

IHS Inc.
Form 10-Q
March 26, 2012
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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

For the quarterly period ended February 29, 2012

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 001-32511

IHS INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

15 Inverness Way East
Englewood, CO 80112
(Address of Principal Executive Offices)
(303) 790-0600
(Registrant's telephone number, including area code)

13-3769440
(IRS Employer
Identification No.)

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 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 (Do not check if a smaller reporting company) Smaller Reporting Company

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

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As of February 29, 2012, there were 65,736,182 shares of our Class A Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

IHS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per-share amounts)

	As of February 29, 2012 (Unaudited)	As of November 30, 2011 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$296,586	\$234,685
Accounts receivable, net	354,259	326,009
Income tax receivable	41,193	25,194
Deferred subscription costs	51,874	43,136
Deferred income taxes	35,333	45,253
Other	27,931	23,801
Total current assets	807,176	698,078
Non-current assets:		
Property and equipment, net	135,384	128,418
Intangible assets, net	499,129	514,949
Goodwill, net	1,731,135	1,722,312
Prepaid pension asset	11,512	—
Other	8,941	9,280
Total non-current assets	2,386,101	2,374,959
Total assets	\$3,193,277	\$3,073,037
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	\$142,945	\$144,563
Accounts payable	33,916	32,428
Accrued compensation	31,668	57,516
Accrued royalties	32,183	26,178
Other accrued expenses	66,884	69,000
Deferred revenue	571,983	487,172
Total current liabilities	879,579	816,857
Long-term debt	725,811	658,911
Accrued pension liability	6,959	59,460
Accrued postretirement benefits	9,158	9,200
Deferred income taxes	122,882	123,895
Other liabilities	20,183	19,985
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$0.01 par value per share, 160,000,000 shares authorized, 67,621,367 and 67,527,344 shares issued, and 65,736,182 and 65,121,884 shares outstanding at February 29, 2012 and November 30, 2011, respectively	676	675
Additional paid-in capital	626,482	636,440
Treasury stock, at cost: 1,885,185 and 2,405,460 shares at February 29, 2012 and November 30, 2011, respectively	(112,132)	(133,803)

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Retained earnings	954,094	930,619	
Accumulated other comprehensive loss	(40,415) (49,202)
Total stockholders' equity	1,428,705	1,384,729	
Total liabilities and stockholders' equity	\$3,193,277	\$3,073,037	
See accompanying notes.			

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IHS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for per-share amounts)

	Three Months Ended	
	February 29, 2012	February 28, 2011
	(Unaudited)	
Revenue:		
Products	\$297,981	\$260,596
Services	44,762	32,547
Total revenue	342,743	293,143
Operating expenses:		
Cost of revenue:		
Products	124,822	108,040
Services	21,768	18,626
Total cost of revenue (includes stock-based compensation expense of \$1,317 and \$854 for the three months ended February 29, 2012 and February 28, 2011, respectively)	146,590	126,666
Selling, general and administrative (includes stock-based compensation expense of \$32,603 and \$21,244 for the three months ended February 29, 2012 and February 28, 2011, respectively)	125,176	101,772
Depreciation and amortization	26,301	18,201
Restructuring charges	7,485	—
Acquisition-related costs	867	3,306
Net periodic pension and postretirement expense	2,000	773
Other expense (income), net	(736)	) 505
Total operating expenses	307,683	251,223
Operating income	35,060	41,920
Interest income	172	185
Interest expense	(4,894)	) (1,662)
Non-operating expense, net	(4,722)	) (1,477)
Income from continuing operations before income taxes	30,338	40,443
Provision for income taxes	(6,863)	) (8,719)
Income from continuing operations	23,475	31,724
Income from discontinued operations, net	—	213
Net income	\$23,475	\$31,937
Basic earnings per share:		
Income from continuing operations	\$0.36	\$0.49
Income from discontinued operations, net	\$—	\$—
Net income	\$0.36	\$0.50
Weighted average shares used in computing basic earnings per share	65,515	64,485
Diluted earnings per share:		
Income from continuing operations	\$0.35	\$0.48
Income from discontinued operations, net	\$—	\$—
Net income	\$0.35	\$0.49
Weighted average shares used in computing diluted earnings per share	66,451	65,415

See accompanying notes.

