

IMS HEALTH INC  
Form 10-Q  
November 02, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005**

**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: 001-14049**

**IMS Health Incorporated**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**Delaware**  
(State of Incorporation)

**06-1506026**  
(I.R.S. Employer Identification No.)

**1499 Post Road, Fairfield, CT 06824**

(Address of principal executive offices)(Zip Code)

**(203) 319-4700**

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(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 the filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. At September 30, 2005, there were 231,696,468 shares of IMS Health Incorporated Common Stock, \$0.01 par value, outstanding.

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IMS HEALTH INCORPORATED

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**PART I. FINANCIAL INFORMATION**

## Item 1. FINANCIAL STATEMENTS

## IMS HEALTH INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

*(Dollars and shares in thousands, except per share data)*

	As of September 30, 2005	As of December 31, 2004
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 246,199	\$ 444,903
Restricted cash (Note 16)	105,404	
Short-term marketable securities		15,053
Accounts receivable, net of allowances of \$6,289 and \$8,270 in 2005 and 2004, respectively	287,919	264,783
Other current assets	198,186	211,780
<b>Total Current Assets</b>	<b>837,708</b>	<b>936,519</b>
Securities and other investments	8,668	7,915
Property, plant and equipment, net of accumulated depreciation of \$197,024 and \$192,440 in 2005 and 2004, respectively	137,025	145,214
Computer software	232,403	230,021
Goodwill	433,500	302,229
Other assets	283,395	268,808
<b>Total Assets</b>	<b>\$ 1,932,699</b>	<b>\$ 1,890,706</b>
<b>Liabilities, Minority Interests and Shareholders Equity:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 64,956	\$ 70,344
Accrued and other current liabilities	216,375	237,139
Accrued income taxes	177,387	116,985
Short-term deferred tax liability	11,216	9,923
Deferred revenues	109,722	119,730
<b>Total Current Liabilities</b>	<b>579,656</b>	<b>554,121</b>
Postretirement and post employment benefits	99,734	99,899
Long-term debt (Note 9)	570,478	626,670
Other liabilities	169,889	252,326
<b>Total Liabilities</b>	<b>\$ 1,419,757</b>	<b>\$ 1,533,016</b>
<b>Commitments and Contingencies (Note 8)</b>		
<b>Minority Interests</b>	<b>\$ 99,832</b>	<b>\$ 101,976</b>
<b>Shareholders Equity:</b>		
Common Stock, par value \$.01, authorized 800,000 shares; issued 335,045 shares at September 30, 2005 and December 31, 2004, respectively	3,350	3,350
Capital in excess of par	465,919	477,768
Retained earnings	2,237,007	2,056,079
Treasury stock, at cost, 103,349 and 105,916 shares at September 30, 2005 and December 31, 2004, respectively	(2,222,848)	(2,268,414)
Cumulative translation adjustment	(45,519)	12,239
Minimum pension liability adjustment, net of taxes of \$11,129 at September 30, 2005 and December 31, 2004	(24,691)	(24,691)
Unrealized loss on changes in fair value of cash flow hedges, net of tax	(130)	(665)
Unrealized gain on investments, net of tax	22	48
<b>Total Shareholders Equity</b>	<b>\$ 413,110</b>	<b>\$ 255,714</b>
<b>Total Liabilities, Minority Interests and Shareholders Equity</b>	<b>\$ 1,932,699</b>	<b>\$ 1,890,706</b>

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*See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited).*

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars and shares in thousands, except per share data)

	Three Months Ended September 30,	
	2005	2004
<b>Operating Revenue</b>	\$ 432,796	\$ 384,171
Operating costs	199,654	165,575
Selling and administrative expenses	96,098	92,350
Depreciation and amortization	26,339	23,355
Merger costs (Note 16)	8,474	
<b>Operating Income</b>	<b>102,231</b>	102,891
Interest income	2,448	1,834
Interest expense	(7,140)	(4,751)
Gains from investments, net	252	2,188
Loss on issuance of investees' stock, net		31
Other income (expense), net	7,655	(3,342)
<b>Non-Operating Income (Loss), Net</b>	<b>3,215</b>	(4,040)
Income before provision for income taxes	105,446	98,851
Provision for income taxes (Note 11)	(34,306)	(33,881)
TriZetto equity income, net of income taxes of \$(427) for 2004		662
<b>Net Income</b>	<b>\$ 71,140</b>	\$ 65,632
<b>Basic Earnings Per Share of Common Stock</b>	<b>\$ 0.31</b>	\$ 0.28
<b>Diluted Earnings Per Share of Common Stock</b>	<b>\$ 0.30</b>	\$ 0.28
Weighted average number of shares outstanding - Basic	229,945	232,981
Dilutive effect of shares issuable as of period-end under stock option plans	4,090	4,048
Adjustment of shares outstanding applicable to exercised and cancelled stock options during the period	600	118
<b>Weighted Average Number of Shares Outstanding - Diluted</b>	<b>234,635</b>	237,147

See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited).



