

IHS Inc.  
Form 10-Q  
July 11, 2006

**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 May 31, 2006

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)

**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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2006, there were 44,976,727 shares of our Class A Common Stock outstanding and 13,750,000 shares of our Class B Common Stock outstanding.

---

TABLE OF CONTENTS

**PART I**

<u>Item 1.</u>	<u>Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

**PART II**

<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
<u>Item 6.</u>	<u>Exhibits</u>

**SIGNATURE**

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## IHS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	As of May 31, 2006 (Unaudited)		As of November 30, 2005	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$	169,997	\$	132,365
Short-term investments		19,179		27,223
Accounts receivable, net		109,515		136,950
Deferred subscription costs		34,604		27,918
Deferred income taxes		11,419		11,351
Other		8,051		10,638
Total current assets		352,765		346,445
Non-current assets:				
Property and equipment, net		51,795		46,580
Intangible assets, net		42,399		27,456
Goodwill, net		326,315		296,394
Prepaid pension asset		91,002		88,516
Other		2,894		1,765
Total non-current assets		514,405		460,711
Total assets	\$	867,170	\$	807,156
<b>Liabilities and stockholders equity</b>				
Current liabilities:				
Short-term debt	\$	602	\$	
Accounts payable		22,203		41,625
Accrued compensation		15,096		20,135
Accrued royalties		22,385		26,139
Other accrued expenses		34,551		34,975
Income tax payable		8,022		7,726
Deferred subscription revenue		189,596		149,552
Risk management liabilities				2,705
Total current liabilities		292,455		282,857
Long-term debt		74		262
Accrued pension liability		7,940		6,824
Accrued post-retirement benefits		20,072		20,278
Deferred income taxes		15,291		15,044
Other liabilities		6,966		4,402
Minority interests		272		309
Commitments and contingencies				
Stockholders equity:				
Class A common stock, \$0.01 par value per share, 80,000,000 shares authorized, 44,976,727 and 44,078,231 issued and outstanding at May 31, 2006 and November 30, 2005, respectively		450		441
		138		138

Edgar Filing: IHS Inc. - Form 10-Q

Class B common stock, \$0.01 par value per share, 13,750,000 shares authorized, issued and outstanding at May 31, 2006 and November 30, 2005				
Additional paid in capital	153,624		168,196	
Retained earnings	370,082		343,684	
Accumulated other comprehensive loss	(194)	)	(10,486)	)
Unearned compensation			(24,793)	)
Total stockholders' equity	524,100		477,180	
Total liabilities and stockholders' equity	\$	867,170	\$	807,156

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,	
	2006	2005	2006	2005
	(Unaudited)			
<b>Revenue:</b>				
Products	\$ 110,483	\$ 96,599	\$ 217,065	\$ 193,924
Services	22,372	18,546	45,656	38,204
Total revenue	132,855	115,145	262,721	232,128
<b>Operating expenses:</b>				
Cost of revenue:				
Products	46,820	44,799	91,440	87,660
Services	15,291	12,372	30,439	24,890
Compensation expense related to equity awards	1,071	76	2,166	155
Total cost of revenue	63,182	57,247	124,045	112,705
Selling, general and administrative	44,580	42,514	87,384	83,073
Depreciation and amortization	3,342	2,859	6,712	5,766
Restructuring and offering charges			2	
Compensation expense related to equity awards	3,288	1,154	5,859	2,349
Gain on sales of assets, net		(714)		(1,331)
Net periodic pension and post-retirement benefits	(1,218)	(939)	(1,944)	(1,870)
Earnings in unconsolidated subsidiaries	(102)	(21)	(130)	(49)
Other expense (income), net	1,223	7	820	(312)
Total operating expenses	114,295	102,107	222,748	200,331
<b>Operating income</b>	18,560	13,038	39,973	31,797
Interest income	1,458	934	2,372	1,652
Interest expense	(67)	(81)	(152)	(583)
Non-operating income, net	1,391	853	2,220	1,069
Income from continuing operations before income taxes and minority interests	19,951	13,891	42,193	32,866
Provision for income taxes	(6,619)	(4,574)	(14,092)	(9,980)
Income from continuing operations before minority interests	13,332	9,317	28,101	22,886
Minority interests	(56)	11	(81)	18
Income from continuing operations	13,276	9,328	28,020	22,904
Discontinued operations:				
Loss from discontinued operations, net	(342)	(682)	(1,622)	(1,125)
<b>Net income</b>	\$ 12,934	\$ 8,646	\$ 26,398	\$ 21,779
Income from continuing operations per share:				
Basic (Class A and Class B common stock)	\$ 0.24	\$ 0.17	\$ 0.50	\$ 0.42
Diluted (Class A and Class B common stock)	\$ 0.24	\$ 0.16	\$ 0.50	\$ 0.41
Loss from discontinued operations per share:				
Basic (Class A and Class B common stock)	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)
Diluted (Class A and Class B common stock)	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)
Net income per share:				
Basic (Class A and Class B common stock)	\$ 0.23	\$ 0.16	\$ 0.47	\$ 0.40
Diluted (Class A and Class B common stock)	\$ 0.23	\$ 0.15	\$ 0.47	\$ 0.39



## IHS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(In thousands)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
	(Unaudited)			
Weighted average shares:				
Basic (Class A common stock)	42,271	41,341	42,199	41,299
Basic (Class B common stock)	13,750	13,750	13,750	13,750
Diluted (Class A common stock)	56,130	56,020	56,071	55,813
Diluted (Class B common stock)	13,750	13,750	13,750	13,750
Total compensation expense related to equity awards is comprised of the following:				
Cost of products revenue	\$ 1,030	\$ 73	\$ 2,083	\$ 149
Cost of services revenue	41	3	83	6
Selling, general and administrative	3,288	1,154	5,859	2,349
Discontinued operations			254	
	\$ 4,359	\$ 1,230	\$ 8,279	\$ 2,504

See accompanying notes.



