

IHS Inc.  
Form 10-Q  
June 24, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

Edgar Filing: IHS Inc. - Form 10-Q  
For the quarterly period ended May 31, 2008

OR

o

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

Edgar Filing: IHS Inc. - Form 10-Q

For the transition period from                      to

Commission file number 001-32511

---

**IHS INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**13-3769440**  
(IRS Employer  
Identification No.)

**15 Inverness Way East**

**Englewood, CO 80112**

(Address of Principal Executive Offices)

**(303) 790-0600**

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, and accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

Edgar Filing: IHS Inc. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES       NO

As of May 31, 2008, there were 48,703,869 shares of our Class A Common Stock outstanding and 13,750,000 shares of our Class B Common Stock outstanding.

---

TABLE OF CONTENTS

	<b>Page</b>	
<b><u>PART I</u></b>		
<u>Item 1.</u>	<u>Financial Statements</u>	3
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4.</u>	<u>Controls and Procedures</u>	27
<b><u>PART II</u></b>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	28
<u>Item 1A.</u>	<u>Risk Factors</u>	28
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 6.</u>	<u>Exhibits</u>	29
<b><u>SIGNATURE</u></b>		30

---

**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

**IHS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands except share data)**

	As of May 31, 2008 (Unaudited)	As of November 30, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 105,371	\$ 148,484
Short-term investments		10,518
Accounts receivable, net	169,801	175,542
Deferred subscription costs	42,830	35,910
Deferred income taxes	21,435	17,681
Other	17,683	14,112
Total current assets	357,120	402,247
Non-current assets:		
Property and equipment, net	58,009	58,756
Equity investment in joint venture	73,002	
Intangible assets, net	223,292	206,359
Goodwill, net	616,199	564,582
Prepaid pension asset	93,229	91,116
Other	835	747
Total non-current assets	1,064,566	921,560
Total assets	\$ 1,421,686	\$ 1,323,807
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Short-term debt	\$ 28,485	\$ 3,062
Accounts payable	26,092	37,550
Accrued compensation	19,104	37,014
Accrued royalties	20,599	22,684
Other accrued expenses	41,299	37,435
Income tax payable	7,902	15,255
Deferred subscription revenue	288,346	239,395
Total current liabilities	431,827	392,395
Long-term debt		37
Accrued pension liability	11,413	11,965
Accrued post-retirement benefits	8,717	10,203
Deferred income taxes	68,666	60,461
Other liabilities	7,380	7,619
Minority interests	252	219
Commitments and contingencies		
Stockholders equity:	500	498



Edgar Filing: IHS Inc. - Form 10-Q

Class A common stock, \$0.01 par value per share, 80,000,000 shares authorized, 50,081,110 and 49,831,293 shares issued, 48,703,869 and 48,758,518 shares outstanding at May 31, 2008 and November 30, 2007, respectively			
Class B common stock, \$0.01 par value per share, 13,750,000 shares authorized, issued and outstanding at May 31, 2008 and November 30, 2007			
		138	138
Additional paid in capital		411,908	381,124
Treasury stock, at cost: 1,377,231 and 1,072,775 shares at May 31, 2008 and November 30, 2007, respectively			
		(64,709)	(46,045)
Retained earnings		529,915	483,804
Accumulated other comprehensive income		15,679	21,389
Total stockholders' equity		893,431	840,908
Total liabilities and stockholders' equity	\$	1,421,686	\$ 1,323,807

See accompanying notes.

## IHS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per-share amounts)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008	2007	2008	2007
	(Unaudited)			
<b>Revenue:</b>				
Products	\$ 171,522	\$ 129,136	\$ 331,211	\$ 252,115
Services	35,671	25,764	74,759	55,406
Total revenue	207,193	154,900	405,970	307,521
<b>Operating expenses:</b>				
Cost of revenue:				
Products	71,481	50,274	134,575	99,007
Services	21,699	17,479	47,765	34,484
Total cost of revenue (includes stock-based compensation expense of \$376, \$105, \$687 and \$456 for the three and six months ended May 31, 2008 and 2007, respectively)	93,180	67,753	182,340	133,491
Selling, general and administrative (includes stock-based compensation expense of \$10,001; \$5,940; \$22,391 and \$12,925 for the three and six months ended May 31, 2008 and 2007, respectively)	72,923	56,607	144,809	114,498
Depreciation and amortization	9,683	4,921	18,506	9,501
Restructuring and other charges		9		
Gain on sales of assets, net		(5)	(119)	(756)
Net periodic pension and post-retirement benefits	(1,086)	(354)	(2,179)	(622)
Other expense (income), net	(323)	84	(1,136)	(360)
Total operating expenses	174,377	129,015	342,221	255,752
<b>Operating income</b>	<b>32,816</b>	<b>25,885</b>	<b>63,749</b>	<b>51,769</b>
Interest income	697	1,694	1,914	3,348
Interest expense	(843)	(76)	(979)	(209)
Non-operating (loss) income, net	(146)	1,618	935	3,139
Income from continuing operations before income taxes and minority interests	32,670	27,503	64,684	54,908
Provision for income taxes	(10,425)	(8,909)	(21,024)	(17,952)
Income from continuing operations before equity investments and minority interests	22,245	18,594	43,660	36,956
Income from equity investment	1,044		1,044	
Minority interests	(31)	(12)	(15)	3
<b>Net income</b>	<b>\$ 23,258</b>	<b>\$ 18,582</b>	<b>\$ 44,689</b>	<b>\$ 36,959</b>
Net income per share:				
Basic (Class A and Class B common stock)	\$ 0.37	\$ 0.32	\$ 0.72	\$ 0.64
Diluted (Class A and Class B common stock)	\$ 0.37	\$ 0.32	\$ 0.71	\$ 0.63
Weighted average shares:				
Basic (Class A common stock)	48,471	43,626	48,347	43,733
Basic (Class B common stock)	13,750	13,750	13,750	13,750
Diluted (Class A common stock)	63,086	58,281	63,045	58,328

Edgar Filing: IHS Inc. - Form 10-Q

Diluted (Class B common stock)	13,750	13,750	13,750	13,750
--------------------------------	--------	--------	--------	--------

See accompanying notes.

## IHS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended May 31,	
	2008	2007
	(Unaudited)	
<b>Operating activities</b>		
Net income	\$ 44,689	\$ 36,959
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	18,506	9,501
Stock-based compensation expense	23,078	13,381
Gain on sales of assets, net	(119)	(756)
Distributions from equity-method investment	378	
Non-cash net periodic pension and post-retirement benefits	(3,122)	(1,997)
Undistributed earnings of unconsolidated subsidiaries, net	(1,233)	140
Minority interests	15	(234)
Deferred income taxes	2,075	(1,015)
Change in assets and liabilities:		
Accounts receivable, net	5,800	24,825
Other current assets	(10,078)	(5,565)
Accounts payable	(9,956)	(25,388)
Accrued expenses	(17,304)	(15,492)
Income taxes	(1,867)	5,311
Deferred subscription revenue	44,568	26,092
Other liabilities	(457)	
<b>Net cash provided by operating activities</b>	<b>94,973</b>	<b>65,762</b>
<b>Investing activities</b>		
Capital expenditures on property and equipment	(5,351)	(3,645)
Change in other assets	(2,654)	(3,496)
Sales and maturities of investments	10,500	2,008
Acquisitions of businesses, net of cash acquired	(130,878)	(14,607)
Proceeds from sales of assets	140	2,461
<b>Net cash used in investing activities</b>	<b>(128,243)</b>	<b>(17,279)</b>
<b>Financing activities</b>		
Proceeds from borrowings	50,000	
Repayment of borrowings	(43,095)	(500)
Excess tax benefit from equity compensation plans	454	121
Repurchases of common stock	(18,664)	(15,663)
<b>Net cash used in financing activities</b>	<b>(11,305)</b>	<b>(16,042)</b>
Foreign exchange impact on cash balance	1,462	(189)
Net (decrease) increase in cash and cash equivalents	(43,113)	32,252
Cash and cash equivalents at the beginning of the period	148,484	180,034
Cash and cash equivalents at the end of the period	\$ 105,371	\$ 212,286

See accompanying notes.



