IHS Inc.
Form 10-Q
June 24, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2015

OR

o 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 (I.R.S. 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. x Yes o 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). x Yes o 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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller Reporting Company	o

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

As of May 31, 2015, there were 68,428,175 shares of our Class A Common Stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I. Financial Information	
Item 1. Financial Statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	37
Item 4. Controls and Procedures	38
PART II. Other Information	
Item 1. Legal Proceedings	38
Item 1A. Risk Factors	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 5. Other Information	39
Item 6. Exhibits	40
SIGNATURE	41

Cautionary Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “aim,” “strive,” “believe,” “project,” “predict,” “estimate,” “ex “strategy,” “future,” “likely,” “may,” “might,” “should,” “will,” the negative of these terms, and similar references to future pe Examples of forward-looking statements include, among others, statements we make regarding: guidance and predictions relating to expected operating results, such as revenue growth and earnings; strategic actions, including acquisitions and dispositions, anticipated benefits from strategic actions, and our success in integrating acquired businesses; anticipated levels of capital expenditures in future periods; our belief that we have sufficient liquidity to fund our ongoing business operations; expectations of the effect on our financial condition of claims, litigation, environmental costs, contingent liabilities and governmental and regulatory investigations and proceedings; and our strategy for customer retention, growth, product development, market position, financial results, and reserves.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: economic and financial conditions, including volatility in interest and exchange rates; our ability to manage system failures, capacity constraints, and cyber risks; our ability to successfully manage risks associated with changes in demand for our products and services as well as changes in our targeted industries; our ability to develop new platforms to deliver our products and services, pricing, and other competitive pressures, and changes in laws and regulations governing our business; the extent to which we are successful in gaining new long-term relationships with customers or retaining existing ones and the level of service failures that could lead customers to use competitors' services; our ability to successfully identify and integrate acquisitions into our existing businesses and manage risks associated therewith; our ability to satisfy our debt obligations and our other ongoing business obligations; and the other factors described under the caption “Risk Factors” in our annual report on Form 10-K for the fiscal year ended

November 30, 2014, along with our other filings with the U.S. Securities and Exchange Commission (SEC).

Any forward-looking statement made by us in this quarterly report on Form 10-Q is based only on information currently available to us and speaks only as of the date of this report. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments, or otherwise.

Table of Contents

Website and Social Media Disclosure

We use our website (www.ihs.com) and corporate Twitter account (@IHS) as channels of distribution of company information. The information we post through these channels may be deemed material; therefore, investors should monitor these channels in addition to our press releases, SEC filings, and public conference calls and webcasts. None of the information provided on our website or through social media channels is incorporated into, or deemed to be a part of, this quarterly report on Form 10-Q.

Table of Contents

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 May 31, 2015 (Unaudited)	As of November 30, 2014 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$225,879	$153,156
Accounts receivable, net	365,265	421,374
Income tax receivable	—	2,283
Deferred subscription costs	62,747	51,021
Deferred income taxes	71,288	81,780
Other	70,490	60,973
Total current assets	795,669	770,587
Non-current assets:		
Property and equipment, net	316,999	301,419
Intangible assets, net	1,129,553	1,091,109
Goodwill	3,426,282	3,157,324
Other	24,326	27,991
Total non-current assets	4,897,160	4,577,843
Total assets	$5,692,829	$5,348,430
Liabilities and stockholders’ equity		
Current liabilities:		
Short-term debt	$36,001	$36,257
Accounts payable	52,116	52,245
Accrued compensation	60,545	101,875
Accrued royalties	32,327	37,346
Other accrued expenses	118,956	131,147
Income tax payable	7,772	—
Deferred revenue	680,863	596,187
Total current liabilities	988,580	955,057
Long-term debt	2,093,091	1,806,098
Accrued pension and postretirement liability	27,867	29,139
Deferred income taxes	362,285	347,419
Other liabilities	57,852	51,171
Commitments and contingencies		
Stockholders’ equity:		
Class A common stock, $0.01 par value per share, 160,000,000 shares authorized, 70,000,939 and 69,391,577 shares issued, and 68,428,175 and 68,372,176 shares outstanding at May 31, 2015 and November 30, 2014, respectively	700	694
Additional paid-in capital	985,796	956,381
Treasury stock, at cost: 1,572,764 and 1,019,401 shares at May 31, 2015 and November 30, 2014, respectively	(173,396)	(105,873)
Retained earnings	1,505,541	1,415,069

Accumulated other comprehensive loss	(155,487)	(106,725)
Total stockholders’ equity	2,163,154	2,159,546
Total liabilities and stockholders’ equity	$5,692,829	$5,348,430

See accompanying notes.