**IHS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Six Months Ended May 31,	
	2006	2005
	(Unaudited)	
<b>Operating activities</b>		
Net income	\$ 26,398	\$ 21,779
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	6,712	5,885
Compensation expense related to equity awards (non-cash portion)	8,025	2,504
Gain on sales of assets, net		(1,331)
Impairment of assets of discontinued operations	1,012	
Net periodic pension and post-retirement benefits	(1,944)	(1,870)
Minority interests	(66)	(18)
Deferred income taxes	213	2,305
Change in assets and liabilities:		
Accounts receivable, net	30,781	15,238
Other current assets	(2,715)	(8,258)
Accounts payable	(20,557)	(12,334)
Accrued expenses	(11,586)	(23,082)
Income taxes	(247)	(713)
Deferred subscription revenue	29,136	24,112
Other liabilities		112
<b>Net cash provided by operating activities</b>	<b>65,162</b>	<b>24,329</b>
<b>Investing activities</b>		
Capital expenditures on property and equipment	(5,763)	(2,801)
Intangible assets acquired	(3,300)	
Change in other assets	1,272	(596)
Purchase of investments	(5,365)	
Sales and maturities of investments	14,302	
Acquisitions of businesses, net of cash acquired	(32,976)	(2,972)
Proceeds from sales of assets		1,334
<b>Net cash used in investing activities</b>	<b>(31,830)</b>	<b>(5,035)</b>
<b>Financing activities</b>		
Net payments on debt	(91)	(270)
Tax benefit from equity compensation plans	2,194	
<b>Net cash provided by (used in) financing activities</b>	<b>2,103</b>	<b>(270)</b>
Foreign exchange impact on cash balance	2,197	(1,803)
Net increase in cash and cash equivalents	37,632	17,221
Cash and cash equivalents at the beginning of the period	132,365	124,452
Cash and cash equivalents at the end of the period	\$ 169,997	\$ 141,673

See accompanying notes.



**IHS INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and Significant Accounting Policies**

*Nature of Operations*

IHS Inc. (IHS, the Company, we, our, or us) is a publicly traded Delaware corporation. We are one of the leading global providers of critical technical information, decision-support tools and services to customers in the energy, defense, aerospace, construction, electronics, and automotive industries.

*Consolidation Policy*

The consolidated financial statements include the accounts of all wholly owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

*Unaudited Condensed Consolidated Financial Statements*

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, 2005. The results of operations for the three and six months ended May 31, 2006, 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, 2005, balance sheet.

*Results Subject to Seasonal Variations*

Although our business model is broadly subscription based resulting in recurring revenue and cash flow, our business does have seasonal aspects. For example, certain sales of non-deferred subscriptions occur most frequently in our first and fourth quarters. Consequently, we generally recognize a greater percentage of our revenue and income from operations in those quarters. Also, our first quarter benefits 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 from operations. Due to the historical timing and alignment of our sales to correspond to certain of our customers' budget and funding cycles, our cash flow provided by operating activities tends to be higher in the first half of our fiscal year as we receive subscription payments.

*Use of Estimates*

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. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the allowances for doubtful accounts, fair value of marketable securities and investments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

### ***Compensation Expense Related to Share-Based Awards***

We adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, effective December 1, 2005, the first day of our 2006 fiscal year. SFAS 123(R) is a revision of SFAS No. 123. SFAS 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.
2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures for either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We elected to use the modified prospective method. During the three and six months ended May 31, 2006, we had unvested performance shares, performance unit awards, restricted shares, and restricted stock awards outstanding. During the three and six months ended May 31, 2005, we had unvested restricted shares outstanding. In each instance, compensation expense for these equity-based awards is calculated based on the fair value of our Class A common stock on the grant date.

Prior to adopting SFAS 123(R) on December 1, 2005, the fair value of an equity award grant was recorded to additional paid-in capital with the offsetting entry posted to unearned compensation, also an equity account. The unearned compensation was then amortized to compensation expense related to equity awards over the vesting period using the straight-line method. With the adoption of SFAS 123(R), we reclassified \$24.8 million of unearned compensation to additional paid-in capital. For equity awards granted subsequent to December 1, 2005, we recognize compensation expense as the equity awards vest with the offsetting entry posted to additional paid-in capital.

Total compensation cost related to nonvested awards not yet recognized was \$23.0 million as of May 31, 2006. We expect to recognize this expense over the next two-to-three years.

### ***Income Taxes***

Our effective quarterly 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 May 31, 2006 was 33.2%, compared to 33.0% for the three months ended May 31, 2005. Our effective tax rate for the six months ended May 31, 2006 was 33.4% compared to 30.4% for the prior-year period. The lower rate in 2005 was primarily due to recognition of the benefits resulting from the favorable settlements of a Canadian and an IRS audit in the first quarter of 2005. There were no discrete period items in 2006.

### ***Earnings per Share***

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.



Edgar Filing: IHS Inc. - Form 10-Q

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,	
	2006	2005	2006	2005
	(In thousands)			
Net income	\$ 12,934	\$ 8,646	\$ 26,398	\$ 21,779
Less: dividends				
Undistributed earnings	\$ 12,934	\$ 8,646	\$ 26,398	\$ 21,779

Weighted average common shares outstanding are calculated as follows:

	Three Months Ended May 31,			
	2006		2005	
	Class A	Class B	Class A	Class B
	(In thousands)			
Weighted average common shares outstanding:				
Shares used in basic per-share calculation	42,271	13,750	41,341	13,750
Effect of dilutive securities:				
Deferred stock units	52		853	
Restricted shares	57		76	
Assumed conversion of Class B shares	13,750		13,750	
Shares used in diluted per-share calculation	56,130	13,750	56,020	13,750

	Six Months Ended May 31,			
	2006		2005	
	Class A	Class B	Class A	Class B
	(In thousands)			
Weighted average common shares outstanding:				
Shares used in basic per-share calculation	42,199	13,750	41,299	13,750
Effect of dilutive securities:				
Deferred stock units	73		704	
Restricted shares	49		60	
Assumed conversion of Class B shares	13,750		13,750	
Shares used in diluted per-share calculation	56,071	13,750	55,813	13,750

Edgar Filing: IHS Inc. - Form 10-Q

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

	Three Months Ended May 31,			
	2006		2005	
	Class A	Class B	Class A	Class B
	(In thousands)			
<b>Basic</b>				
Weighted average shares outstanding	42,271	13,750	41,341	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	56,021	56,021	55,091	55,091
Multiplied by: Undistributed earnings	\$ 12,934	\$ 12,934	\$ 8,646	\$ 8,646
Subtotal	\$ 9,759	\$ 3,175	\$ 6,488	\$ 2,158
Divided by: Weighted average shares outstanding	42,271	13,750	41,341	13,750
Earnings per share	\$ 0.23	\$ 0.23	\$ 0.16	\$ 0.16
<b>Diluted</b>				
Weighted average shares outstanding	56,130	13,750	56,020	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	56,130	56,130	56,020	56,020
Multiplied by: Undistributed earnings	\$ 12,934	\$ 12,934	\$ 8,646	\$ 8,646
Subtotal	\$ 12,934	\$ 3,168	\$ 8,646	\$ 2,122
Divided by: Weighted average shares outstanding	56,130	13,750	56,020	13,750
Earnings per share	\$ 0.23	\$ 0.23	\$ 0.15	\$ 0.15

