

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)

13-3769440
(IRS Employer
Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 | 15 | % |
| As a percent of revenue | 27 | % 27 | % | |

Cost of Revenue and Sales Margins

For the three months ended February 29, 2012, compared to February 28, 2011, cost of revenue increased in line with the increase in revenue. Total sales margins, which we define as revenue less cost of sales, divided by total sales, are virtually unchanged in total, but are higher in the Americas primarily because of the SMT acquisition and lower in APAC because of lower sales margins in some of our other recent acquisitions. The following table shows the sales margin percentages and percentage point change by operating segment.

| (Percentages) | Three Months Ended | | Percentage | |
|-----------------------|--------------------|-------------------|------------|----|
| | February 29, 2012 | February 28, 2011 | Change | |
| Americas sales margin | 61 | % 59 | % 2 | % |
| EMEA sales margin | 53 | % 53 | % — | % |
| APAC sales margin | 53 | % 59 | % (6) |)% |
| Total sales margin | 57 | % 57 | % — | % |

As we have discussed in recent periods, the rate of sales margin expansion has been slowing due to product mix changes and the acquisition of businesses with lower margins than ours, although we have seen margin improvement on acquisitions completed within the last year, which coincides with our goal and expectation to bring acquisition margin profiles up throughout the first year of ownership. We anticipate that sales margin expansion will be flat to slightly up for the near term.

Selling, General and Administrative (SG&A) Expense

We evaluate our SG&A expense excluding stock-based compensation expense. For the three months ended February 29, 2012, compared to February 28, 2011, the increase in SG&A is due to acquisitions and costs associated with organic revenue growth. We continue to invest in our colleagues while managing the cost structure of our business, and SG&A expense has consequently remained relatively flat as a percentage of revenue compared to prior periods.

For the three months ended February 29, 2012, compared to February 28, 2011, stock-based compensation expense increased as a result of an increase in the number of employees, a continuing increase in the stock price, and the timing of stock grants.

Depreciation and Amortization Expense

For the three months ended February 29, 2012, compared to February 28, 2011, depreciation and amortization expense increased primarily due to the increase in depreciable and amortizable assets from capital expenditures and

acquisitions.

Acquisition-related Costs

Please refer to Note 5 to the Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q for a discussion of our year-to-date 2012 costs incurred for integration and other acquisition-related activities. We incurred approximately \$1 million of costs in the first quarter of 2012 for these activities. Because acquisitions are a key component of our growth strategy, we expect that we will continue to perform similar activities for future acquisitions.

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Restructuring

Please refer to Note 4 to the Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q for a discussion of our restructuring activities. We incurred \$7.5 million of restructuring charges in the first quarter of 2012 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. Similar initiatives are expected to occur in future periods resulting in additional restructuring charges.

We did not have any restructuring charges in the first quarter of 2011.

Operating Income by Segment (geography)

| (In thousands, except percentages) | Three Months Ended | | Percentage | |
|------------------------------------|--------------------|-------------------|------------|----|
| | February 29, 2012 | February 28, 2011 | Change | |
| Americas operating income | \$51,304 | \$48,933 | 5 | % |
| As a percent of segment revenue | 25 | % 27 | % | |
| EMEA operating income | 20,897 | 16,554 | 26 | % |
| As a percent of segment revenue | 21 | % 20 | % | |
| APAC operating income | 7,995 | 8,265 | (3 |)% |
| As a percent of segment revenue | 22 | % 28 | % | |
| Shared services operating expense | (45,136 |) (31,832 |) | |
| Total operating income | \$35,060 | \$41,920 | (16 |)% |
| As a percent of total revenue | 10 | % 14 | % | |

For the three months ended February 29, 2012, compared to February 28, 2011, operating income as a percentage of revenue for the Americas segment decreased primarily because of increased depreciation and amortization expense, as well as the effects of the first quarter 2012 restructuring. For the three months ended February 29, 2012, compared to 2011, the EMEA segment has remained relatively flat. For the three months ended February 29, 2012, APAC operating income as a percentage of revenue has decreased as a result of an increase in SG&A investment to drive growth opportunities in this emerging market.

Provision for Income Taxes

Our effective tax rate for the three months ended February 29, 2012 was 22.6%, compared to 21.6% for the same period of 2011.

Adjusted EBITDA (non-GAAP measure)

All of the reconciling items included in the following table are either (i) non-cash items (e.g., depreciation and amortization, stock-based compensation, non-cash pension and postretirement expense) or (ii) items that we do not consider to be useful in assessing our operating performance (e.g., income taxes, acquisition-related costs, restructuring charges, income or loss from discontinued operations, and gain or loss on sale of assets). In the case of the non-cash items, we believe that investors can better assess our operating performance if the measures are presented without such items because, unlike cash expenses, these adjustments do not affect our ability to generate free cash flow or invest in our business. For example, by eliminating depreciation and amortization from EBITDA, users can compare operating performance without regard to different accounting determinations such as useful life. In the case of the other items, we believe that investors can better assess operating performance if the measures are presented without these items because their financial impact does not reflect ongoing operating performance.

