

IHS Inc.
Form 10-Q
June 27, 2007

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, 2007

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

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SIGNATURE

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of May 31, 2007 (Unaudited)	As of November 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 212,286	\$ 180,034
Short-term investments	23	2,076
Accounts receivable, net	126,549	151,300
Deferred subscription costs	37,372	33,293
Deferred income taxes	11,641	7,758
Other	9,801	6,461
Total current assets	397,672	380,922
Non-current assets:		
Property and equipment, net	52,103	53,096
Intangible assets, net	67,858	65,962
Goodwill, net	365,214	350,896
Prepaid pension asset	93,835	92,488
Other	972	937
Total non-current assets	579,982	563,379
Total assets	\$ 977,654	\$ 944,301
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	\$	\$ 500
Accounts payable	20,458	45,622
Accrued compensation	19,308	30,788
Accrued royalties	20,368	22,801
Other accrued expenses	34,503	36,047
Income tax payable	16,590	11,484
Deferred subscription revenue	219,815	191,229
Total current liabilities	331,042	338,471
Long-term debt	1,510	74
Accrued pension liability	12,733	12,309
Accrued post-retirement benefits	16,731	18,200
Deferred income taxes	5,654	2,788
Other liabilities	5,930	6,891
Minority interests	138	377
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$0.01 par value per share, 80,000,000 shares authorized, 45,245,782 and 45,265,794 shares issued, 44,615,676 and 45,042,232 shares outstanding at May 31, 2007 and November 30, 2006, respectively	452	453
Class B common stock, \$0.01 par value per share, 13,750,000 shares authorized, issued and outstanding at May 31, 2007 and November 30, 2006	138	138
Additional paid in capital	188,678	175,027

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Treasury stock, at cost: 630,106 and 223,562 shares at May 31, 2007 and November 30, 2006, respectively	(23,214)	(7,551)
Retained earnings	436,988		400,029	
Accumulated other comprehensive loss	874		(2,905)
Total stockholders' equity	603,916		565,191	
Total liabilities and stockholders' equity	\$ 977,654		\$ 944,301	

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,					
	2007	2006	2007	2006				
	(Unaudited)							
Revenue:								
Products	\$ 129,136	\$ 110,483	\$ 252,115	\$ 217,065				
Services	25,764	22,372	55,406	45,656				
Total revenue	154,900	132,855	307,521	262,721				
Operating expenses:								
Cost of revenue:								
Products	50,274	47,851	99,007	93,524				
Services	17,479	15,331	34,484	30,521				
Total cost of revenue (includes stock-based compensation expense of \$105, \$1,071, \$456 and \$2,166 for the three and six months ended May 31, 2007 and 2006, respectively)	67,753	63,182	133,491	124,045				
Selling, general and administrative (includes stock-based compensation expense of \$5,940 ; \$3,288; \$12,925 and \$5,859 for the three and six months ended May 31, 2007 and 2006, respectively)	56,607	47,679	114,498	92,844				
Depreciation and amortization	4,921	3,342	9,501	6,712				
Restructuring and other charges	9			2				
Gain on sales of assets, net	(5)	(756)				
Net periodic pension and post-retirement benefits	(354)	(1,029)	(622)	(1,545)
Earnings in unconsolidated subsidiaries	(120)	(102)	(164)	(130)
Other expense (income), net	204	1,223	(196)	820			
Total operating expenses	129,015	114,295	255,752	222,748				
Operating income	25,885	18,560	51,769	39,973				
Interest income	1,694	1,458	3,348	2,372				
Interest expense	(76)	(67)	(209)	(152)
Non-operating income, net	1,618	1,391	3,139	2,220				
Income from continuing operations before income taxes and minority interests								
	27,503	19,951	54,908	42,193				
Provision for income taxes	(8,909)	(6,619)	(17,952)	(14,092)
Income from continuing operations before minority interests	18,594	13,332	36,956	28,101				
Minority interests	(12)	(56)	3		(81)
Income from continuing operations	18,582	13,276	36,959	28,020				
Discontinued operations:								
Loss from discontinued operations, net		(342)	(1,622)			
Net income	\$ 18,582	\$ 12,934	\$ 36,959	\$ 26,398				
Income from continuing operations per share:								
Basic (Class A and Class B common stock)	\$ 0.32	\$ 0.24	\$ 0.64	\$ 0.50				
Diluted (Class A and Class B common stock)	\$ 0.32	\$ 0.24	\$ 0.63	\$ 0.50				
Loss from discontinued operations per share:								
Basic (Class A and Class B common stock)	\$	\$ (0.01)	\$ (0.03)			
Diluted (Class A and Class B common stock)	\$	\$ (0.01)	\$ (0.03)			
Net income per share:								
Basic (Class A and Class B common stock)	\$ 0.32	\$ 0.23	\$ 0.64	\$ 0.47				
Diluted (Class A and Class B common stock)	\$ 0.32	\$ 0.23	\$ 0.63	\$ 0.47				
Weighted average shares:								
Basic (Class A common stock)	43,626	42,271	43,733	42,199				
Basic (Class B common stock)	13,750	13,750	13,750	13,750				

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Diluted (Class A common stock)	58,281	56,130	58,328	56,071
Diluted (Class B common stock)	13,750	13,750	13,750	13,750

See accompanying notes.