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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars and shares in thousands, except per share data)

	Nine Months Ended September 30,	
	2005	2004
<b>Operating Revenue</b>	\$ 1,277,062	\$ 1,125,330
Operating costs	572,514	481,485
Selling and administrative expenses	309,616	274,876
Depreciation and amortization	76,658	67,378
Merger costs (Note 16)	15,874	
<b>Operating Income</b>	<b>302,400</b>	301,591
Interest income	7,195	4,899
Interest expense	(20,292)	(13,184)
Gains from investments, net	2,624	10,715
Loss on issuance of investees' stock, net		(60)
Other income (expense), net	25,555	(2,169)
<b>Non-Operating Income, Net</b>	<b>15,082</b>	201
Income before provision for income taxes	317,482	301,792
Provision for income taxes (Note 11)	(122,820)	(89,354)
TriZetto equity loss, net of income taxes of \$393 for 2004		(607)
<b>Net Income</b>	<b>\$ 194,662</b>	\$ 211,831
<b>Basic Earnings Per Share of Common Stock</b>	<b>\$ 0.85</b>	\$ 0.90
<b>Diluted Earnings Per Share of Common Stock</b>	<b>\$ 0.84</b>	\$ 0.89
Weighted average number of shares outstanding - Basic	227,901	234,369
Dilutive effect of shares issuable as of period-end under stock option plans	2,999	4,380
Adjustment of shares outstanding applicable to exercised and cancelled stock options during the period	1,234	464
<b>Weighted Average Number of Shares Outstanding - Diluted</b>	<b>232,134</b>	239,213

See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited).

## IMS HEALTH INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

*(Dollars in thousands)*

	Nine Months Ended September 30,	
	2005	2004
<b>Cash Flows Provided by Operating Activities:</b>		
Net income	\$ 194,662	\$ 211,831
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	76,658	67,378
Bad debt expense	2,552	1,000
Deferred income taxes	8,559	8,710
Gains from investments, net	(2,624)	(10,715)
Loss on issuance of investees' stock, net		60
TriZetto equity loss, net		607
Minority interests in net income of consolidated companies	2,525	4,397
Non-cash stock compensation charges	3,511	2,345
Change in assets and liabilities, excluding effects from acquisitions and dispositions:		
Net increase in restricted cash	(105,404)	
Net (increase) decrease in accounts receivable	(11,383)	19,207
Net decrease (increase) in inventory	5,037	(2,305)
Net increase in prepaid expenses and other current assets	(37,098)	(15,704)
Net decrease in accounts payable	(11,089)	(1,769)
Net decrease in accrued and other current liabilities	(11,957)	(23,855)
Net decrease in accrued severance, impairment and other charges	(25,034)	(5,252)
Net decrease in deferred revenues	(15,293)	(12,470)
Net (decrease) increase in accrued income taxes	(11,369)	19,161
Net (increase) decrease in pension assets (net of liabilities)	(2,332)	1,162
Net decrease in other long-term assets	2,402	2,269
Net tax benefit on stock option exercises	13,450	8,424
<b>Net Cash Provided by Operating Activities</b>	<b>75,773</b>	<b>274,481</b>
<b>Cash Flows Used in Investing Activities:</b>		
Capital expenditures	(13,384)	(14,271)
Additions to computer software	(60,724)	(58,259)
Proceeds from sale of TriZetto	37,414	
Investments in short-term marketable securities	15,351	17,867
Payments for acquisitions of businesses, net of cash acquired	(191,840)	(23,078)
Funding of venture capital investments	(1,000)	(500)
Other investing activities, net	2,398	3,722
<b>Net Cash Used in Investing Activities</b>	<b>(211,785)</b>	<b>(74,519)</b>
<b>Cash Flows Used in Financing Activities:</b>		
Net (decrease) increase in debt	(53,602)	70,801
Payments for purchase of treasury stock	(147,945)	(277,075)
Proceeds from exercise of stock options	162,310	80,923
Dividends paid	(13,734)	(14,204)
Proceeds from employee stock purchase plan	2,391	1,841
Increase in cash overdrafts	3,976	2,932
Payments to minority interests	(2,418)	(4,889)
<b>Net Cash Used in Financing Activities</b>	<b>(49,022)</b>	<b>(139,671)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(13,670)	(1,090)
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	<b>(198,704)</b>	<b>59,201</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>444,903</b>	<b>344,432</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 246,199</b>	<b>\$ 403,633</b>

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*See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited).*

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT (Unaudited)**

**(Dollars and shares in thousands, except for per share data)**

**Note 1.** Interim Condensed Consolidated Financial Statements (unaudited)



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The accompanying Condensed Consolidated Financial Statements (unaudited) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. The Condensed Consolidated Financial Statements (unaudited) do not include all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, all of which are of a normal recurring nature, considered necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented have been included. The results of operations for interim periods are not necessarily indicative of the results expected for the full year. The Condensed Consolidated Financial Statements (unaudited) and related notes should be read in conjunction with the Consolidated Financial Statements and related notes of IMS Health Incorporated (the Company or IMS ) included in its 2004 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the 2005 presentation. Amounts presented in the Condensed Consolidated Financial Statements (unaudited) may not add due to rounding.

### **Note 2.** Basis of Presentation





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The Company is a leading global provider of information solutions to the pharmaceutical and healthcare industries. The Company's revenues are derived primarily from the sale of a broad line of market information, sales management and consulting services to the pharmaceutical and healthcare industries. The Company's information products are developed to meet client needs by using data secured from a worldwide network of suppliers in the markets where operations exist. Key information products include:

Sales Force Effectiveness to optimize sales force productivity and territory management;

Portfolio Optimization to provide clients with insights into market opportunity and business development assessment; and

Launch and Brand Management and Other to support client needs relative to market segmentation and positioning and life cycle management for prescription and over-the-counter pharmaceutical products.

Within these key information products we provide consulting and services that use in-house capabilities and methodologies to assist pharmaceutical clients in analyzing and evaluating market trends, strategies and tactics, and to help in the development and implementation of customized software applications and data warehouse tools.

The Company operates in more than 100 countries. The Company also owns a venture capital unit, Enterprise Associates, LLC (Enterprises), which is focused on investments in emerging businesses. Until December 31, 2004, the Company also owned an approximately 25.0% equity interest in the TriZetto Group, Inc. TriZetto (See Note 7).

The Company is managed on a global business model with global leaders for the majority of its critical business processes and accordingly has one reportable segment (See Note 15).