Table of Contents

IHS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except for per-share amounts)

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Revenue	$591,407	$568,008	$1,137,668	$1,092,466
Operating expenses:				
Cost of revenue	228,903	224,945	443,849	437,870
Selling, general and administrative	210,480	203,644	406,418	401,360
Depreciation and amortization	58,910	49,142	114,829	98,779
Restructuring charges	7,369	860	21,653	4,035
Acquisition-related costs	301	77	477	1,017
Net periodic pension and postretirement expense	497	2,834	993	5,670
Other expense (income), net	2,018	(267)	1,094	1,308
Total operating expenses	508,478	481,235	989,313	950,039
Operating income	82,929	86,773	148,355	142,427
Interest income	180	235	340	486
Interest expense	(17,454)	(14,610)	(34,448)	(29,855)
Non-operating expense, net	(17,274)	(14,375)	(34,108)	(29,369)
Income from continuing operations before income taxes	65,655	72,398	114,247	113,058
Provision for income taxes	(14,703)	(16,906)	(23,775)	(25,144)
Net income	$50,952	$55,492	$90,472	$87,914
Basic earnings per share	$0.74	$0.81	$1.32	$1.29
Weighted average shares used in computing basic earnings per share	68,802	68,216	68,752	68,015
Diluted earnings per share	$0.74	$0.81	$1.31	$1.28
Weighted average shares used in computing diluted earnings per share	69,111	68,697	69,258	68,730

See accompanying notes.

Table of Contents

IHS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Net income	$50,952	$55,492	$90,472	$87,914
Other comprehensive income (loss), net of tax:				
Unrealized loss on hedging activities [1]	(1,535)	(2,289)	(2,954)	(4,764)
Foreign currency translation adjustment	(9,344)	2,872	(45,808)	3,084
Total other comprehensive income (loss)	(10,879)	583	(48,762)	(1,680)
Comprehensive income	$40,073	$56,075	$41,710	$86,234

[1] Net of tax benefit of $1,002; $1,494; $1,929; and $3,109 for the three and six months ended May 31, 2015 and 2014, respectively.

See accompanying notes.

Table of Contents

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

	Six months ended May 31,	
	2015	2014
Operating activities:		
Net income	$90,472	$87,914
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	114,829	98,779
Stock-based compensation expense	67,834	79,996
Impairment of assets	1,243	—
Excess tax benefit from stock-based compensation	(5,193)	(10,327)
Net periodic pension and postretirement expense	993	5,670
Pension and postretirement contributions	(2,285)	(1,650)
Deferred income taxes	(3,944)	28,907
Change in assets and liabilities:		
Accounts receivable, net	67,628	38,871
Other current assets	(29,725)	(23,153)
Accounts payable	(7,002)	119
Accrued expenses	(53,476)	(16,666)
Income tax	20,242	(20,656)
Deferred revenue	70,140	105,570
Other liabilities	2,528	1,600
Net cash provided by operating activities	334,284	374,974
Investing activities:		
Capital expenditures on property and equipment	(69,038)	(51,036)
Acquisitions of businesses, net of cash acquired	(369,908)	—
Intangible assets acquired	—	(714)
Change in other assets	(339)	2,762
Settlements of forward contracts	2,419	1,309
Net cash used in investing activities	(436,866)	(47,679)
Financing activities:		
Proceeds from borrowings	440,000	30,000
Repayment of borrowings	(153,263)	(348,086)
Excess tax benefit from stock-based compensation	5,193	10,327
Repurchases of common stock	(105,247)	(47,429)
Net cash provided by (used in) financing activities	186,683	(355,188)
Foreign exchange impact on cash balance	(11,378)	(9,476)
Net increase (decrease) in cash and cash equivalents	72,723	(37,369)
Cash and cash equivalents at the beginning of the period	153,156	258,367
Cash and cash equivalents at the end of the period	$225,879	$220,998

See accompanying notes.

Table of Contents

IHS INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

	Class A Common Stock Shares Outstanding	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at November 30, 2014 (Audited)	68,372	$694	$956,381	$(105,873)	$1,415,069	$ (106,725)	$2,159,546
Stock-based award activity	56	6	24,222	23	—	—	24,251
Excess tax benefit on vested shares	—	—	5,193	—	—	—	5,193
Repurchases of common stock	—	—	—	(67,546)	—	—	(67,546)
Net income	—	—	—	—	90,472	—	90,472
Other comprehensive loss	—	—	—	—	—	(48,762)	(48,762)
Balance at May 31, 2015	68,428	$700	$985,796	$(173,396)	$1,505,541	$ (155,487)	$2,163,154

See accompanying notes.