IHS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended May 31,	
	2007	2006
	(Unaudited)	
Operating activities		
Net income	\$ 36,959	\$ 26,398
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	9,501	6,712
Stock-based compensation expense	13,381	8,025
Gain on sales of assets, net	(756)	
Impairment of assets of discontinued operations		1,012
Non-cash net periodic pension and post-retirement benefits	(1,997)	(1,944)
Undistributed earnings of unconsolidated subsidiaries, net	140	
Minority interests	(234)	(66)
Deferred income taxes	(1,015)	213
Change in assets and liabilities:		
Accounts receivable, net	24,825	30,781
Other current assets	(5,565)	(2,715)
Accounts payable	(25,388)	(20,557)
Accrued expenses	(15,492)	(11,586)
Income taxes	5,311	(247)
Deferred subscription revenue	26,092	29,136
Net cash provided by operating activities	65,762	65,162
Investing activities		
Capital expenditures on property and equipment	(3,645)	(5,763)
Intangible assets acquired		(3,300)
Change in other assets	(3,496)	1,272
Purchase of investments		(5,365)
Sales and maturities of investments	2,008	14,302
Acquisitions of businesses, net of cash acquired	(14,607)	(32,976)
Proceeds from sales of assets	2,461	
Net cash used in investing activities	(17,279)	(31,830)
Financing activities		
Net payments on debt	(500)	(91)
Excess tax benefit from equity compensation plans	121	2,194
Repurchases of common stock	(15,663)	
Net cash provided by (used in) financing activities	(16,042)	2,103
Foreign exchange impact on cash balance	(189)	2,197
Net increase in cash and cash equivalents	32,252	37,632
Cash and cash equivalents at the beginning of the period	180,034	132,365
Cash and cash equivalents at the end of the period	\$ 212,286	\$ 169,997

See accompanying notes.

IHS INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands)

	Shares of Class A Common Stock (Unaudited)	Class A Common Stock	Shares of Class B Common Stock	Class B Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at November 30, 2006	45,042	\$ 453	13,750	\$ 138	\$ 175,027	\$ (7,551)	\$ 400,029	\$ (2,905)	\$ 565,191
Stock-based award activity	(26)	(1)			13,530	(253)			13,276
Excess tax benefit on vested shares					121				121
Repurchases of common stock	(400)					(15,410)			(15,410)
Net income							36,959		36,959
Other comprehensive income:									
Foreign currency translation adjustments								3,779	3,779
Comprehensive income, net of tax									40,738
Balance at May 31, 2007	44,616	\$ 452	13,750	\$ 138	\$ 188,678	\$ (23,214)	\$ 436,988	\$ 874	\$ 603,916

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, 2006. The results of operations for the three and six months ended May 31, 2007, 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, 2006, 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 have occurred most frequently in our first and fourth quarters. Consequently, we generally have recognized 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 our first fiscal quarter 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.

Reclassification

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

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 second quarter of 2007 was 32.4% compared to 33.2% for the prior-year period. Our effective tax rate for the six months ended May 31, 2007, was 32.7% compared to 33.4% for the six months ended May 31, 2006. The lower 2007 rate was principally due to a higher mix of earnings in lower-rate tax jurisdictions than the United States.

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), which provides clarification related to the process associated with accounting for uncertain tax positions recognized in consolidated financial statements. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. We are required to adopt FIN 48 on December 1, 2007, the first day of our 2008 fiscal year, although early adoption is permitted. We are currently evaluating the impact of adopting FIN 48 on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). Among other requirements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 is effective beginning the first fiscal year that begins after November 15, 2007. We are required to adopt SFAS No. 157 on December 1, 2007, although earlier adoption is permitted. We are currently evaluating the impact of SFAS No. 157 on our financial position and results of operations.

In September 2006, FASB issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158). SFAS No. 158 requires an employer that is a business entity and sponsors one or more single employer benefit plans to (1) recognize the funded status of the benefit in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs on credits, and transition asset or obligations. We plan to adopt SFAS No. 158 effective at the end of our fiscal year ending November 30, 2007. If SFAS No. 158 had been effective as of November 30, 2006, total assets would have been approximately \$22 million lower, total liabilities would have been approximately \$5 million lower and shareholders' equity would have been approximately \$17 million lower. Because our net pension liabilities are dependent upon future events and circumstances, the impact at the time of adoption of SFAS No. 158 may differ from these amounts. Adoption of SFAS No. 158 is not expected to have any effect on our compliance with our debt covenants.

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

2007. We are required to adopt SFAS No. 159 on December 1, 2007, although earlier adoption is permitted. We are currently evaluating the impact of SFAS No. 159 on our financial position and results of operations.

2. Restructuring and Offering Charges

During the fourth quarter of 2006, we executed a restructuring initiative principally affecting our Engineering segment. This initiative was undertaken to facilitate continued growth through the focus on a narrower group of products and services, exit non-core legacy applications and improve our operational effectiveness. During the course of the restructuring, we reduced our aggregate workforce by approximately 40 employees.

The restructuring charge was incurred in its entirety during the fourth quarter of 2006. Approximately \$1.9 million of the charge related to our Engineering segment, \$0.4 million pertained to our Energy segment, and \$0.1 million related to Shared Services. The restructuring charge was comprised entirely of employee severance and other termination benefits costs.

A reconciliation of the related accrued restructuring liability as of May 31, 2007 was as follows:

	Employee Severance and Other Termination Benefits
	(In thousands)
Balance at November 30, 2006	\$ 2,046
Less: Amount paid during the period ended May 31, 2007	(1,630)
Balance at May 31, 2007	\$ 416

3. 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. During the third quarter of 2006, we sold the business to an unrelated third party for approximately \$0.3 million and recognized a loss of less than \$0.1 million on the sale of the business.

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.

