,995
Acquisition related liabilities			3,500
Short-term debt and current portion of long-term debt	165,670		437,717
Pension and postretirement benefits, current	4,663		4,663
Fees received in advance (including amounts from related parties of \$1,329 and \$1,231, respectively) (1)	189,310		163,007
Total current liabilities	506,001		720,882
Noncurrent liabilities:			
Long-term debt	853,580		401,826
Pension benefits	78,090		95,528

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Postretirement benefits	21,329	23,083
Other liabilities	79,806	90,213
Total liabilities	1,538,806	1,331,532
Commitments and contingencies		
Stockholders' equity/(deficit):		
Verisk Class A common stock, \$.001 par value; 1,200,000,000 shares authorized; 350,338,030 and 150,179,126 shares issued and 148,621,259 and 143,067,924 outstanding as of September 30, 2011 and December 31, 2010, respectively	88	39
Verisk Class B (Series 1) common stock, \$.001 par value; 0 and 400,000,000 shares authorized; 0 and 198,327,962 shares issued and 0 and 12,225,480 outstanding as of September 30, 2011 and December 31, 2010, respectively		47
Verisk Class B (Series 2) common stock, \$.001 par value; 400,000,000 shares authorized; 193,665,008 shares issued and 14,771,340 outstanding as of September 30, 2011 and December 31, 2010, respectively	49	49
Unearned KSOP contributions	(779)	(988)
Additional paid-in capital	837,473	754,708
Treasury stock, at cost, 380,610,439 and 372,107,352 shares as of September 30, 2011 and December 31, 2010, respectively	(1,438,315)	(1,106,321)
Retained earnings	496,267	293,827
Accumulated other comprehensive losses	(53,656)	(55,803)
Total stockholders' deficit	(158,873)	(114,442)
Total liabilities and stockholders' deficit	\$ 1,379,933	\$ 1,217,090

(1) See Note 13. Related Parties for further information.

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

Table of Contents

VERISK ANALYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For The Three and Nine Month Periods Ended September 30, 2011 and 2010

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2011	2010	2011	2010
	(In thousands, except for share and per share data)			
Revenues (including amounts from related parties of \$4,699 and \$14,789 for the three months ended September 30, 2011 and 2010 and \$13,882 and \$45,202 for the nine months ended September 30, 2011 and 2010, respectively) (1)	\$ 340,098	\$ 287,354	\$ 980,247	\$ 845,185
Expenses:				
Cost of revenues (exclusive of items shown separately below)	137,619	117,005	393,360	346,998
Selling, general and administrative	51,475	40,982	156,640	121,134
Depreciation and amortization of fixed assets	10,798	10,035	32,958	29,908
Amortization of intangible assets	8,797	6,158	26,129	20,482
Acquisition related liabilities adjustment		(544)	(3,364)	(544)
Total expenses	208,689	173,636	605,723	517,978
Operating income	131,409	113,718	374,524	327,207
Other income/(expense):				
Investment income	99	59	99	183
Realized (loss)/gain on securities, net	(86)	9	401	70
Interest expense	(14,593)	(8,484)	(39,093)	(25,395)
Total other expense, net	(14,580)	(8,416)	(38,593)	(25,142)
Income before income taxes	116,829	105,302	335,931	302,065
Provision for income taxes	(45,842)	(42,422)	(133,491)	(125,406)
Net income	\$ 70,987	\$ 62,880	\$ 202,440	\$ 176,659
Basic net income per share of Class A and Class B:	\$ 0.43	\$ 0.35	\$ 1.21	\$ 0.98
Diluted net income per share of Class A and Class B:	\$ 0.41	\$ 0.34	\$ 1.16	\$ 0.94

Weighted average shares outstanding:

Basic	164,195,325	178,687,236	166,728,786	179,744,297
Diluted	171,169,658	187,188,667	174,255,965	188,728,438

(1) See Note 13. Related Parties for further information.

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

Table of Contents

VERISK ANALYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS DEFICIT
(UNAUDITED)

For The Year Ended December 31, 2010 and The Nine Months Ended September 30, 2011

	Common Stock Issued		Unearned Additional			Accumulated Total				
Verisk Class	Verisk Class B (Series 1)	Verisk Class B (Series 2)	Par Value	KSOP Contributions	Paid-in Capital	Treasury Stock	Retained Earnings	Other Comprehensive Losses	Total Stockholders' Equity (Deficit)	
A										
Balance, January 1, 2010	125,815,600	205,637,925	205,637,925	\$ 130	\$(1,305)	\$ 652,573	\$ (683,994)	\$ 51,275	\$ (53,628)	\$ (34,900)
Comprehensive income:										
Net income							242,552		242,552	
Other comprehensive income								(2,175)	(2,175)	
Conversion of Class B-1 common stock on follow-on public offering (note 1)	7,309,963	(7,309,963)								
Conversion of Class B-2 common stock on follow-on public offering (note 1)	11,972,917		(11,972,917)							
Treasury stock acquired - Class A (11,202 shares)						(212,512)			(212,512)	
Treasury stock acquired - Class B-1 (83,532 shares)						(199,936)			(199,936)	
Treasury stock acquired - Class B-2 (4,718 shares)						(9,879)			(9,879)	

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

OP shares exercised including tax benefit of (1,015) per share	5,579,135			5		317	11,256				11,5
Element of expense upon exercise of stock options stock based compensation per stock awards	(503,043)						(15,051)				(15,0
							21,298				21,2
	4,554						140				1
Balance, December 31, 2010	150,179,126	198,327,962	193,665,008	\$ 135	\$ (988)	\$ 754,708	\$ (1,106,321)	\$ 293,827	\$ (55,803)	\$ (114,4	
Comprehensive income: Net comprehensive income								202,440			202,4
									2,147		2,1
Comprehensive income conversion of Class B-1 common stock (see Note 1)	198,327,962	(198,327,962)									204,5
Treasury stock acquired - Class A (2,215,240 shares)								(340,101)			(340,1
OP shares exercised including tax benefit of (1,643) per share	1,830,942			2		209	9,421				9,6
Element of expense upon exercise of stock-based compensation per stock awards								8,096			64,0
											17,2
											76
									11		

ance,
September 30,
1 350,338,030 193,665,008 \$ 137 \$ (779) \$ 837,473 \$(1,438,315) \$ 496,267 \$(53,656) \$(158,8