Table of Contents

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, us, or our) 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, 2014. 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. We also experience event-driven seasonality in our business; for instance, IHS Energy CERAWeek, an annual energy executive gathering, is held during our second quarter. Another example is the biennial release of the Boiler Pressure Vessel Code (BPVC) engineering standard, which generates revenue for us predominantly in the third quarter of every other year. We most recently recognized a benefit in connection with the BPVC release in the third quarter of 2013.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The ASU is intended to reduce the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. The standard will be effective for us in the first quarter of our fiscal year 2016, although early adoption is permitted. We do not expect that the adoption of this ASU will have a significant impact on our consolidated financial statements other than changing the classification criteria and related disclosures for any potential future disposals.

In May 2014, the FASB issued ASU 2014-09, which establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for us in the first quarter of our fiscal year 2018, although the FASB has proposed a one-year deferral of the effective date; early adoption is not permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements, as well as which transition method we intend to use.

In August 2014, the FASB issued ASU 2014-15, which requires that management evaluate the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Disclosure is required if there is substantial doubt about the entity's ability to continue as a going concern. The standard will be effective for us in the fourth quarter of our fiscal year 2017, although early adoption is permitted. We do not expect that the adoption of this ASU will have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The standard will be effective for us in the first quarter of our fiscal 2017, although early adoption is permitted. We expect that the only impact of this ASU on our financial statements will be the change in balance sheet presentation of our

debt issuance costs.

In April 2015, the FASB issued ASU 2015-05, which provides guidance about a customer's accounting for fees paid in cloud computing arrangements. If a cloud computing arrangement includes a software license, then the customer should account for the software license element consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, the customer should account for the arrangement as a service contract. The standard will be effective for us in the first quarter of our fiscal year 2017, although early adoption is permitted. We anticipate that we will adopt this standard using the prospective transition method, and do not expect that the adoption of this ASU will have a significant impact on our consolidated financial statements.

2. Business Combinations

During the six months ended May 31, 2015, we completed the following acquisitions, none of which were material either individually or in the aggregate:

Table of Contents

JOC Group Inc. (JOC Group). On December 9, 2014, we acquired JOC Group, a leading global supplier of U.S. seaborne trade intelligence. We acquired JOC Group in support of our strategy to build integrated workflow solutions that target critical industry and government needs relating to global trade.

Infonetics Research, Inc. (Infonetics). On December 15, 2014, we acquired Infonetics, a global leader in communications technology market intelligence. We acquired Infonetics in order to provide our customers with a global, end-to-end view of the information and communications technology supply chain.

Rushmore Associates Limited (Rushmore Reviews). On February 3, 2015, we acquired Rushmore Reviews, a leading service provider for drilling and completions solutions in the oil and gas industry. We acquired Rushmore Reviews in order to complement our existing set of well information assets and expand them globally.

Dataium. On March 25, 2015, we acquired Dataium, a U.S.-based company that provides business intelligence and analysis to the automotive industry. We acquired Dataium in order to enhance our automotive offerings with Dataium's compilation and analysis of online automotive shopping behavior and markets.

Root Wireless, Inc. (RootMetrics). On April 17, 2015, we acquired RootMetrics, a recognized leader in mobile network analytics. We acquired RootMetrics in order to strengthen our position in telecommunications analytics and market intelligence, particularly related to the mobile user experience.

The aggregate purchase price for these acquisitions was approximately $370 million, net of cash acquired. We have preliminarily allocated $118 million of the purchase price to amortizing intangible assets and $284 million to goodwill.

3. Intangible Assets

The following table presents details of our intangible assets, other than goodwill, as of May 31, 2015 and November 30, 2014 (in thousands):

	As of May 31, 2015			As of November 30, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:						
Information databases	$653,992	$(240,159)	$413,833	$607,655	$(210,105)	$397,550
Customer relationships	569,943	(135,482)	434,461	511,680	(116,138)	395,542
Developed computer software	135,727	(70,364)	65,363	138,940	(63,561)	75,379
Trademarks	169,264	(29,865)	139,399	163,739	(22,937)	140,802
Other	28,075	(10,530)	17,545	29,579	(8,844)	20,735
Total	$1,557,001	$(486,400)	$1,070,601	$1,451,593	$(421,585)	$1,030,008
Intangible assets not subject to amortization:						
Trademarks	58,952	—	58,952	61,101	—	61,101
Total intangible assets	$1,615,953	$(486,400)	$1,129,553	$1,512,694	$(421,585)	$1,091,109