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IHS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	February 29, 2012	February 28, 2011
	(Unaudited)	
Operating activities:		
Net income	\$23,475	\$31,937
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	26,301	18,201
Stock-based compensation expense	33,920	22,098
Excess tax benefit from stock-based compensation	(9,934)	(7,925)
Net periodic pension and postretirement expense	2,000	703
Pension and postretirement contributions	(65,883)	—
Deferred income taxes	8,566	8,606
Change in assets and liabilities:		
Accounts receivable, net	(30,220)	(30,683)
Other current assets	(13,214)	(13,971)
Accounts payable	4,290	4,327
Accrued expenses	(22,279)	(24,365)
Income tax payable	(6,024)	(10,045)
Deferred revenue	81,672	80,385
Other liabilities	313	—
Net cash provided by operating activities	32,983	79,268
Investing activities:		
Capital expenditures on property and equipment	(13,556)	(15,541)
Intangible assets acquired	—	(2,400)
Change in other assets	(242)	(547)
Settlements of forward contracts	(2,207)	(145)
Net cash used in investing activities	(16,005)	(18,633)
Financing activities:		
Proceeds from borrowings	85,000	320,000
Repayment of borrowings	(20,447)	(315,832)
Payment of debt issuance costs	—	(6,302)
Excess tax benefit from stock-based compensation	9,934	7,925
Proceeds from the exercise of employee stock options	—	1,504
Repurchases of common stock	(28,436)	(21,504)
Net cash provided by (used in) financing activities	46,051	(14,209)
Foreign exchange impact on cash balance	(1,128)	4,516
Net increase in cash and cash equivalents	61,901	50,942
Cash and cash equivalents at the beginning of the period	234,685	200,735
Cash and cash equivalents at the end of the period	\$296,586	\$251,677

See accompanying notes.

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IHS INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands)

	Shares of Class A Common Stock	Class A Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at November 30, 2011 (Audited)	65,122	\$675	\$636,440	\$(133,803)	\$930,619	\$(49,202)	\$1,384,729
Stock-based award activity	614	1	(19,892)	21,671	—	—	1,780
Excess tax benefit on vested shares	—	—	9,934	—	—	—	9,934
Net income	—	—	—	—	23,475	—	23,475
Other comprehensive income:							
Unrealized losses on hedging activities	—	—	—	—	—	(229)	(229)
Foreign currency translation adjustments	—	—	—	—	—	9,016	9,016
Comprehensive income, net of tax	—	—	—	—	—	—	32,262
Balance at February 29, 2012	65,736	\$676	\$626,482	\$(112,132)	\$954,094	\$(40,415)	\$1,428,705
See accompanying notes.							

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IHS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of IHS Inc. (IHS, we, our, or us) have been prepared on substantially the same basis as our annual consolidated financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended November 30, 2011. In our opinion, these condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented, and such adjustments are of a normal, recurring nature.

Our business has seasonal aspects. Our fourth quarter typically generates our highest quarterly levels of revenue and profit. Conversely, our first quarter generally has our lowest levels of revenue and profit. These trends have been further amplified by the product mix from recent acquisitions, which generate a larger proportion of their sales in the fourth quarter. We also have event-driven seasonality in our business; for instance, IHS CERAWEEK, an annual energy executive gathering, is held during our second quarter. Another example is the triennial release of the Boiler Pressure Vessel Code (BPVC) engineering standard, which generates revenue for us predominantly in the third quarter of every third year. The BPVC benefit most recently occurred in the third quarter of 2010.

Recent Accounting Pronouncements

In June 2011, the FASB issued guidance on the presentation of comprehensive income that will become effective for us in the first quarter of 2013. Under the new guidance, 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. This guidance does not change the components that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. We are evaluating our presentation options under this ASU; however, we do not expect these changes to impact the consolidated financial statements other than the change in presentation.

In September 2011, the FASB issued guidance on testing goodwill for impairment that will become effective for us in the first quarter of 2013; however, early adoption is permitted. Under the new guidance, 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 the entity determines that this threshold is not met, then performing the two-step impairment test is unnecessary. We are currently evaluating whether we will elect to use this new qualitative approach to impairment testing.

2. Commitments and Contingencies

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 expected to have a material adverse effect on our results of operations or financial condition.

3. Comprehensive Income

Our comprehensive income for the three months ended February 29, 2012 and February 28, 2011, was as follows:

Three Months Ended	
February 29, 2012	February 28, 2011

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	(In thousands)	
Net income	\$23,475	\$31,937
Other comprehensive income (loss):		
Unrealized losses on hedging activities	(229) —
Foreign currency translation adjustment	9,016	23,416
Total comprehensive income	\$32,262	\$55,353

4. Restructuring Charges

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In the fourth quarter of 2011, we recorded approximately \$0.5 million of restructuring charges for severance costs associated with the consolidation of positions in the EMEA segment to our recently established accounting and customer care Centers of Excellence locations.