**Note 3. Summary of Recent Accounting Pronouncements**



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In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 123R, Share-Based Payment , which is a revision of SFAS No. 123, Accounting for Stock Based Compensation , and supersedes Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, or incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of all employee share-based payments, including grants of employee stock options, using a fair-value based method, such as the Black-Scholes option valuation model at the date of the grant. The resulting cost is then recognized as compensation cost in the Consolidated Statements of Income over the service period during which an employee is required to provide service in exchange for the award (usually the vesting period). In April 2005, the Securities and Exchange Commission deferred the effective date of SFAS No. 123R to the first annual reporting period beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 123R; however, based upon outstanding as well as future anticipated stock-based award grants through December 31, 2006, the Company expects that the adoption under the modified prospective method will have approximately an \$0.11 to \$0.12 fully diluted earnings per share impact on its consolidated results of operations for the year ending December 31, 2006. For a description of the Company's model and assumptions used to calculate the fair value of the Company's stock-based awards, refer to Note 13 of the Company's 2004 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets-An Amendment of APB Opinion No. 29. SFAS No. 153 amends APB No. 29, Accounting for Nonmonetary Transactions, to eliminate the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's financial position, results of operations or cash flows for the year ending December 31, 2006.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 will require entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless it would be impracticable to do so. SFAS No. 154 supersedes APB No. 20, Accounting Changes, which previously required most voluntary changes in accounting principle to be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS No. 154 also

makes a distinction between retrospective application of an accounting principle and the restatement of financial statements to reflect the correction of an error. Further, under SFAS No. 154, if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate. Under APB No. 20, such a change would have been reported as a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material impact on the Company's financial position, results of operations or cash flows for the year ending December 31, 2006.

**Note 4. Summary of Significant Accounting Policies**



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*Stock-based compensation.* SFAS No. 123, *Accounting for Stock-Based Compensation* requires that companies with stock-based compensation plans either recognize compensation expense based on the fair value of options granted or continue to apply the existing accounting rules and disclose pro forma net income and earnings per share assuming the fair value method had been applied. The Company has chosen to continue applying APB Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations in accounting for its plans. If the compensation cost for the Company's stock-based compensation plans was determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below for the three and nine months ended September 30:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2005	2004	2005	2004
Net Income:	As reported	\$ 71,140	\$ 65,632	\$ 194,662	\$ 211,831
	Add: Stock-based employee compensation expense included in reported net income, net of tax	1,059	677	2,991	2,334
	Deduct: Total stock-based employee compensation expense under fair value method for all awards, net of tax	(6,885)	(6,818)	(21,253)	(19,888)
	Pro forma	\$ 65,314	\$ 59,491	\$ 176,400	\$ 194,277
<b>Earnings Per Share:</b>					
Basic	As reported	\$ 0.31	\$ 0.28	\$ 0.85	\$ 0.90
	Pro forma	\$ 0.28	\$ 0.26	\$ 0.77	\$ 0.83
Diluted	As reported	\$ 0.30	\$ 0.28	\$ 0.84	\$ 0.89
	Pro forma	\$ 0.28	\$ 0.25	\$ 0.76	\$ 0.81

For a description of the Company's other critical accounting policies, please refer to the Company's 2004 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

**Note 5.** Acquisitions





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The Company makes acquisitions in order to expand its products, services and geographic reach. During the nine months ended September 30, 2005, the Company completed nine acquisitions for an aggregate cost of approximately \$151,000. These acquisitions were Taskarena Software Engineering GmbH (Germany), SAI Healthcare (U.S.), Synchronous Knowledge, Inc. (U.S.), M-Tag (Australia and UK), Fricke & Pirk (Germany), BASS (Korea), Areks (France, Japan, Switzerland and U.S.), Pharmetrics (U.S.) and Envision (U.S.) and were accounted for under the purchase method of accounting. As such, the aggregate purchase price has been allocated on a preliminary basis to the assets acquired based on estimated fair values as of the closing date. The purchase price allocations will be finalized after the completion of the valuation of certain assets and liabilities. Any adjustments resulting from the finalization of the purchase price allocations are not expected to have a material impact on the Company's results of operations. The Condensed Consolidated Financial Statements (unaudited) include the results of these acquired companies subsequent to the closing of the acquisitions. Had each of these acquisitions occurred as of January 1, 2005 or 2004, the impact on the Company's results of operations would not have been significant. Goodwill of approximately \$89,604 was recorded in connection with these acquisitions. For tax purposes, approximately \$57,700 of goodwill is deductible in connection with these acquisitions.

Additionally, during January 2005, the Company paid approximately \$36,000 to acquire the 50% interest in IHA. IMS Health GmbH ( IHA ) not owned by the Company. The Company is currently evaluating the potential purchase price allocation resulting from this payment but expects that a majority of the payment will be recorded as goodwill. For the nine months ended September 30, 2004, the Company consolidated the results of IHA and recorded minority interest expense for the 50% not owned by the Company.

During the nine months ended September 30, 2004, the Company completed five acquisitions for an aggregate cost of \$19,757. The acquisitions were Source Belgium S.A. (Belgium), H.E.D.M. Bvba (Belgium), SciCon Wissenschaftliche Unternehmensberatung GmbH (Germany), Groupe PR (France) and Institute for Medical Marketing Research (Sweden) and were accounted for under the purchase method of accounting. As such, the aggregate purchase price had been allocated on a preliminary basis to the assets and liabilities acquired based on estimated fair values as of the closing date. The Company finalized the purchase price allocation for these acquisitions during the second quarter of 2005 which did not have a material impact on the Company's results of operations. The Condensed Consolidated Financial Statements (unaudited) include the results of these acquired companies subsequent to the closing of the acquisitions. Had these acquisitions occurred as of January 1, 2004 or 2003, the impact on the Company's results of operations would not have been significant. Goodwill of approximately \$17,400 was recorded in connection with these acquisitions, of which none is deductible for tax purposes.