Table of Contents

Intangible assets amortization expense was $36.7 million and $71.7 million for the three and six months ended May 31, 2015, respectively, as compared to $33.1 million and $66.9 million for the three and six months ended May 31, 2014. The following table presents the estimated future amortization expense related to intangible assets held as of May 31, 2015 (in thousands):

Year	Amount
Remainder of 2015	$75,041
2016	$139,626
2017	$125,147
2018	$109,754
2019	$95,841
Thereafter	$525,192

Goodwill, gross intangible assets, and net intangible assets were all subject to foreign currency translation effects. Changes in our goodwill and gross intangible assets from November 30, 2014 to May 31, 2015 were primarily the result of recent acquisitions, net of foreign currency effects. The change in net intangible assets was primarily due to current year amortization, partially offset by the acquisitions made in 2015.

4. Debt

The following table summarizes total indebtedness as of May 31, 2015 and November 30, 2014 (in thousands):

	May 31, 2015	November 30, 2014
2013 term loan	$682,500	$700,000
2014 revolving facility	690,000	385,000
5% senior notes due 2022	750,000	750,000
Capital leases	6,592	7,355
Total debt	$2,129,092	$1,842,355
Current portion	(36,001)	(36,257)
Total long-term debt	$2,093,091	$1,806,098

2013 term loan. In October 2014, we amended and restated our $700 million senior unsecured amortizing term loan agreement originally entered into in the third quarter of 2013 (2013 term loan). The 2013 term loan has a maturity date of October 2019. The interest rates for borrowings under the 2013 term loan are the applicable LIBOR plus a spread of 1.00 percent to 1.75 percent, 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 such terms are defined in the term loan agreement.

2014 revolving facility. In October 2014, we entered into a $1.3 billion senior unsecured revolving credit agreement (2014 revolving facility). Commitments of $500 million are available for borrowing by certain of our foreign subsidiaries and $50 million is available for letters of credit. Subject to certain conditions, the 2014 revolving facility may be expanded by up to an aggregate of $500 million in additional commitments. Borrowings under the 2014 revolving facility mature in October 2019 and bear interest at the same rates and spreads as the 2013 term loan. A commitment fee on any unused balance is payable periodically and ranges from 0.13 percent to 0.30 percent based upon our Leverage Ratio. The 2014 revolving facility contains certain financial and other covenants, including a maximum Leverage Ratio and a minimum Interest Coverage Ratio, as such terms are defined in the 2014 revolving facility.

We had approximately $1.8 million of outstanding letters of credit under the 2014 revolving facility as of May 31, 2015, which reduces the available borrowing under the 2014 revolving facility by an equivalent amount.

The 2013 term loan and 2014 revolving facility agreements allow for leverage up to 3.5x, with the ability to temporarily increase that leverage to 3.75x for two quarters.

5% senior notes due 2022 (5% Notes). In October 2014, we issued $750 million aggregate principal amount of senior unsecured notes due 2022 in an offering not subject to the registration requirements of the Securities Act of 1933, as amended (the Securities Act). The 5% Notes bear interest at a fixed rate of 5.000 percent and mature on November 1, 2022. Interest on

Table of Contents

the 5% Notes is due semiannually on May 1 and November 1 of each year, commencing May 1, 2015. We may redeem the 5% Notes in whole or in part at a redemption price equal to 100% of the principal amount of the notes plus the Applicable Premium, as defined in the indenture governing the 5% Notes. Additionally, at the option of the holders of the notes, we may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event as defined in the indenture, at a price equal to 101 percent of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The indenture contains covenants that limit our ability to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the indenture contains a covenant that limits our ability to consolidate or merge with another entity or to sell all or substantially all of our assets to another entity. The indenture contains customary default provisions.

In connection with the issuance of the 5% Notes, we also entered into a registration rights agreement pursuant to which we agreed to conduct a registered exchange offer for the 5% Notes within 365 days of their issuance or, under certain circumstances, to file and cause to become effective a shelf registration statement providing for the resale of the 5% Notes. If we fail to comply with certain obligations under the registration rights agreement, we will be required to pay liquidated damages in the form of additional interest to holders of the 5% Notes.