In the first quarter of 2012, we recorded a \$7.5 million restructuring charge for direct and incremental costs associated with the consolidation of positions to our Centers of Excellence, the elimination of positions related to other identified operational efficiencies, and the consolidation of legacy data centers, including certain contract termination costs. It included the movement or elimination of approximately 100 positions. Approximately \$7.0 million of the charge was recorded in the Americas segment.

The following table provides a reconciliation of the restructuring liability as of February 29, 2012 (in thousands):

	Employee Severance and Other Termination Benefits	Contract Termination Costs	Other	Total
Balance at November 30, 2011	\$540	\$—	\$—	\$540
Add: Restructuring costs incurred	5,082	2,103	300	7,485
Less: Amounts paid	(2,947	) (406	) (116	) (3,469
Balance at February 29, 2012	\$2,675	\$1,697	\$184	\$4,556

As of February 29, 2012, approximately \$4.0 million of the remaining liability was in the Americas segment.

5. Acquisition-related Costs

During the year ended November 30, 2011, we incurred \$8.0 million in costs to complete acquisitions and to leverage synergies from recent business combinations. As a result of these activities, we eliminated approximately 40 positions and closed one of the acquired offices. The changes only affected the Americas and EMEA segments. The acquisition-related charges that we recorded consisted of direct and incremental costs associated with severance, outplacement, and other employee-related benefits; facility closure and other contract termination costs; and legal, investment banking, due diligence, and valuation service fees associated with the recent acquisitions.

During the three months ended February 29, 2012, we incurred approximately \$0.9 million of acquisition-related legal and professional fees, all within the Americas segment.

The following table provides a reconciliation of acquisition-related costs accrued liability as of February 29, 2012 (in thousands):

	Employee Severance and Other Termination Benefits	Contract Termination Costs	Other	Total
Balance at November 30, 2011	\$1,619	\$469	\$185	\$2,273
Add: Costs incurred	—	—	867	867
Less: Amounts paid	(1,465	) (469	) (277	) (2,211
Balance at February 29, 2012	\$154	\$—	\$775	\$929

As of February 29, 2012, the entire remaining \$0.9 million liability was in the Americas segment.

6. Discontinued Operations

During the fourth quarter of 2011, we discontinued operations of a small print-and-advertising business focused on a narrow, declining market. The abandonment of this business included certain intellectual property. We also discontinued a minor government-services business during that period.

Operating results of these discontinued operations for the three months ended February 29, 2012 and February 28, 2011, were as follows (in thousands):

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	Three Months Ended	
	February 29, 2012	February 28, 2011
Revenue	\$—	\$1,863
Income from discontinued operations before income taxes	—	350
Tax expense	—	(137)
Income from discontinued operations, net	\$—	\$213

7. Stock-based Compensation

Stock-based compensation expense for the three months ended February 29, 2012 and February 28, 2011, was as follows:

	Three Months Ended	
	February 29, 2012 (In thousands)	February 28, 2011
Cost of revenue	\$1,317	\$854
Selling, general and administrative	32,603	21,244
Total stock-based compensation expense	\$33,920	\$22,098

Total income tax benefits recognized for stock-based compensation arrangements were as follows (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Income tax benefits	\$12,082	\$7,787

No stock-based compensation cost was capitalized during the three months ended February 29, 2012 and February 28, 2011.

As of February 29, 2012, there was \$164.9 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock-based awards that will be recognized over a weighted average period of approximately 1.6 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Restricted Stock Units (RSUs). The following table summarizes RSU activity during the three months ended February 29, 2012.

	Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Balances, November 30, 2011	2,898	\$66.74
Granted	1,106	\$87.46
Vested	(929)	) \$59.19
Forfeited	(58)	) \$75.74
Balances, February 29, 2012	3,017	\$76.49

The total fair value of RSUs that vested during the three months ended February 29, 2012 was \$83.8 million based on the weighted-average fair value on the vesting date.

8. Income Taxes

Our effective tax rate is estimated based upon the effective tax rate expected to be applicable for the full fiscal year. Our effective tax rate for the three months ended February 29, 2012 was 22.6%, compared to 21.6% for the three months ended February 28, 2011.