### **Note 6. Goodwill and Intangible Assets**



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During the first nine months of 2005, the Company recorded additional goodwill of \$148,508 related primarily to the acquisition of the remaining 50% of IHA in January 2005, the preliminary allocation of purchase price for the nine acquisitions completed during 2005 (see Note 5) and payments on earn-out agreements for acquisitions completed prior to 2005. During the nine months

ended September 30, 2004, the Company recorded additional goodwill of \$17,899 related primarily to the preliminary allocation of purchase price for the four acquisitions completed in the first nine months of 2004 (see Note 5) and payments on earn-out agreements on acquisitions completed prior to 2004.

All of the Company's other acquired intangibles are subject to amortization. Intangible asset amortization expense was \$5,038 and \$13,333 during the three and nine months ended September 30, 2005, respectively and \$2,970 and \$8,703 during the three and nine months ended September 30, 2004, respectively. At September 30, 2005, intangible assets were primarily composed of customer relationships, databases and trade names (included in Other assets) and computer software. The gross carrying amounts and related accumulated amortization of these intangibles were \$132,519 and \$37,930, respectively, at September 30, 2005 and \$74,987 and \$20,580, respectively, at September 30, 2004. These intangibles are amortized over periods ranging from two to fifteen years. As of September 30, 2005, the weighted average amortization periods of the acquired intangibles by asset class are listed in the following table:

<b>Intangible Asset Type</b>	<b>Weighted Average Amortization (Years) Period</b>
Customer Relationships	9.0
Computer Software and Algorithms	6.5
Databases	4.7
Trade Names	4.3
Other	3.9
Weighted average	8.0

Based on current estimated useful lives, amortization expense associated with intangible assets at September 30, 2005 is estimated to be approximately \$5,000 for the remaining quarter in 2005. Annual amortization expense associated with intangible assets is estimated to be as follows:

<b>Year Ended December 31,</b>	<b>Amortization Expense</b>
2006	17,469
2007	15,451
2008	13,407
2009	10,502
2010	7,769
Thereafter	24,955

**Note 7. Investments in Equity Investees**



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On December 21, 2004, the Company and TriZetto Group, Inc. ( TriZetto ) entered into a share purchase agreement pursuant to which the Company sold to TriZetto all of the 12,142,857 shares of Common Stock, par value \$0.001 per share, of TriZetto owned by the Company for an aggregate cash consideration of \$81,964. The Company received \$44,550 in December 2004 and the remaining balance of \$37,414 in January 2005. The balance of \$37,414 was included in Other current assets in

the Company's Consolidated Statements of Financial Position at December 31, 2004. As a result of the transaction, the Company recorded a pre-tax gain of \$38,803 in the fourth quarter of 2004.

Prior to the sale of the TriZetto shares, the Company accounted for its investment in TriZetto under the equity method of accounting. The Company's share of the adjusted operating results of TriZetto amounted to a gain of \$662 and a loss of \$607 for the three and nine months ended September 30, 2004, respectively (net of income taxes of \$(427) and \$393, respectively).

## **Note 8. Contingencies**

The Company and its subsidiaries are involved in legal and tax proceedings, claims and litigation arising in the ordinary course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. For those matters where management currently believes it is probable that the Company will incur a loss and that the probable loss or range of loss can be reasonably estimated, the Company has recorded reserves in the Condensed Consolidated Financial Statements (Unaudited) based on its best estimates of such loss. In other instances, because of the uncertainties related to either the probable outcome or the amount or range of loss, management is unable to make a reasonable estimate of a liability, if any. However, even in many instances where the Company has recorded a reserve, the Company is unable to predict with certainty the final outcome of the matter or whether resolution of the matter will materially affect the Company's results of operations, financial position or cash flows. As additional information becomes available, the Company adjusts its assessment and estimates of such liabilities accordingly.

The Company routinely enters into agreements with its suppliers to acquire data and with its customers to sell data, all in the normal course of business. In these agreements, the Company sometimes agrees to indemnify and hold harmless the other party for any damages such other party may suffer as a result of potential intellectual property infringement and other claims. These indemnities typically have terms of approximately two years. The Company has not accrued a liability with respect to these matters, as the exposure is considered remote.

Based on its review of the latest information available, in the opinion of management, the ultimate liability of the Company in connection with pending tax and legal proceedings, claims and litigation will not have a material effect on the Company's results of operations, cash flows or financial position, with the possible exception of the matters described below.

### *Legacy and Related Matters*

In order to understand the Company's exposure to the potential liabilities described below, it is important to understand the relationship between the Company and its predecessors and other parties that, through various corporate reorganizations and contractual commitments, have assumed varying degrees of responsibility with respect to such matters.

In November 1996, the company then known as The Dun & Bradstreet Corporation ( "D&B" ) separated into three public companies by spinning-off ACNielsen Corporation ( "ACNielsen" ) and Cognizant Corporation ( "Cognizant" ) (the "1996 Spin-Off" ). Pursuant to the agreements effecting





the 1996 Spin-Off, among other things, certain liabilities, including contingent liabilities relating to the IRI Action (defined below) and tax liabilities arising out of certain prior business transactions (the D&B Legacy Tax Matters), described more fully below, were allocated among D&B, ACNielsen and Cognizant.