As of May 31, 2015, we were in compliance with all of our debt covenants. We have classified short-term debt based on principal maturities and expected cash availability over the next 12 months. As of May 31, 2015, we had approximately $690 million of outstanding borrowings under the 2014 revolving facility at a current annual interest rate of 1.73 percent and approximately $683 million of outstanding borrowings under the 2013 term loan at a current weighted average annual interest rate of 2.29 percent, including the effect of the interest rate swaps described in Note 5.

The carrying value of our debt instruments other than our 5% Notes approximate their fair value because of the variable interest rates associated with those instruments. The fair value of the 5% Notes as of May 31, 2015 was approximately $759 million, and was measured using observable inputs in markets that are not active; consequently, we have classified the 5% Notes within Level 2 of the fair value hierarchy.

5. Derivatives

Our business is exposed to various market risks, including interest rate and foreign currency risks. We utilize derivative instruments to help us manage these risks. We do not hold or issue derivatives for speculative purposes.

Interest Rate Swaps

To mitigate interest rate exposure on our outstanding floating rate debt, we utilize the following types of derivative instruments:

- Interest rate derivative contracts that effectively swap $200 million of floating rate debt at a 2.24 percent weighted-average fixed interest rate, plus the applicable spread on our floating rate debt. We entered into these swap contracts in 2011 and 2014, and the contracts expire in July 2015 and May 2020.

- Forward-starting interest rate derivative contracts that effectively swap $300 million of floating rate debt at a 2.93 percent weighted-average fixed interest rate, plus the applicable spread on our floating rate debt. We entered into these swap contracts in 2013 and 2014. The contracts take effect in August and November 2015, with respective expiration dates in August 2020 and November 2020.

Because the terms of these swaps and the variable rate debt (as amended or extended over time) 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 income/loss (AOCI) in our consolidated balance sheets.

Foreign Currency Forwards

To mitigate foreign currency exposure, we utilize the following derivative instruments:

- Foreign currency forward contracts that hedge the foreign currency exposure on Euro-denominated receipts and British Pound-denominated expenses. Because the critical terms of the forward contracts and the forecasted cash flows coincide, we do not expect any ineffectiveness associated with these contracts. We have designated and accounted for these derivatives as cash flow hedges, with changes in fair value being deferred in AOCI in our consolidated balance sheets. The notional amount of outstanding foreign currency

Table of Contents

forwards under these agreements as of May 31, 2015 and November 30, 2014 was approximately $17.6 million and $11.0 million, respectively.

- Short-term foreign currency forward contracts that manage market risks associated with fluctuations in balances that are denominated in currencies other than the local functional currency. We account for these forward contracts at fair value and recognize the associated realized and unrealized gains and losses in other expense (income), net, since we have not designated these contracts as hedges for accounting purposes. The following table summarizes the notional amounts of these outstanding foreign currency forward contracts as of May 31, 2015 and November 30, 2014 (in thousands):

	May 31, 2015		November 30, 2014	
Notional amount of currency pair:				
Contracts to buy USD with CAD	$	52,343	$	51,194
Contracts to buy CAD with GBP	C$	79,000	C$	50,000
Contracts to buy USD with EUR	$	9,102	$	12,517
Contracts to buy CHF with USD	CHF	11,000	CHF	9,000
Contracts to buy GBP with EUR	£	4,349	£	4,774
Contracts to buy USD with GBP	$	38,000	$	48,000
Contracts to buy USD with JPY	$	7,434	$	8,778
Contracts to buy USD with KRW	$	9,536	$	10,000
Contracts to buy USD with CNY	$	4,017	$	—
Contracts to buy USD with TWD	$	5,074	$	—

Fair Value of Derivatives

Since our derivative instruments are not listed on an exchange, we have evaluated fair value by reference to similar transactions in active markets; consequently, we have classified all of our derivative instruments within Level 2 of the fair value measurement hierarchy. The following table shows the classification, location, and fair value of our derivative instruments as of May 31, 2015 and November 30, 2014 (in thousands):

	Fair Value of Derivative Instruments		Location on consolidated balance sheets
	May 31, 2015	November 30, 2014	
Assets:			
Derivatives designated as accounting hedges:			
Foreign currency forwards	$777	$987	Other current assets
Derivatives not designated as accounting hedges:			
Foreign currency forwards	2,420	1,005	Other current assets
Total	$3,197	$1,992	
Liabilities:			
Derivatives designated as accounting hedges:			
Interest rate swaps	$21,600	$16,662	Other accrued expenses and other liabilities
Foreign currency forwards	57	—	Other accrued expenses
Derivatives not designated as accounting hedges:			
Foreign currency forwards	1,540	475	Other accrued expenses
Total	$23,197	$17,137	