## IHS INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

	Shares of Class A Common Stock	Class A Common Stock	Shares of Class B Common Stock	Class B Common Stock	Additional Paid-In Capital (Unaudited)	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at November 30, 2007</b>	48,759	\$ 498	13,750	\$ 138	\$ 381,124	\$ (46,045)	\$ 483,804	\$ 21,389	\$ 840,908
Stock-based award activity	39	2			22,523	(13,118)			9,407
Excess tax benefit on vested shares					8,261				8,261
Repurchases of common stock	(94)					(5,546)			(5,546)
Net income							44,689		44,689
Other comprehensive income:									
Foreign currency translation adjustments								(5,710)	(5,710)
Comprehensive income, net of tax									38,979
Adoption of FIN 48							1,422		1,422
<b>Balance at May 31, 2008</b>	48,704	\$ 500	13,750	\$ 138	\$ 411,908	\$ (64,709)	\$ 529,915	\$ 15,679	\$ 893,431

See accompanying notes.



**IHS INC.**



**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. Basis of Presentation and Significant Accounting Policies

*Nature of Operations*

## Edgar Filing: IHS Inc. - Form 10-Q

IHS Inc. (IHS, the Company, we, our, or us) is a publicly traded Delaware corporation. IHS is a leading provider and comprehensive source of Critical Information and Insight in a sizable and growing global market. Our customers rely on our products and services to facilitate crucial decision-making, support key processes, and improve productivity. At the heart of our products and services is data obtained from public sources, third parties, and our own proprietary databases. We transform that data into Critical Information and Insight that is both useful to our customers and available where and when they make critical business decisions. The data becomes Critical Information when we combine it with our proprietary and third-party technology to create graphical user interfaces, search and navigation tools, and online delivery systems. We further transform that information into Insight products and services with analysis and interpretation from our teams of experts.

We serve some of the world's largest corporations across multiple industries, as well as governments and other organizations, in more than 100 countries. We generate approximately half of our total revenue from outside the United States. Our primary operations outside the United States are in the United Kingdom, Canada and Switzerland. Our operating profit outside the United States has historically exceeded our domestic operating profit. We manage our business through our Energy and Engineering operating segments.

We have targeted four specific information domains—Energy, Product Lifecycle, Security, and Environment. Since these four information domains represent areas where our customers have needs for critical information and insight, we use these domains to set priorities and design our business objectives. As we continue to deliver Critical Information and Insight in those four information domains, we prepare and analyze our financial reports to include our two reportable segments. As the information that our customers need to address their complex business issues continues to converge at the intersection of the information domains that we serve, we are evolving our management structure to a geographic focus, the point of contact with our customers. As a result of this transformation, our defined operating segments will change to regional segments during the third quarter of 2008.

### *Consolidation Policy*



## Edgar Filing: IHS Inc. - Form 10-Q

The consolidated financial statements include the accounts of all wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliated companies are accounted for under the equity method and are included in *Equity Investment in Joint Venture* in the accompanying Consolidated Balance Sheets. Our proportionate share of income from the unconsolidated affiliates is included in *Income from Equity Investment* in the accompanying Consolidated Statements of Operations. We generally utilize the equity method of accounting when we have a non-controlling ownership interest of between 20% and 50% in an entity, provided we are able to exercise significant influence over the investee's operations.

### *Unaudited Condensed Consolidated Financial Statements*



## Edgar Filing: IHS Inc. - Form 10-Q

The accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The accompanying condensed consolidated financial statements include our accounts and the accounts of our majority-owned domestic and foreign subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended November 30, 2007. The results of operations for the three and six months ended May 31, 2008, are not necessarily indicative of the results that may be achieved for the full fiscal year and cannot be used to indicate financial performance for the entire year.

The year-end condensed consolidated balance sheet data was derived from the audited November 30, 2007, balance sheet.

### *Results Subject to Seasonal Variations*





## Edgar Filing: IHS Inc. - Form 10-Q

Historically, our business has had seasonal aspects. However, with the continued organic growth in our subscription-based business model combined with several acquisitions in recent years, our seasonal aspects have diminished. Our first quarter does benefit from the inclusion of the results from CERAWEEK, an annual energy executive gathering. Subscriptions are generally paid in full within one to two months after the subscription period commences. As a result, the timing of our cash flows generally precedes the recognition of revenue and income.

*Use of Estimates*



## Edgar Filing: IHS Inc. - Form 10-Q

The preparation of interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Significant estimates have been made in areas that include revenue recognition, useful lives of fixed and intangible assets, allocation of purchase price to acquired assets and liabilities, the recoverability of intangible assets and goodwill, income and other taxes, pension and post-retirement benefits, and stock-based compensation. Actual results could differ from those estimates.

### *Reclassification*

*Certain prior-year balances have been reclassified to conform to current-year presentation.*



*Income Taxes*





## Edgar Filing: IHS Inc. - Form 10-Q

Our effective quarterly rate is estimated based upon the effective tax rate expected to be applicable for the full fiscal year.

Our effective tax rate for the second quarter of 2008 was 31.9% compared to 32.4% for the prior year period. Our effective tax rate for the first half of 2008 was 32.5% compared to 32.7% for the prior year period. The 2008 rate reflects the impact from net reductions in unrecognized tax benefits principally from the successful completion of a recent Canadian tax audit, as well as net benefits from changes to certain estimates.

On December 1, 2007 we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (FIN 48). Upon adoption, we recognized a \$1.4 million decrease in liabilities on uncertain tax positions, resulting in a balance of \$1.7 million in unrecognized tax benefits as of December 1, 2007. Since December 1, 2007, unrecognized tax benefits decreased by \$0.2 million. This reduction represents the net of decreases from the recognition of tax benefits due to the closure of a Canadian tax audit and from the filing of certain non-U.S. amended tax returns, and increases due to additional unrecognized tax benefits and accrued interest during the six months ended May 31, 2008. As of May 31, 2008, the total amount of unrecognized tax benefits was \$1.5 million. If recognized, essentially all of the unrecognized tax benefits would affect our effective tax rate.

We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes. For the six months ended May 31, 2008, we recognized \$0.1 million of net benefit from interest on unrecognized tax benefits.

We are subject to taxation and file income tax returns in the U.S. and in many foreign jurisdictions. For U.S. federal, Canadian and Swiss income tax purposes, effectively all years prior to 2004 are closed. For United Kingdom income tax purposes, all years prior to 2005 are effectively closed.

The open tax years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as it relates to the amount and/or timing of income, deductions and tax credits. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax and interest have been provided for any adjustments that are expected to result from an audit of the open tax years. Although timing of the resolution and/or closure of audits is highly uncertain, we do not believe it is reasonably possible that our unrecognized tax benefits will materially change in the next 12 months.

### *New Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). Among other requirements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. Subsequently, the FASB deferred the

application of this pronouncement for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. SFAS No. 157 is effective for financial assets and liabilities beginning the first fiscal year that begins after November 15, 2007. We adopted SFAS No. 157 for financial assets and liabilities on December 1, 2007, with no material impact to our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 expands the use of fair value measurement by permitting entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 was effective beginning the first fiscal year that begins after November 15, 2007. We have opted not to electively adopt the provisions of SFAS No. 159 in the accompanying consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS Nos. 141(R) and 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Thus, we are required to adopt these standards on December 1, 2009, the first day of our 2010 fiscal year. Earlier adoption is prohibited. We are currently evaluating the impact of adopting SFAS Nos. 141(R) and 160 on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and how derivatives impact financial statements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Thus, we are required to adopt this standard on December 1, 2008, the first day of our 2009 fiscal year. We are currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of General Accepted Accounting Principles*. This statement documents the hierarchy of the various sources of accounting principles and the framework for selecting the principles used in preparing financial statements. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. SFAS No. 162 will not have a material impact to our consolidated financial statements.