	Six Months Ended May 31,			
	2006		2005	
	Class A	Class B	Class A	Class B
	(In thousands)			
<b>Basic</b>				
Weighted average shares outstanding	42,199	13,750	41,299	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	55,949	55,949	55,049	55,049
Multiplied by: Undistributed earnings	\$ 26,398	\$ 26,398	\$ 21,799	\$ 21,799
Subtotal	\$ 19,910	\$ 6,488	\$ 16,354	\$ 5,445
Divided by: Weighted average shares outstanding	42,199	13,750	41,299	13,750
Earnings per share	\$ 0.47	\$ 0.47	\$ 0.40	\$ 0.40
<b>Diluted</b>				
Weighted average shares outstanding	56,071	13,750	55,813	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	56,071	56,071	55,813	55,813
Multiplied by: Undistributed earnings	\$ 26,398	\$ 26,398	\$ 21,799	\$ 21,799
Subtotal	\$ 26,398	\$ 6,473	\$ 21,799	\$ 5,370
Divided by: Weighted average shares outstanding	56,071	13,750	55,813	13,750
Earnings per share	\$ 0.47	\$ 0.47	\$ 0.39	\$ 0.39

**Capital Structure**

For the six months ended May 31, 2006, our capital structure changed as follows:

	Class A common shares	Nonvested Restricted shares	Nonvested Performance shares	Total Class A common shares
Balances, November 30, 2005	41,536,517	2,187,204	354,510	44,078,231
Granted		71,900	184,380	256,280
Vested equity awards(a)	883,244	(195,357)		687,887
Forfeited		(45,671)		(45,671)
Balances, May 31, 2006	42,419,761	2,018,076	538,890	44,976,727

(a) Vested equity awards were primarily comprised of 687,887 deferred stock units, which represented rights to shares of our Class A common stock but not actual Class A shares prior to vesting and delivery.

There was no change to the number of Class B common shares outstanding during the six months ended May 31, 2006.

**Derivatives**

We follow the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133 requires every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in our condensed consolidated balance sheet as either a risk management asset or risk management liability measured at its fair value, with changes in the fair value of qualifying hedges recorded in other comprehensive income. SFAS 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Accounting for qualifying hedges allows a derivative's gains and losses to offset the related results of the hedged item and requires us to formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. Based on the criteria established by SFAS 133, all of our qualifying hedges, consisting of foreign-currency forward contracts, are deemed effective. While we expect that our derivative instruments will continue to meet the conditions for hedge accounting, if the hedges did not qualify as effective or if we did not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges would be reflected in earnings. We do not believe we are exposed to more than a nominal amount of credit risk in our hedging activities, as our counter party is an established, well-capitalized financial institution.

Our Swiss subsidiary's local currency is its functional currency. The functional currency is used to pay labor and other operating costs, and it also has certain other operating costs which are denominated in British Pound Sterling. However, this subsidiary bills and collects principally in U.S. dollars. Beginning January 2005, to hedge our Swiss subsidiary's foreign-currency risk, we effectively converted a portion of our Swiss subsidiary's calendar-year 2005 sales and operating expenses which are denominated in foreign currencies into the local currency using forward contracts. We have not entered into similar contracts to hedge our Swiss subsidiary's calendar-year 2006 sales and operating expenses. Our Swiss subsidiary's revenue transactions are subscription-based and, consequently, they are deferred initially and recognized ratably into earnings over the course of the subscription period, generally twelve months. Accordingly, our related hedges are accounted for in the same fashion. As a result, we expect all of the \$1.5 million unrealized loss on foreign currency hedges in accumulated other comprehensive income at May 31, 2006 will be recognized in our operating results by the end of November 2006.

During the three months ended May 31, 2006, we recorded losses of \$1.1 million in revenue in the accompanying condensed consolidated statement of operations for settled forward exchange contracts. During the three months ended May 31, 2005, we recorded losses of \$0.1 million in revenue and gains of \$0.1 million in cost of revenue in the accompanying condensed consolidated statement of operations for settled forward exchange contracts.





During the six months ended May 31, 2006, we recorded losses of \$2.2 million in revenue and gains of \$0.1 million in cost of revenue in the accompanying condensed consolidated statements of operations for settled forward-exchange contracts. During the six months ended May 31, 2005, we recorded losses of \$0.1 million in revenue and gains of \$0.2 million in cost of revenue in the accompanying condensed consolidated statement of operations for settled forward exchange contracts.

As of May 31, 2006, we had no risk management assets or liabilities associated with foreign exchange contracts on our condensed consolidated balance sheet as all such transactions had settled early in the first quarter of 2006. As of November 30, 2005, we had current risk management liabilities of \$2.7 million and current risk management assets of \$0.1 million associated with foreign-exchange contracts, consisting of the fair market value of forward-exchange contracts.

Additionally, for our Swiss subsidiary, we effectively converted a portion of its U.S.-dollar-denominated accounts receivable to its local currency. As of May 31, 2006, the notional amount of this contract was \$14.9 million. As of November 30, 2005, the notional amount of this contract was \$7.2 million. During the three months ended May 31, 2006 and 2005, we recorded a gain of approximately \$0.9 million and a loss of \$0.6 million, respectively, in other (income) expense, net for settled foreign exchange contracts. During the six months ended May 31, 2006 and 2005, we recorded a gain of approximately \$0.7 million and a loss of \$1.0 million, respectively, in other (income) expense, net for settled foreign exchange contracts. Our accounts receivable hedges do not qualify for hedge accounting.

## 2. Acquisition

On December 1, 2005, we acquired the assets of a content-and-data-services (CDS) business for approximately \$33 million that serves several of the industries targeted by our Engineering segment. The purchase price was paid from existing cash on hand at the acquisition date. The acquisition was accounted for using the purchase method of accounting. Our unaudited condensed consolidated financial statements include all the assets and liabilities acquired and the results of operations from the date of acquisition. Pro forma results of the acquired business have not been presented as they did not have a material impact on our results of operations.