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

Table of Contents

VERISK ANALYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For The Nine Months Ended September 30, 2011 and 2010

	2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 202,440	\$ 176,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	32,958	29,908
Amortization of intangible assets	26,129	20,482
Amortization of debt issuance costs	1,155	1,156
Amortization of debt original issue discount	51	
Allowance for doubtful accounts	852	562
KSOP compensation expense	9,630	8,651
Stock-based compensation	17,288	15,990
Non-cash charges associated with performance based appreciation awards	627	515
Acquisition related liabilities adjustment	(3,364)	(544)
Realized gain on securities, net	(401)	(70)
Deferred income taxes	(2,083)	(1,893)
Other operating	133	183
Loss on disposal of assets	635	81
Excess tax benefits from exercised stock options	(5,470)	(15,083)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(24,445)	(40,654)
Prepaid expenses and other assets	(3,229)	(1,331)
Federal and foreign income taxes	48,925	27,005
State and local income taxes	5,382	2,768
Accounts payable and accrued liabilities	12,509	(3,255)
Fees received in advance	24,841	29,551
Other liabilities	(20,809)	(8,874)
Net cash provided by operating activities	323,754	241,807
Cash flows from investing activities:		
Acquisitions, net of cash acquired of \$590 and \$1,556, respectively	(121,721)	(6,386)
Earnout payments	(3,500)	
Proceeds from release of acquisition related escrows		283
Escrow funding associated with acquisitions	(19,560)	(1,500)
Purchases of available-for-sale securities	(1,422)	(324)
Proceeds from sales and maturities of available-for-sale securities	1,722	645
Purchases of fixed assets	(41,925)	(22,206)
Net cash used in investing activities	(186,406)	(29,488)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net of original issue discount	448,956	
Repayment of short-term debt refinanced on a long-term basis	(295,000)	

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Repurchase of Verisk Class A common stock	(340,122)	(129,762)
Repayment of current portion of long-term debt	(125,000)	
Proceeds from issuance of short-term debt with original maturities of three months or greater	120,000	
Proceeds/(repayments) of short-term debt, net	22,311	(65,230)
Payment of debt issuance cost	(4,542)	(1,781)
Net share settlement of taxes upon exercise of stock options		(15,051)
Excess tax benefits from exercised stock options	5,470	15,083
Proceeds from stock options exercised	28,433	20,161
Net cash used in financing activities	(139,494)	(176,580)
Effect of exchange rate changes	18	(11)
(Decrease)/Increase in cash and cash equivalents	(2,128)	35,728
Cash and cash equivalents, beginning of period	54,974	71,527
Cash and cash equivalents, end of period	\$ 52,846	\$ 107,255
Supplemental disclosures:		
Taxes paid	\$ 82,526	\$ 96,745
Interest paid	\$ 25,876	\$ 24,351
Non-cash investing and financing activities:		
Repurchase of Verisk Class A common stock included in accounts payable and accrued liabilities	\$ 2,244	\$ 5,808
Deferred tax asset/(liability) established on date of acquisition	\$ 1,280	\$ (349)
Capital lease obligations	\$ 7,683	\$ 1,265
Capital expenditures included in accounts payable and accrued liabilities	\$ 778	\$ 743
Increase in goodwill due to acquisition related escrow distributions	\$	\$ 6,996
Accrual of acquisition related liabilities	\$	\$ 2,000

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

Table of Contents

VERISK ANALYTICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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, mortgage 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 on May 23, 2008 to serve as the parent holding company of Insurance Services Office, Inc. (ISO) upon completion of the initial public offering (IPO). 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. On October 6, 2009, ISO effected a corporate reorganization whereby the Class A and Class B common stock of ISO were exchanged by the current stockholders for the common stock of Verisk on a one-for-one basis. Verisk immediately thereafter effected a fifty-for-one stock split of its Class A and Class B common stock and equally sub-divided the Class B common stock into two new series of stock, Verisk Class B (Series 1) (Class B-1) and Verisk Class B (Series 2) (Class B-2).

On October 9, 2009, the Company completed its IPO. Upon completion of the IPO, the selling stockholders sold 97,995,750 shares of Class A common stock of Verisk, which included the 12,745,750 over-allotment option, at the IPO price of \$22.00 per share. The Company did not receive any proceeds from the sales of common stock in the offering. Verisk trades under the ticker symbol VRSK on the NASDAQ Global Select Market.

On October 1, 2010, the Company completed a follow-on public offering. Upon completion of this offering, the selling stockholders sold 2,602,212 and 19,282,880 shares of Class A and Class B common stock of Verisk, respectively, which included the underwriters 2,854,577 over-allotment option, at the public offering price of \$27.25 per share. Class B common stock sold into this offering was automatically converted into Class A common stock. The Company did not receive any proceeds from the sale of common stock in the offering. Concurrently with the closing of this offering, the Company also repurchased 7,300,000 shares of Class B common stock at \$26.3644 per share, which represents the net proceeds per share the selling stockholders received in the public offering. The Company funded a portion of this repurchase with proceeds from borrowings of \$160,000 under its syndicated revolving credit facility. Upon consummation of the offering and the repurchase, the Company's Class B-1 and Class B-2 common stock outstanding was 12,554,605 and 15,100,465 shares, respectively. The Class B-1 shares converted to Class A common stock on April 6, 2011 and the remaining Class B-2 shares converted to Class A common stock on October 6, 2011. The conversion of Class B-2 shares is not reflected in the accompanying unaudited condensed consolidated financial statements.

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, acquisition related liabilities, 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.