In June 1998, Cognizant separated into two public companies by spinning off IMS (the 1998 Spin-Off) and then changed its name to Nielsen Media Research, Inc. (NMR). As a result of the 1998 Spin-Off, the Company and NMR are jointly and severally liable for all liabilities of Cognizant under the agreements effecting the 1996 Spin-Off. As between themselves, however, the Company and NMR agreed that IMS will assume 75%, and NMR will assume 25%, of any payments to be made in respect of the IRI Action, including any legal fees and expenses related thereto incurred in 1999 or thereafter (IMS agreed to be responsible for legal fees and expenses incurred during 1998). In addition, the Company and NMR agreed they would share equally Cognizant's share of liability arising out of the D&B Legacy and Related Tax Matters after the Company paid the first \$130,000 of such liability. NMR's aggregate liability for payments in respect of the IRI Action and the D&B Legacy Tax Matters (see below) shall not exceed \$125,000.

Also during 1998, D&B separated into two public companies by spinning off The Dun & Bradstreet Corporation (D&B I) and then changed its name to R.H. Donnelley (Donnelley). As a result of their separation in 1998, Donnelley and D&B I are each jointly and severally liable for all liabilities of D&B under the agreements effecting the 1996 Spin-Off.

During 2000, D&B I separated into two public companies by spinning off The Dun & Bradstreet Corporation (D&B II) and then changed its name to Moody's Corporation (Moody's). Pursuant to their separation in 2000, Moody's and D&B II are each jointly and severally liable for all of D&B I's liabilities under the agreements effecting the 1996 Spin-Off.

*IRI Litigation.* In July 1996, Information Resources, Inc. (IRI) filed a complaint, subsequently amended in 1997, in the U.S. District Court of the Southern District of New York, naming as defendants a company then known as The Dun & Bradstreet Corporation and now known as Donnelley, A.C. Nielsen Company (a subsidiary of ACNielsen) and I.M.S. International, Inc. (a predecessor of the Company) (the IRI Action). At the time of the filing of the complaint, each of the other defendants was a wholly-owned subsidiary of Donnelley. The amended complaint alleged various violations of U.S. antitrust laws under Sections 1 and 2 of the Sherman Antitrust Act. IRI sought damages in excess of \$650,000, which IRI asked to be trebled, as well as punitive damages in an unspecified amount.

On February 1, 2005, the U.S. District Court for the Southern District of New York entered a final judgment against IRI dismissing IRI's claims with prejudice and on the merits. IRI has filed a notice of appeal to the U.S. Court of Appeals for the Second Circuit. Oral arguments were held on October 18, 2005.

In connection with the 1996 Spin-Off, D&B (now Donnelley), Cognizant (now NMR) and ACNielsen entered into an Indemnity and Joint Defense Agreement with respect to the IRI Action. In 2001, ACNielsen was acquired by VNU N.V., a publicly traded Dutch company (VNU). VNU assumed ACNielsen's obligations under the original Indemnity and Joint Defense Agreement.

On July 30, 2004, VNU and its U.S. subsidiaries, VNU, Inc., ACNielsen, AC Nielsen (US), Inc. ( ACN (US) ), and NMR (collectively, the VNU Parties ), Donnelley, D&B II, Moody s and the Company entered into an Amended and Restated Indemnity and Joint Defense Agreement (the Amended JDA ). Pursuant to the Amended JDA, any and all liabilities incurred by Donnelley, D&B II, Moody s or IMS relating to a judgment (even if not final) or any settlement being entered into in the IRI Action ( IRI Liabilities ) will be jointly and severally assumed and fully discharged exclusively by the VNU Parties. Under the Amended JDA, the VNU Parties agreed to, jointly and severally, indemnify Donnelley, D&B II, Moody s and IMS from and against all IRI Liabilities to which they become subject.

As described above, the VNU Parties have assumed exclusive responsibility for the payment of all IRI Liabilities. Provided that the VNU Parties are able to fulfill their obligations under the Amended JDA, and that they ultimately do fulfill such obligations, the Company believes that the final resolution of the IRI Action should not have a material adverse effect on the Company s financial position, results of operations or cash flows. However, because liability for violations of the antitrust laws is joint and several and because the rights and obligations relating to the Amended JDA are based on contractual relationships, the failure of the VNU Parties to fulfill their obligations under the Amended JDA could result in the other parties bearing all or a share of the IRI Liabilities. Joint and several liability for the IRI Action means that even where more than one defendant is determined to have been responsible for an alleged wrongdoing, the plaintiff can collect all or part of the judgment from just one of the defendants. This is true regardless of whatever contractual allocation of responsibility the defendants and any other indemnifying parties may have made, including the allocations described above between the VNU Parties, Donnelley, D&B II, Moody s and IMS.

Accordingly, and as a result of the allocations of liability described above, in the event the VNU Parties default on their obligations under the Amended JDA, the Company will be responsible for 75% of Cognizant s share of any liabilities arising out of the IRI Action (which, under the application of joint and several liability described above, could be all the IRI Liabilities since the Company is a successor to a named defendant) and NMR will be responsible for 25% of any such liabilities; provided that NMR s aggregate liability for payments in respect of the IRI Action and the D&B Legacy Tax Matters shall not exceed \$125,000. To date, NMR has made payments of approximately \$91,000 relating to the IRI Action and the D&B Legacy Tax Matters. Further, if the VNU Parties default on their obligations, NMR, one of the VNU Parties, may default on its obligation to share any IRI Liabilities with the Company, or at the time the IRI Liabilities arise, NMR may have previously made sharing payments up to its \$125,000 cap. In either such event, the Company could be liable for an amount up to all the IRI Liabilities.