The purchase price for this acquisition was initially allocated as follows (in thousands):

<b>Assets:</b>	
Current assets	\$
Property and equipment	250
Intangible assets	15,420
Goodwill	21,685
Deferred tax assets	
<b>Total assets</b>	<b>37,355</b>
<b>Liabilities:</b>	
Current liabilities	4,379
Long-term liabilities	
<b>Total liabilities</b>	<b>4,379</b>
Purchase price	\$ 32,976

### 3. Restructuring and Offering Charges

A summary of the restructuring and offering charges follows (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
Restructuring charge	\$		\$ (18 )	\$
Offering costs			20	
Total	\$		\$ 2	\$

During the third quarter of 2005, we executed a restructuring initiative affecting our Engineering segment and certain unallocated corporate costs. This initiative was undertaken to reduce costs, further the integration of operations from previous acquisitions, streamline our data delivery processes, and realign the marketing function to support core product initiatives. During the course of the restructuring, we reduced our aggregate workforce by over 100 employees and closed certain offices.

The restructuring charge was incurred in its entirety during the third quarter of 2005. Approximately \$4.4 million and \$3.8 million of the restructuring charge related to our Engineering segment and certain unallocated corporate costs, respectively. Our Energy segment did not have a restructuring charge. The restructuring charge was comprised of the following (in thousands):

Employee severance and other termination benefits	\$ 5,947
Accelerated vesting of restricted stock	2,130
Contract-termination costs	167
Total	\$ 8,244

A reconciliation of the related accrued restructuring liability from November 30, 2005 to May 31, 2006 was as follows:

	Employee Severance and Other Termination Benefits	Accelerated Vesting of Restricted Shares	Contract Termination Costs	Total
	(In thousands)			
Beginning balance	\$ 399	\$	\$	\$ 399
Add: Restructuring costs incurred				
Less: Amount reversed during the six months ended May 31, 2006	(18 )			(18 )
Less: Amount paid during the six months ended May 31, 2006	(184 )			(184 )
Ending balance	\$ 197	\$	\$	\$ 197

### 4. Discontinued Operations

During the third quarter of 2005, a business in our Energy segment was classified as being held for sale. We continually evaluate opportunities to align our business activities within core operations. The business held for sale was a manufacturing operation, which is not a part of our core operations.

During the first quarter of 2006, we revised our estimate, and wrote down the value, of the assets of the discontinued operation \$1.0 million based on what we had experienced to date in the sales process. Subsequent to the end of our second quarter 2006, we sold the business to an unrelated third party for approximately \$0.4 million, subject to closing adjustments.



Edgar Filing: IHS Inc. - Form 10-Q

For all of the periods presented, the related results of operations are shown as a discontinued operation, net of tax, in our condensed consolidated statements of operations and cash flows.

The carrying amounts of the major classes of related assets and liabilities were as follows:

	May 31, 2006	November 30, 2005
	(In thousands)	
<b>Assets</b>		
Accounts receivable, net	\$ 296	\$ 85
Inventories	358	774
Property and equipment, net	104	104
Intangible assets		665
Deferred tax asset	454	304
<b>Liabilities</b>		
Accounts payable	\$ 79	\$ 141
Accrued expenses	319	209

Operating results of the discontinued operations for the three months ended May 31, 2006 and 2005 were as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
	(In thousands)			
Revenue	\$ 215	\$ 143	\$ 394	\$ 197
Loss from discontinued operations	\$ (552 )	\$ (1,100 )	\$ (2,457 )	\$ (1,814 )
Tax benefit	210	418	835	689
Loss from discontinued operations, net	\$ (342 )	\$ (682 )	\$ (1,622 )	\$ (1,125 )

## 5. Marketable Securities

At May 31, 2006, we owned only short-term investments which were classified as available-for-sale securities and reported at fair value as follows:

	Gross Amortized Cost	Unrealized Holding Losses	Estimated Fair Value
	(In thousands)		
Municipal securities	\$ 19,171	\$ (15 )	\$ 19,156
Other	23		23
Total	\$ 19,194	\$ (15 )	\$ 19,179

We use the specific-identification method to account for gains and losses on securities. Realized gains on sales of marketable securities included within other income (expense) were immaterial for the three and six months ended May 31, 2006. At May 31, 2005, we did not have any investments.

We review all marketable securities to determine if any decline in value is other than temporary. We have concluded that the decline in value as of May 31, 2006 is temporary.



**6. 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.

**7. Other Comprehensive Income (Loss)**

Our comprehensive income (loss) for the six months ended May 31, 2006 and 2005 was as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
	(In thousands)			
Net income	\$ 12,934	\$ 8,646	\$ 26,398	\$ 21,779
Other comprehensive income (loss):				
Foreign currency translation adjustment	6,143	(6,933)	8,807	(8,789)
Minimum pension liability adjustment	(254)		(323)	
Unrealized gains (losses) on foreign currency hedges, net of tax	1,027	(2,306)	1,788	(2,306)
Unrealized gains on short-term investments, net of tax	9	(671)	20	
Total other comprehensive income, net of tax	\$ 19,859	\$ (1,264)	\$ 36,690	\$ 10,684

## 8. Employee Retirement Plans

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

	Three Months Ended May 31, 2006			Three Months Ended May 31, 2005		
	U.S. Plan	U.K. Plan	Total	U.S. Plan	U.K. Plan	Total
	(In thousands)					
Service costs incurred	\$ 1,303	\$ 215	\$ 1,518	\$ 669	\$ 204	\$ 873
Interest costs on projected benefit obligation	2,653	376	3,029	2,777	379	3,156
Expected return on plan assets	(5,050)	(359)	(5,409)	(5,332)	(337)	(5,669)
Amortization of prior service cost	(111)		(111)	16		16
Amortization of actuarial (gain) loss	244	144	388		186	186
Amortization of transitional obligation/(asset)	(142)		(142)	(142)		(142)
Net periodic pension benefit (income) expense	\$ (1,103)	\$ 376	\$ (727)	\$ (2,012)	\$ 432	\$ (1,580)

	Six Months Ended May 31, 2006			Six Months Ended May 31, 2005		
	U.S. Plan	U.K. Plan	Total	U.S. Plan	U.K. Plan	Total
	(In thousands)					
Service costs incurred	\$ 2,214	\$ 427	\$ 2,641	\$ 1,338	\$ 411	\$ 1,749
Interest costs on projected benefit obligation	5,362	745	6,107	5,554	764	6,318
Expected return on plan assets	(10,110)	(711)	(10,821)	(10,664)	(678)	(11,342)
Amortization of prior service cost	(144)		(144)	32		32
Amortization of actuarial loss	475	285	760		374	374
Amortization of transitional obligation/(asset)	(284)		(284)	(284)		(284)
Net periodic pension benefit (income) expense	\$ (2,487)	\$ 746	\$ (1,741)	\$ (4,024)	\$ 871	\$ (3,153)

We have a Supplemental Income Plan (SIP), which is non-qualified pension plan, for certain company executives. We also incurred approximately \$0.2 million and \$0.4 million of expense related to our SIP for three months and six ended May 31, 2006, respectively. We incurred approximately \$0.1 million and \$0.2 million of expense related to our SIP for three months and six ended May 31, 2005, respectively.