## **2. Business Combinations**

In December 2007, we acquired McCloskey Group Limited (McCloskey), the leading provider of news, critical information and insight on the international coal markets located near London, England. We acquired McCloskey for £13.9 million, or approximately \$28.2 million using cash on hand.

On March 3, 2008, we acquired Prime Publications Limited (Prime), which owns a 50% interest in the Lloyd's Register-Fairplay Limited (LRF) joint venture, a leading source of global maritime information. LRF is the pre-eminent brand name in the maritime information industry and the only organization that provides comprehensive details of the current world merchant fleet (tankers, cargo, carrier and passenger ships) and a complete range of products and services to assist the world's maritime community. The investment in LRF was the primary asset of Prime. Lloyd's Register of London, England is the joint venture partner owning the other 50%. IHS accounts for the joint venture under the equity method of accounting. IHS acquired 100 percent of the stock of Prime for

Edgar Filing: IHS Inc. - Form 10-Q

approximately £38.0 million, or approximately \$74.6 million, which included £10.7 million, or approximately \$21.2 million in non-interest bearing seller notes valued at \$18.5 million and the remainder was paid in cash.

Also on March 3, 2008, we acquired Dolphin Software, Inc. (Dolphin) for approximately \$23.7 million in cash. Dolphin is a leader in developing and using chemical data information and software used by companies to record and track chemicals stored and used in their facilities.

## Edgar Filing: IHS Inc. - Form 10-Q

On March 13, 2008, we acquired Environmental Software Providers (ESP), a provider of enterprise information solutions used by companies to assist in managing their environmental sustainability programs for approximately \$18.7 million in cash.

On March 14, 2008, we acquired JFA International (JFA), a London, England based provider of strategic analysis to the energy industry's exploration and production sectors. JFA was acquired for £2.0 million, or approximately \$3.9 million.

Cash used for the March 2008 acquisitions came from cash on hand and a draw down of \$50.0 million on our \$385 million revolving credit agreement.

These acquisitions were accounted for using the purchase method of accounting. Our consolidated financial statements include all the assets and liabilities acquired and the results of operations from the respective date of acquisition. Pro forma results of the acquired businesses have not been presented as they did not have a material impact on our results of operations.

The purchase prices for these 2008 acquisitions, excluding acquired cash and including acquisition-related costs and notes payable, were initially allocated as follows (in thousands):

	Prime	McCloskey	All others	Total
<b>Assets:</b>				
Current assets	\$ 110	\$ 774	\$ 2,944	\$ 3,828
Property and equipment	6	114	741	861
Intangible assets	3,572	8,180	16,755	28,507
Goodwill	687	24,136	34,136	58,959
Equity investment in joint venture	72,271			72,271
Other long-term assets			52	52
<b>Total assets</b>	<b>76,646</b>	<b>33,204</b>	<b>54,628</b>	<b>164,478</b>
<b>Liabilities:</b>				
Current liabilities	1,079	2,700	4,655	8,434
Deferred taxes	1,000	2,298	3,620	6,918
Other long-term liabilities			20	20
<b>Total liabilities</b>	<b>2,079</b>	<b>4,998</b>	<b>8,295</b>	<b>15,372</b>
Purchase price	\$ 74,567	\$ 28,206	\$ 46,333	\$ 149,106

### 3. Commitments and Contingencies

We are a party to various legal proceedings that arise in the ordinary course of business. In the opinion of management, none of these actions, either individually or in the aggregate, is expected to have a material adverse affect on our financial condition, liquidity or results of operations.

4. Other Comprehensive Income



**Our comprehensive income for the three and six months ended May 31, 2008 and 2007 was as follows:**

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008	2007	2008	2007
	(In thousands)			
Net income	\$ 23,258	\$ 18,582	\$ 44,689	\$ 36,959
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,571)	6,346	(5,710)	3,779
Total other comprehensive income, net of tax	\$ 21,687	\$ 24,928	\$ 38,979	\$ 40,738

## 5. Stock-Based Compensation

On May 31, 2008, we had one share based compensation plan: the Amended and Restated IHS Inc. 2004 Long-Term Incentive Plan (LTIP). The LTIP provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares, cash-based awards, other stock based awards and covered employee annual incentive awards. The 2004 Directors Stock Plan, a sub-plan under the LTIP, provides for the grant of restricted stock and restricted stock units to non-employee directors as defined in that plan. We believe that such awards better align the interests of our employees and non-employee directors with those of our shareholders.

We have authorized a maximum of 11,250,000 shares, less the number of shares relating to any award granted and outstanding.

Stock-based compensation expense that has been charged against income for the plan was as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008	2007	2008	2007
	(In thousands)			
Cost of revenue	\$ 376	\$ 105	\$ 687	\$ 456
Selling, general and administrative	10,001	5,940	22,391	12,925
Stock-based compensation expense	\$ 10,377	\$ 6,045	\$ 23,078	\$ 13,381

Total income tax benefit recognized in the income statement for share-based compensation arrangements for the three and six months ended May 31 was as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008	2007	2008	2007
	(In thousands)			
Income tax benefit	\$ 3,840	\$ 2,237	\$ 8,539	\$ 4,951

No compensation cost was capitalized during the six months ended May 31, 2008 and 2007.

*Nonvested Stock.* Share awards generally vest from one to four years. Share awards are generally subject to graded vesting but we do have a limited number of share awards subject to cliff vesting. The fair value of nonvested stock is based on the fair value of our common stock on the date of grant. We amortize the value of share awards to expense



over the vesting period on a straight-line basis. For awards with performance conditions, an evaluation is made each quarter as to the likelihood of the performance criteria being met. Compensation expense is then adjusted to reflect the

Edgar Filing: IHS Inc. - Form 10-Q

number of shares expected to vest and the cumulative vesting period met to date. Additionally, we estimate forfeitures at the grant date and recognize compensation cost based on the number of awards expected to vest. There may be adjustments in future periods if the likelihood of meeting performance criteria changes or if actual forfeitures differ from our estimates. Our forfeiture rate is based upon historical experience as well as anticipated employee turnover considering certain qualitative factors.

Total compensation expense related to nonvested awards, both share awards and stock options, not yet recognized was \$76.9 million as of May 31, 2008, with a weighted-average recognition period of approximately 2 years.

A summary of the status of our nonvested shares as of May 31, 2008, and changes during the six months ended May 31, 2008, was as follows:

	Shares (in thousands)	Weighted- Average Grant Date Fair Value
Balances, November 30, 2007	2,429	\$ 32.16
Granted	785	\$ 62.03
Vested	(593)	\$ 25.66
Forfeited	(72)	\$ 44.83
Balances, May 31, 2008	2,549	\$ 42.53

The total fair value of nonvested stock that vested during the three and six months ended May 31, 2008, was \$0.6 million and \$37.7 million, respectively based on the fair value on the vesting date and \$0.3 million and \$15.2 million, respectively based on the fair value on the date of grant.

*Stock Options.* Option awards are granted with an exercise price equal to the fair market value of our stock at the date of grant. Options outstanding as of May 31, 2008, vest in various ways over a period of 3-to-4 years of continuous service and have 8-year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the plans).

The following table summarizes changes in outstanding stock options during the six months ended May 31, 2008, as well as options that are vested and expected to vest and stock options exercisable at May 31, 2008:

	Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at November 30, 2007	287	\$ 35.31	2.0	\$ 10,009
Granted				
Exercised	(9)	37.65		
Forfeited				
Outstanding at May 31, 2008	278	\$ 35.21	1.5	\$ 6,777

Edgar Filing: IHS Inc. - Form 10-Q

Vested and expected to vest at May 31, 2008	278	\$	35.21	1.5	\$	6,777
Exercisable at May 31, 2008	54	\$	37.65		\$	1,181

The aggregate intrinsic value amounts in the table above represent the difference between the closing price of our common stock on May 31, 2008, which was \$59.56, and the exercise price, multiplied by the number of in-the-money stock options as of the same date. This represents the amount that would have been received by the stock option holders if they had all exercised their stock options on May 31, 2008. In future periods, this amount will change depending on fluctuations in our stock price. The total intrinsic value of stock options exercised during the three and six months ended May 31, 2008 was \$0.2 million and \$0.3 million, respectively.