While, as described above, the IRI Action has been dismissed with prejudice on the merits, IRI has filed an appeal. Therefore, the Company is unable to predict the final outcome of the IRI Action (including the appeal), the financial condition of any of the VNU Parties or the other defendants at the time of any such outcome or whether the VNU Parties or the other defendants will fulfill their obligations under the Amended JDA or other related contractual agreements. Hence, the Company cannot estimate such parties ability to pay the IRI Liabilities, if any, pursuant to the Amended JDA or the amount of any final judgment or settlement in the IRI Action. Nonetheless, management presently believes that the risk that the Company will incur any material liabilities with respect to the IRI Action is remote and, therefore no liability in respect of this matter has been accrued in the

Company's financial statements. If, however, IRI were to prevail in whole or in part in this action and if the VNU Parties fail to fulfill their indemnification obligations, the outcome of this matter could have a material adverse effect on the Company's financial position, results of operations and cash flows. On July 11, 2005, IMS announced a definitive agreement to merge with VNU, which agreement is more fully described in Note 16.

*D&B Legacy and Related Tax Matters.* During the second quarter of 2003, the IRS issued an agent's final examination report seeking to disallow certain royalty expense deductions claimed by D&B on its 1995 and 1996 tax returns in connection with a specified partnership (the Partnership) organized by D&B prior to the 1996 Spin-Off (the DLA Matter). Also in the second quarter of 2003, the IRS issued an additional agent's final examination report to the Partnership seeking to reallocate certain partnership income to D&B for 1996. D&B II and the Company believe that the positions taken by the IRS in the report to the Partnership are inconsistent with the IRS's denial of the royalty expense deductions claimed by D&B because such an assertion is duplicative. In addition, the IRS has asserted penalties for the years described above based on its interpretation of applicable law.

Under the 1996 Spin-Off agreements, to the extent relevant here, Donnelley has the right and obligation to manage certain tax controversies with the IRS to the extent those controversies relate to tax liabilities for Donnelley's tax years 1995 and 1996 arising from the DLA Matter. Donnelley has apparently assigned this right and obligation to D&B II. However, under the 1996 Spin-Off agreements, Donnelley cannot agree to any final settlement with respect to the DLA Matter without NMR's consent, which right of consent NMR shares with IMS pursuant to the terms of the 1998 Spin-Off agreements. If NMR and the Company withhold consent, then NMR and the Company would have the right and obligation to assume responsibility for management of the DLA Matter and indemnify Donnelley to the extent that the ultimate liability arising from the controversy exceeded the proposed settlement.

D&B II, as agent for Donnelley in the D&B Legacy Tax Matters, has filed protests relating to the proposed assessments for the DLA Matter with the IRS Office of Appeals. D&B II advised that it would attempt to resolve these matters in the administrative appeals process before proceeding to litigation if necessary. During the first quarter of 2004, as a result of information from D&B II regarding a proposed mediation with the IRS to settle partnership items related to the DLA Matter, the Company reclassified its tax reserves related to the DLA Matter from long-term (Other liabilities) to short-term (Accrued income taxes).

In June 2004, the Company was advised that D&B II believed that it had reached a basis for settlement with the IRS regarding the 1995 and 1996 corporate and partnership proposed assessments (the Preliminary Settlement Terms). The agreement to the Preliminary Settlement Terms was tentative and non-binding. Under the Preliminary Settlement Terms, Donnelley would retain approximately 15% of the tax benefit associated with the transaction and pay a penalty of approximately 7% and the duplicative inconsistent positions described above would be eliminated.

In September 2004, D&B II advised the Company that the IRS had withdrawn its agreement to the Preliminary Settlement Terms. D&B II continued to negotiate with the IRS and subsequently developed a revised proposed settlement (the Revised Proposed Settlement). In October, Donnelley and D&B II presented the Revised Proposed Settlement to NMR and IMS and requested

their consent. On October 28, 2004, the Company responded to Donnelley's and D&B II's request for consent to the Revised Proposed Settlement by consenting to the settlement of tax liabilities with respect to the DLA Matter. However, the Revised Proposed Settlement addressed matters beyond the DLA Matter and these matters would have an adverse impact on the Company for tax years subsequent to the 1996 Spin-Off and with respect to which the Company believes neither Donnelley nor D&B II has the authority to negotiate or propose a settlement. The Company advised Donnelley that, to the extent the Revised Proposed Settlement addressed issues beyond the DLA Matter, the negotiation and presentation of the Revised Proposed Settlement constituted a breach of the 1996 Spin-Off agreements.

On October 29, 2004, Donnelley and D&B II advised NMR and the Company that they were treating the Company's position as a withholding of consent, and that therefore under the 1996 Spin-Off agreements, NMR and the Company were obligated to assume management of the controversy and to indemnify Donnelley to the extent any ultimate resolution of the controversy was less favorable to Donnelley than that contained in the Revised Proposed Settlement. Such excess liability was estimated to approximate \$6,800. The Company does not believe this liability is probable and has not recorded any reserves for this item. The Company does not agree with these assertions and believes that Donnelley breached the terms of the 1996 Spin-Off agreements by negotiating and requesting consent for matters beyond its authority.

During the second quarter of 2005, D&B II advised the Company that the IRS had again proposed a settlement agreement. This proposed settlement agreement reflected the financial terms set forth in the Preliminary Settlement Terms described above but does not address matters beyond the DLA Matter. Donnelley and D&B II presented this proposed settlement agreement to NMR and IMS and requested their consent. NMR and IMS consented and the settlement agreement is now effective. In October 2005, the Company paid \$34,000 to the IRS in substantial satisfaction of its share of the total liability for the DLA Matter. This amount was previously accrued by the Company.