As of February 29, 2012, the total amount of unrecognized tax benefits was \$2.2 million, of which \$0.2 million related to interest. Unrecognized tax benefits decreased less than \$0.1 million during the first three months of 2012.

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9. Debt

Our syndicated bank credit agreement (the Credit Facility) consists of a term loan and a \$925 million revolver. All borrowings under the Credit Facility are unsecured. The loan and revolver included in the Credit Facility have a five-year term ending in January 2016. The interest rates for borrowings under the Credit Facility will be the applicable LIBOR plus 1.00% to 1.75%, depending upon our Leverage Ratio, which is defined as the ratio of Consolidated Funded Indebtedness to rolling four-quarter Consolidated Earnings Before Interest Expense, Taxes, Depreciation and Amortization (EBITDA), as defined in the Credit Facility. A commitment fee on any unused balance is payable periodically and ranges from 0.15% to 0.30% based upon our Leverage Ratio. The Credit Facility contains certain financial and other covenants, including a maximum Leverage Ratio and a maximum Interest Coverage Ratio, as defined in the Credit Facility.

As of February 29, 2012, we were in compliance with all of the covenants in the Credit Facility and had approximately \$525 million of outstanding borrowings under the revolver at a current annual interest rate of 1.5% and approximately \$342 million of outstanding borrowings under the term loan at a current weighted average annual interest rate of 1.6%. We have classified \$405 million of revolver borrowings as long-term and \$120 million as short-term based upon our current estimate of expected repayments for the next twelve months. Short-term debt also includes \$22 million of scheduled term loan principal repayments over the next twelve months. We had approximately \$0.4 million of outstanding letters of credit under the agreement as of February 29, 2012.

10. Pensions and Postretirement Benefits

We sponsor a non-contributory, defined-benefit retirement plan (the U.S. RIP) for all of our U.S. employees with at least one year of service. In the first quarter of fiscal 2012, we made the decision to close the U.S. RIP to new participants effective January 1, 2012. We also have a frozen defined-benefit pension plan (the U.K. RIP) that covers certain employees of a subsidiary based in the United Kingdom. We also have an unfunded Supplemental Income Plan (SIP), which is a non-qualified pension plan, for certain U.S. employees who earn over a federally stipulated amount. Benefits for all three plans are generally based on years of service and either average or cumulative base compensation. Plan funding strategies are influenced by employee benefit laws and tax laws. The U.K. RIP includes a provision for employee contributions and inflation-based benefit increases for retirees.

During the first quarter of 2012, we accelerated plan funding by contributing \$65 million to the U.S. RIP. Approximately \$57 million of this contribution allowed us to bring all deficit funding current through November 30, 2011 and pay fees and expenses associated with the third-party annuity contracts, with the remaining \$8 million used to fund estimated 2012 pension service costs.

Our net periodic pension expense (income) for the three months ended February 29, 2012 and February 28, 2011, was comprised of the following (in thousands):

	Three Months Ended February 29, 2012				Three Months Ended February 28, 2011			
	U.S. RIP	U.K. RIP	SIP	Total	U.S. RIP	U.K. RIP	SIP	Total
Service costs incurred	\$2,544	\$33	\$47	\$2,624	\$2,109	\$27	\$35	\$2,171
Interest costs on projected benefit obligation	1,736	424	97	2,257	2,969	492	99	3,560
Expected return on plan assets	(2,122)	(553)	—	(2,675)	(4,098)	(591)	—	(4,689)

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Amortization of prior service cost	(336) —	(2) (338) (335) —	(2) (337)
Amortization of transitional obligation/(asset)	—	—	10	10	—	—	10	10	
Net periodic pension expense (income)	\$1,822	\$(96) \$152	\$1,878	\$645	\$(72) \$142	\$715	

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Our net periodic postretirement expense (income) was comprised of the following for the three months ended February 29, 2012 and February 28, 2011 (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Service costs incurred	\$5	\$7
Interest costs on projected benefit obligation	117	132
Amortization of prior service cost	—	(81)
Net periodic post-retirement expense (income)	\$122	\$58

11. Earnings per Share

Basic earnings per share (EPS) is computed on the basis of the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common shares.