Our net periodic post-retirement benefit expense was comprised of the following:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
	(In thousands)			
Service costs incurred	\$ 38	\$ 210	\$ 215	\$ 420
Interest costs	145	367	439	734
Amortization of prior service cost	(807)		(1,076)	
Amortization of net actuarial loss	133	64	219	129
Net periodic post-retirement benefit (income) expense	\$ (491)	\$ 641	\$ (203)	\$ 1,283

During the first quarter of 2006, the human resources committee of our board of directors amended our retiree-medical plan. The new plan design does not cover prescription drug coverage post-Medicare so there is no additional impact from the Medicare Modernization Act.





During the first quarter of 2006, we notified our employees of certain changes adopted by the human resources committee of our board of directors regarding our U.S. pension and post-retirement benefit plans. These changes took effect May 1, 2006. However, we began recording the effect of these changes as of February 1, 2006, the approximate date the changes were communicated to our employees.

## 9. Segment Information

We have two reportable segments: Energy and Engineering. Our Energy segment 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 provides solutions incorporating technical specifications and standards, regulations, parts data, design guides, and other information to customers in its targeted industries. Both segments primarily derive their revenue from subscriptions.

Information as to the operations of our two segments is set forth below based on the nature of the offerings. Our Chairman, Chief Executive Officer and their direct reports collectively represent our chief operating decision maker, and they evaluate 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 2005 Form 10-K).

No single customer accounted for 10% or more of our total revenue for the three and six months ended May 31, 2006 or 2005. 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 corporate-level restructuring and offering charges, compensation expense related to equity awards, net periodic pension and post-retirement benefits income, corporate-level impairments, and gains on sales of corporate assets.

	Energy (In thousands)	Engineering	Segment Totals	Amounts not Allocated	Consolidated Total
<b>Three Months Ended May 31, 2006</b>					
Revenue	\$ 70,375	\$ 62,480	\$ 132,855	\$	\$ 132,855
Segment operating income	16,410	5,291	21,701	(3,141)	18,560
Depreciation and amortization	1,941	1,401	3,342		3,342
<b>Three Months Ended May 31, 2005</b>					
Revenue	\$ 59,021	\$ 56,124	\$ 115,145	\$	\$ 115,145
Segment operating income	11,779	833	12,612	426	13,038
Depreciation and amortization	1,736	1,123	2,859		2,859

	Energy	Engineering	Segment Totals	Amounts not Allocated	Consolidated Total
	(In thousands)				
<b>Six Months Ended May 31, 2006</b>					
Revenue	\$ 138,613	\$ 124,108	\$ 262,721	\$	\$ 262,721
Segment operating income	32,559	13,515	46,074	(6,101)	39,973
Depreciation and amortization	3,746	2,966	6,712		6,712
<b>Six Months Ended May 31, 2005</b>					
Revenue	\$ 117,119	\$ 115,009	\$ 232,128	\$	\$ 232,128
Segment operating income	24,063	7,034	31,097	700	31,797
Depreciation and amortization	3,506	2,260	5,766		5,766



**10. Subsequent Events**

In June 2006, we completed two separate acquisition transactions: GeoPLUS Corporation; and Construction Research Communications (CRC) Limited. The combined purchase price of these two businesses was approximately \$47 million and was paid from existing cash on hand.

Within our Energy segment, we acquired the assets of GeoPLUS Corporation of Tulsa, Okla. GeoPLUS has a PC-based software family, PETRA®, which is a popular platform used by oil and gas companies to analyze subsurface data from existing oil and gas wells. This acquisition will enhance decision-support tools that our oil-and-gas customers use to analyze the information in our critical exploration-and-production databases.

Within our Engineering segment, we acquired CRC Limited, of London, UK. CRC was created by the Building Research Establishment (BRE) and Emap Construct to deliver a wide range of BRE products relating to the construction industry, ranging from environmental issues to fire safety. This acquisition provides construction professionals and users of BRE data with one of the largest and most comprehensive single sources of critical information for the UK construction industry and other markets utilizing British construction standards.

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

### Forward-Looking Statements

The preceding 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 2005 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

IHS is one of the leading global providers of critical technical information, decision-support tools, and related services to customers in the energy, defense, aerospace, construction, electronics, and automotive industries. We have developed a comprehensive collection of technical information that is highly relevant to the industries we serve. Our decision-support tools enable our customers to quickly and easily search and analyze this information and integrate it into their work flows. Our operational, research, and strategic advisory services combine this information and these tools with our extensive industry expertise to meet the needs of our customers. Our customers rely on these offerings to facilitate decision making, support key processes, and improve productivity. Our customers range from governments and large multinational corporations to smaller companies and technical professionals in more than 100 countries. We manage our business through our Energy and Engineering operating segments.

Our Energy segment develops and delivers critical oil and gas industry data on exploration, development, production, and transportation activities to major global energy producers and oil companies. We also provide decision-support tools and operational, research, and strategic advisory services to these customers, as well as to utilities and transportation, petrochemical, coal, and power companies. For example, major global oil companies use our offerings to support a broad range of decision-making processes that identify attractive exploration investments, assess the likelihood of successful oil production projects, and develop detailed planning scenarios.

Our Engineering segment provides offerings in two broad categories of products: technical standards and parts information. These products include a broad range of technical specifications and standards, regulations, parts data, design guides, and other information for customers in our targeted industries. We also have expertise in developing decision-support tools that enhance the accessibility and usability of this information. We offer targeted advisory services that are designed to maximize the utilization and integration of our information within our customers' business processes. We serve some of the largest engineering-intensive companies around the world in the defense, aerospace, construction, electronics, and automotive industries. For example, we provide some of the largest aerospace companies with desktop access to industry specifications and standards; parts, logistics, and procurement data; engineering methods; and related analytical tools.