Table of Contents

The condensed consolidated financial statements as of September 30, 2011 and for the three- and nine-month periods ended September 30, 2011 and 2010, 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-month periods ended September 30, 2011 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-month periods ended September 30, 2011 have been prepared on the same basis as and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2010. 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 September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment* (ASU 2011-08). Under ASU 2011-08, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011. Early adoption is permitted. As the Company has already performed its annual impairment testing as of June 30, 2011, the Company has elected not to early adopt. The Company is currently evaluating the impact of ASU 2011-08 on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). Under ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company has elected not to early adopt. ASU 2011-05 is not expected to have a material impact on the Company's consolidated financial statements as this guidance does not result in a change in the items that are required to be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 clarifies FASB's intent about the application of existing fair value measurement and develops common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is not permitted. ASU 2011-04 is not expected to have a material impact on the Company's consolidated financial statements as this guidance does not result in a change in the application of the requirements in Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements*.

3. Investments:

The following is a summary of available-for-sale securities:

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2011				
Registered investment companies	\$ 4,499	\$ 323	\$	\$ 4,822
Equity securities	14		(8)	6

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Total available-for-sale securities	\$ 4,513	\$ 323	\$ (8)	\$ 4,828
December 31, 2010				
Registered investment companies	\$ 4,398	\$ 1,248	\$	\$ 5,646
Equity securities	14		(7)	7
Total available-for-sale securities	\$ 4,412	\$ 1,248	\$ (7)	\$ 5,653

Table of Contents

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 ASC 323-10-25, *The Equity Method of Accounting for Investments in Common Stock* (ASC 323-10-25). At September 30, 2011 and December 31, 2010, the carrying value of such securities was \$3,443 and \$3,642 for each period 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 establishes 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 is internally-developed, and considers risk premiums that market participant would require.

The following tables provide information for such assets and liabilities as of September 30, 2011 and December 31, 2010. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, acquisitions related liabilities prior to the adoption of ASC 805, *Business Combinations* (ASC 805), and short-term debt approximate their carrying amounts because of the short-term maturity of these instruments. The fair value of the Company's long-term debt was estimated at \$939,769 and \$584,361 as of September 30, 2011 and December 31, 2010, respectively, and is 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. These assets and liabilities are not presented in the following table.

		Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total	Assets (Level 1)		
September 30, 2011				
Cash equivalents money-market funds	\$ 289	\$	\$ 289	\$
Registered investment companies (1)	\$ 4,822	\$ 4,822	\$	\$
Equity securities (1)	\$ 6	\$ 6	\$	\$
December 31, 2010				
Cash equivalents money-market funds	\$ 2,273	\$	\$ 2,273	\$
Registered investment companies (1)	\$ 5,646	\$ 5,646	\$	\$
Equity securities (1)	\$ 7	\$ 7	\$	\$
Contingent consideration under ASC 805 (2)	\$ (3,337)	\$	\$	\$ (3,337)

- (1) Registered investment companies and equity securities are classified as available-for-sale securities and are valued using quoted prices in active markets multiplied by the number of shares owned.
- (2) Under ASC 805, contingent consideration is recognized at fair value at the end of each reporting period for acquisitions after January 1, 2009. The Company records the initial recognition of the fair value of contingent consideration in other liabilities on the condensed consolidated balance sheets. Subsequent changes in the fair value of contingent consideration are recorded in the statement of operations.

Table of Contents

The table below includes a rollforward of the Company's contingent consideration liability under ASC 805 for the three- and nine-month periods ended September 30, 2011 and 2010:

	For the Three Months Ended		For the Nine Months Ended	
	September	September 30,	September	September 30,
	30, 2011	2010	30, 2011	2010
Beginning balance	\$	\$ 3,853	\$ 3,337	\$ 3,344
Acquisitions (1)				491
Acquisition related liabilities adjustment (1)		(544)	(3,364)	(544)
Accretion on acquisition related liabilities		14	27	32
Ending balance	\$	\$ 3,323	\$	\$ 3,323

(1) Under ASC 805, contingent consideration is recognized at fair value at the end of each reporting period for acquisitions after January 1, 2009. The Company records the initial recognition of the fair value of contingent consideration in Other Liabilities on the condensed consolidated balance sheets. Subsequent changes in the fair value of contingent consideration is recorded in the statement of operations. See Note 6 for condensed further information regarding the acquisition related liabilities adjustment associated with D2 Hawkeye, Inc., Strategic Analytics, Inc. and TierMed.

5. Goodwill and Intangible Assets:

The following is a summary of the change in goodwill from December 31, 2010 through September 30, 2011, both in total and as allocated to the Company's operating segments:

	Risk	Decision	Total
	Assessment	Analytics	
Goodwill at December 31, 2010 (1)	\$ 27,908	\$ 604,760	\$ 632,668
Current year acquisitions		79,893	79,893
Goodwill at September 30, 2011 (1)	\$ 27,908	\$ 684,653	\$ 712,561

(1) These balances are net of accumulated impairment charges of \$3,244 that occurred prior to January 1, 2010. 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, 2011, which resulted in no impairment of goodwill. Based on the results of the impairment assessment as of June 30, 2011, the Company determined that the fair value of its reporting units exceeded their respective carrying value. Given the limited amount of time between the acquisition date and the timing of the Company's annual impairment test, the fair value of certain reporting units exceeded their carrying value by a moderate amount. There were no goodwill impairment indicators after the date of the last annual impairment test.