Weighted average common shares outstanding for the three months ended February 29, 2012 and February 28, 2011, were calculated as follows (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Weighted average common shares outstanding:		
Shares used in basic EPS calculation	65,515	64,485
Effect of dilutive securities:		
Restricted stock units	894	788
Stock options and other stock-based awards	42	142
Shares used in diluted EPS calculation	66,451	65,415

12. Derivatives

In April and June 2011, to mitigate interest rate exposure on our outstanding credit facility debt, we entered into two interest rate derivative contracts that effectively swap \$100 million of floating rate debt for fixed rate debt at a 3.05% weighted average interest rate, which rate includes the current credit facility spread. Both of these interest rate swaps expire in July 2015. Because the terms of the swaps and the variable rate debt coincide, we do not expect any ineffectiveness. We have designated and accounted for these instruments as cash flow hedges, with changes in fair value being deferred in accumulated other comprehensive loss in the consolidated balance sheets.

Since our swaps are not listed on an exchange, we have evaluated fair value by reference to similar transactions in active markets; consequently, we have classified the swaps within Level 2 of the fair value measurement hierarchy. As of February 29, 2012, the fair market value of our swaps was a loss of \$3.5 million, and the current mark-to-market loss position is recorded in other liabilities in the consolidated balance sheets.

13. Goodwill and Intangible Assets

The following table presents details of our intangible assets, other than goodwill, as of February 29, 2012 and November 30, 2011 (in thousands):

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	As of February 29, 2012			As of November 30, 2011		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:						
Information databases	\$261,744	\$(113,751)	\$147,993	\$259,524	\$(105,078)	\$154,446
Customer relationships	211,239	(48,341)	162,898	210,940	(43,468)	167,472
Non-compete agreements	8,653	(6,430)	2,223	8,515	(5,754)	2,761
Developed computer software	125,580	(31,284)	94,296	123,566	(25,718)	97,848
Other	33,907	(7,940)	25,967	27,667	(5,958)	21,709
Total	\$641,123	\$(207,746)	\$433,377	\$630,212	\$(185,976)	\$444,236
Intangible assets not subject to amortization:						
Trademarks	64,561	—	64,561	69,539	—	69,539
Perpetual licenses	1,191	—	1,191	1,174	—	1,174
Total intangible assets	\$706,875	\$(207,746)	\$499,129	\$700,925	\$(185,976)	\$514,949

Intangible assets amortization expense was \$18.2 million for the three months ended February 29, 2012, as compared with \$13.2 million for the three months ended February 28, 2011. The following table presents the estimated future amortization expense related to intangible assets held as of February 29, 2012:

Year	Amount (in thousands)
Remainder of 2012	\$56,935
2013	68,542
2014	57,155
2015	52,691
2016	47,309
Thereafter	150,745

Changes in our goodwill and gross intangible assets from November 30, 2011 to February 29, 2012 were primarily due to foreign currency translation. Net intangibles decreased primarily because of current quarter amortization.

14. Segment Information

We prepare our financial reports and analyze our business results within our three reportable geographic segments: Americas, EMEA, and APAC. We evaluate segment performance primarily at the revenue and operating profit level for each of these three segments. We also evaluate revenues by transaction type and information domain.

Information about the operations of our three segments is set forth below. No single customer accounted for 10% or more of our total revenue for the three months ended February 29, 2012 and February 28, 2011. There are no material inter-segment revenues for any period presented. Certain corporate transactions are not allocated to the reportable segments, including such items as stock-based compensation expense, net periodic pension and postretirement expense (income), corporate-level impairments, and gain (loss) on sale of corporate assets.

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	Americas	EMEA	APAC	Shared Services	Consolidated Total
(In thousands)					
Three Months Ended February 29, 2012					
Revenue	\$206,920	\$99,409	\$36,414	\$—	\$342,743
Operating income	51,304	20,897	7,995	(45,136)	35,060
Depreciation and amortization	20,537	3,834	51	1,879	26,301
Three Months Ended February 28, 2011					
Revenue	\$179,601	\$84,165	\$29,377	\$—	\$293,143
Operating income	48,933	16,554	8,265	(31,832)	41,920
Depreciation and amortization	14,109	3,492	39	561	18,201

Revenue by transaction type was as follows (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Subscription revenue	\$273,390	\$233,619
Consulting revenue	25,406	16,516
Transaction revenue	12,588	13,323
Other revenue	31,359	29,685
Total revenue	\$342,743	\$293,143

Revenue by information domain was as follows (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Energy revenue	\$159,054	\$121,654
Product Lifecycle (PLC) revenue	110,729	100,190
Security revenue	27,221	26,548
Environment revenue	22,139	20,975
Macroeconomic Forecasting and Intersection revenue	23,600	23,776
Total revenue	\$342,743	\$293,143

15. Subsequent Events

On March 5, 2012, we announced the completion of three strategic acquisitions: Displaybank, a global authority in market research and consulting for the flat-panel display industry; the Computer Assisted Product Selection (CAPS™) electronic components database and tools business, including CAPS Expert, from PartMiner Worldwide; and the digital oil and gas pipeline and infrastructure information business from Hild Technology Services. The combined purchase price of the transactions was approximately \$45 million.