Operating results of the discontinued operations for the three and six months ended May 31, 2007 and 2006 were as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
	(In thousands)			
Revenue	\$ 215	\$ 394		
Loss from discontinued operations	\$ (552)	\$ (2,457)		
Tax benefit	210	835		
Loss from discontinued operations, net	\$ (342)	\$ (1,622)		

4. 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.

5. Other Comprehensive Income (Loss)

Our comprehensive income (loss) for the three and six months ended May 31, 2007 and 2006 was as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
	(In thousands)			
Net income	\$ 18,582	\$ 12,934	\$ 36,959	\$ 26,398
Other comprehensive income (loss):				
Foreign currency translation adjustment	6,346	6,143	3,779	8,807
Minimum pension liability adjustment		(254)		(323)
Unrealized gains on foreign currency hedges, net of tax		1,027		1,788
Unrealized gains on short-term investments, net of tax		9		20
Total other comprehensive income, net of tax	\$ 24,928	\$ 19,859	\$ 40,738	\$ 36,690

6. Stock-based Compensation

On May 31, 2007, we had one share-based compensation plan: the Amended and Restated IHS Inc. 2004 Long-Term Incentive Plan (LTIP). The LTIP provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares, cash-based awards, other stock based awards and covered employee annual incentive awards. The 2004 Directors Stock Plan, a sub-plan under the LTIP, provides for the grant of restricted stock and restricted stock units to non-employee directors as defined in that plan. We believe that such awards better align the interests of our employees and non-employee directors with those of our shareholders.

We have authorized a maximum of 7 million shares, minus the number of shares relating to any award granted and outstanding as of, or subsequent to, the effective date under any other of our equity compensation plans, unless shares used to satisfy such award are shares repurchased from the open market.

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
	(In thousands)			
Cost of revenue	\$ 105	\$ 1,071	\$ 456	\$ 2,166
Selling, general and administrative	5,940	3,288	12,925	5,859
Stock-based compensation expense	\$ 6,045	\$ 4,359	\$ 13,381	\$ 8,025

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
	(In thousands)			
Income tax benefit	\$ 2,237	\$ 1,613	\$ 4,951	\$ 2,969

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No compensation cost was capitalized during the three and six months ended May 31, 2007 and 2006.

SFAS 123(R) requires forfeitures to be estimated at the grant date. Accordingly, compensation cost is recognized based on the number of awards expected to vest. There may be adjustments in future periods if actual forfeitures differ from our estimates. Our forfeiture rate is based upon historical experience as well as anticipated employee turnover considering certain qualitative factors.

Total compensation expense related to nonvested awards, both share awards and stock options, not yet recognized was \$51.6 million as of May 31, 2007, with a weighted-average recognition period of approximately 1½ years.

Nonvested Stock. Share awards generally vest from one to four years. Share awards are generally subject to graded vesting but we do have a limited number of share awards subject to cliff vesting. The fair value of nonvested stock is based on the fair value of our common stock on the date of grant. We amortize the value of share awards to expense over the vesting period on a straight-line basis. For awards with performance conditions, an evaluation is made each quarter as to the likelihood of the performance criteria being met. Compensation expense is then adjusted to reflect the number of shares expected to vest and the cumulative vesting period met to date.

A summary of the status of our nonvested shares as of May 31, 2007, and changes during the six months ended May 31, 2007, was as follows:

	Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Balances, November 30, 2006	1,721	\$ 18.57
Granted	1,029	\$ 37.65
Vested	(87)	\$ 13.51
Forfeited	(57)	\$ 26.07
Balances, May 31, 2007	2,606	\$ 26.11

The total fair value of nonvested stock that vested during the three months ended May 31, 2007, was \$3.3 million based on the weighted-average fair value on the vesting date and \$1.2 million based on the weighted-average fair value on the date of grant.

Stock Options. Option awards are granted with an exercise price equal to the fair market value of our stock at the date of grant. Options outstanding as of May 31, 2007, vest in various ways over a period of 3-to-4 years of continuous service and have 8-year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the plans).

The fair value of each option award was estimated on the date of grant using the Black-Scholes pricing model that used the assumptions noted in the following table:

	Six Months Ended May 31, 2007	
Dividend yield	0.0	%
Expected volatility	30.66	%
Risk-free interest rate	4.92	%
Expected term (in years)	5.0	
Weighted average fair value of stock options granted	\$ 13.57	

We had no options outstanding during the three and six months ended May 31, 2006. Our dividend yield is 0.0% since we have no history of paying dividends and currently have no plan to do so. Our expected volatility is determined

periodically using a basket of peer company historical volatility rates until such time our stock history is equal to our contractual terms. Our risk-free interest rate is the treasury-bill rate for the period equal to the expected term based on the Treasury note strip principal rates as reported in well-known and widely used financial sources. Our expected term is the average of the contractual term of the option and the vesting period (i.e., the shortcut method), which is an acceptable method under Staff Accounting Bulletin 107).

The following table summarized changes in outstanding stock options during the six months ended May 31, 2007, as well as options that are vested and expected to vest and stock options exercisable at May 31, 2007:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Outstanding at November 30, 2006	99	\$ 30.80		
Granted	193	\$ 37.65		
Exercised				
Forfeited	(3)	\$ 37.65		
Outstanding at May 31, 2007	289	\$ 35.31	2.75	\$ 1,413
Vested and expected to vest at May 31, 2007	285	\$ 35.31	2.75	\$ 1,413
Exercisable at May 31, 2007				\$

The aggregate intrinsic value amounts in the table above represent the difference between the closing price of our common stock on May 31, 2007, which was \$40.19, and the exercise price, multiplied by the number of in-the-money stock options as of the same date. This represents the amount that would have been received by the stock option holders if they had all exercised their stock options on May 31, 2007. In future periods, this amount will change depending on fluctuations in our stock price. The total intrinsic value of stock options exercised during the three and six months ended May 31, 2007 was \$0.