Table of Contents

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

	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
September 30, 2011				
Technology-based	7 years	\$ 234,755	\$ (150,718)	\$ 84,037
Marketing-related	5 years	48,103	(32,167)	15,936
Contract-based	6 years	6,555	(6,433)	122
Customer-related	13 years	172,236	(39,798)	132,438
Total intangible assets		\$ 461,649	\$ (229,116)	\$ 232,533
December 31, 2010				
Technology-based	7 years	\$ 210,212	\$ (136,616)	\$ 73,596
Marketing-related	5 years	40,882	(28,870)	12,012
Contract-based	6 years	6,555	(6,287)	268
Customer-related	13 years	145,567	(31,214)	114,353
Total intangible assets		\$ 403,216	\$ (202,987)	\$ 200,229

Consolidated amortization expense related to intangible assets for the three months ended September 30, 2011 and 2010, was \$8,797 and \$6,158, respectively. Consolidated amortization expense related to intangible assets for the nine months ended September 30, 2011 and 2010, was \$26,129 and \$20,482, respectively. Estimated amortization expense in future periods through 2016 and thereafter for intangible assets subject to amortization is as follows:

Year	Amount
2011	\$ 8,652
2012	33,927
2013	28,414
2014	21,288
2015	21,063
2016-Thereafter	119,189
	\$ 232,533

6. Acquisitions:**2011 Acquisitions**

On June 17, 2011, the Company acquired the net assets of Health Risk Partners, LLC (*HRP*), a provider of solutions to optimize revenue, ensure compliance and improve quality of care for Medicare Advantage and Medicaid health plans, for a net cash purchase price of approximately \$46,400 and funded \$3,000 of indemnity escrows and \$10,000 of contingency escrows. Within the Company's Decision Analytics segment, this acquisition further advances the Company's position as a major provider of data, analytics, and decision-support solutions to the healthcare industry.

On April 27, 2011, the Company acquired 100% of the stock of Bloodhound Technologies, Inc. (*Bloodhound*), a provider of real-time pre-adjudication medical claims editing, for a net cash purchase price of approximately \$75,321 and funded \$6,560 of indemnity escrows. Within the Company's Decision Analytics segment, Bloodhound addresses the need of healthcare payers to control fraud and waste in a real-time claims-processing environment, and these

capabilities align with the Company's existing fraud identification tools.

Table of Contents

The preliminary purchase price allocations of the acquisitions resulted in the following:

	Bloodhound	HRP	Total
Accounts receivable	\$ 2,278	\$ 378	\$ 2,656
Current assets	6,646	297	6,943
Fixed assets	1,091	1,147	2,238
Intangible assets	34,433	24,000	58,433
Goodwill	44,870	35,023	79,893
Other assets	16	13,000	13,016
Deferred income taxes	1,280		1,280
Total assets acquired	90,614	73,845	164,459
Current liabilities	6,869	1,445	8,314
Other liabilities	1,864	13,000	14,864
Total liabilities assumed	8,733	14,445	23,178
Net assets acquired	\$ 81,881	\$ 59,400	\$ 141,281

The amounts assigned to intangible assets by type for current year acquisitions are summarized in the table below:

	Weighted Average Useful Life	Bloodhound	HRP	Total
Technology-based	10 years	\$ 16,043	\$ 8,500	\$ 24,543
Marketing-related	6 years	2,221	5,000	7,221
Customer-related	10 years	16,169	10,500	26,669
Total intangible assets		\$ 34,433	\$ 24,000	\$ 58,433

Due to the timing of the acquisitions, the allocations of the purchase price for HRP, Bloodhound, 3E Company, and Crowe Paradis Services Corporation are 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 consolidated financial statements. The allocations of the purchase price will be finalized once all information is obtained, but not to exceed one year from the acquisition dates.

2010 Acquisitions

On December 16, 2010, the Company acquired 100% of the stock of 3E Company (3E), a global source for a comprehensive suite of environmental health and safety compliance solutions, for a net cash purchase price of approximately \$99,603 and funded \$7,730 of indemnity escrows. The allocation of the purchase price will be finalized in fourth quarter 2011. Within the Company's Decision Analytics segment, 3E overlaps the customer sets served by the other supply chain risk management solutions and helps the Company's customers across a variety of vertical markets address their environmental health and safety issues.

On December 14, 2010, the Company acquired 100% of the stock of Crowe Paradis Services Corporation (CP), a provider of claims analysis and compliance solutions to the P&C insurance industry, for a net cash purchase price of approximately \$83,589 and funded \$6,750 of indemnity escrows. The allocation of the purchase price will be finalized in fourth quarter 2011. Within the Company's Decision Analytics segment, CP offers solutions for complying with the

Medicare Secondary Payer Act, and provides services to P&C insurance companies, third-party administrators and self-insured companies, which the Company believes further enhances the solution it currently offers.

Table of Contents

On February 26, 2010, the Company acquired 100% of the stock of Strategic Analytics (SA), a provider of credit risk and capital management solutions to consumer and mortgage lenders, for a net cash purchase price of approximately \$6,386 and the Company funded \$1,500 of indemnity escrows. Within the Decision Analytics segment, the Company believes that SA solutions and application set allows customers to take advantage of state-of-the-art loss forecasting, stress testing, and economic capital requirement tools to better understand and forecast the risk associated within their credit portfolios.

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 date, as well as a portion of the contingent payments. At September 30, 2011 and December 31, 2010, the current portion of the escrows amounted to \$26,959 and \$6,167, and the noncurrent portion of the escrow amounted to \$14,506 and \$15,953, respectively. The current and noncurrent portion of the escrows have been included in Other current assets and Other assets in the accompanying condensed consolidated balance sheets, respectively.

Acquisition Related Liabilities

Based on the results of operations of Atmospheric and Environmental Research, Inc. (AER), which was acquired in 2008, the Company recorded an increase of \$3,500 to acquisition related liabilities and goodwill during the year ended December 31, 2010. AER was acquired in 2008 and therefore, accounted for under the transition provisions of FASB No. 141 (Revised), *Business Combinations* (FAS No. 141(R)). In April 2011, the Company finalized the AER acquisition contingent liability for the year ending December 31, 2010 and made a payment of \$3,500.

As of June 30, 2011, the Company reevaluated the probability of D2 Hawkeye, Inc. and SA achieving the specific predetermined EBITDA and revenue earn out targets for exceptional performance in fiscal year 2011 and reversed its contingent consideration related to these acquisitions. These reversals resulted in a reduction of \$3,364 to contingent consideration and a decrease of \$3,364 to Acquisition related liabilities adjustment in the accompanying condensed consolidated statements of operations during the nine-month period ended September 30, 2011. Thus, based on current estimates, the sellers of D2 Hawkeye, Inc. and SA will not receive any acquisition contingent payments.