The net (gain) loss on foreign currency forwards that are not designated as hedging instruments for the three and six months ended May 31, 2015 and 2014, respectively, was as follows (in thousands):

13

Table of Contents

	Amount of (gain) loss recognized in the consolidated statements of operations				
	Three months ended May 31,		Six months ended May 31,		Location on consolidated statements of operations
	2015	2014	2015	2014	
Foreign currency forwards	$(397)	$1,274	$(960)	$(931)	Other expense (income), net

The following table provides information about the cumulative amount of unrecognized hedge losses recorded in AOCI, net of tax, as of May 31, 2015 and 2014, respectively, as well as the activity on our cash flow hedging instruments for the three and six months ended May 31, 2015 and 2014, respectively (in thousands):

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Beginning balance	$(10,901)	$(4,674)	$(9,482)	$(2,199)
Amount of gain (loss) recognized in AOCI on derivative:				
Interest rate swaps	(1,690)	(2,792)	(3,495)	(5,279)
Foreign currency forwards	312	120	824	(171)
Amount of loss (gain) reclassified from AOCI into income:				
Interest rate swaps (1)	280	239	508	474
Foreign currency forwards (1)	(437)	144	(791)	212
Ending balance	$(12,436)	$(6,963)	$(12,436)	$(6,963)

(1) Pre-tax amounts reclassified from AOCI into income related to interest rate swaps are recorded in interest expense, and pre-tax amounts reclassified from AOCI into income related to foreign currency forwards are recorded in revenue.

The unrecognized gains relating to the foreign currency forwards are expected to be reclassified into revenue within the next 12 months, and approximately $6.4 million of the $21.6 million unrecognized pre-tax losses relating to the interest rate swaps are expected to be reclassified into interest expense within the next 12 months.

6. Restructuring Charges

During the six months ended May 31, 2015, we eliminated 302 positions as part of resource refinement and alignment across most of our business functions, and we incurred additional direct and incremental costs related to lease abandonments and further consolidation of our legacy data centers. We expect to continue to incur costs related to these and other similar activities in future periods, resulting in additional restructuring charges.

During the six months ended May 31, 2015, we recorded approximately $21.7 million of restructuring charges for these activities. Of these charges, approximately $16.1 million was recorded in the Americas segment, $4.5 million was recorded in the EMEA segment, and $1.1 million was recorded in the APAC segment.

The following table provides a reconciliation of the restructuring liability as of May 31, 2015 (in thousands):

	Employee Severance and Other Termination Benefits	Contract Termination Costs	Other	Total
Balance at November 30, 2014	$2,967	$17	$140	$3,124

Add: Restructuring costs incurred	20,389	611	966	21,966
Revision to prior estimates	(313)	—	—	(313)
Less: Amount paid	(17,325)	—	(998)	(18,323)
Balance at May 31, 2015	$5,718	$628	$108	$6,454

As of May 31, 2015, approximately $3.6 million of the remaining restructuring liability was in the Americas segment, approximately $2.6 million was in the EMEA segment, and approximately $0.3 million was in the APAC segment. The remaining $6.5 million restructuring liability is expected to be paid within the next 12 months.

Table of Contents

7. Acquisition-related Costs

During the six months ended May 31, 2015, we recorded approximately $0.5 million of direct and incremental costs associated with acquisition-related activities, primarily legal and professional fees, most of which was recorded in the Americas segment.

The following table provides a reconciliation of the acquisition-related costs accrued liability as of May 31, 2015 (in thousands):

	Employee Severance and Other Termination Benefits	Contract Termination Costs	Other	Total
Balance at November 30, 2014	$586	$115	$417	$1,118
Add: Costs incurred	—	166	333	499
Revision to prior estimates	2	11	(35)	(22)
Less: Amount paid	(450)	(96)	(715)	(1,261)
Balance at May 31, 2015	$138	$196	$—	$334

As of May 31, 2015, the remaining acquisition-related costs accrued liability was primarily in the Americas segment. We expect that the remaining liability will be substantially paid within the next 12 months.