7. Pensions and Postretirement Benefits

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

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

	Three Months Ended May 31, 2007				Three Months Ended May 31, 2006			
	U.S. RIP	U.K. RIP	SIP	Total	U.S. RIP	U.K. RIP	SIP	Total
	(In thousands)							
Service costs incurred	\$ 1,569	\$ 288	\$ 48	\$ 1,905	\$ 1,303	\$ 215	\$ 26	\$ 1,544
Interest costs on projected benefit obligation	2,720	499	82	3,301	2,653	376	100	3,129
Expected return on plan assets	(5,078)	(451)		(5,529)	(5,050)	(359)		(5,409)
Amortization of prior service cost	(119)			(119)	(111)		28	(83)
Amortization of actuarial loss	375	302	30	707	244	144	25	413
Amortization of transitional obligation/(asset)	(142)		10	(132)	(142)		10	(132)
Net periodic pension benefit (income) expense	\$ (675)	\$ 638	\$ 170	\$ 133	\$ (1,103)	\$ 376	\$ 189	\$ (538)

	Six Months Ended May 31, 2007				Six Months Ended May 31, 2006			
	U.S. RIP	U.K. RIP	SIP	Total	U.S. RIP	U.K. RIP	SIP	Total
	(In thousands)							
Service costs incurred	\$ 3,138	\$ 574	\$ 96	\$ 3,808	\$ 2,214	\$ 427	\$ 73	\$ 2,714
Interest costs on projected benefit obligation	5,440	1,039	186	6,665	5,362	745	198	6,305
Expected return on plan assets	(10,156)	(898)		(11,054)	(10,110)	(711)		(10,821)
Amortization of prior service cost	(237)		22	(215)	(144)		59	(85)
Amortization of actuarial loss	750	602	60	1,412	475	285	49	809
Amortization of transitional obligation/(asset)	(284)		20	(264)	(284)		20	(264)
Net periodic pension benefit (income) expense	\$ (1,349)	\$ 1,317	\$ 384	\$ 352	\$ (2,487)	\$ 746	\$ 399	\$ (1,342)

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
	(In thousands)			
Service costs incurred	\$ 34	\$ 38	\$ 68	\$ 215
Interest costs	148	145	296	439
Amortization of prior service amounts	(807)	(807)	(1,614)	(1,076)
Amortization of net actuarial loss	138	133	276	219
Net periodic post-retirement benefit (income) expense	\$ (487)	\$ (491)	\$ (974)	\$ (203)

8. 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.

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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,			
	2007		2006		2007		2006	
	(In thousands)							
Net income	\$	18,582	\$	12,934	\$	36,959	\$	26,398
Less: dividends								
Undistributed earnings	\$	18,582	\$	12,934	\$	36,959	\$	26,398

Weighted average common shares outstanding are calculated as follows:

	Three Months Ended May 31,					
	2007			2006		
	Class A	Class B	Class A	Class B	Class B	
(In thousands)						
Weighted average common shares outstanding:						
Shares used in basic per-share calculation	43,626	13,750	42,271	13,750		
Effect of dilutive securities:						
Deferred stock units	18		52			
Restricted shares	876		57			
Options	11					
Assumed conversion of Class B shares	13,750		13,750			
Shares used in diluted per-share calculation	58,281	13,750	56,130	13,750		

	Six Months Ended May 31,					
	2007			2006		
	Class A	Class B	Class A	Class B	Class B	
(In thousands)						
Weighted average common shares outstanding:						
Shares used in basic per-share calculation	43,733	13,750	42,199	13,750		
Effect of dilutive securities:						
Deferred stock units	18		73			
Restricted shares	826		49			
Options	1					
Assumed conversion of Class B shares	13,750		13,750			
Shares used in diluted per-share calculation	58,328	13,750	56,071	13,750		

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

	Three Months Ended May 31,			
	2007		2006	
	Class A	Class B	Class A	Class B
	(In thousands)			
Basic				
Weighted average shares outstanding	43,626	13,750	42,271	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	57,376	57,376	56,021	56,021
Multiplied by: Undistributed earnings	\$ 18,582	\$ 18,582	\$ 12,934	\$ 12,934
Subtotal	\$ 14,129	\$ 4,453	\$ 9,759	\$ 3,175
Divided by: Weighted average shares outstanding	43,626	13,750	42,271	13,750
Earnings per share	\$ 0.32	\$ 0.32	\$ 0.23	\$ 0.23
Diluted				
Weighted average shares outstanding	58,281	13,750	56,130	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	58,281	58,281	56,130	56,130
Multiplied by: Undistributed earnings	\$ 18,582	\$ 18,582	\$ 12,934	\$ 12,934
Subtotal	\$ 18,582	\$ 4,384	\$ 12,934	\$ 3,168
Divided by: Weighted average shares outstanding	58,281	13,750	56,130	13,750
Earnings per share	\$ 0.32	\$ 0.32	\$ 0.23	\$ 0.23