7. Income Taxes:

The Company's effective tax rate for the three months ended September 30, 2011 was 39.2% compared to the effective tax rate for the three months ended September 30, 2010 of 40.3%. The September 30, 2011 effective tax rate is lower than the September 30, 2010 effective tax rate primarily due to favorable audit settlements, the continued execution of tax planning strategies and the benefits associated with enacted research and development legislation. Under IR-2011-87, the Internal Revenue Service is providing tax relief to businesses impacted by Hurricane Irene. The relief postponed certain tax filings and payment deadlines to October 31, 2011. As such, the Company deferred its third quarter estimated payment of \$22,800 until such date.

The Company's effective tax rate for the nine months ended September 30, 2011 was 39.7% compared to the effective tax rate for the nine months ended September 30, 2010 of 41.5%. The effective rate for the nine months ended September 30, 2011 was lower primarily due to a change in deferred tax assets of \$2,362 resulting from reduced tax benefits of Medicare subsidies associated with legislative changes in the three-month period ended March 31, 2010. Without this charge, the effective rate for the prior period would have been 40.7%. The Company's September 30, 2011 effective tax rate is also lower than the September 30, 2010 effective tax rate due to favorable audit settlements, the continued execution of tax planning strategies and the benefits associated with enacted research and development legislation. The difference between statutory tax rates and the company's effective tax rate are primarily attributable to state taxes and non-deductible share appreciation from the KSOP.

As a result of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D was effectively changed. The legislative change reduces the future tax benefits of the coverage provided by the Company to participants in the postretirement plan. The Company was required to account for this change in the period for which the law is enacted. As a result, the Company recorded a non-cash tax charge of \$2,362 for the three months ended March 31, 2010.

Table of Contents**8. Debt:**

The following table presents short-term and long-term debt by issuance:

	Issuance Date	Maturity Date	September 30, 2011	December 31, 2010
Short-term debt and current portion of long-term debt:				
Syndicated revolving credit facility	Various	Various	\$ 160,000	\$ 310,000
Prudential senior notes:				
4.60% Series E senior notes	6/14/2005	6/13/2011		50,000
6.00% Series F senior notes	8/8/2006	8/8/2011		25,000
Principal senior notes:				
6.03% Series A senior notes	8/8/2006	8/8/2011		50,000
Capital lease obligations and other	Various	Various	5,670	2,717
Short-term debt and current portion of long-term debt			\$ 165,670	\$ 437,717
Long-term debt:				
Verisk senior notes:				
5.80% senior notes, less unamortized discount of \$993	4/6/2011	5/1/2021	\$ 449,007	\$
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
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	4/29/2013	15,000	15,000
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
Principal senior notes:				
6.16% Series B senior notes	8/8/2006	8/8/2013	25,000	25,000
New York Life senior notes:				
5.87% Series A senior notes	10/26/2007	10/26/2013	17,500	17,500
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
Aviva Investors North America:				
6.46% Series A senior notes	4/27/2009	4/27/2013	30,000	30,000
Capital lease obligations and other	Various	Various	4,573	1,826
Long-term debt			\$ 853,580	\$ 401,826
Total debt			\$ 1,019,250	\$ 839,543

On March 16, 2011, The Northern Trust Company joined the syndicated revolving credit facility to increase the capacity by \$25,000, for a \$600,000 total commitment. On March 28, 2011, the Company entered into amendments to its revolving credit facility and its master shelf agreements to, among other things, permit the issuance of the senior notes and guarantees noted below.

Table of Contents

On April 6, 2011, the Company completed an issuance of senior notes in the aggregate principal amount of \$450,000. These senior notes are due on May 1, 2021 and accrue interest at a rate of 5.80%. The Company received net proceeds of \$446,031 after deducting original issue discount, underwriting discount, and commissions of \$3,969. The senior notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured and unsubordinated basis by ISO and certain subsidiaries that guarantee our syndicated revolving credit facility or any amendment, refinancing or replacement thereof (See Note 15. Condensed Consolidated Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries for further information). Interest will be payable semi-annually on May 1st and November 1st of each year, beginning on November 1, 2011. Interest accrued from April 6, 2011. The debt issuance costs are amortized from the date of issuance to the maturity date. The senior notes rank equally with all of the Company's existing and future senior unsecured and unsubordinated indebtedness. However, the senior notes are structurally subordinated to the indebtedness of any of the subsidiaries that do not guarantee the notes and are effectively subordinated to any future secured indebtedness to the extent of the value of the assets securing such indebtedness. The guarantees of the senior notes rank equally and ratably in right of payment with all other existing and future unsecured and unsubordinated indebtedness of the guarantors, and senior in right of payment to all future subordinated indebtedness of the guarantors. Because the guarantees of the notes are not secured, such guarantees will be effectively subordinated to any existing and future secured indebtedness of the applicable guarantor to the extent of the value of the collateral securing that indebtedness. Upon a change of control event, the holders of the notes have the right to require the Company to repurchase all or any part of such holder's notes at a purchase price in cash equal to 101% of the principal amount of the notes plus accrued and unpaid interest, if any, to the date of repurchase.

On October 25, 2011, the Company amended and restated its credit agreement to increase the total revolving credit facility from \$600,000 to \$700,000, extended the maturity date from September 2014 to October 2016 and modified certain conditions to borrowing, covenants, and events of default. Verisk Analytics, Inc. and ISO are co-borrowers under the amended credit agreement. The amended credit agreement also resulted in a decrease to applicable interest rates. The interest rates for borrowing under the amended credit agreement will now be the LIBOR plus 1.25% to 1.875%, depending upon the result of certain ratios defined in the amended credit agreement. All borrowings under the amended credit agreement continue to be unsecured.

9. Stockholders Deficit:

On November 18, 1996, the Company authorized 335,000,000 shares of ISO Class A redeemable common stock. Effective with the corporate reorganization on October 6, 2009, the ISO Class A redeemable common stock and all Verisk Class B shares sold into the IPO were converted to Verisk Class A common stock on a one-for-one basis. In addition, the Verisk Class A common stock authorized was increased to 1,200,000,000 shares. The Verisk Class A 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 eight of the eleven members of the board of directors. The eleventh seat on the board of directors is held by the CEO of the Company.

