

IHS Inc.
Form 10-Q
September 29, 2006

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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 August 31, 2006

OR

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

**For the transition period from _____ to _____
Commission file number 001-32511**

IHS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

13-3769440

(IRS Employer
Identification No.)

**15 Inverness Way East
Englewood, CO 80112**

(Address of Principal Executive Offices)

(303) 790-0600

(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

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

As of August 31, 2006, there were 45,547,210 shares of our Class A Common Stock outstanding and 13,750,000 shares of our Class B Common Stock outstanding.

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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 August 31, 2006	As of November 30, 2005
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 161,631	\$ 132,365
Short-term investments	6,516	27,223
Accounts receivable, net	97,486	136,950
Deferred subscription costs	29,239	27,918
Deferred income taxes	8,956	11,351
Other	7,859	10,638
	<hr/>	<hr/>
Total current assets	311,687	346,445
Non-current assets:		
Property and equipment, net	51,698	46,580
Intangible assets, net	60,751	27,456
Goodwill, net	355,120	296,394
Prepaid pension asset	93,659	88,516
Other	3,828	1,765
	<hr/>	<hr/>
Total non-current assets	565,056	460,711
	<hr/>	<hr/>
Total assets	\$ 876,743	\$ 807,156
	<hr/>	<hr/>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 20,610	\$ 41,625
Accrued compensation	22,956	20,135
Accrued royalties	16,285	26,139
Other accrued expenses	33,908	34,975
Income tax payable	7,347	7,726
Deferred subscription revenue	177,503	149,552
Risk management liabilities		2,705
	<hr/>	<hr/>
Total current liabilities	278,609	282,857
Long-term debt	573	262
Accrued pension liability	8,060	6,824
Accrued post-retirement benefits	18,895	20,278
Deferred income taxes	13,300	15,044
Other liabilities	6,568	4,402
Minority interests	385	309
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$0.01 par value per share, 80,000,000 shares authorized, 45,547,210 and 44,078,231 issued and outstanding at August 31, 2006 and November 30, 2005, respectively	455	441
Class B common stock, \$0.01 par value per share, 13,750,000 shares authorized, issued and outstanding at August 31, 2006 and November 30, 2005	138	138
Additional paid in capital	163,143	168,196
Retained earnings	386,156	343,684

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	As of August 31, 2006	As of November 30, 2005
Accumulated other comprehensive income (loss)	461	(10,486)
Unearned compensation		(24,793)
Total stockholders' equity	550,353	477,180
Total liabilities and stockholders' equity	\$ 876,743	\$ 807,156

See accompanying notes.

IHS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per-share amounts)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2006	2005	2006	2005
	(Unaudited)			
Revenue:				
Products	\$ 117,200	\$ 97,419	\$ 334,265	\$ 291,343
Services	22,723	20,538	68,379	58,742
Total revenue	139,923	117,957	402,644	350,085
Operating expenses:				
Cost of revenue:				
Products	47,871	44,465	141,395	132,274
Services	16,435	12,828	46,956	37,724
Total cost of revenue (includes stock-based compensation expense of \$392, \$72, \$2,558 and \$227 for the three and nine months ended August 31, 2006 and 2005, respectively)	64,306	57,293	188,351	169,998
Selling, general and administrative (includes stock-based compensation expense of \$4,048; \$969; \$9,907 and \$3,318 for the three and nine months ended August 31, 2006 and 2005, respectively)	50,681	40,657	143,924	126,079
Depreciation and amortization	4,218	2,773	10,930	8,539
Restructuring and offering charges		12,397	2	12,397
(Gain) loss on sales of assets, net	53		53	(1,331)
Net periodic pension and post-retirement benefits	(1,268)	(911)	(3,212)	(2,781)
Earnings in unconsolidated subsidiaries	(50)	(29)	(180)	(78)
Other (income) expense, net	204	(169)	1,024	(481)
Total operating expenses	118,144	112,011	340,892	312,342
Operating income	21,779	5,946	61,752	37,743
Interest income	1,789	901	4,161	2,553
Interest expense	(120)	(110)	(272)	(693)
Non-operating income, net	1,669	791	3,889	1,860
Income from continuing operations before income taxes and minority interests	23,448	6,737	65,641	39,603
Provision for income taxes	(6,987)	(2,518)	(21,079)	(12,498)
Income from continuing operations before minority interests	16,461	4,219	44,562	27,105
Minority interests	(89)	(32)	(170)	(14)
Income from continuing operations	16,372	4,187	44,392	27,091
Discontinued operations:				
Loss from discontinued operations, net	(298)	(527)	(1,920)	(1,652)
Net income	\$ 16,074	\$ 3,660	\$ 42,472	\$ 25,439
Income from continuing operations per share:				
Basic (Class A and Class B common stock)	\$ 0.29	\$ 0.08	\$ 0.79	\$ 0.49