	Six Months Ended May 31,			
	2007		2006	
	Class A	Class B	Class A	Class B
	(In thousands)			
Basic				
Weighted average shares outstanding	43,733	13,750	42,199	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	57,483	57,483	55,949	55,949
Multiplied by: Undistributed earnings	\$ 36,959	\$ 36,959	\$ 26,398	\$ 26,398
Subtotal	\$ 28,118	\$ 8,841	\$ 19,910	\$ 6,488
Divided by: Weighted average shares outstanding	43,733	13,750	42,199	13,750
Earnings per share	\$ 0.64	\$ 0.64	\$ 0.47	\$ 0.47
Diluted				
Weighted average shares outstanding	58,328	13,750	56,071	13,750
Divided by: Total weighted average shares outstanding (Class A and Class B)	58,328	58,328	56,071	56,071
Multiplied by: Undistributed earnings	\$ 36,959	\$ 36,959	\$ 26,398	\$ 26,398
Subtotal	\$ 36,959	\$ 8,712	\$ 26,398	\$ 6,473
Divided by: Weighted average shares outstanding	58,365	13,750	56,071	13,750
Earnings per share	\$ 0.63	\$ 0.63	\$ 0.47	\$ 0.47

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 and Chief Executive Officer and his direct reports represent our chief operating decision maker as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, 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 consolidated financial statements included in our 2006 Form 10-K).

No single customer accounted for 10% or more of our total revenue for the three and six months ended May 31, 2007 or 2006. There are no material inter-segment revenues for any period presented.

We are in the process of consolidating back-office functions and moving to a shared-services model. Consequently, we are changing our internal structure causing the composition of our internal segments to change. Previously, we allocated certain shared costs, such as general and administrative expenses and depreciation and amortization expense, to our two segments. Starting in the first quarter of 2007, we no longer allocate shared costs to our two segments. Accordingly, the following prior-year amounts have been reclassified to conform to the current-year presentation.

	Energy (In thousands)	Engineering	Shared Services	Consolidated Total
Three Months Ended May 31, 2007				
Revenue	\$ 88,828	\$ 66,072	\$	\$ 154,900
Segment operating income	28,873	11,825	(14,813)	25,885
Depreciation and amortization	2,917	1,407	597	4,921
Three Months Ended May 31, 2006				
Revenue	\$ 70,375	\$ 62,480	\$	\$ 132,855
Segment operating income	19,934	8,815	(10,189)	18,560
Depreciation and amortization	1,805	1,266	271	3,342
	Energy (In thousands)	Engineering	Shared Services	Consolidated Total
Six Months Ended May 31, 2007				
Revenue	\$ 175,574	\$ 131,947	\$	\$ 307,521
Segment operating income	55,918	24,810	(28,959)	51,769
Depreciation and amortization	5,595	2,812	1,094	9,501
Six Months Ended May 31, 2006				
Revenue	\$ 138,613	\$ 124,108	\$	\$ 262,721
Segment operating income	39,128	20,084	(19,239)	39,973
Depreciation and amortization	3,507	2,726	479	6,712

10. Subsequent Event

On June 12, 2007, we executed an agreement with Woodbridge International Holdings S.A. (Woodbridge) for the purchase of Jane's Information Group (Jane's). The parties completed the transaction on the same date. Terms of the transaction included delivery of 4,399,000 shares of our Class A Common Stock and less than \$0.1 million in cash in exchange for all of the outstanding equity and debt of Jane's. Woodbridge has agreed to a three-year lock-up agreement that restricts its ability to sell any IHS shares. We have not yet determined the final value to be assigned to the restricted shares issued to Woodbridge.

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

Forward-Looking Statements

This discussion contains statements that relate to IHS's future plans, objectives, expectations, performance, events and the like that may constitute forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Words such as may, could, should, would, believe, expect, anticipate, estimate, intend, seeks, plan, project, continue, predict and other words or expressions of similar meaning are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements are based on our current expectations about future events or results and information that is currently available to us, involve assumptions, risks and uncertainties, and speak only as of the date on which such statements are made. Our actual results may differ materially from those expressed or implied in these forward-looking statements. Those factors include, but are not limited to, our ability to obtain content from third parties (including Standards Development Organizations) on commercially reasonable terms, changes in demand for IHS's products and services, changes in the energy industry, our ability to develop new products and services, pricing and other competitive pressures, risks associated with the integration of acquisitions, changes in laws and regulations governing our business and certain other factors discussed under the caption "Risk Factors" in the MD&A section of our 2006 Form 10-K, and in our other filings with the SEC. IHS undertakes no duty to update, whether as a result of new information, future events or otherwise, unless required by law.

Overview

Results of Operations

IHS 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 have occurred most frequently in our first and fourth quarters. Consequently, we generally have recognized 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 quarter 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.

Jane's Information Group Acquisition

On June 12, 2007, we executed an agreement with Woodbridge International Holdings S.A. (Woodbridge) for the purchase of Jane's Information Group (Jane's). The parties completed the transaction on the same date. Terms of the transaction included delivery of 4,399,000 shares of our Class A Common Stock and less than \$0.1 million in cash in exchange for all of the outstanding equity and debt of Jane's. Woodbridge has agreed to a three-year lock-up agreement that restricts its ability to sell any IHS shares.

Segment Information

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
	(In thousands)			
Energy revenue	\$ 88,828	\$ 70,375	\$ 175,574	\$ 138,613
Engineering revenue	66,072	62,480	131,947	124,108
Total consolidated revenue	\$ 154,900	\$ 132,855	\$ 307,521	\$ 262,721
Energy operating income	\$ 28,873	\$ 19,934	\$ 55,918	\$ 39,128
Engineering operating income	11,825	8,815	24,810	20,084
Shared services expenses	(14,813)	(10,189)	(28,959)	(19,239)
Consolidated operating income	\$ 25,885	\$ 18,560	\$ 51,769	\$ 39,973

Three Months Ended May 31, 2007 Compared to the Three Months Ended May 31, 2006

Revenue. Revenue was \$154.9 million for the three months ended May 31, 2007, compared to \$132.9 million for the three months ended May 31, 2006, an increase of \$22.0 million or 17%. Revenue increased primarily due to organic growth, which contributed \$13.6 million. Acquisitions grew revenue by \$5.5 million and the impact of foreign currency added \$3.0 million.