In January 2004, the IRS issued an agent's final examination report to the Partnership seeking to reallocate certain items of partnership income and expense as well as disallow certain items of partnership expense on the Partnership's 1997 tax return during which year Cognizant was a partner in the Partnership. In January 2004, the IRS issued agent's final examination reports to the Partnership and the Company seeking to reverse items of partnership income and loss and disallow certain royalty expense deductions claimed by the Company on its 1998 and 1999 tax returns arising from the Company's participation in the Partnership. If the IRS were to ultimately prevail in the foregoing positions, the Company's liability (tax and interest) for 1997 would be approximately \$18,900, and its aggregate liability (tax and interest) for 1998 and 1999 would be approximately \$28,500 (all net of income tax benefit for interest). If the IRS were to take a comparable position with respect to all of the Company's tax returns filed subsequent to 1999 and ultimately prevail, the Company's additional liability (tax and interest) would be approximately \$52,500 (net of income tax benefit for interest).

In addition, the IRS has asserted penalties for 1997 through 1999. If the IRS were to prevail in its assertion of penalties and interest thereon for these years, the Company estimates that its liability for such penalties and interest would be approximately \$9,200 (all net of income tax benefit). The Company disputes the IRS's position.

The Company has filed protests relating to the proposed assessments for 1997, 1998 and 1999 with the IRS Office of Appeals. Notwithstanding the fact that the Company will attempt to resolve these matters in the administrative appeals process before proceeding to litigation if necessary, during the first and third quarters of 2005, the tax reserves related to 1998 through 2003, were reclassified from long-term (Other liabilities) to short-term (Accrued income taxes) based on informal discussions with the IRS and the possibility of assessment.

In another D&B Legacy Tax Matter, in June 2000, the IRS issued a formal notice of adjustment regarding Donnelley's utilization of certain capital losses generated during 1989 and 1990. D&B I, as agent for Donnelley, advised the Company that on May 12, 2000, it filed an amended tax return for the 1989 and 1990 tax periods, which reflected \$561,582 of additional tax and interest due. In May 2000, D&B I paid the IRS \$349,291 and the Company paid the IRS \$212,291; NMR subsequently reimbursed the Company approximately \$41,000. D&B I filed a complaint for a refund in the U.S. District Court on September 21, 2000 to contest this assessment. In June 2004, D&B II advised the Company that it had decided not to pursue the refund claim and believed it had reached a basis for settlement with the IRS. A definitive settlement agreement was executed on December 6, 2004. The settlement requires Donnelley to withdraw its complaint for a refund. In the first quarter of 2005, Donnelley received tax bills from the IRS in an aggregate amount of approximately \$47,500 with respect to this settlement. The Company has paid the IRS approximately \$10,900 in respect of these tax bills, which amount the Company believes represents its share of the total liability related to this matter. Donnelley and D&B II have advised the Company that they believe the Company and NMR each owe approximately an additional \$7,400 (or approximately \$4,900 net of tax benefits) for this matter. Should D&B II pursue arbitration, management does not believe that D&B II would prevail.

As of September 30, 2005, the Company had reserves for these tax matters of approximately \$138,000 in the aggregate, including the \$34,000 paid to the IRS in October. In the opinion of management, it is not probable, but may be reasonably possible that the Company will have additional liability of \$9,200 in excess of the amount reserved for these matters attributable to potential penalties (and net interest thereon) for the years 1997 through 1999. In the opinion of management, the Company's reserves for the foregoing tax matters are adequate for the probable exposure and, accordingly, based on information currently available, management does not believe that these matters will have a material adverse effect on the Company's consolidated financial position or results of operations but may have a material adverse effect on cash flows in the period in which any such amounts are paid.

In addition to these matters, the Company and its predecessors have entered, and the Company continues to enter, into global tax planning initiatives in the normal course of their businesses. These activities are subject to review by applicable tax authorities. As a result of the review process, uncertainties exist and it is possible that some of these matters could be resolved adversely to the Company.

#### *Matters Before the Belgian Competition Service*

Complaints were filed in 1998 and 1999 against the Company with the Belgian Competition Service (BCS) by SmithKline Beecham Pharma S.A. (SKB) and Source Informatics Belgium S.A. (Source) alleging abuse of a dominant position on the Belgian market and requests were made

for the adoption of interim measures pending consideration of the complaints. In October 1999 and 2000, the Chairman of the Belgian Competition Council ( BCC ) adopted interim measures against the Company, with which the Company has complied. In June 2004 the BCS sent information requests to the Company, Source and various third parties in respect of the SKB complaint filed in 1998. The Company and Source responded to the requests. In December 2004, the Company received a formal statement of objections alleging that the Company had abused its dominant position on the Belgian market in violation of Article 82 of the EC Treaty and corresponding Belgian law. Under Belgian law, the Company has the opportunity to provide its comments to the statement of objections, both in writing (which the Company submitted in February 2005) and orally. Once the investigation is complete, the BCC will issue a proposed decision to be adopted by the BCC, and the reasons therefor. The Company will then be given access to the investigation file, will be given the right to contest in writing any findings of the report and to produce evidence of its own, and the right to present its defense at an oral hearing. The BCC will ultimately determine whether the Company violated Article 82 of the EC Treaty and corresponding Belgian law and may impose fines against the Company.

In a separate matter, in October 2004, the BCS notified IMS of a request for information in connection with IMS's acquisition of Source in April 2004. The BCS is investigating whether such acquisition may violate Article 82 of the EC Treaty and corresponding Belgian law. The Company responded to the request for information in December 2004.

The Company intends to continue to vigorously defend itself in these matters before the Belgian competition authorities. Management of the Company is unable to predict at this time the final outcome of these matters or whether adverse resolutions thereof could materially affect the Company's results of operations, cash flows or financial position in the period in which such adverse resolution occurs.