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. However, our business does have seasonal aspects. For example, certain sales of non-deferred subscriptions occur most frequently in our first and fourth quarters. Consequently, we generally recognize a greater percentage of our revenue and



income in those quarters. Also, our first quarter benefits 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. Due to the historical timing and alignment of our sales to correspond to certain of our customers' budget and funding cycles, our cash flow provided by operating activities tends to be higher in the first half of our fiscal year as we receive subscription payments.

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.

#### Pensions and Post-retirement Benefits

**During the first quarter of 2006, we notified our employees of certain changes adopted by the human resources committee of our board of directors regarding our U.S. pension and post-retirement benefit plans. These changes took effect May 1, 2006. As a result of these changes, we expect our net periodic pension and post-retirement benefit income to increase during fiscal year 2006 compared to fiscal year 2005 and then decline for the foreseeable future.**

#### Acquisitions

On December 1, 2005, we acquired the assets of a content-and-data-services (CDS) business for approximately \$33 million that serves several of the industries targeted by our Engineering segment. The purchase price was paid from existing cash on hand at the acquisition date. The acquisition was accounted for using the purchase method of accounting. Our unaudited condensed consolidated financial statements include all the assets and liabilities acquired and the results of operations from the date of acquisition. Pro forma results of the acquired business have not been presented as they did not have a material impact on our results of operations.

The purchase price for this acquisition was initially allocated as follows (in thousands):

<b>Assets:</b>	
Current assets	\$
Property and equipment	250
Intangible assets	15,420
Goodwill	21,685
Deferred tax assets	
<b>Total assets</b>	<b>37,355</b>
<b>Liabilities:</b>	
Current liabilities	4,379
Long-term liabilities	
<b>Total liabilities</b>	<b>4,379</b>
Purchase price	\$ 32,976

#### Subsequent Events

In June 2006, we completed two separate acquisition transactions: GeoPLUS Corporation; and Construction Research Communications (CRC) Limited. The combined purchase price of these two businesses was approximately \$47 million and was paid from existing cash on hand.

Within our Energy segment, we acquired the assets of GeoPLUS Corporation of Tulsa, Okla. GeoPLUS has a PC-based software family, PETRA®, which is a popular platform used by oil and gas companies to analyze





subsurface data from existing oil and gas wells. This acquisition will enhance decision-support tools that our oil-and-gas customers use to analyze the information in our critical exploration-and-production databases.

Within our Engineering segment, we acquired CRC Limited, of London, UK. CRC was created by the Building Research Establishment (BRE) and Emap Construct to deliver a wide range of BRE products relating to the construction industry, ranging from environmental issues to fire safety. This acquisition provides construction professionals and users of BRE data with one of the largest and most comprehensive single sources of critical information for the UK construction industry and other markets utilizing British construction standards.

## Results of Operations

### Segment Information

Set forth below is our revenue and operating income for our Energy and Engineering segments for the three and six months ended May 31, 2006 and 2005. Certain corporate transactions are not allocated to our operating segments. Unallocated amounts include corporate-level restructuring and offering charges, compensation expense related to equity awards, net periodic pension and post-retirement benefits income, corporate-level impairments, and gains on sales of corporate assets.

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
	(In thousands)			
Energy revenue	\$ 70,375	\$ 59,021	\$ 138,613	\$ 117,119
Engineering revenue	62,480	56,124	124,108	115,009
Consolidated revenue	\$ 132,855	\$ 115,145	\$ 262,721	\$ 232,128
Energy operating income	\$ 16,410	\$ 11,779	\$ 32,559	\$ 24,063
Engineering operating income	5,291	833	13,515	7,034
Total segment operating income	21,701	12,612	46,074	31,097
Adjustments(1)	(3,141)	426	(6,101)	700
Consolidated operating income	\$ 18,560	\$ 13,068	\$ 39,973	\$ 31,797

(1) Includes the following items:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
	(In thousands)			
Corporate-level restructuring and offering charges	\$ (20)		\$ (20)	
Compensation expense related to equity awards	(4,359)	(1,230)	(8,025)	(2,504)
Gain on sales of corporate assets, net		717		1,334
Net periodic pension and post-retirement benefits	1,218	939	1,944	1,870
	\$ (3,141)	\$ 426	\$ (6,101)	\$ 700

### Three Months Ended May 31, 2006 Compared to the Three Months Ended May 31, 2005

**Revenue.** Revenue was \$132.9 million for the three months ended May 31, 2006 compared to \$115.1 million for the three months ended May 31, 2005, an increase of \$17.8 million or 15%. Revenue increased primarily due to organic growth, which contributed \$15.6 million. Increased revenue from acquisitions of approximately \$3.0 million was partially offset by the impact of foreign currency.

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

Revenue for our Energy segment was \$70.4 million for the three months ended May 31, 2006 compared to \$59.0 million for the three months ended May 31, 2005, an increase of \$11.4 million or 19%. The increase was principally due to organic growth, which contributed \$11.2 million, with the remainder attributable to foreign currency movements. Organic growth in 2006 was driven by an expanding subscription base, price increases, and higher one-time sales of certain data and services.

Revenue for our Engineering segment was \$62.5 million for the three months ended May 31, 2006 compared to \$56.1 million for the three months ended May 31, 2005, an increase of \$6.4 million or 11%. Organic growth added \$4.5 million and acquisitions contributed \$3.0 million. These increases were partially offset by adverse foreign currency movements. Organic growth was principally driven by increased sales and price increases.

**Cost of Revenue.** Cost of revenue was \$63.2 million for the three months ended May 31, 2006 compared to \$57.2 million for the three months ended May 31, 2005, an increase of \$6.0 million or 10%. As a percentage of revenue, cost of revenue decreased to 47.6% from 49.7%. Margins within our Energy segment increased principally due to the additional revenue discussed above combined with our ability to leverage a relatively fixed cost structure. Margins within our Engineering segment increased primarily as a result of price increases, relatively flat effective royalty rates, growth in our higher-margin parts business and the cost savings realized from last year's restructuring.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (SG&A) were \$44.6 million for the three months ended May 31, 2006 compared to \$42.5 million for the three months ended May 31, 2005, an increase of \$2.1 million or 5%. As a percentage of revenue, selling, general and administrative expenses were 33.6% for the three months ended May 31, 2006, down from 36.9% for the three months ended May 31, 2005. SG&A increased primarily due to certain one-time costs associated with a modest reduction in force related to a legacy product line and increased costs related to our first full year as a public company, such as Sarbanes-Oxley, insurance and branding cost. Cost savings from our third-quarter 2005 restructuring partially offset the above. Acquisitions contributed \$0.6 million of the increase. Foreign currency movements partially offset the above by \$0.4 million.