Revenue for our Energy segment was \$88.8 million for the three months ended May 31, 2007, compared to \$70.4 million for the three months ended May 31, 2006, an increase of \$18.5 million or 26%. The increase was principally due to organic growth, which contributed \$12.3 million. Additionally, acquisitions added \$5.0 million. Favorable foreign currency rates contributed \$1.2 million of revenue growth. Organic growth during the second quarter of 2007 was primarily driven by price increases, growth in certain critical information subscription products, and higher demand for services.

Revenue for our Engineering segment was \$66.1 million for the three months ended May 31, 2007, compared to \$62.5 million for the three months ended May 31, 2006, an increase of \$3.6 million or 6%. Organic growth contributed \$1.3 million, acquisitions added \$0.5 million, and foreign currency movements added \$1.9 million.

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Organic growth was driven primarily by increased sales in our specifications-and-standards offerings, partially offset by lower services revenue, which decreased due to our fourth-quarter-2006 restructuring, and lower sales of retail products.

Cost of Revenue. Cost of revenue was \$67.8 million for the three months ended May 31, 2007, compared to \$63.2 million for the three months ended May 31, 2006, an increase of \$4.6 million or 7%. As a percentage of revenue, cost of revenue decreased to 43.7% from 47.6%. Margins within our Energy segment increased principally due to the additional revenue discussed above coupled with our ability to leverage a relatively fixed-cost structure. Similarly, margins within our Engineering segment improved slightly, principally due to increased revenue, discussed above, and relatively flat expenses.

Selling, General and Administrative Expenses. Selling, general and administrative expenses (SG&A) were \$56.6 million for the three months ended May 31, 2007, compared to \$47.7 million for the three months ended May 31, 2006, an increase of \$8.9 million or 19%. Stock-based compensation expense included in SG&A increased \$2.7 million. As a percentage of revenue and excluding stock-based compensation expense, SG&A was 32.7% for the three months ended May 31, 2007, down from 33.4% for the three months ended May 31, 2006. SG&A increased due to several reasons, including increased selling expense because of higher sales and a revised commission structure, costs associated with our human resources information system implementation and our ongoing transformational initiatives, and merit increases. Acquisitions contributed \$0.6 million of the increase. Foreign-currency movements also increased SG&A by \$1.0 million.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were \$4.9 million for the three months ended May 31, 2007, compared to \$3.3 million for the three months ended May 31, 2006, an increase of \$1.6 million or 48%. The increase was primarily due to acquisitions.

Operating Income. Operating income was \$25.9 million for the three months ended May 31, 2007, compared to \$18.6 million for the three months ended May 31, 2006, an increase of \$7.3 million or 39%. As a percentage of revenue, operating income increased to 16.7% for the three months ended May 31, 2007 from 14.0% for the three months ended May 31, 2006.

Operating income for our Energy segment was \$28.9 million for the three months ended May 31, 2007, compared to \$19.9 million for the three months ended May 31, 2006, an increase of \$9.0 million or 45%. The increase was principally due to the additional revenue discussed above coupled with our ability to leverage a relatively fixed-cost structure. Acquisitions contributed \$2.6 million.

Operating income for our Engineering segment was \$11.8 million for the three months ended May 31, 2007, compared to \$8.8 million for the three months ended May 31, 2006, an increase of \$3.0 million or 34%. Operating income increased due to increased sales in our subscriptions-based businesses, partially offset by lower services revenue, which decreased due to our fourth-quarter-2006 restructuring, and lower sales of retail products. Costs were relatively flat as reduced headcount and cost savings from our fourth-quarter-2006 restructuring offset merit increases.

Operating expenses for our shared services were \$14.8 million for the three months ended May 31, 2007, compared to \$10.2 million for the three months ended May 31, 2006, an increase of \$4.6 million or 45%. Increased stock-based compensation expense contributed \$1.7 million. Costs associated with our human resources information system implementation and our ongoing transformational initiatives and merit-based salary increases contributed to the increase.

Provision for Income Taxes. Our effective tax rate for the three months ended May 31, 2007 was 32.4%, compared to 33.2% for the three months ended May 31, 2006. The lower 2007 rate was principally due to a higher mix of earnings in lower-rate tax jurisdictions than the United States.

Six Months Ended May 31, 2007 Compared to the Six Months Ended May 31, 2006

Revenue. Revenue was \$307.5 million for the six months ended May 31, 2007, compared to \$262.7 million for the six

months ended May 31, 2006, an increase of \$44.8 million or 17%. Revenue increased primarily due to

organic growth, which contributed \$29.9 million. Acquisitions grew revenue by \$8.9 million and the impact of foreign currency added \$6.0 million.

Revenue for our Energy segment was \$175.6 million for the six months ended May 31, 2007, compared to \$138.6 million for the six months ended May 31, 2006, an increase of \$37.0 million or 27%. The increase was principally due to organic growth, which contributed \$26.4 million. Additionally, acquisitions added \$8.4 million. Favorable foreign currency movements grew revenue by \$2.2 million. Organic growth during the first half of 2007 was primarily driven by price increases, growth in certain critical information subscription products, stronger results from CERAWEEK, and higher demand for services.