## 6. Debt

On September 7, 2007, we entered into an amended and restated credit agreement (Revolver). The \$385 million unsecured Revolver allows us, under certain conditions, to increase the facility to a maximum of \$500 million. The agreement expires in September 2012.

The interest rates for borrowing under the Revolver are based upon our Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to rolling four quarter Consolidated Earnings Before Interest Expense, Taxes, Depreciation and Amortization (EBITDA), as defined in the Revolver. The rate ranges from the applicable LIBOR plus 50 basis points to 125 basis points or the agent bank's base rate. A commitment fee is payable periodically and ranges from 10 to 25 basis points based upon our Leverage Ratio. The Revolver contains certain financial and other covenants, including limitations on capital lease obligations and maximum Leverage and Interest Coverage Ratios, as defined in the Revolver.

As of May 31, 2008, we were in compliance with all of the covenants in the agreement. We had letters of credit totaling approximately \$1.0 million as of May 31, 2008. On March 3, 2008, we borrowed \$50.0 million under the Revolver at an annual rate of 3.6% to fund acquisitions, of which \$10.0 million was outstanding as of May 31, 2008. The use of the Revolver allows us to maintain cash levels to fund the ongoing operational needs of the business and has tax benefits as we may not have to repatriate cash from foreign locations to fund the acquisitions.

As of May 31, 2008, we also had \$21.2 million of non-interest bearing notes that were issued to the sellers of Prime. After discounting these notes assuming an annual interest rate at 5.69%, the recorded balance at May 31, 2008 is \$18.5 million. These notes are due upon demand and are therefore recorded in Short-term Debt in the accompanying Consolidated Balance Sheets.

## 7. Pensions and Postretirement Benefits

We have defined-benefit plans and defined-contribution plans. Our defined-benefit plans consist of a non-contributory retirement plan for all of our U.S. employees with at least one year of service (U.S. RIP), a pension plan that covers certain employees of one of our United Kingdom-based subsidiaries (U.K. RIP), and a supplemental income plan (SIP) for certain company executives.

Our net periodic pension (income) expense was comprised of the following:

	Three Months Ended May 31, 2008				Three Months Ended May 31, 2007			
	U.S. RIP	U.K. RIP	SIP	Total	U.S. RIP	U.K. RIP	SIP	Total
	(In thousands)							
Service costs incurred	\$ 1,572	\$ 238	\$ 72	\$ 1,882	\$ 1,569	\$ 288	\$ 48	\$ 1,905
Interest costs on projected benefit obligation	2,999	539	114	3,652	2,720	499	82	3,301
Expected return on plan assets	(5,361)	(562)		(5,923)	(5,078)	(451)		(5,529)
Amortization of prior service cost	(118)		11	(107)	(119)			(119)
Amortization of actuarial loss			47	47	375	302	30	707

Edgar Filing: IHS Inc. - Form 10-Q

Amortization of transitional obligation/(asset)	(142)		10	(132)	(142)		10	(132)
Net periodic pension benefit (income) expense	\$ (1,050)	\$ 215	\$ 254	\$ (581)	\$ (675)	\$ 638	\$ 170	\$ 133

Edgar Filing: IHS Inc. - Form 10-Q

	Six Months Ended May 31, 2008				Six Months Ended May 31, 2007			
	U.S. RIP	U.K. RIP	SIP	Total	U.S. RIP	U.K. RIP	SIP	Total
	(In thousands)							
Service costs incurred	\$ 3,144	\$ 476	\$ 144	\$ 3,764	\$ 3,138	\$ 574	\$ 96	\$ 3,808
Interest costs on projected benefit obligation	5,998	1,078	228	7,304	5,440	1,039	186	6,665
Expected return on plan assets	(10,729)	(1,124)		(11,853)	(10,156)	(898)		(11,054)
Amortization of prior service cost	(236)		22	(214)	(237)		22	(215)
Amortization of actuarial loss			94	94	750	602	60	1,412
Amortization of transitional obligation/(asset)	(284)		20	(264)	(284)		20	(264)
Net periodic pension benefit (income) expense	\$ (2,107)	\$ 430	\$ 508	\$ (1,169)	\$ (1,349)	\$ 1,317	\$ 384	\$ 352

Our net periodic post-retirement income was comprised of the following for the three and six months ended May 31:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008	2007	2008	2007
	(In thousands)			
Service costs incurred	\$ 25	\$ 34	\$ 50	\$ 68
Interest costs	158	148	316	296
Amortization of prior service amounts	(806)	(807)	(1,612)	(1,614)
Amortization of net actuarial loss	118	138	236	276
Net periodic post-retirement benefit income	\$ (505)	\$ (487)	\$ (1,010)	\$ (974)

8. Earnings per Share

## Edgar Filing: IHS Inc. - Form 10-Q

Earnings per common share (EPS) are computed in accordance with SFAS No. 128, *Earnings per Share*. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common shares.

Our authorized capital stock consists of 80,000,000 shares of Class A common stock and 13,750,000 shares of Class B common stock. These classes have equal dividend rights and liquidation rights. However, the holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share on all matters to be voted upon by the stockholders. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock and will automatically convert, without any action by the holder, upon the earlier of the occurrence of specified events or November 16, 2009.

We use the two-class method for computing basic and diluted EPS amounts. We calculated undistributed earnings as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008	2007	2008	2007
	(In thousands)			
Net income	\$ 23,258	\$ 18,582	\$ 44,689	\$ 36,959
Less: dividends				
Undistributed earnings	\$ 23,258	\$ 18,582	\$ 44,689	\$ 36,959

Weighted average common shares outstanding are calculated as follows:

	2008		Three Months Ended May 31, 2007	
	Class A	Class B	Class A	Class B
(In thousands)				
<b>Weighted average common shares outstanding:</b>				
Shares used in basic per-share calculation	48,471	13,750	43,626	13,750
<b>Effect of dilutive securities:</b>				
Deferred stock units	42		18	
Restricted shares	752		876	
Options	71		11	
Assumed conversion of Class B shares	13,750		13,750	
Shares used in diluted per-share calculation	63,086	13,750	58,281	13,750

	2008		Six Months Ended May 31, 2007	
	Class A	Class B	Class A	Class B
(In thousands)				
<b>Weighted average common shares outstanding:</b>				
Shares used in basic per-share calculation	48,347	13,750	43,733	13,750
<b>Effect of dilutive securities:</b>				
Deferred stock units	40		18	
Restricted shares	839		826	
Options	69		1	
Assumed conversion of Class B shares	13,750		13,750	
Shares used in diluted per-share calculation	63,045	13,750	58,328	13,750

Undistributed earnings and calculated basic and diluted EPS amounts are calculated as follows:

	2008		Three Months Ended May 31, 2007	
	Class A	Class B	Class A	Class B
(In thousands)				
<b>Basic</b>				
Weighted average shares outstanding	48,471	13,750	43,626	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	62,221	62,221	57,376	57,376
Multiplied by: Undistributed earnings	\$ 23,258	\$ 23,258	\$ 18,582	\$ 18,582
Subtotal	\$ 18,118	\$ 5,140	\$ 14,129	\$ 4,453
Divided by: Weighted average shares outstanding	48,471	13,750	43,626	13,750
Earnings per share	\$ 0.37	\$ 0.37	\$ 0.32	\$ 0.32
<b>Diluted</b>				
Weighted average shares outstanding	63,086	13,750	58,281	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	63,086	63,086	58,281	58,281
Multiplied by: Undistributed earnings	\$ 23,258	\$ 23,258	\$ 18,582	\$ 18,582
Subtotal	\$ 23,258	\$ 5,069	\$ 18,582	\$ 4,384
Divided by: Weighted average shares outstanding	63,086	13,750	58,281	13,750
Earnings per share	\$ 0.37	\$ 0.37	\$ 0.32	\$ 0.32