**Depreciation and Amortization Expenses.** Depreciation and amortization expenses were \$3.3 million for the three months ended May 31, 2006, compared to \$2.9 million for the three months ended May 31, 2005, an increase of \$0.4 million or 14%. The increase was primarily due to acquisitions.

**Compensation Expense Related to Equity Awards.** Compensation expense related to equity awards was \$4.4 million for the three months ended May 31, 2006, compared to \$1.2 million for the three months ended May 31, 2005, an increase of \$3.2 million or 267%. The increased expense primarily stems from costs associated with our equity awards granted at the time of and since our November 2005 initial public offering.

**Net Gain on Sales of Assets.** There were no gains or losses from the sales of assets for the three months ended May 31, 2006. Net gain on sales of assets was \$0.7 million for the three months May 31, 2005.

**Operating Income.** Operating income was \$18.6 million for the three months ended May 31, 2006, compared to \$13.0 million for the three months ended May 31, 2005, an increase of \$5.6 million or 43%. As a percentage of revenue, operating income increased to 14% for the three months ended May 31, 2006 from 11.3% for the three months ended May 31, 2005.

Operating income for our Energy segment was \$16.4 million for the three months ended May 31, 2006 compared to \$11.8 million for the three months ended May 31, 2005, an increase of \$4.6 million or 39%. The increase was primarily attributable to increased revenue discussed above coupled with a relatively fixed cost structure.

Operating income for our Engineering segment was \$5.3 million for the three months ended May 31, 2006 compared to \$0.8 million for the three months ended May 31, 2005, an increase of \$4.5 million. Operating income increased primarily due to increased sales combined with cost savings resulting from our third-quarter 2005 restructuring.

**Interest Income.** Interest income was \$1.5 million for the three months ended May 31, 2006 compared to \$0.9 million for the three months May 31, 2005, an increase of \$0.6 million, or 67%. The increase was primarily attributable to higher average cash balances and increased rates of return.

**Six Months Ended May 31, 2006 Compared to the Six Months Ended May 31, 2005**

**Revenue.** Revenue was \$262.7 million for the six months ended May 31, 2006 compared to \$232.1 million for the six months ended May 31, 2005, an increase of \$30.6 million or 13%. Revenue increased primarily due to organic growth, which contributed \$29.3 million. Increased revenue from acquisitions of approximately \$5.8 million, partially offset by the impact of foreign currency.

Revenue for our Energy segment was \$138.6 million for the six months ended May 31, 2006 compared to \$117.1 million for the six months ended May 31, 2005, an increase of \$21.5 million or 18%. The increase was principally due to organic growth, which contributed \$22.1 million, partially offset by \$0.6 million of adverse foreign currency movements. Organic growth in 2006 was driven by an expanding subscription base, price increases, and the contributions of certain items unique to the first quarter, such as CERAWEEK and the sale of certain U.K. sub-surface information as a result of a periodic government auction of exploration-and-production rights.

Revenue for our Engineering segment was \$124.1 million for the six months ended May 31, 2006 compared to \$115.0 million for the six months ended May 31, 2005, an increase of \$9.1 million or 8%. Organic growth added \$7.2 million and acquisitions contributed \$5.8 million. These increases were partially offset by adverse foreign currency movements. Organic growth was principally driven by increased sales and increased prices within our specification and standards and parts-management offerings.

**Cost of Revenue.** Cost of revenue was \$124.0 million for the six months ended May 31, 2006 compared to \$112.7 million for the six months ended May 31, 2005, an increase of \$11.3 million or 10%. As a percentage of revenue, cost of revenue decreased to 47.2% from 48.6%. Margins within our Energy segment increased principally due to the additional revenue discussed above and our ability to leverage a relatively fixed cost structure. Margins within our Engineering segment improved as the cost savings realized from last year's restructuring were largely offset by individually immaterial items.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (SG&A) were \$87.4 million for the six months ended May 31, 2006 compared to \$83.1 million for the six months ended May 31, 2005, an increase of \$4.3 million or 5%. As a percentage of revenue, selling, general and administrative expenses were 33.3% for the six months ended May 31, 2006, down from 35.8% for the six months ended May 31, 2005. SG&A increased primarily due to increased sales-and-marketing and back-office costs to support increased sales; certain one-time costs related to a modest reduction in force in a legacy product line; and, at the corporate level, increased costs related to our first full year as a public company. Cost savings from our third-quarter 2005 restructuring partially offset the above. Acquisitions contributed \$1.3 million of the increase. Foreign currency movements partially offset the above by \$1.3 million.

**Depreciation and Amortization Expenses.** Depreciation and amortization expenses were \$6.7 million for the six months ended May 31, 2006, compared to \$5.8 million for the six months ended May 31, 2005, an increase of \$0.9 million or 16%. The increase was primarily due to acquisitions.

**Compensation Expense Related to Equity Awards.** Compensation expense related to equity awards was \$8.3 million for the six months ended May 31, 2006, compared to \$2.5 million for the six months ended May 31, 2005, an increase of \$5.8 million. The increased expense primarily stems from costs associated with our equity awards granted at the time of and since our November 2005 initial public offering.

**Gain on Sales of Assets.** There were no gains or losses from the sales of assets during the six months ended May 31, 2006. Net gain on sales of assets was \$1.3 million for the six months ended May 31, 2005.

**Operating Income.** Operating income was \$40.0 million for the six months ended May 31, 2006, compared to \$31.8 million for the six months ended May 31, 2005, an increase of \$8.2 million or 26%. As a percentage of revenue, operating income increased to 15.2% for the six months ended May 31, 2006 from 13.7% for the six months ended May 31, 2005.

Operating income for our Energy segment was \$32.6 million for the six months ended May 31, 2006 compared to \$24.1 million for the six months ended May 31, 2005, an increase of \$8.5 million or 35%. The increase was primarily attributable to increased revenue discussed above coupled with a relatively fixed cost structure. The first half of 2006 also benefited from certain events unique to the first quarter, such as increased attendance and sponsorships for CERAWeek and the sale of certain U.K. sub-surface information as a result of a periodic government auction of exploration-and-production rights.