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| (In thousands, except percentages) | Three Months Ended | | Percentage | |
|--|--------------------|-------------------|------------|----|
| | February 29, 2012 | February 28, 2011 | Change | |
| Net income | \$23,475 | \$31,937 | (26 |)% |
| Interest income | (172 |) (185 |) | |
| Interest expense | 4,894 | 1,662 | | |
| Provision for income taxes | 6,863 | 8,719 | | |
| Depreciation and amortization | 26,301 | 18,201 | | |
| EBITDA | \$61,361 | \$60,334 | 2 | % |
| Stock-based compensation expense | 33,920 | 22,098 | | |
| Restructuring charges (credits) | 7,485 | — | | |
| Acquisition-related costs | 867 | 3,306 | | |
| Non-cash net periodic pension and postretirement expense | — | 703 | | |
| (Income) loss from discontinued operations, net | — | (213 |) | |
| Adjusted EBITDA | \$103,633 | \$86,228 | 20 | % |
| Adjusted EBITDA as a percentage of revenue | 30.2 | % 29.4 | % | |

Our Adjusted EBITDA for 2012 increased primarily because of our organic subscription revenue growth, acquisitions, and the leverage in our business model. We continue to invest substantially in both the core business and in key transformative initiatives.

Discontinued Operations

In the fourth quarter of 2011, we discontinued a small print-and-advertising business focused on a narrow, declining market. The discontinuation of that business included abandoning certain intellectual property. In the fourth quarter of 2011, we also discontinued a minor government-services business.

We continue to perform a formal and structured review of our product portfolio, with a focus on assessing the growth profile and strategic fit of all of our offerings, ensuring they support core businesses, enable sustainable high growth rates, and provide a scalable market capability. Some of these businesses may be treated as discontinued operations if we ultimately decide to sell or abandon them, providing they meet the accounting criteria for treatment as discontinued operations.

Financial Condition

| (In thousands, except percentages) | As of February 29, 2012 | As of November 30, 2011 | Dollar change | Percent change | |
|------------------------------------|-------------------------|-------------------------|---------------|----------------|----|
| Accounts receivable, net | \$354,259 | \$326,009 | \$28,250 | 9 | % |
| Accrued compensation | \$31,668 | \$57,516 | \$(25,848 |) (45 |)% |
| Deferred revenue | \$571,983 | \$487,172 | \$84,811 | 17 | % |

The increase in accounts receivable is due to the fact that we typically have the most subscription renewals in our first and fourth fiscal quarters, and this trend has continued in 2012. The change in accrued compensation is primarily due to the 2011 bonus payout made in early 2012. The increase in deferred subscription revenue was primarily attributable to organic growth.

Liquidity and Capital Resources

As of February 29, 2012, we had cash and cash equivalents of \$297 million, of which approximately \$217 million is currently held by our foreign subsidiaries. The cash held by our foreign subsidiaries is not available to fund domestic

operations, as we have deemed the earnings of those subsidiaries to be indefinitely reinvested. We also had \$869 million of debt as of February 29, 2012, which has contributed to an increase in interest expense in 2012, and which will continue to result in increased interest expense for the near future. We have generated strong cash flows from operations over the last few years. On a trailing twelve-month basis, our conversion of Adjusted EBITDA to free cash flow was 72%, which is comparable to the

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73% conversion ratio achieved in last year's first quarter. Because of our cash, debt, and cash flow positions, as well as the additional financing that we secured in October 2011, we believe we will have sufficient cash to meet our working capital and capital expenditure needs.

Historically, we were not required to make cash contributions to our U.S. RIP pension plan because of its funded status. However, due to the global economic downturn, which negatively impacted the returns on our pension assets, we were required to make a cash contribution to our U.S. RIP in fiscal 2012. In considering that requirement and the various changes to our pension strategy, including the annuitization of retiree pension obligations, bringing our pension deficit current, and funding our 2012 pension costs, we made a \$65 million contribution to the pension plan in December 2011. Approximately \$57 million of the contribution was used for the annuitization and bringing our deficit current, with the remaining \$8 million used to fund expected 2012 pension costs.

Our future capital requirements will depend on many factors, including the level of future acquisitions, the need for additional facilities or facility improvements, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, changing technology, investments in our internal business applications, 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; however, additional funds may not be available on terms acceptable to us. We expect our capital expenditures to be approximately 3.5% of revenue for fiscal 2012.