Revenue for our Engineering segment was \$131.9 million for the six months ended May 31, 2007, compared to \$124.1 million for the six months ended May 31, 2006, an increase of \$7.8 million or 6%. Organic growth contributed \$3.5 million. Also, acquisitions added \$0.5 million and foreign currency movements grew revenue \$3.8 million. Organic growth was driven by increased sales in our specifications-and-standards and parts-management offerings partially offset by lower services revenue, which decreased due to our fourth-quarter-2006 restructuring, and lower retail product sales.

Cost of Revenue. Cost of revenue was \$133.5 million for the six months ended May 31, 2007, compared to \$124.0 million for the six months ended May 31, 2006, an increase of \$9.5 million or 8%. As a percentage of revenue, cost of revenue decreased to 43.4% from 47.2%. Margins within our Energy segment increased principally due to the additional revenue discussed above coupled with our ability to leverage a relatively fixed-cost structure. Similarly, margins within our Engineering segment improved slightly, principally due to increased revenue, discussed above, and relatively flat expenses.

Selling, General and Administrative Expenses. Selling, general and administrative expenses (SG&A) were \$114.5 million for the six months ended May 31, 2007, compared to \$92.8 million for the six months ended May 31, 2006, an increase of \$21.7 million or 23%. Stock-based compensation expense increased \$7.1 million. As a percentage of revenue and excluding stock-based compensation expense, SG&A was 33.0% for the six months ended May 31, 2007, down slightly from 33.1% for the six months ended May 31, 2006. SG&A increased due to several reasons, including increased selling expense because of higher sales and a revised commission structure, costs associated with our human resources information system implementation and our ongoing transformational initiatives, and merit-based salary increases. Acquisitions contributed \$1.1 million of the increase. Foreign-currency movements also increased SG&A by \$2.1 million.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were \$9.5 million for the six months ended May 31, 2007, compared to \$6.7 million for the six months ended May 31, 2006, an increase of \$2.8 million or 42%. The increase was primarily due to acquisitions.

Operating Income. Operating income was \$51.8 million for the six months ended May 31, 2007, compared to \$40.0 million for the six months ended May 31, 2006, an increase of \$11.8 million or 30%. As a percentage of revenue, operating income increased to 16.8% for the six months ended May 31, 2007 from 15.2% for the six months ended May 31, 2006.

Operating income for our Energy segment was \$55.9 million for the six months ended May 31, 2007, compared to \$39.1 million for the six months ended May 31, 2006, an increase of \$16.8 million or 43%. The increase was primarily attributable to increased revenue discussed above coupled with our ability to leverage a relatively fixed-cost structure. Acquisitions contributed \$4.0 million.

Operating income for our Engineering segment was \$24.8 million for the six months ended May 31, 2007, compared to \$20.1 million for the six months ended May 31, 2006, an increase of \$4.7 million or 23%. Operating income increased due to increased sales in our subscriptions-based businesses, partially offset by lower services revenue, due to our fourth-quarter-2006 restructuring, and lower retail sales. Costs were relatively flat as reduced headcount and cost savings from our fourth-quarter-2006 restructuring offset merit-based salary increases.

Operating expenses for our shared services were \$29.0 million for the six months ended May 31, 2007, compared to \$19.2 million for the six months ended May 31, 2006, an increase of \$9.8 million or 51%. Increased

stock-based compensation expense contributed \$5.4 million. Costs associated with our human resources information system implementation and our ongoing transformational initiatives and merit-based salary increases also contributed to the increase.

Provision for Income Taxes. Our effective tax rate for the six months ended May 31, 2007 was 32.7%, compared to 33.4% for the six months ended May 31, 2006. The lower 2007 rate was principally due to a higher mix of earnings in lower-rate tax jurisdictions than the United States.

Liquidity and Capital Resources

As of May 31, 2007, we had cash and cash equivalents of \$212.3 million, short-term investments of less than \$0.1 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 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 \$11 million for 2007.

Share Repurchase Program

As announced last year, our board of directors approved a plan allowing us to acquire up to one million of our Class A common shares per year in the open market to help offset the dilutive effect of our employee equity programs. We purchased 400,000 shares during the first six months of 2007 for approximately \$15.4 million, or an average price of \$38.52 per share.

Cash Flows

Net cash provided by operating activities was approximately \$65.8 million for the six months ended May 31, 2007, compared to \$65.2 million for the six months ended May 31, 2006, an increase of \$0.6 million. The increase was primarily generated by higher sales combined with increasing margins, partially offset by the following:

- Annual bonus payments, which are paid in the first quarter each year, were approximately \$7 million higher in 2007 than in 2006;
- Receivable collections were robust at the end of 2006, enhancing 2006 cash flow at the expense of 2007;
- The effective rate of our cash paid for tax has increased slightly in 2007, to about 29% on a year-to-date basis.

Net cash used in investing activities was approximately \$17.3 million for the six months ended May 31, 2007, compared to \$31.8 million for the six months ended May 31, 2006. The change is driven primarily by acquisitions. In 2007, we disbursed \$14.6 million for the purchase of the assets of two businesses. In 2006, we disbursed approximately \$33 million for the purchase of a content-and-data-services business for our Engineering segment.

Net cash used in financing activities was \$16.0 million for the six months ended May 31, 2007. Net cash provided by financing activities was \$2.1 million during the six months ended May 31, 2006. Beginning first quarter 2007, we started purchasing our own common stock in the open market. We repurchased approximately 400,000 shares for approximately \$15.4 million.

Credit Facility

We are a party to a \$125 million unsecured revolving credit agreement (the Revolver), which allows us, under certain conditions, 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, 2007, 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 \$1.8 million as of May 31, 2007, which serve to reduce the amount available for borrowing.