	Six Months Ended May 31,			
	2008		2007	
	Class A	Class B	Class A	Class B
	(In thousands)			
<b>Basic</b>				
Weighted average shares outstanding	48,347	13,750	43,733	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	62,097	62,097	57,483	57,483
Multiplied by: Undistributed earnings	\$ 44,689	\$ 44,689	\$ 36,959	\$ 36,959
Subtotal	\$ 34,794	\$ 9,895	\$ 28,118	\$ 8,841
Divided by: Weighted average shares outstanding	48,347	13,750	43,733	13,750
Earnings per share	\$ 0.72	\$ 0.72	\$ 0.64	\$ 0.64
<b>Diluted</b>				
Weighted average shares outstanding	63,045	13,750	58,328	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	63,045	63,045	58,328	58,328
Multiplied by: Undistributed earnings	\$ 44,689	\$ 44,689	\$ 36,959	\$ 36,959
Subtotal	\$ 44,689	\$ 9,747	\$ 36,959	\$ 8,712
Divided by: Weighted average shares outstanding	63,045	13,750	58,328	13,750
Earnings per share	\$ 0.71	\$ 0.71	\$ 0.63	\$ 0.63

#### *Share Repurchase Program*

During 2006, our board of directors approved a program to reduce the dilutive effects of employee equity grants, by allowing employees to surrender shares back to the company for a value equal to their statutory tax liability. IHS then pays the statutory tax on behalf of the employee. Later in 2006, our board of directors approved an additional program a stock buyback program whereby IHS may acquire up to one million shares per year in the open market to more fully offset the dilutive effect of our employee equity programs. This program was renewed by the board of directors in late 2007 for fiscal year 2008. During the three months ended May 31, 2008, we repurchased 27,700 shares of our Class A common stock for approximately \$1.7 million, or \$60.00 per share, pursuant to the stock buyback program and 2,430 shares for approximately \$0.2 million, or \$63.09 per share, related to shares withheld for taxes. During the six months ended May 31, 2008, we repurchased 94,200 shares of our Class A common stock for approximately \$5.5 million, or \$58.88 per share, pursuant to the stock buyback program and 210,256 shares for approximately \$13.1 million, or \$62.39 per share, related to shares withheld for taxes. Since the inception of these programs, we have repurchased 784,162 shares of our Class A common stock for approximately \$34.7 million, or \$44.29 per share, pursuant to the stock buyback program and 593,069 shares for approximately \$30.0 million, or \$50.56 per share, related to shares withheld for taxes.

**9. Goodwill and Intangible Assets**



## Edgar Filing: IHS Inc. - Form 10-Q

The following table presents details of our intangible assets, other than goodwill, as of May 31, 2008:

	Useful Life (Years)	Gross	Accumulated Amortization (In thousands)	Net
<b>Intangible assets subject to amortization:</b>				
Information databases	5-15	\$ 152,456	\$ (23,264)	\$ 129,192
Customer relationships	2-15	49,379	(10,370)	39,009
Non-compete agreements	5	5,935	(3,523)	2,412
Developed computer software	5	15,556	(3,436)	12,120
Other	3-11	6,064	(1,590)	4,474
<b>Total</b>		<b>229,390</b>	<b>(42,183)</b>	<b>187,207</b>
<b>Intangible assets not subject to amortization:</b>				
Trademarks		34,602		34,602
Perpetual licenses		1,483		1,483
<b>Total</b>		<b>36,085</b>		<b>36,085</b>
<b>Total intangible assets</b>		<b>\$ 265,475</b>	<b>\$ (42,183)</b>	<b>\$ 223,292</b>

The following table presents details of our intangible assets, other than goodwill, as of November 30, 2007:

	Useful Life (Years)	Gross	Accumulated Amortization (In thousands)	Net
<b>Intangible assets subject to amortization:</b>				
Information databases	5-15	\$ 137,317	\$ (14,926)	\$ 122,391
Customer relationships	2-15	45,650	(7,981)	37,669
Non-compete agreements	5	5,514	(2,889)	2,625
Developed computer software	5	15,036	(2,527)	12,509
Other	3-11	1,009	(984)	25
<b>Total</b>		<b>204,526</b>	<b>(29,307)</b>	<b>175,219</b>
<b>Intangible assets not subject to amortization:</b>				
Trademarks		29,602		29,602
Perpetual licenses		1,538		1,538
<b>Total</b>		<b>31,140</b>		<b>31,140</b>
<b>Total intangible assets</b>		<b>\$ 235,666</b>	<b>\$ (29,307)</b>	<b>\$ 206,359</b>

The estimated amortization expense of intangible assets for business combinations completed as of May 31, 2008 for each of the next five years is as follows:

Year	Amount (In thousands)
Remainder 2008	\$ 12,208
2009	21,815
2010	19,490
2011	18,336
2012	16,947

Amortization expense of intangible assets was \$6.3 million and \$3.2 million for the three months ended May 31, 2008 and May 31, 2007, respectively. Amortization expense of intangible assets was \$12.0 million and \$5.9 million for the six months ended May 31, 2008 and May 31, 2007, respectively.



Changes in our goodwill from November 30, 2007 to May 31, 2008 were primarily the result of the Prime, McCloskey, ESP, Dolphin and JFA acquisitions (see Note 2) and foreign-currency exchange-rate fluctuations.

**10. Segment Information**



## Edgar Filing: IHS Inc. - Form 10-Q

We have two reportable segments: Energy and Engineering. Our Energy segment serves the Energy information domain where it develops and delivers critical oil and gas industry data on exploration, development, production, and transportation activities to major global energy producers and national and independent oil companies. Our Energy segment also provides operational, research, and strategic advisory services to these customers, as well as to utilities and transportation, petrochemical, coal, and power companies. Our Engineering segment is focused primarily on the Product Lifecycle, Security, and Environment information domains where it provides solutions incorporating technical specifications and standards, regulations, parts data, design guides, security, environmental, and other information to customers in its targeted industries. Both segments primarily derive their revenue from subscriptions. As the information that our customers need to address their complex business issues continues to converge at the intersection of the information domains that we serve, we are evolving our management structure to a geographic focus, the point of contact with our customers. As a result, our defined operating segments will change to a geographic structure during the third quarter of 2008.

Information as to the operations of our two segments is set forth below based on the nature of the offerings. Our Chairman and Chief Executive Officer represents our chief operating decision maker, and he evaluates segment performance based primarily on revenue and operating profit. The accounting policies of our segments are the same as those described in the summary of significant accounting policies (see Note 2 to our consolidated financial statements included in our 2007 Form 10-K). As our management structure changes to a geographic focus in the third quarter of 2008, we are modifying our internal reporting to a geographic focus and our chief operating decision maker will use this information to evaluate performance.

No single customer accounted for 10% or more of our total revenue for the three or six months ended May 31, 2008. There are no material inter-segment revenues for any period presented.

As shown below, certain corporate transactions are not allocated to the reportable segments. Amounts not allocated include, but are not limited to, such items as, stock-based compensation expense, net periodic pension and post-retirement benefits income, corporate-level impairments, and gain (loss) on sales of corporate assets.