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	Three Months Ended August 31,		Nine Months Ended August 31,	
Diluted (Class A and Class B common stock)	\$ 0.29	\$ 0.08	\$ 0.79	\$ 0.49
Loss from discontinued operations per share:				
Basic (Class A and Class B common stock)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Diluted (Class A and Class B common stock)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Net income per share:				
Basic (Class A and Class B common stock)	\$ 0.28	\$ 0.07	\$ 0.75	\$ 0.46
Diluted (Class A and Class B common stock)	\$ 0.28	\$ 0.07	\$ 0.75	\$ 0.46
Weighted average shares:				
Basic (Class A common stock)	43,299	41,349	42,568	41,316
Basic (Class B common stock)	13,750	13,750	13,750	13,750
Diluted (Class A common stock)	57,090	55,887	56,433	55,838
Diluted (Class B common stock)	13,750	13,750	13,750	13,750

See accompanying notes.

IHS INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

	Shares of Class A Common Stock	Class A Common Stock	Shares of Class B Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total
Balance at November 30, 2005	44,078	\$ 441	13,750	\$ 138	\$ 168,196	\$ 343,684	\$ (10,486)	\$ (24,793)	\$ 477,180
Adoption of SFAS No. 123(R)					(24,793)			24,793	
Stock-based award activity	1,469	14			12,357				12,371
Tax benefit on vested shares					7,383				7,383
Net income						42,472			42,472
Other comprehensive income:									
Foreign currency translation adjustments							8,648		8,648
Minimum pension liability adjustment, net of tax							(323)		(323)
Unrealized gains on short-term investments, net of tax							25		25
Unrealized gains on foreign-currency hedges, net of tax							2,597		2,597
Comprehensive income, net of tax									53,419
Balance at August 31, 2006	45,547	\$ 455	13,750	\$ 138	\$ 163,143	\$ 386,156	\$ 461		\$ 550,353

See accompanying notes.

IHS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended August 31,	
	2006	2005
	(Unaudited)	
Operating activities		
Net income	\$ 42,472	\$ 25,439
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	10,930	8,716
Stock-based compensation expense (non-cash portion)	12,720	3,545
(Gain) loss on sales of assets, net	53	(1,331)
Impairment of assets of discontinued operations	1,012	
Net periodic pension and post-retirement benefits	(3,212)	(2,781)
Minority interests	49	14
Deferred income taxes	569	59
Change in assets and liabilities:		
Accounts receivable, net	51,148	33,614
Other current assets	3,273	(794)
Accounts payable	(26,679)	(20,530)
Accrued expenses	(10,772)	(20,076)
Income taxes	(971)	2,055
Deferred subscription revenue	13,560	8,275
Other liabilities		614
Net cash provided by operating activities	94,152	36,819
Investing activities		
Capital expenditures on property and equipment	(8,047)	(3,965)
Intangible assets acquired	(3,300)	
Change in other assets	289	1,524
Purchase of investments	(5,353)	(18,871)
Sales and maturities of investments	26,671	1,100
Acquisitions of businesses, net of cash acquired	(84,454)	(2,967)
Proceeds from sales of assets	400	1,334
Net cash used in investing activities	(73,794)	(21,845)
Financing activities		
Net payments on debt	(210)	(390)
Tax benefit from equity compensation plans	7,383	
Net cash provided by (used in) financing activities	7,173	(390)
Foreign exchange impact on cash balance	1,735	(1,269)
Net increase in cash and cash equivalents	29,266	13,315
Cash and cash equivalents at the beginning of the period	132,365	124,452
Cash and cash equivalents at the end of the period	\$ 161,631	\$ 137,767

See accompanying notes.

IHS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

Nature of Operations

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

Consolidation Policy

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

Unaudited Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The accompanying condensed consolidated financial statements include our accounts and the accounts of our majority-owned domestic and foreign subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended November 30, 2005. The results of operations for the three and nine months ended August 31, 2006, are not necessarily indicative of the results that may be achieved for the full fiscal year and cannot be used to indicate financial performance for the entire year.

The year-end condensed consolidated balance sheet data was derived from the audited November 30, 2005, balance sheet.

Results Subject to Seasonal Variations

Although our business model is broadly subscription based resulting in recurring revenue and cash flow, our business does have seasonal aspects. For example, certain sales of non-deferred subscriptions occur most frequently in our first and fourth quarters. Consequently, we generally recognize a greater percentage of our revenue and income from operations in those quarters. Also, our first quarter benefits from the inclusion of the results from CERAWeek, an annual energy executive gathering.

Subscriptions are generally paid in full within one-to-two months after the subscription period commences. As a result, the timing of our cash flows generally precedes the recognition of revenue and income from operations. Due to the historical timing and alignment of our sales to correspond to certain of our customers' budget and funding cycles, our cash flow provided by operating activities tends to be higher in the first half of our fiscal year as we receive subscription payments.

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the allowances for doubtful accounts, fair value of marketable securities and investments, fair value of acquired intangible assets and goodwill, useful lives of intan