Operating income for our Engineering segment was \$13.5 million for the six months ended May 31, 2006 compared to \$7.0 million for the six months ended May 31, 2005, an increase of \$6.5 million, or 93%. Operating income increased primarily due to increased sales combined with cost savings resulting from our third-quarter 2005 restructuring.

**Interest Income.** Interest income was \$2.4 million for the six months ended May 31, 2006 compared to \$1.7 million for the six months May 31, 2005, an increase of \$0.7 million, or 41%. The increase was primarily attributable to higher average cash balances and increased rates of return.

**Interest Expense.** Interest expense was \$0.2 million for the six months ended May 31, 2006 compared to \$0.6 million for the six months May 31, 2005, a decrease of \$0.4 million. In the first quarter of 2005, we wrote off certain deferred financing costs associated with our previous credit facility as we entered into a new credit facility in January 2005.

**Provision for Income Taxes.** Our effective tax rate for the six months ended May 31, 2006 was 33%, compared to 30% for the six months ended May 31, 2005. The lower rate in 2005 was primarily due to recognition of the benefits resulting from the favorable settlements of certain tax audits. There were no similar discrete items in 2006.

**Loss from Discontinued Operations, Net.** Loss from discontinued operations, net was \$1.6 million for the six months ended May 31, 2006 compared to \$1.1 million for the six months ended May 31, 2005, an increase of \$0.5 million. During the first quarter of 2006, we revised our estimate, and wrote down the value, of the assets of the discontinued operation based on what we had experienced to date in the sales process. Subsequent to the end of our second quarter 2006, we sold the business to an unrelated third party for approximately \$0.4 million, subject to closing adjustments.

#### **Financial Condition**

**Accounts Receivable, Net.** Accounts receivable, net were \$109.5 million as of May 31, 2006, compared to \$137.0 million as of November 30, 2005, a decrease of \$27.5 million or 20%. The decrease was primarily attributable to the seasonal nature of our invoicing patterns, as our accounts receivable generally build during the fourth quarter, peak in the first quarter and then decline thereafter.

**Intangibles Assets, Net.** Intangible assets, net were \$42.4 million as of May 31, 2006, compared to \$27.5 million as of November 30, 2005, an increase of \$14.9 million or 54%. The increase was primarily attributable to our December 1, 2005 acquisition.

**Goodwill, Net.** Goodwill, net was \$326.3 million as of May 31, 2006, compared to \$296.4 million as of November 30, 2005, an increase of \$29.9 million or 10%. The increase was principally attributable to our December 1, 2005 acquisition.

**Deferred Revenue.** Deferred revenue was \$189.6 million as of May 31, 2006, compared to \$149.6 million as of November 30, 2005, an increase of \$40.0 million or 27%. The increase was primarily attributable to increased sales and the seasonal nature of our invoicing which generally peaks early during the first half of the year.

**Liquidity and Capital Resources**

As of May 31, 2006, we had cash and cash equivalents of \$170.0 million, short-term investments of \$19.2 million, and virtually no 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 anticipated 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, increased administrative costs of being a public company, 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 \$10 million for 2006.

#### *Cash Flows*

Net cash provided by operating activities was \$65.2 million for the six months ended May 31, 2006, compared to \$24.3 million for the six months ended May 31, 2005, an increase of \$40.9 million. The increase was primarily generated by higher sales and profits and higher collections of accounts receivable.

Net cash used in investing activities was \$31.8 million for the six months ended May 31, 2006, compared to \$5.0 million for the six months ended May 31, 2005. We paid approximately \$33 million on December 1, 2005 for the purchase of a content-and-data-services business for our Engineering segment.

Net cash provided by financing activities was \$2.1 million for the six months ended May 31, 2006. Net cash used in financing activities was \$0.3 million during the six months ended May 31, 2005. Beginning first quarter 2006, we adopted SFAS No. 123(R), *Share-Based Payment*. This standard amended SFAS No. 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. Accordingly, we recognized a \$2.2 million benefit during the first six months of 2006 relating to vesting equity awards during the period; no similar benefit was recognized in the first six months of 2005.

#### *Credit Facility*

We are a party to a \$125 million unsecured revolving credit agreement (the Revolver), which has a feature allowing us to increase the facility to a maximum of \$250 million. The agreement expires in January 2010.

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 75 basis points to 160 basis points or the agent bank's base rate. The facility fee is payable periodically and is 15 or 25 basis points based upon our Leverage Ratio. The Revolver contains certain financial and other covenants, including limitations on capital lease obligations, maximum Leverage Ratio, and maintenance of a Fixed Charge Coverage Ratio, as defined in the Revolver.

As of May 31, 2006, we were in compliance with all of the covenants in the agreement and had no outstanding borrowings. However, we had letters of credit totaling approximately \$1.6 million as of May 31, 2006.

#### **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 2005 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 and pension and post-retirement benefits.



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

For information regarding our exposure to certain market risk, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2005 Form 10-K. There were no material changes to our market risk exposure during the first six months of 2006.

You should also read Derivatives included in Note 1 to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q.

**Item 4. Controls and Procedures**

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

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this Form 10-Q. The evaluation included certain internal control areas in which we have made and are continuing to make changes to improve and enhance controls. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

*(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.

Since 2004 we have invested significant resources to comprehensively document and analyze our system of internal control over financial reporting. We have identified areas requiring improvement, and we are in the process of designing enhanced processes and controls to address issues identified through this review. We plan to continue this initiative as well as prepare for our first management report on internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, for the annual period ending November 30, 2006, which may result in changes to our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 4. Submission of Matters to a Vote by Security Holders**

Not applicable.

**Item 5. Other Information**

On July 6, 2006, the Nominating and Corporate Governance Committee and the Human Resources Committee of our Board of Directors approved revisions to the compensation program for non-employee directors serving on our Board of Directors. A summary of the Non-Employee Director Compensation Program is attached hereto as Exhibit 10.1 and is incorporated by reference herein.

**Item 6. Exhibits**

(a) Index of Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Description
10.1*	Summary of Non-Employee Director Compensation Program
10.2*	IHS Inc. 2004 Long-Term Incentive Plan 2004 Form of Option Award
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**

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 July 7, 2006.

IHS INC.

By:

*/s/ Heather Matzke-Hamlin*

Name: Heather Matzke-Hamlin

Title: Senior Vice President and Chief Accounting Officer

**EXHIBIT INDEX**

Exhibit Number	Description
10.1*	Summary of Non-Employee Director Compensation Program
10.2*	IHS Inc. 2004 Long-Term Incentive Plan 2004 Form of Option Award
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.