8. Pensions and Postretirement Benefits

Our net periodic pension expense for the three and six months ended May 31, 2015 and 2014 was comprised of the following (in thousands):

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Service costs incurred	$494	$3,048	$989	$6,093
Interest costs on projected benefit obligation	2,070	2,140	4,147	4,241
Expected return on plan assets	(2,168)	(2,134)	(4,345)	(4,224)
Amortization of prior service credit	—	(338)	—	(676)
Amortization of transitional obligation	—	11	—	22
Net periodic pension expense	$396	$2,727	$791	$5,456

Our net periodic postretirement expense was comprised of the following for the three and six months ended May 31, 2015 and 2014 (in thousands):

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Service costs incurred	$4	$4	$8	$8
Interest costs	97	103	194	206
Net periodic postretirement expense	$101	$107	$202	$214

9. Stock-based Compensation

Stock-based compensation expense for the three and six months ended May 31, 2015 and 2014 was as follows (in thousands):

Table of Contents

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Cost of revenue	$1,444	$1,511	$2,858	$3,371
Selling, general and administrative	32,900	34,521	64,976	76,625
Total stock-based compensation expense	$34,344	$36,032	$67,834	$79,996

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

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Income tax benefits	$11,002	$12,322	$21,745	$27,384

No stock-based compensation cost was capitalized during the three and six months ended May 31, 2015 and 2014.
As of May 31, 2015, there was $153.4 million of unrecognized stock-based compensation cost, adjusted for estimated forfeitures, related to unvested stock-based awards that will be recognized over a weighted-average period of approximately 1.7 years. Total unrecognized stock-based compensation cost will be adjusted for future changes in estimated forfeitures and changes in estimated achievement of performance goals.
Restricted Stock Units (RSUs). The following table summarizes RSU activity during the six months ended May 31, 2015:

	Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Balance at November 30, 2014	2,518	$102.24
Granted	926	$115.23
Vested	(941)	$98.25
Forfeited	(88)	$113.54
Balance at May 31, 2015	2,415	$108.36

The total fair value of RSUs that vested during the six months ended May 31, 2015 was $107.6 million.

10. Income Taxes

Our effective tax rate is estimated based upon the effective tax rate expected to be applicable for the full year.
Our effective tax rate for the three and six months ended May 31, 2015 was 22.4 percent and 20.8 percent, respectively, compared to 23.4 percent and 22.2 percent for the same periods of 2014, due to the benefit of certain discrete items.

11. Commitments and Contingencies

From time to time, we are involved in litigation in the ordinary course of our business, including claims or contingencies that may arise related to matters occurring prior to our acquisition of businesses, such as the matter described below. At the present time, we can give no assurance as to the outcome of any pending litigation to which we are currently a party and we are unable to determine the ultimate resolution of or provide a reasonable estimate of the range of possible loss attributable to these matters or the effect they may have on us. However, we do not expect the outcome of such proceedings to have a material adverse effect on our results of operations or financial condition. We have and will continue to vigorously defend ourselves against these claims.

On April 23, 2013 (prior to our acquisition of R.L. Polk & Co.), our CARFAX subsidiary (CARFAX) was served with a complaint filed in the U.S. District Court for the Southern District of New York, purportedly on behalf of certain auto and light truck dealers. The complaint alleges, among other things that, in violation of antitrust laws, CARFAX entered into exclusive arrangements regarding the sale of CARFAX vehicle history reports with certain auto manufacturers and owners of two websites providing classified listings of used autos and light trucks. The complaint

seeks three times the actual damages that a jury finds the plaintiffs have sustained, injunctive relief, costs and attorneys' fees. On October 25, 2013, the plaintiffs served a second amended complaint with similar allegations purporting to name approximately 469 auto dealers as plaintiffs and counsel for plaintiffs have indicated that there may be additional claimants. There are significant legal and factual issues to be

determined. We believe, however, that the probability that the outcome of the litigation will have a material adverse effect on our results of operations or financial condition is remote.

12. Common Stock and Earnings per Share

Weighted-average shares of Class A common stock outstanding for the three and six months ended May 31, 2015 and 2014 were calculated as follows (in thousands):

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Weighted-average shares outstanding:				
Shares used in basic EPS calculation	68,802	68,216	68,752	68,015
Effect of dilutive securities:				
Restricted stock units	309	481	506	715
Shares used in diluted EPS calculation	69,111	68,697	69,258	68,730

Share Repurchase Programs

In January 2015, our board of directors authorized us to repurchase up to $100 million of our Class A common stock in open market purchases or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the Exchange Act), subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate IHS to repurchase any set dollar amount or number of shares and is scheduled to expire on November 30, 2015, but may be suspended at any time at our discretion. All of our previously announced share repurchase programs have been terminated. During the first six months of 2015, we repurchased 554,407 shares under this program for a total of approximately $67.5 million, at an average price of approximately $121.82 per share. We subsequently completed this program in June 2015.