	Energy	Engineering	Shared Services	Consolidated Total
	(In thousands)			
<b>Three Months Ended May 31, 2008</b>				
Revenue	\$ 109,648	\$ 97,545	\$	\$ 207,193
Segment operating income	38,753	17,209	(23,146)	32,816
Depreciation and amortization	4,313	4,541	829	9,683
<b>Three Months Ended May 31, 2007</b>				
Revenue	\$ 88,828	\$ 66,072	\$	\$ 154,900
Segment operating income	28,873	11,825	(14,813)	25,885
Depreciation and amortization	2,917	1,407	597	4,921
	Energy	Engineering	Shared Services	Consolidated Total
	(In thousands)			
<b>Six Months Ended May 31, 2008</b>				
Revenue	\$ 219,947	\$ 186,023	\$	\$ 405,970
Segment operating income	77,905	32,201	(46,357)	63,749
Depreciation and amortization	8,371	8,667	1,468	18,506
<b>Six Months Ended May 31, 2007</b>				
Revenue	\$ 175,574	\$ 131,947	\$	\$ 307,521
Segment operating income	55,918	24,810	(28,959)	51,769
Depreciation and amortization	5,595	2,812	1,094	9,501







**Item 2.** Management's Discussion and Analysis of Financial Condition and Results of Operations



## Forward-Looking Statements

This discussion contains statements that relate to IHS's future plans, objectives, expectations, performance, events and the like that may constitute forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Words such as may, could, should, would, believe, expect, anticipate, estimate, intend, seeks, plan, project, continue, predict and other words or expressions of similar meaning are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements are based on our current expectations about future events or results and information that is currently available to us, involve assumptions, risks and uncertainties, and speak only as of the date on which such statements are made. Our actual results may differ materially from those expressed or implied in these forward-looking statements. Those factors include, but are not limited to, our ability to obtain content from third parties (including Standards Development Organizations) on commercially reasonable terms, changes in demand for IHS's products and services, changes in the energy industry, our ability to develop new products and services, pricing and other competitive pressures, risks associated with the integration of acquisitions, changes in laws and regulations governing our business and certain other factors discussed under the caption Risk Factors in the MD&A section of our 2007 Form 10-K, and in our other filings with the SEC. IHS undertakes no duty to update, whether as a result of new information, future events or otherwise, unless required by law.

## Overview

## Results of Operations

IHS Inc. is a publicly traded Delaware corporation. IHS is a leading provider and comprehensive source of Critical Information and Insight in a sizable and growing global market. Our customers rely on our products and services to facilitate crucial decision-making, support key processes, and improve productivity. At the heart of our products and services is data obtained from public sources, third parties, and our own proprietary databases. We transform that data into Critical Information and Insight that is both useful to our customers and available where and when they make critical business decisions. The data becomes Critical Information when we combine it with our proprietary and third-party technology to create graphical user interfaces, search and navigation tools, and online delivery systems. We further transform that information into Insight products and services with analysis and interpretation from our teams of experts.

We sell our offerings primarily through subscriptions. As a result of our subscription-based business model and historically high renewal rates, we generate recurring revenue and cash flow. We generally recognize revenue from subscriptions (which are usually for one-year periods) ratably over the term of the subscription. Historically, our business has had seasonal aspects. However, with the continued organic growth in our subscription-based business model combined with several acquisitions in recent years, our seasonal aspects have diminished. Our first quarter does benefit from the inclusion of the results from CERAWEEK, an annual energy executive gathering. Subscriptions are generally paid in full within one to two months after the subscription period commences. As a result, the timing of our cash flows generally precedes the recognition of revenue and income.

We serve some of the world's largest corporations across multiple industries, as well as governments and other organizations, in more than 100 countries. We generate approximately half of our total revenue from outside the United States. Our primary operations outside the United States are in the United Kingdom, Canada and Switzerland. Our operating profit outside the United States has historically exceeded our domestic operating profit. We manage our business through our Energy and Engineering operating segments.

We have targeted four specific information domains: Energy, Product Lifecycle, Security, and Environment. Since these four information domains represent areas where our customers have needs for critical information and insight, we use these domains to set priorities and design our business strategies. As we continue to deliver Critical



## Edgar Filing: IHS Inc. - Form 10-Q

Information and Insight in those four information domains, we prepare and analyze our financial reports to include our two reportable segments. As the information that our customers need to address their complex business issues continues to converge at the intersection of the information domains that we serve, we are evolving our management structure to a geographic focus, the point of contact with our customers. As a result of this transformation, our defined operating segments will change to geographic segments during the third quarter of 2008.

Inherent in all of our strategies is a firm commitment to put our customers first in everything that we do. We believe that maintaining a disciplined outside-in approach will allow us to better serve our customers and our shareholders. Our primary strategy is to achieve and strengthen a leading position in and at the intersection of our targeted information domains. We also intend to continue driving margin and quality improvement through operational transformation. And finally, we intend to enhance the effectiveness of our other strategies with a continued emphasis on acquisitions.

To support these strategies, we have several on-going cross-functional projects led by members of the senior leadership team. Our operational transformation is an evolution, one which started over three years ago and will continue for a few years to come. We have not designed these initiatives as purely cost-cutting events. Rather, they are multi-faceted endeavors designed to simultaneously improve the quality of our offerings while optimizing the efficiency and effectiveness of the processes involved.

Our current initiatives are designed to focus on three key areas: our customers, financial model and operational improvements. One of the key initiatives is our data accumulation process improvement initiative which includes combining our data accumulation operations into a shared service to enhance our ability to work across all geographies. In addition, we have partnered with a third party to focus on quality and process improvement within our data accumulation function. As a result of this initiative, it is expected that some existing roles will be eliminated. At this time, we are still evaluating work functions and implications to individual roles and colleagues so we do not yet know how many positions will be affected. It is important to note that any individual whose job is affected by the changes, and who is not offered another position within IHS, they will be offered a severance package along with outplacement assistance.

### Segment Information

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008	2007	2008	2007
	(In thousands)			
Energy revenue	\$ 109,648	\$ 88,828	\$ 219,947	\$ 175,574
Engineering revenue	97,545	66,072	186,023	131,947
Total consolidated revenue	\$ 207,193	\$ 154,900	\$ 405,970	\$ 307,521
Energy operating income	\$ 38,753	\$ 28,873	\$ 77,905	\$ 55,918
Engineering operating income	17,209	11,825	32,201	24,810
Shared services expenses	(23,146)	(14,813)	(46,357)	(28,959)
Consolidated operating income	\$ 32,816	\$ 25,885	\$ 63,749	\$ 51,769

### Three Months Ended May 31, 2008 Compared to the Three Months Ended May 31, 2007

**Revenue.** Revenue was \$207.2 million for the three months ended May 31, 2008, compared to \$154.9 million for the three months ended May 31, 2007, an increase of \$52.3 million or 34%. The increase in revenue was driven in part by acquisitions which contributed \$36.0 million and organic growth which contributed \$13.3 million. The impact of

foreign currency added \$3.0 million.

Revenue for our Energy segment was \$109.6 million for the three months ended May 31, 2008, compared to \$88.8 million for the three months ended May 31, 2007, an increase of \$20.8 million or 23%. The increase in revenue was driven in part by acquisitions which contributed \$10.6 million and organic growth which contributed \$8.5 million. Favorable foreign currency rates added



\$1.8 million. Organic growth during the second quarter of 2008 was driven by price increases and growth in certain critical information subscription products.

Revenue for our Engineering segment was \$97.5 million for the three months ended May 31, 2008, compared to \$66.1 million for the three months ended May 31, 2007, an increase of \$31.4 million or 48%. The increase in revenue was driven in part by acquisitions which contributed \$25.4 million and in part by organic growth which contributed \$4.8 million. Favorable foreign currency rates added \$1.3 million. Organic growth was driven primarily by increased sales in our specifications-and-standards offerings in 2008.

**Cost of Revenue.** Cost of revenue was \$93.2 million for the three months ended May 31, 2008, compared to \$67.8 million for the three months ended May 31, 2007, an increase of \$25.4 million or 38%. As a percentage of revenue, cost of revenue increased to 45.0% from 43.7%. Margins as a percentage of revenue within our Energy segment remained relatively flat with increases in our critical information margin being offset by lower consulting related margins and the near-term impact of recent acquisitions. Margins as a percentage of revenue within our Engineering segment decreased slightly, principally due to a shift in product mix.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (SG&A) were \$72.9 million for the three months ended May 31, 2008, compared to \$56.6 million for the three months ended May 31, 2007, an increase of \$16.3 million or 29%. Stock-based compensation expense included in SG&A increased \$4.1 million. As a percentage of revenue and excluding stock-based compensation expense, SG&A was 30.4% for the three months ended May 31, 2008, down from 32.7% for the three months ended May 31, 2007. Organic SG&A increased by \$2.3 million as we incurred costs related to our quote-to-cash system implementation and we have been able to maintain lower organic SG&A growth elsewhere by leveraging the cost base in back-office functions. Acquisitions contributed \$9.4 million of the increase. Foreign-currency movements also increased SG&A by \$0.6 million.