On November 18, 1996, the Company authorized 1,000,000,000 ISO Class B shares and issued 500,225,000 shares. On October 6, 2009, the Company completed a corporate reorganization whereby the ISO Class B common stock and ISO Class B treasury stock were converted to Verisk Class B common stock and Verisk Class B treasury stock on a one-for-one basis. All Verisk Class B shares sold into the IPO were converted to Verisk Class A common stock on a one-for-one basis. In addition, the Verisk Class B common stock authorized was reduced to 800,000,000 shares, sub-divided into 400,000,000 shares of Class B-1 and 400,000,000 shares of Class B-2. Each share of Class B-1 common stock converted automatically, without any action by the stockholder, into one share of Verisk Class A common stock on April 6, 2011. Each share of Class B-2 common stock converted automatically, without any action by the stockholder, into one share of Verisk Class A common stock on October 6, 2011. The Class B shares had the same rights as Verisk Class A shares with respect to dividends and economic ownership, but had voting rights to elect three of the eleven directors. The Company did not repurchase any Class B shares during the nine months ended September 30, 2011 and 2010.

On October 6, 2009, the Company authorized 80,000,000 shares of preferred stock, par value \$0.001 per share, in connection with the reorganization. The preferred shares have preferential rights over the Verisk Class A and Class B common shares with respect to dividends and net distribution upon liquidation. The Company did not issue any

preferred shares from the reorganization date through September 30, 2011.

Share Repurchase Program

On April 29, 2010, the Company's board of directors authorized a share repurchase program of the Company's common stock (the Repurchase Program). Under the Repurchase Program, the Company may repurchase up to \$600,000 of stock, in the open market or as otherwise determined by the Company. 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 Analytics, Inc. 2009 Equity Incentive Plan (the Incentive Plan) and the Insurance Services Office, Inc. 1996 Incentive Plan (the Option Plan). 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.

Table of Contents

During the nine months ended September 30, 2011, 10,215,240 shares of Verisk Class A common stock were repurchased by the Company as part of this program at a weighted average price of \$33.29 per share. The Company utilized cash from operations and the proceeds from its senior notes and syndicated revolving credit facility to fund these repurchases. As treasury stock purchases are recorded based on trade date, the Company has included \$2,244 in Accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets for those purchases that have not settled as of September 30, 2011. The Company had \$47,387 available to repurchase shares under the Repurchase Program as of September 30, 2011.

Treasury Stock

As of September 30, 2011, the Company's treasury stock consisted of 201,716,771 Class A common stock and 178,893,668 Class B-2 common stock. Consistent with the Class B-1 and Class B-2 common stock, the Company's Class B-1 treasury stock converted to Class A treasury stock on April 6, 2011 and the Class B-2 treasury stock converted to Class A treasury stock on October 6, 2011.

Earnings Per Share (EPS)

Basic earnings per common share is computed by dividing 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 nine-month periods ended September 30, 2011 and 2010:

	For the Three Months Ended September		For the Nine Months Ended September	
	30, 2011	September 30, 2010	30, 2011	September 30, 2010
Numerator used in basic and diluted EPS:				
Net income	\$ 70,987	\$ 62,880	\$ 202,440	\$ 176,659
Denominator:				
Weighted average number of common shares used in basic EPS	164,195,325	178,687,236	166,728,786	179,744,297
Effect of dilutive shares:				
Potential Class A common stock issuable from stock options and stock awards	6,974,333	8,501,431	7,527,179	8,984,141
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	171,169,658	187,188,667	174,255,965	188,728,438
Basic EPS of Class A and Class B	\$ 0.43	\$ 0.35	\$ 1.21	\$ 0.98
Diluted EPS of Class A and Class B	\$ 0.41	\$ 0.34	\$ 1.16	\$ 0.94

The potential shares of common stock that were excluded from diluted EPS were 1,555,507 and 2,151,646 for the nine months ended September 30, 2011 and 2010, 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:

	September 30, 2011	December 31, 2010
Unrealized gains on investments, net of tax	\$ 183	\$ 725
Unrealized foreign currency losses	(774)	(792)
Pension and postretirement unfunded liability adjustment, net of tax	(53,065)	(55,736)
Accumulated other comprehensive losses	\$ (53,656)	\$ (55,803)

Table of Contents

The before tax and after tax amounts of other comprehensive income for the nine months ended September 30, 2011 and 2010 are summarized below:

	Before Tax	Tax Benefit/ (Expense)	After Tax
For the Nine Months Ended September 30, 2011			
Unrealized holding loss on investments arising during the year	\$ (926)	\$ 384	\$ (542)
Unrealized foreign currency gain	18		18
Pension and postretirement unfunded liability adjustment	3,978	(1,307)	2,671
Total other comprehensive income	\$ 3,070	\$ (923)	\$ 2,147
For the Nine Months Ended September 30, 2010			
Unrealized holding gain on investments arising during the year	\$ 156	\$ (65)	\$ 91
Unrealized foreign currency loss	(11)		(11)
Pension and postretirement unfunded liability adjustment	4,278	(1,682)	2,596
Total other comprehensive income	\$ 4,423	\$ (1,747)	\$ 2,676

10. Equity Compensation Plans:

All of the Company's granted equity awards, including outstanding stock options and restricted stock, are covered under the Incentive Plan or the Option Plan. Awards under the 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, (vi) other share-based awards, and (vii) cash. Employees, directors and consultants are eligible for awards under the Incentive Plan. On July 1, 2011, the Company began issuing Class A common stock under these plans from the Company's treasury shares. Cash received from stock option exercises for the nine months ended September 30, 2011 and 2010 was \$28,433 and \$20,161, respectively. On July 1, 2011, the Company granted 2,506 shares of Class A common stock, 34,011 nonqualified stock options that were immediately vested and 125,500 nonqualified stock options with a one year service vesting period, to the directors of the Company. These options have an exercise price equal to the closing price of the Company's Class A common stock on the grant date and a ten year contractual term.