In June 2015, our board of directors authorized us to repurchase up to $500 million of our Class A common stock in open market purchases or through privately negotiated transactions in compliance with Rule 10b-18 under the Exchange Act, subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate IHS to repurchase any set dollar amount or number of shares and is scheduled to expire on November 30, 2017, but may be suspended at any time at our discretion. The amount authorized under this program is inclusive of share repurchases of our Class A common stock surrendered by employees in an amount equal to the statutory tax liability associated with the vesting of their equity awards, for which we pay the statutory tax on behalf of the employee.

13. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in AOCI by component (net of tax) for the six months ended May 31, 2015 (in thousands):

	Foreign currency translation	Net pension and OPEB liability	Unrealized losses on hedging activities	Total
Balance at November 30, 2014	$(83,634)	$(13,609)	$(9,482)	$(106,725)
Other comprehensive loss before reclassifications	(45,808)	—	(2,671)	(48,479)
Reclassifications from AOCI to income	—	—	(283)	(283)
Balance at May 31, 2015	$(129,442)	$(13,609)	$(12,436)	$(155,487)

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 product category.
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 and six months ended May 31, 2015 and 2014. There are no material inter-segment revenues for any period presented. Certain corporate transactions are not allocated to the reportable segments, including such

Table of Contents

items as stock-based compensation expense, net periodic pension and postretirement expense, corporate-level impairments, and gain (loss) on sale of corporate assets.

	Americas	EMEA	APAC	Shared Services	Consolidated Total
	(In thousands)				
Three months ended May 31, 2015					
Revenue	$401,881	$136,630	$52,896	$—	$591,407
Operating income	$86,200	$31,775	$13,743	$(48,789)	$82,929
Depreciation and amortization	$49,408	$6,257	$1,314	$1,931	$58,910
Three months ended May 31, 2014					
Revenue	$376,787	$138,847	$52,374	$—	$568,008
Operating income	$93,587	$34,465	$12,938	$(54,217)	$86,773
Depreciation and amortization	$41,395	$5,314	$475	$1,958	$49,142
Six months ended May 31, 2015					
Revenue	$767,962	$263,677	$106,029	$—	$1,137,668
Operating income	$159,541	$56,948	$24,597	$(92,731)	$148,355
Depreciation and amortization	$95,502	$12,534	$2,913	$3,880	$114,829
Six months ended May 31, 2014					
Revenue	$727,207	$265,708	$99,551	$—	$1,092,466
Operating income	$171,197	$59,060	$23,000	$(110,830)	$142,427
Depreciation and amortization	$82,568	$11,105	$1,088	$4,018	$98,779

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

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Subscription revenue	$459,681	$426,346	$907,488	$843,720
Non-subscription revenue	131,726	141,662	230,180	248,746
Total revenue	$591,407	$568,008	$1,137,668	$1,092,466

Revenue by product category was as follows (in thousands):

	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Resources revenue	$234,673	$243,876	$452,242	$461,370
Industrials revenue	220,536	181,346	417,126	353,069
Horizontal products revenue	136,198	142,786	268,300	278,027
Total revenue	$591,407	$568,008	$1,137,668	$1,092,466

15. Supplemental Guarantor Information

Our 5% Notes are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally, by the following wholly owned subsidiaries of IHS Inc. (collectively, the Guarantor Subsidiaries):

- IHS Holding Inc.
- IHS Global Inc.
- R.L. Polk & Co.
- CARFAX, Inc.

The guarantees of our 5% Notes by the Guarantor Subsidiaries contain customary release provisions, which provide for the termination of such guarantees upon (i) the sale or other disposition (including by way of consolidation or merger) of the Guarantor Subsidiary or the sale or disposition of all or substantially all the assets of the Guarantor Subsidiary (in each case other than to the parent company (IHS Inc.) or another subsidiary of the parent company), (ii) the defeasance of the 5% Notes,

---

Table of Contents

(iii) at such time as the Guarantor Subsidiary ceases to be a guarantor of any significant indebtedness of the company, or (iv) if approved by the holders of the 5% Notes (except as provided in the indenture governing the 5% Notes).

The following supplemental tables present condensed consolidating financial information for the parent company, the Guarantor Subsidiaries on a combined basis, and the non-guarantor subsidiaries on a combined basis.

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF MAY 31, 2015
(In thousands)

	IHS Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$—	$19,902	$ 205,977	$—	$225,879
Accounts receivable, net	—	192,850	172,415		