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 2006 Form 10-K for a discussion of the estimates and judgments necessary in our accounting for revenue recognition, valuation of long-lived and intangible assets and goodwill, income taxes, pension and post-retirement benefits, and stock-based compensation.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

For information regarding our exposure to certain market risk, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2006 Form 10-K. There were no material changes to our market risk exposure during the first six months of 2007.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The following risk factors have been updated to include the impact of our recent acquisition of Jane's Information as well as the restructuring of TBG holdings among various family trusts. Other than the risk factors set forth below, there have been no material changes from risk factors as previously disclosed in our most recent Form 10-K filed on January 24, 2007.

We are controlled by an entity whose interests may differ from yours.

Our Class B common stock is entitled to ten votes per share, and our Class A common stock is entitled to one vote per share. As of June 12, 2007, our principal stockholder, Urvanos Investments Limited, a wholly-owned subsidiary of TBG, owned 100% of our Class B common stock and less than two percent of our outstanding Class A common stock. In the aggregate, this ownership represents approximately 74% of the voting power of our outstanding capital stock (compared to approximately 23% of the overall economic interest). The Class B common stock may be converted into Class A common stock at any time and will automatically be converted into Class A common stock upon the earlier of the occurrence of specified events or November 16, 2009.

Voting and investment decisions with respect to our common stock that is owned by Urvanos have historically been made by TBG. As a result, TBG controls all matters requiring stockholder approval, including amendments to our certificate of incorporation, the election of directors, and significant corporate transactions, such as transactions involving a change of control of IHS. TBG is indirectly wholly-owned by TB Continuity II Trust, of which Georg Heinrich Thyssen-Bornemisza is the sole primary beneficiary. Georg Heinrich Thyssen-Bornemisza is the chairman of the board of directors of TBG. Christoph Grolman, co-chief executive officer of TBG, is a member of our board of directors. Jerre L. Stead, our chief executive officer and the chairman of our board of directors, is a member of the board of directors of TBG. In addition, prior to our initial public offering, C. Michael Armstrong, Roger Holtback, and Michael Klein, all members of our board of directors, were members of the board of directors and an advisory committee of TBG. TBG or its shareholder may have interests that conflict with yours and actions may be taken that you do not view as beneficial.

Under Delaware law, the directors of a corporation owe fiduciary duties to all stockholders of the corporation, not just to the controlling stockholders. In addition, a majority of our board of directors is independent of management, as defined by the New York Stock Exchange rules and regulations. However, in light of the significant control that TBG has over all matters requiring stockholder approval (including the election of directors), no assurances can be provided that these protections will prevent actions that may be viewed as adverse to the Class A stockholders.

Shares eligible for future sale could depress the price of our shares.

Sales of substantial amounts of the Class A common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of the shares. As of June 12, 2007, there were 49,640,314 shares of Class A common stock and 13,750,000 shares of Class B common stock outstanding. TBG indirectly owned an aggregate of 958,859 shares of Class A common stock and all 13,750,000 shares of Class B common stock. In addition, investment entities affiliated with General Atlantic LLC owned 4,687,500 shares of Class A common stock. Following our acquisition of Jane's Information, Woodbridge International Holdings S.A. owned 4,399,000 shares of Class A common stock.

In addition, as of June 12, 2007, Tak Tent (F) Limited owned 2,000,000 shares of Class A common stock and Augustus Limited owned 3,500,000 shares of Class A common stock. Each of Tak Tent (F) Limited (and its

permitted transferees) and Augustus Limited (and its permitted transferees) have registered 1,500,000 shares of Class A common stock pursuant to a post-effective amendment to a registration statement dated May 21, 2007, subject to certain contractual limitations on the timing and amount of securities that may be sold. The shares of Class A common stock owned by Tak Tent (F) Limited and Augustus Limited, respectively, that are not eligible for sale under the registration statement may be eligible for sale into the public market under Rule 144 under the Securities Act of 1933, as amended.

Urvanos, Woodbridge, and entities affiliated with General Atlantic LLC are entitled to require us to register their shares under the Securities Act under certain conditions. For rights and conditions applicable to Urvanos and the General Atlantic entities, see "Selling Stockholders Registration Rights Agreements" under our post-effective amendment to a registration statement dated May 21, 2007. For rights and conditions applicable to Woodbridge, see the Jane's Information Group Stock Purchase Agreement included as an exhibit to this report on Form 10-Q. The sale by us or any of these stockholders of shares of common stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of our shares.

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

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

(c) The following table provides a month-to-month summary of the share repurchase activity under the current stock repurchase program during the six months ended May 31, 2007:

Period	Total Number of Shares Purchased	Average Fair Market Value per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
December 1 - December 31, 2006		\$		1,000,000
January 1 - January 31, 2007	54,000	\$ 37.59	54,000	946,000
February 1 - February 28, 2007	146,000	\$ 38.01	146,000	800,000
March 1 - March 31, 2007	96,762	\$ 37.56	96,762	703,238
April 1 - April 30, 2007	103,238	\$ 40.64	103,238	600,000
May 1 - May 31, 2007		\$		600,000
Total	400,000	\$ 38.52	400,000	(1) 600,000 (1)

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

Item 6. Exhibits

(a) Index of Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Description
2.1*	Agreement for the Sale and Purchase of the Share Capital of Jane s Information Group (Holdings) Limited, by and among Woodbridge International Holdings S.A. and the Company, dated June 12, 2007. Pursuant to Item 601(b)(2) of Regulation S-K, schedules to this agreement have been omitted. The Company hereby undertakes to supplementally provide to the Securities and Exchange Commission copies of the schedules upon request.
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 June 27, 2007.

IHS INC.

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

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