On March 22, 2012, we announced the acquisition of IMS Research, a leading independent provider of market research and consultancy to the global electronics industry, for approximately \$46 million.

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

In addition to historical information, this quarterly report on Form 10-Q contains forward-looking statements. These forward-looking statements generally are identified by the use of the words "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of these terms, and other similar expressions. Forward-looking statements are based on current expectations, assumptions, and projections that are subject to risks and uncertainties, which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is outlined under the "Risk Factors" section of our 2011 annual report on Form 10-K. We are under no obligation to update or publicly revise these forward-looking statements, whether as a result of new information, future events, or otherwise.

Management's discussion and analysis is intended to help the reader understand the financial condition and results of operations for IHS Inc. The following discussion should be read in conjunction with our annual report on Form 10-K for the year ended November 30, 2011, the Condensed Consolidated Financial Statements and accompanying notes included in this quarterly report on Form 10-Q, and important information and disclosure that we routinely post to our website (www.ihs.com).

Executive Summary

Business Overview

We are a leading source of information, insight, and analytics in critical areas that shape today's business landscape. Businesses and governments in more than 165 countries around the globe rely on our comprehensive content, expert independent analysis, and flexible delivery methods to make high-impact decisions and develop strategies with speed and confidence. We have been in business since 1959, incorporated in the State of Delaware in 1994, and became a publicly traded company on the New York Stock Exchange in 2005. Headquartered in Englewood, Colorado, USA, we employ more than 5,500 people in more than 30 countries around the world.

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 stockholders. To achieve that goal, we have organized our business around our customers and the geographies in which they reside: Americas, EMEA, and APAC. This structure allows us to tailor and expand the solutions we offer to meet the unique needs of our customers both globally and in local markets.

We sell our offerings primarily through subscriptions, which tend to generate recurring revenue and cash flow for us. Our subscriptions are usually for one-year periods and we have historically seen high renewal rates. Subscriptions are generally paid in full within one or two months after the subscription period commences; as a result, the timing of our cash flows generally precedes the recognition of revenue and income.

Our business has seasonal aspects. Our fourth quarter typically generates our highest quarterly levels of revenue and profit. Conversely, our first quarter generally has our lowest levels of revenue and profit. These trends have been further amplified by the product mix from recent acquisitions, which generate a larger proportion of their sales in the fourth quarter. We also experience event-driven seasonality in our business; for instance, IHS CERAWEEK, our annual energy executive gathering, is held during our second quarter. Another example is the triennial release of the Boiler Pressure Vessel Code (BPVC) engineering standard, which generates revenue for us predominantly in the third quarter of every third year. The BPVC benefit most recently occurred in the third quarter of 2010.

We are investing in our business at the highest rate in our company's history through a series of initiatives designed to boost colleague productivity, increase efficiencies, develop new and enhanced products, and create scalable platforms designed to accommodate future revenue growth without having to incur proportional increases in costs to support that growth. These initiatives include, but are not limited to:

Vanguard – Vanguard is our plan for consolidating and standardizing billing systems, general ledgers, sales-force automation capabilities, and all supporting business processes. We implemented the first two releases of Vanguard in 2011. Our current plan calls for substantially all of our finance and lead-to-cash systems to be migrated over to Vanguard by the end of 2012.

Customer Care Centers of Excellence – We opened our three Customer Care Centers of Excellence – one in each

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region – by January 2012. These centers consolidate customer-care processes and simplify and standardize our approach to providing dedicated customer service.

Newton – Newton is our plan to centralize our number of data centers over time, taking us from dozens of data centers currently to no more than three. As IHS has grown through acquisitions, the number of data centers we have has grown as well.

Product development – We expect to introduce in 2012 more new products and product enhancements than ever before in our history.