On April 1, 2011, the Company granted 1,401,308 nonqualified stock options and 146,664 shares of restricted stock to key employees. The nonqualified stock options have an exercise price equal to the closing price of the Company's Class A 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 Class A common stock on the date of grant and has a service vesting period of four years. The Company recognizes the expense of the restricted stock ratably over the periods in which the restrictions lapse. The restricted stock is not assignable or transferrable until it becomes vested. As of September 30, 2011, there were 6,955,761 shares of Class A common stock reserved and available for future issuance.

The fair value of the stock options granted during the nine months ended September 30, 2011 and 2010 was estimated using a Black-Scholes valuation model that uses the weighted average assumptions noted in the following table:

	September 30, 2011	September 30, 2010
Option pricing model	Black-Scholes	Black-Scholes
Expected volatility	30.44%	31.08%
Risk-free interest rate	2.21%	2.39%
Expected term in years	5.1	4.8

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Dividend yield	0.00%	0.00%
Weighted average grant date fair value per stock option	\$10.42	\$8.73

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 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 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.

Table of Contents

Exercise prices for options outstanding and exercisable at September 30, 2011 ranged from \$2.16 to \$34.91 as outlined in the following table:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Weighted Average Remaining Contractual Life	Stock Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Stock Options Exercisable	Weighted Average Exercise Price Per Share
\$2.16 to \$2.96	1.3	750,980	\$ 2.74	1.3	750,980	\$ 2.74
\$2.97 to \$4.80	1.9	2,970,500	\$ 3.91	1.9	2,970,500	\$ 3.91
\$4.81 to \$8.90	3.7	3,649,100	\$ 8.52	3.7	3,649,100	\$ 8.52
\$8.91 to \$15.10	5.0	2,129,805	\$ 13.56	5.0	2,129,805	\$ 13.56
\$15.11 to \$17.84	7.0	5,147,527	\$ 16.68	6.9	3,067,652	\$ 16.85
\$17.85 to \$22.00	8.0	2,707,879	\$ 22.00	8.0	411,646	\$ 22.00
\$22.01 to \$34.91	9.0	3,577,496	\$ 30.58	8.6	647,660	\$ 29.08
		20,933,287			13,627,343	

A summary of options outstanding under the Incentive Plan and the Option Plan as of December 31, 2010 and September 30, 2011 and changes during the interim period are presented below:

	Number of Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 31, 2010	23,057,857	\$ 13.35	\$ 478,014
Granted	1,574,705	\$ 33.46	
Exercised	(3,540,589)	\$ 8.03	\$ 90,706
Cancelled or expired	(158,686)	\$ 22.44	
Outstanding at September 30, 2011	20,933,287	\$ 15.69	\$ 399,354
Options exercisable at September 30, 2011	13,627,343	\$ 11.25	\$ 320,578
Options exercisable at December 31, 2010	14,820,447	\$ 9.22	\$ 368,466

Intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the quoted price of Verisk's common stock as of the reporting date. The aggregate intrinsic value of stock options outstanding and exercisable at September 30, 2011 was \$399,354 and \$320,578, respectively. 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 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 nine months ended September 30, 2011

and 2010, the Company recorded excess tax benefit from stock options exercised of \$35,643 and \$23,442, respectively. The Company realized \$5,470 and \$15,083 of tax benefit within the Company's quarterly tax payments through September 30, 2011 and 2010, respectively.

Table of Contents

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 under the Incentive Plan as of December 31, 2010 and September 30, 2011 and changes during the interim period are presented below:

	Number of shares	Weighted average grant date fair value per share
Outstanding at December 31, 2010		\$
Granted	150,187	33.27
Forfeited	(2,441)	33.30
Outstanding at September 30, 2011	147,746	\$ 33.27

As of September 30, 2011, there was \$44,186 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Incentive Plan and the Option Plan. That cost is expected to be recognized over a weighted average period of 2.52 years. As of September 30, 2011, there were 7,305,944 and 147,746 nonvested stock options and restricted stock, respectively, of which 6,301,992 and 122,125 are expected to vest. The total grant date fair value of options vested during the nine months ended September 30, 2011 and 2010 was \$15,385 and \$11,749, respectively. The total grant date fair value of restricted stock vested during the nine months ended September 30, 2011 was \$604.

11. Pension and Postretirement Benefits:

Prior to January 1, 2002, the Company maintained a qualified defined benefit pension plan for substantially all of its employees through membership in the Pension Plan for Insurance Organizations (the Pension Plan), a multiple-employer trust. The Company has applied the projected unit credit cost method for its Pension Plan, which attributes an equal portion of total projected benefits to each year of employee service. Effective January 1, 2002, the Company amended the Pension Plan to determine future benefits using a cash balance formula. 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 their previous year-end cash balance. Prior to December 31, 2001, pension plan benefits were based on years of service and the average of the five highest consecutive years' earnings of the last ten years. Effective March 1, 2005, the Company established the Profit Sharing Plan, a defined contribution plan, to replace the Pension Plan for all eligible employees hired on or after March 1, 2005. The Company also has a nonqualified supplemental cash balance plan (SERP) for certain employees. The SERP is funded from the general assets of the Company.

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.

Table of Contents

The components of net periodic benefit cost and the amounts recognized in other comprehensive income for the three- and nine-month periods ended September 30, 2011 and 2010 are summarized below:

	For the Three Months Ended September 30,			
	Pension Plan		Postretirement Plan	
	2011	2010	2011	2010
Service cost	\$ 1,590	\$ 1,603	\$	\$
Interest cost	5,442	5,341	251	377
Expected return on plan assets	(6,449)	(5,662)		
Amortization of prior service cost	(200)	(200)	(37)	(37)
Amortization of net actuarial loss	1,384	1,517	163	72
Net periodic benefit cost	\$ 1,767	\$ 2,599	\$ 377	\$ 412
Employer contributions	\$ 6,489	\$ 5,512	\$ 1,125	\$ 891

	For the Nine Months Ended September 30,			
	Pension Plan		Postretirement Plan	
	2011	2010	2011	2010
Service cost	\$ 4,771	\$ 4,810	\$	\$
Interest cost	16,280	16,024	753	908
Expected return on plan assets	(19,348)	(16,987)		
Amortization of prior service cost	(601)	(601)	(109)	(110)
Amortization of net actuarial loss	4,199	4,550	489	439
Net periodic benefit cost	\$ 5,301	\$ 7,796	\$ 1,133	\$ 1,237
Employer contributions	\$ 19,144	\$ 15,223	\$ 2,507	\$ 2,944

The expected contributions to the Pension Plan and the Postretirement Plan for the year ending December 31, 2011 are consistent with the amounts previously disclosed as of December 31, 2010.