**Depreciation and Amortization Expenses.** Depreciation and amortization expenses were \$9.7 million for the three months ended May 31, 2008, compared to \$4.9 million for the three months ended May 31, 2007, an increase of \$4.8 million or 97%. The increase was primarily due to acquisitions.

**Operating Income.** Operating income was \$32.8 million for the three months ended May 31, 2008, compared to \$25.9 million for the three months ended May 31, 2007, an increase of \$6.9 million or 27%. As a percentage of revenue, operating income decreased to 15.8% for the three months ended May 31, 2008 from 16.7% for the three months ended May 31, 2007.

Operating income for our Energy segment was \$38.8 million for the three months ended May 31, 2008, compared to \$28.9 million for the three months ended May 31, 2007, an increase of \$9.9 million or 34%. The increase was principally due to the additional revenue discussed above coupled with our ability to leverage a relatively fixed-cost structure. As a percentage of revenue, Energy operating income increased to 35.3% for the three months ended May 31, 2008 from 32.5% for the three months ended May 31, 2007.

Operating income for our Engineering segment was \$17.2 million for the three months ended May 31, 2008, compared to \$11.8 million for the three months ended May 31, 2007, an increase of \$5.4 million or 46%. Operating income increased due to increased sales in our subscriptions-based businesses along with cost containment in the second quarter of 2008.

Operating expenses for our shared services were \$23.1 million for the three months ended May 31, 2008, compared to \$14.8 million for the three months ended May 31, 2007, an increase of \$8.3 million or 56%. The increase in costs are principally due to higher stock-based compensation as well as our quote-to-cash system implementation and our ongoing transformational initiatives.

**Provision for Income Taxes.** Our effective tax rate for the three months ended May 31, 2008 was 31.9%, compared to 32.4% for the three months ended May 31, 2007. The 2008 rate reflects the impact from net reductions in unrecognized tax benefits principally from the successful completion of a recent Canadian tax audit, as well as net benefits from changes to certain estimates.

**Six Months Ended May 31, 2008 Compared to the Six Months Ended May 31, 2007**

**Revenue.** Revenue was \$406.0 million for the six months ended May 31, 2008, compared to \$307.5 million for the six months ended May 31, 2007, an increase of \$98.5 million or 32%. This increase was driven in part by acquisitions which contributed \$64.4 million and organic growth which contributed \$27.3 million. The impact of foreign currency added \$6.8 million.

Revenue for our Energy segment was \$219.9 million for the six months ended May 31, 2008, compared to \$175.6 million for the six months ended May 31, 2007, an increase of \$44.4 million or 25%. This increase was driven in part by organic revenue growth of \$21.4 million and acquisitions which contributed \$18.9 million. Favorable foreign currency rates added \$4.1 million of revenue growth. Organic growth during the first half of 2008 was driven by price increases and growth in certain critical information subscription products.

Revenue for our Engineering segment was \$186.0 million for the six months ended May 31, 2008, compared to \$131.9 million for the six months ended May 31, 2007, an increase of \$54.1 million or 41%. This increase was driven in part by acquisitions which contributed by \$45.5 million and organic growth which contributed \$5.9 million. Favorable foreign currency rates contributed \$2.7 million of revenue growth. Organic growth was driven primarily by increased sales in our specifications-and-standards offerings in 2008.

**Cost of Revenue.** Cost of revenue was \$182.3 million for the six months ended May 31, 2008, compared to \$133.5 million for the six months ended May 31, 2007, an increase of \$48.8 million or 37%. As a percentage of revenue, cost of revenue increased to 44.9% from 43.4%. Margins as a percentage of revenue within our Energy segment remained relatively flat with increases in our critical information margin being offset by lower consulting related margins. Margins as a percentage of revenue within our Engineering segment decreased slightly, principally due to a shift in product mix.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (SG&A) were \$144.8 million for the six months ended May 31, 2008, compared to \$114.5 million for the six months ended May 31, 2007, an increase of \$30.3 million or 26%. Stock-based compensation expense increased \$9.5 million. As a percentage of revenue and excluding stock-based compensation expense, SG&A was 30.2% for the six months ended May 31, 2008, down from 33.0% for the six months ended May 31, 2007. Organic SG&A increased at \$2.8 million as we incurred costs related to our quote-to-cash system implementation and we have been able to maintain lower organic SG&A growth by leveraging the cost base in back-office functions. Acquisitions contributed \$16.7 million of the increase. Foreign-currency movements also increased SG&A by \$1.4 million.

**Depreciation and Amortization Expenses.** Depreciation and amortization expenses were \$18.5 million for the six months ended May 31, 2008, compared to \$9.5 million for the six months ended May 31, 2007, an increase of \$9.0 million or 95%. The increase was primarily due to acquisitions.

**Operating Income.** Operating income was \$63.7 million for the six months ended May 31, 2008, compared to \$51.8 million for the six months ended May 31, 2007, an increase of \$11.9 million or 23%. As a percentage of revenue, operating income decreased to 15.7% for the six months ended May 31, 2008 from 16.8% for the six months ended May 31, 2007.

Operating income for our Energy segment was \$77.9 million for the six months ended May 31, 2008, compared to \$55.9 million for the six months ended May 31, 2007, an increase of \$22.0 million or 39%. The increase was principally due to the additional revenue discussed above coupled with our ability to leverage a relatively fixed-cost structure. As a percentage of revenue, Energy operating income increased to 35.4% for the six months ended May 31, 2008 from 31.8% for the six months ended May 31, 2007.

Operating income for our Engineering segment was \$32.2 million for the six months ended May 31, 2008, compared to \$24.8 million for the six months ended May 31, 2007, an increase of \$7.4 million or 30%. Operating income increased due to increased sales in our subscriptions-based businesses along with operating expense containment in the first half of 2008. As a percentage of revenue, Engineering operating income decreased to 17.3% for the six months ended May 31, 2008 from 18.8% for the six months ended May 31, 2007. This decrease is principally due to the higher depreciation and amortization relating to recent acquisitions.

Operating expenses for our shared services were \$46.4 million for the six months ended May 31, 2008, compared to \$29.0 million for the six months ended May 31, 2007, an increase of \$17.4 million or 60%. Stock-based compensation increased \$9.7 million. The increase in costs are also due to our quote-to-cash system implementation and our ongoing transformational initiatives.

**Provision for Income Taxes.** Our effective tax rate for the six months ended May 31, 2008 was 32.5%, compared to 32.7% for the six months ended May 31, 2007. The 2008 rate reflects the impact from net reductions in unrecognized tax benefits principally from the successful completion of a recent Canadian tax audit, as well as net benefits from changes to certain estimates.

**Financial Condition**



**Accounts Receivable.** Accounts receivable has decreased by \$5.7 million, or 3%, to \$169.8 million compared to \$175.5 million as of November 30, 2007. The decrease is primarily attributable to seasonal declines partially offset by organic and acquisition related growth.





**Accrued Compensation.** Accrued compensation was \$19.1 million as of May 31, 2008, compared to \$37.0 million as of November 30, 2007, a decrease of \$17.9 million, or 48%. The decrease is primarily due to the disbursement of annual incentive bonuses during the first quarter of 2008.

**Deferred Revenue.** Deferred revenue was \$288.3 million as of May 31, 2008, compared to \$239.4 million as of November 30, 2007, an increase of \$49.0 million, or 20%. The increase is attributable to both organic and acquisition related growth.