Global Operations

Approximately 50% of our revenue is transacted outside of the United States; however, only about 30% of our revenue is transacted in currencies other than the U.S. dollar. As a result, a strengthening U.S. dollar relative to certain currencies has a negative impact on our revenue; conversely, a weakening U.S. dollar has a positive impact on our revenue. However, the impact on operating income is mitigated due to certain operating expenses denominated in currencies other than the U.S. dollar. Our largest foreign currency exposures, in order of magnitude, are the British Pound, the Canadian Dollar, and the Euro.

Key Performance Indicators

We believe that revenue growth, Adjusted EBITDA (both in dollars and margin), and free cash flow are the key measures of our success. Adjusted EBITDA and free cash flow are non-GAAP financial measures (as defined by the rules of the Securities and Exchange Commission) that are further discussed in the following paragraphs.

Revenue growth. We review year-over-year revenue growth in our segments as a key measure of our success in addressing customer needs in each region of the world. We measure revenue growth in terms of organic, acquisitive, and foreign currency impacts. We define these components as follows:

Organic – We define organic revenue growth as total revenue growth from continuing operations for all factors other than acquisitions and foreign currency. We drive this type of revenue growth through value realization (pricing), expanding wallet share of existing customers through up-selling and cross-selling efforts, securing new customer business, and through the sale of new offerings.

Acquisitive – We define acquisition-related revenue as the revenue generated from acquired products and services from the date of acquisition to the first anniversary date of that acquisition. This type of growth comes as a result of our strategy to purchase, integrate, and leverage the value of assets we acquire.

Foreign currency – We define the foreign currency impact on revenue as the difference between current revenue at current exchange rates and current revenue at the corresponding prior period exchange rates. Due to the significance of revenue transacted in foreign currencies, we measure the impact of foreign currency movements on revenue.

Non-GAAP measures. We use non-GAAP measures such as Adjusted EBITDA and free cash flow in our operational and financial decision-making, believing that such measures allow us to focus on what we deem to be more reliable indicators of ongoing operating performance (Adjusted EBITDA) and our ability to generate cash flow from operations (free cash flow). We also believe that investors may find non-GAAP financial measures useful for the same reasons, although we caution readers that non-GAAP financial measures are not a substitute for GAAP financial measures or disclosures. None of these non-GAAP financial measures are recognized terms under GAAP and do not

purport to be an alternative to net income or operating cash flow as an indicator of operating performance or any other GAAP measure. Throughout this section on management's discussion and analysis and on our IHS website, we provide reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures.

Adjusted EBITDA. EBITDA and Adjusted EBITDA are used by many of our investors, research analysts, investment bankers, and lenders to assess our operating performance. For example, a measure similar to Adjusted EBITDA is required by the lenders under our term loan and revolving credit agreement. We define EBITDA as net income plus or minus net interest, plus provision for income taxes, depreciation, and amortization. Our definition of Adjusted EBITDA further excludes (i) non-cash items (e.g., stock-based compensation expense) and (ii) items that management does not consider to be useful in assessing our operating performance (e.g., acquisition-related

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costs, restructuring charges, income or loss from discontinued operations, and gain or loss on sale of assets).

Free Cash Flow. We define free cash flow as net cash provided by operating activities less capital expenditures.

Because not all companies use identical calculations, our presentation of non-GAAP financial measures may not be comparable to other similarly titled measures of other companies. However, these measures can still be useful in evaluating our performance against our peer companies because we believe the measures provide users with valuable insight into key components of GAAP financial disclosures. For example, a company with higher GAAP net income may not be as appealing to investors if its net income is more heavily comprised of gains on asset sales. Likewise, eliminating the effects of interest income and expense moderates the impact of a company's capital structure on its performance.

Results of Operations

Total Revenue

First quarter 2012 revenue increased 17% compared to the first quarter of 2011. The table below displays the percentage point change in revenue due to organic, acquisitive, and foreign currency factors when comparing the three months ended February 29, 2012 to the three months ended February 28, 2011.

(All amounts represent percentage points)	Three Month Change			%
	Organic *	Acquisitive	Foreign Currency	
Increase in total revenue	4	% 14	% —	%

* Excludes approximately \$1 million of first quarter 2011 non-subscription revenue associated with the triennial release of a certain engineering standard.

The 4% organic revenue growth for the first quarter of 2012 was primarily attributable to continued strength in our subscription-based business. Our non-subscription business had flat to negative organic growth in each category, which led to a combined non-subscription adjusted decrease of 12% in the organic growth rate in the first quarter of 2012.