Cash Flows

| (In thousands, except percentages) | Three Months Ended | | Dollar change | Percent change |
|---|----------------------|----------------------|---------------|----------------|
| | February 29, 2012 | February 28, 2011 | | |
| Net cash provided by operating activities | \$32,983 | \$79,268 | \$(46,285) | (58)% |
| Net cash used in investing activities | \$(16,005) | \$(18,633) | \$2,628 | 14 % |
| Net cash provided by (used in) financing activities | \$46,051 | \$(14,209) | \$60,260 | 424 % |

The decrease in net cash provided by operating activities was principally due to the pension funding contribution we made in December 2011, offset in part by increased billings and collections in the first three months of 2012. Our subscription-based business model continues to be a cash flow generator that is aided by positive working capital characteristics that do not generally require substantial working capital increases to support our growth, as well as relatively low levels of required capital expenditures.

The increase in net cash used in investing activities was principally due to fewer capital expenditures in 2012.

The increase in net cash provided by financing activities for the three months of 2012 was principally due to borrowings on the credit line that we used to fund the pension contribution made in December 2011.

Free Cash Flow (non-GAAP measure)

The following table reconciles our non-GAAP free cash flow measure to net cash provided by operating activities.

| (In thousands, except percentages) | Three Months Ended | | Dollar change | Percent change |
|--|----------------------|----------------------|---------------|----------------|
| | February 29, 2012 | February 28, 2011 | | |
| Net cash provided by operating activities | \$32,983 | \$79,268 | | |
| Capital expenditures on property and equipment | (13,556) | (15,541) | | |
| Free cash flow | \$19,427 | \$63,727 | \$(44,300) | (70)% |

Excluding the \$57 million pension funding contribution described above, our free cash flow would have been \$76 million, which represents a 20% increase over the prior year. Our free cash flow has historically been very healthy, and we expect that it will continue to be a significant source of funding for our business strategy of growth through organic and acquisitive means.

Credit Facility and Other Debt

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Please refer to Note 9 to the Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q for a discussion of the current status of our term loan and revolving credit agreement.

Share Repurchase Program

Please refer to Part II, Item 2 in this quarterly report on Form 10-Q for a discussion of our share repurchase programs.

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 Annual Report on Form 10-K for fiscal year 2011 for a discussion of the estimates and judgments necessary in our accounting for revenue recognition, valuation of goodwill and intangible assets, income taxes, pension and postretirement benefits, and stock-based compensation.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

For information regarding our exposure to certain market risks, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for fiscal year 2011.

Our credit facility is subject to variable interest rates. In April and June of 2011, we entered into four-year interest rate derivative contracts that swap variable interest rates for fixed on \$100 million of the credit facility. A hypothetical 10% adverse movement in interest rates related to the term loan, credit facility borrowings, or derivative contracts would have resulted in an increase of approximately \$1.3 million in interest expense.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act are effective at a reasonable assurance level to ensure that information required to be disclosed in the reports required to be filed or submitted under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

We are in the process of converting to a new enterprise resource planning (ERP) system, which we are performing through a phased implementation approach. During the fiscal quarter ended February 29, 2012, we went live on a significant phase of the implementation, which included aspects of financial reporting and shared service center

functions on a global scale. We believe that the new ERP system and related changes to internal controls will enhance our internal controls over financial reporting while providing us with the ability to scale our business. We have taken the necessary steps to monitor and maintain appropriate internal control over financial reporting during this period of change and will continue to evaluate the operating effectiveness of related key controls during subsequent periods.

Other than the ERP system implementation discussed above, there were no changes in our internal control over financial reporting that occurred during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

Item 1A. Risk Factors

There have been no material changes to the risk factors associated with the business previously disclosed in Part I, Item 1A of our 2011 Annual Report on Form 10-K.

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

The following table provides detail about our share repurchases during the three months ended February 29, 2012.

| | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2) |
|--------------------------------|--|------------------------------------|---|---|
| December 1 - December 31, 2011 | 31,768 | \$86.11 | — | 1,000,000 |
| January 1 - January 31, 2012 | 104,896 | 91.68 | — | 1,000,000 |
| February 1 - February 29, 2012 | 178,673 | 90.02 | — | 1,000,000 |
| Total share repurchases | 315,337 | \$90.18 | — | |

(1) Amounts represent shares of common stock surrendered by employees in an amount equal to the minimum statutory tax liability associated with the vesting of their equity awards. We then pay the statutory tax on behalf of the employee. Our board of directors approved this program in 2006 in an effort to reduce the dilutive effects of employee equity grants.

(2) To more fully offset the dilutive effect of our employee equity programs, in March 2011, our board of directors approved a plan authorizing us to buy back up to one million shares per year in the open market. We may execute on this program at our discretion, balancing dilution offset with other investment opportunities of the business, including acquisitions. This plan does not have an expiration date.

Item 6. Exhibits

(a) Index of Exhibits

The following exhibits are filed as part of this report:

| Exhibit Number | Description |
|-------------------|--|
| 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. |

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| | |
|-----------|--|
| 32* | 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. |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema Document |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document |

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- * Filed electronically herewith.
- ** XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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 March 26, 2012.

IHS INC.

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