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 CEO and Chairman of the Board 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:

Risk Assessment: The Company is the leading provider of statistical, actuarial and underwriting data for the U.S. P&C insurance industry. The Company's databases include cleansed and standardized records describing premiums and losses in insurance transactions, casualty and property risk attributes for commercial buildings and their occupants and fire suppression capabilities of municipalities. The Company uses this data to create policy language and proprietary risk classifications that are industry standards and to generate prospective loss cost estimates used to price insurance policies.

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

combination of algorithms and analytic methods incorporates its proprietary data to generate solutions in each of these three categories. In most cases, the Company's customers integrate the solutions into their models, formulas or underwriting criteria in order to predict potential loss events, ranging from hurricanes and earthquakes to unanticipated healthcare claims. The Company develops catastrophe and extreme event models and offers solutions covering natural and man-made risks, including acts of terrorism. The Company also develops solutions that allow customers to quantify costs after loss events occur. Fraud solutions include data on claim histories, analysis of mortgage applications to identify misinformation, analysis of claims to find emerging patterns of fraud, and identification of suspicious claims in the insurance, mortgage and healthcare sectors.

Table of Contents

The two aforementioned operating segments represent the segments for which separate discrete financial information is available and upon which operating results are regularly evaluated by the CODM in order to assess performance and allocate resources. The Company uses segment EBITDA as the profitability measure for making decisions regarding ongoing operations. Segment EBITDA is net income before investment (loss)/income, realized gain on securities, net, interest expense, income taxes, and depreciation and amortization. Beginning 2011, the Company's definition of Segment EBITDA includes acquisition related liabilities adjustment for all periods presented. Segment EBITDA is the measure of operating results used to assess corporate performance and optimal utilization of debt and acquisitions. Segment operating expenses consist of direct and indirect costs principally related to personnel, facilities, software license fees, consulting, travel, and third-party information services. Indirect costs are generally allocated to the segments using fixed rates established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. The Company does not allocate investment income, realized (loss)/gain on securities, net, interest expense, and income tax expense, since these items are not considered in evaluating the segment's overall operating performance. The CODM does not evaluate the financial performance of each segment based on assets. On a geographic basis, no individual country outside of the U.S. accounted for 1% or more of the Company's consolidated revenue for either the three- or nine-month periods ended September 30, 2011 or 2010. No individual country outside of the U.S. accounted for 1% or more of total consolidated long-term assets as of September 30, 2011 or December 31, 2010.

Table of Contents

The following tables provide the Company's revenue and operating income performance by reportable segment for the three- and nine-month periods ended September 30, 2011 and 2010, as well as a reconciliation to income before income taxes for all periods presented in the accompanying condensed consolidated statements of operations:

	For the Three Months Ended September 30, 2011			For the Three Months Ended September 30, 2010		
	Risk Assessment	Decision Analytics	Total	Risk Assessment	Decision Analytics	Total
Revenues	\$ 139,977	\$ 200,121	\$ 340,098	\$ 136,269	\$ 151,085	\$ 287,354
Expenses:						
Cost of revenues (exclusive of items shown separately below)	49,209	88,410	137,619	49,526	67,479	117,005
Selling, general and administrative	20,065	31,410	51,475	20,341	20,641	40,982
Acquisition related liabilities adjustment					(544)	(544)
Segment EBITDA	70,703	80,301	151,004	66,402	63,509	129,911
Depreciation and amortization of fixed assets	3,354	7,444	10,798	4,231	5,804	10,035
Amortization of intangible assets	37	8,760	8,797	36	6,122	6,158
Operating income	67,312	64,097	131,409	62,135	51,583	113,718
Unallocated expenses:						
Investment income			99			59
Realized (loss)/gain on securities, net			(86)			9
Interest expense			(14,593)			(8,484)
Income before income taxes			\$ 116,829			\$ 105,302
Capital expenditures, including non-cash purchases of fixed assets and capital lease obligations	\$ 2,117	\$ 11,778	\$ 13,895	\$ 3,154	\$ 4,220	\$ 7,374

	For the Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 2010		
	Risk Assessment	Decision Analytics	Total	Risk Assessment	Decision Analytics	Total
Revenues	\$ 421,050	\$ 559,197	\$ 980,247	\$ 405,136	\$ 440,049	\$ 845,185
Expenses:						
Cost of revenues (exclusive of items shown separately below)	145,519	247,841	393,360	148,076	198,922	346,998
Selling, general and administrative	62,537	94,103	156,640	58,964	62,170	121,134
Acquisition related liabilities adjustment		(3,364)	(3,364)		(544)	(544)
Segment EBITDA	212,994	220,617	433,611	198,096	179,501	377,597

Edgar Filing: Verisk Analytics, Inc. - Form 10-Q

Depreciation and amortization of fixed assets	11,202	21,756	32,958	12,717	17,191	29,908
Amortization of intangible assets	109	26,020	26,129	109	20,373	20,482
Operating income	201,683	172,841	374,524	185,270	141,937	327,207
Unallocated expenses:						
Investment income			99			183
Realized gain on securities, net			401			70
Interest expense			(39,093)			(25,395)
Income before income taxes			\$ 335,931			\$ 302,065
Capital expenditures, including non-cash purchases of fixed assets and capital lease obligations	\$ 8,906	\$ 39,342	\$ 48,248	\$ 6,543	\$ 17,671	\$ 24,214