The acquisition-related revenue growth for the quarter was primarily due to acquisitions we have made in the last twelve months, including the following:

- ODS-Petrodata (Holdings) Ltd.; Dyadem International, Ltd.; and Chemical Market Associates, Inc. in the second quarter of 2011;
- Seismic Micro-Technology in the third quarter of 2011; and
- Purvin & Gertz in the fourth quarter of 2011.

We evaluate revenue by segment in order to better understand our customers' needs in the geographies where they reside. We also supplementally review revenue by transaction type. Understanding revenue by transaction type helps us identify changes related to recurring revenue and product margin, which is particularly useful to us in evaluating our subscription and non-subscription revenue streams. We have historically reviewed revenue by information domain as a supplement to our revenue analysis, but we no longer do so and have therefore omitted it from the revenue discussion below.

Revenue by Segment (geography)

(In thousands, except percentages)	Three Months Ended		Percentage Change
	February 29, 2012	February 28, 2011	

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Americas revenue	\$206,920	\$179,601	15	%
As a percent of total revenue	60	% 61	%	
EMEA revenue	99,409	84,165	18	%
As a percent of total revenue	29	% 29	%	
APAC revenue	36,414	29,377	24	%
As a percent of total revenue	11	% 10	%	
Total revenue	\$342,743	\$293,143	17	%

The percentage change in each geography segment is due to the factors described in the following table.

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(All amounts represent percentage points)	Three Month Change		
	Organic	Acquisitive	Foreign Currency
Americas revenue	3	% 13	% —
EMEA revenue	4	% 15	% (1)
APAC revenue	7	% 17	% —

For the three months of 2012, continued strength in our subscription-based offerings was the primary reason for the organic growth in all three regions. This growth was partially offset by non-subscription offerings in all three regions; a particular example is the decision we made to not hold an event in 2012 that we held in 2011 because it was both unprofitable and non-strategic. The elimination of this event impacted non-subscription revenues by \$2.5 million and our non-subscription organic growth by 4%.

Revenue by Transaction Type

(In thousands, except percentages)	Three Months Ended		Percentage Change	
	February 29, 2012	February 28, 2011		
Subscription revenue	\$273,390	\$233,619	17	%
As a percent of total revenue	80	% 80	%	
Non-subscription revenue:				
Consulting revenue	25,406	16,516	54	%
Transaction revenue	12,588	13,323	(6)%
Other revenue	31,359	29,685	6	%
Total non-subscription revenue	69,353	59,524	17	%
As a percent of total revenue	20	% 20	%	
Total revenue	\$342,743	\$293,143	17	%

We summarize our transaction type revenue in terms of subscription and non-subscription revenue, by the following categories:

Subscription revenue represents the significant majority of our revenue, and is comprised of subscriptions to our various information databases, insight products, and software maintenance.

Non-subscription revenue:

Consulting revenue represents customer relationships where we are engaged to perform various professional services such as research and analysis, modeling and forecasting, and other similar work. Our consulting offerings are primarily focused on Energy/Resources, Manufacturing/Services, and the Public Sector.

Transaction revenue typically represents single-document product sales, which are typically sold through ecommerce and telesales channels. We usually deliver these products to our customers as part of a one-time, unique sale.

Other revenue consists of a variety of revenue streams, including software license sales and associated services, conferences and events, advertising, and data storage services.

Relative to the 17% subscription revenue growth for the first quarter, approximately 8% is due to organic growth. This trend is especially important for us, as 80% of our revenue currently comes from our subscription base. The non-subscription portion of our business decreased 12% organically during the quarter. A portion of this decrease was due to not holding an event in 2012 that we held in 2011, as described above. Part of the decrease is also due to the fact that our non-subscription business, including enterprise software license sales, tends to have more volatility from quarter to quarter based on deal size and transaction timing, which is why we evaluate our non-subscription performance on a full-year basis.

Operating Expenses

The following table shows our operating expenses and the associated percentages of revenue.

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(In thousands, except percentages)	Three Months Ended		Percentage	
	February 29, 2012	February 28, 2011	Change	
Operating expenses:				
Cost of revenue	\$146,590	\$126,666	16	%
As a percent of revenue	43	% 43	%	
SG&A expense	\$125,176	\$101,772	23	%
As a percent of revenue	37	% 35	%	
Depreciation and amortization expense	\$26,301	\$18,201	45	%
As a percent of revenue	8	% 6	%	
Supplemental information:				
SG&A expense excluding stock-based compensation	\$92,573	\$80,528		