**Liquidity and Capital Resources**



## Edgar Filing: IHS Inc. - Form 10-Q

As of May 31, 2008, we had cash and cash equivalents of \$105.4 million and \$28.5 million of short-term debt. We have generated strong cash flows from operations over the last few years. As a result of these factors, as well as the availability of funds under our credit facility, we believe we will have sufficient cash to meet our working capital and capital expenditure needs.

Our future capital requirements will depend on many factors, including the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, changing technology, and the continued market acceptance of our offerings. We could be required, or could elect, to seek additional funding through public or private equity or debt financing for any possible future acquisitions. Additional funds may not be available on terms acceptable to us or at all. We expect our capital expenditures, excluding potential acquisitions, to be less than \$15 million for 2008.

### *Cash Flows*



## Edgar Filing: IHS Inc. - Form 10-Q

Net cash provided by operating activities was approximately \$95.0 million for the six months ended May 31, 2008, compared to \$65.8 million for the six months ended May 31, 2007, an increase of \$29.2 million. The increase was principally due to the profitable growth year over year, primarily due to increased pricing, an expanding subscription base, increased sales and the positive impact of our acquisitions. Our subscription-based business model typically generates a high rate of cash flow and is aided by the following:

- Relatively low levels of required capital expenditures;
- Positive working capital characteristics that do not generally require substantial working capital increases to support our growth;
- A cash-for-tax rate that continues to trend lower than our effective tax rate; and
- Our well-capitalized balance sheet

## Edgar Filing: IHS Inc. - Form 10-Q

The positive cash flow impact of our growing business in the first half of 2008 was partially offset by the annual bonus payments, which are substantially paid in the first quarter each year and were approximately \$6.4 million higher in 2008 than in 2007.

Net cash used in investing activities was approximately \$128.2 million for the six months ended May 31, 2008, compared to \$17.3 million for the six months ended May 31, 2007. The change is driven primarily by acquisitions. In 2008, we disbursed \$130.9 million for the purchase of the assets of five businesses. In the first half of 2007, we disbursed approximately \$14.6 million for acquisitions.

Net cash used in financing activities was \$11.3 million for the six months ended May 31, 2008 compared to \$16.0 million during the six months ended May 31, 2007. In the second quarter of 2008, we borrowed \$50.0 million on our Revolver which was used to fund acquisitions. By May 31, 2008, the balance outstanding on the Revolver was down to \$10.0 million.

### *Share Repurchase Program*

During 2006, our board of directors approved a program to reduce the dilutive effects of employee equity grants, by allowing employees to surrender shares back to the company for a value equal to their statutory tax liability. IHS then pays the statutory tax on behalf of the employee. Later in 2006, our board of directors approved an additional program a stock buyback program whereby IHS may acquire up to one million shares per year in the open market to more fully offset the dilutive effect of our employee equity programs. This program was renewed by the board of directors in late 2007 for fiscal year 2008. During the three months ended May 31, 2008, we repurchased 27,700 shares of our Class A common stock for approximately \$1.7 million, or \$60.00 per share, pursuant to the stock buyback program and 2,430 shares for approximately \$0.2 million, or \$63.09 per share, related to shares withheld for taxes. During the six months ended May 31, 2008, we repurchased 94,200 shares of our Class A common stock for approximately \$5.5 million, or \$58.88 per share, pursuant to the stock buyback program and 210,256 shares for approximately \$13.1 million, or \$62.39 per share, related to shares withheld for taxes. Since the inception of these programs, we have repurchased 784,162 shares of our Class A common stock for approximately \$34.7 million, or \$44.29 per share, pursuant to the stock buyback program and 593,069 shares for approximately \$30.0 million, or \$50.56 per share, related to shares withheld for taxes.

### *Credit Facility*





## Edgar Filing: IHS Inc. - Form 10-Q

On September 7, 2007, we entered into an amended and restated credit agreement (Revolver). The \$385 million unsecured Revolver allows us, under certain conditions, to increase the facility to a maximum of \$500 million. The agreement expires in September 2012.

The interest rates for borrowing under the Revolver are based upon our Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to rolling four quarter Consolidated Earnings Before Interest Expense, Taxes, Depreciation and Amortization (EBITDA), as defined in the Revolver. The rate ranges from the applicable LIBOR plus 50 basis points to 125 basis points or the agent bank's base rate. A commitment fee is payable periodically and ranges from 10 to 25 basis points based upon our Leverage Ratio. The Revolver contains certain financial and other covenants, including limitations on capital lease obligations and maximum Leverage and Interest Coverage Ratios, as defined in the Revolver.

As of May 31, 2008, we were in compliance with all of the covenants in the agreement. We had letters of credit totaling approximately \$1.0 million as of May 31, 2008. On March 3, 2008, we borrowed \$50.0 million under the Revolver at an annual rate of 3.6% to fund acquisitions, of which \$10.0 million was outstanding as of May 31, 2008. The use of the Revolver allows us to maintain cash levels to fund the ongoing operational needs of the business and has tax benefits as we may not have to repatriate cash from foreign locations to fund the acquisitions.

### **Off-Balance Sheet Transactions**



We have no off-balance sheet transactions.

**Critical Accounting Policies**

Our management makes a number of significant estimates, assumptions and judgments in the preparation of our financial statements. See Management's Discussion and Analysis and Results of Operations Critical Accounting Policies and Estimates in our 2007 Form 10-K for a discussion of the estimates and judgments necessary in our accounting for revenue recognition, valuation of long-lived and intangible assets and goodwill, income taxes, pension and post-retirement benefits, and stock-based compensation.

**Item 3.** Quantitative and Qualitative Disclosure About Market Risk



## Edgar Filing: IHS Inc. - Form 10-Q

For information regarding our exposure to certain market risk, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2007 Form 10-K. There were no material changes to our market risk exposure during the first six months of 2008.

**Item 4.** Controls and Procedures





## Edgar Filing: IHS Inc. - Form 10-Q

*(a) Evaluation of disclosure controls and procedures.*

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion.

*(b) Changes in internal control over financial reporting.*

There were no changes in our internal control over financial reporting that occurred during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**



**Item 1.** Legal Proceedings



## Edgar Filing: IHS Inc. - Form 10-Q

From time to time, we are involved in litigation, most of which is incidental to our business. In our opinion, no litigation to which we currently are a party is likely to have a material adverse effect on our results of operations or financial condition.

### Item 1A. Risk Factors

There have been no material changes to the risk factors associated with the business previously disclosed in Part I, Item 1A of our 2007 Annual Report on Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Items 2(a) and (b) are inapplicable.

(c) The following table provides a month-to-month summary of the share repurchase activity under the current stock repurchase program during the six months ended May 31, 2008:

Period	Total Number of Shares Purchased	Average Fair Market Value per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
December 1 - December 31, 2007		\$		1,000,000
January 1 - January 31, 2008	66,300	\$ 58.41	66,300	933,700
February 1 - February 29, 2008	200	\$ 60.02	200	933,500
March 1 - March 31, 2008	27,700	\$ 60.00	27,700	905,800
April 1 - April 30, 2008				905,800
May 1 - May 31, 2008				905,800
<b>Total</b>	<b>94,200</b>	<b>\$ 58.88</b>	<b>94,200(1)</b>	<b>905,800(1)</b>

(1) During 2006, our board of directors authorized the repurchase of up to one million IHS shares of Class A common stock per year to more fully offset the dilutive effect of our employee equity programs. Repurchases will be made from time to time in the open market. This table does not include the surrender of common shares by employees to the company to cover taxes due by employees upon the vesting of employee-equity awards.

**Item 6. Exhibits**



Edgar Filing: IHS Inc. - Form 10-Q

(a) Index of Exhibits

The following exhibits are filed as part of this report:

<b>Exhibit Number</b>	<b>Description</b>
31.1*	Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act.
31.2*	Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act.
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

\* Filed electronically herewith.

**SIGNATURE**



Edgar Filing: IHS Inc. - Form 10-Q

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 24, 2008.

IHS INC.

By: /s/ Heather Matzke-Hamlin  
Name: Heather Matzke-Hamlin  
Title: Senior Vice President and Chief Accounting Officer