#### *Other Contingencies*

*Contingent Consideration.* Under the terms of the purchase agreements related to acquisitions made from 2001 to 2005, the Company may be required to pay additional amounts as contingent consideration based on the achievement of certain targets during 2003 to 2007. Substantially all of any additional payments will be recorded as goodwill in accordance with EITF No. 95-8, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination. As of September 30, 2005, approximately \$4,000 was earned and paid under these contingencies. Based on current estimates, management expects the remaining additional contingent payments under these agreements to total approximately \$71,000. It is expected that these contingent payments will be resolved within a specified time period after the end of each respective calendar year from 2005 through 2007.

*Synavant Spin-Off.* In August 2000, the Company spun off Synavant, Inc. in a transaction qualifying as tax free under Section 355 of the Internal Revenue Code ( IRC ). If, contrary to expectations, the spin-off of Synavant were not to qualify as tax free under Section 355, then, in general, a corporate tax would be payable by the consolidated group, of which the Company is a common parent and Synavant is a member, based on the difference between (x) the fair market value of the Synavant common stock on the date of the spin-off and (y) the adjusted basis of such Synavant

common stock. In addition, under the consolidated return rules, each member of the consolidated group would be severally liable for such tax liability. Pursuant to the terms of the spin-off, the Company would be liable for the resulting corporate tax, except in certain circumstances. In the opinion of management and based on the opinion of tax counsel, McDermott, Will & Emery, it is not probable, but may be reasonably possible, that the Company will incur liability for this matter; therefore, the Company has not recorded reserves for this matter. The Company estimates that the aggregate liability in this regard would not exceed \$100,000.

*CTS Split-Off.* On February 6, 2003, the Company completed an exchange offer to distribute its majority interest in Cognizant Technology Solutions ( CTS ) in a transaction qualifying as tax free under Section 355 of the IRC. The Company exchanged 0.309 shares of CTS class B common shares for each share of the Company that was tendered. Under terms of the offer, the Company accepted 36,540 IMS common shares tendered in exchange for all 11,291 CTS common shares that the Company owned. As the offer was oversubscribed, the Company accepted tendered IMS shares on a pro-rata basis in proportion to the number of shares tendered. The proration factor was approximately 21.1%.

If, contrary to expectations, the CTS distribution were not to qualify as tax free under Section 355, then, in general, a corporate tax would be payable by the Company based on the difference between (x) the fair market value of the CTS class B common stock at the time of the exchange offer and (y) the Company's adjusted tax basis in such class B common stock. Pursuant to the distribution agreement entered into between the Company and CTS in connection with the distribution, CTS agreed to indemnify the Company in the event the transaction is taxable as a result of a breach of certain representations made by CTS, subject to certain exceptions. In the opinion of management and based on the opinion of tax counsel, McDermott, Will & Emery, it is not probable, but may be reasonably possible, that the Company will incur liability for this matter, therefore, the Company has not recorded reserves for this matter. The Company estimates that the aggregate tax liability in this regard would not exceed \$215,725.

*Other Tax Contingencies.* In addition to the tax items discussed above, the Company has tax reserves of approximately \$24,000 that relate to various positions it has taken on tax returns filed in numerous countries over the last several years. These reserves represent the Company's best estimate of the probable liability should the tax return positions be challenged by the relevant tax authorities. While the amount is material in the aggregate, no individual item is material and no single event will have a material impact related to these reserves. See Note 16 for additional tax related matters.

*Other Litigation.* For a description of two class action litigations, referred to by the Company as the Douglas Litigation and the Mayberry Litigation, that the Company settled during the first quarter of 2004, please see the Company's Annual Report on Form 10-K for the year ended December 31, 2004.



**Note 9. Financial Instruments**



*Foreign Exchange Risk Management*

The Company transacts business in more than 100 countries and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes. Accordingly, the Company enters into foreign currency forward contracts to minimize the impact of foreign exchange movements on net income and on the value of non-functional currency assets and liabilities.

It is the Company's policy to enter into foreign currency transactions only to the extent necessary to meet its objectives as stated above. The Company does not enter into foreign currency transactions for investment or speculative purposes. The principal currencies hedged are the Euro, the Japanese Yen, the British Pound, the Swiss Franc and the Swedish Krona.

The impact of foreign exchange risk management activities on pre-tax income in the three and nine months ended September 30, 2005 was a net gain of \$8,611 and \$29,443, respectively, and net gains (losses) in the three and nine months ended September 30, 2004 of \$(502) and \$5,089, respectively. In addition, at September 30, 2005, the Company had approximately \$246,201 in foreign exchange forward contracts outstanding with various expiration dates through December 2005 relating to non-functional currency assets and liabilities. Foreign exchange forward contracts are recorded at estimated fair value. The estimated fair values of the forward contracts are based on quoted market prices. Unrealized and realized gains and losses on these contracts are not deferred and are included in the Condensed Consolidated Statements of Income (unaudited) in Other income, net.

*Fair Value of Financial Instruments*

At September 30, 2005, the Company's financial instruments included cash, cash equivalents, restricted cash, receivables, accounts payable and long-term debt. At September 30, 2005, the fair values of cash, cash equivalents, restricted cash, receivables and accounts payable approximated carrying values due to the short-term nature of these instruments. At September 30, 2005, the fair value of long-term debt approximated carrying value.

*Credit Concentrations*

The Company continually monitors its positions with, and the credit quality of, the financial institutions which are counterparties to its financial instruments and does not anticipate non-performance by the counterparties. The Company would not realize a material loss as of September 30, 2005 in the event of non-performance by any one counterparty. The Company enters into transactions only with financial institution counterparties that have a credit rating of A or better. In addition, the Company limits the amount of credit exposure with any one institution.

The Company maintains accounts receivable balances (\$287,919 and \$264,783, net of allowances, at September 30, 2005 and December 31, 2004, respectively), principally from customers in the pharmaceutical industry. The Company's trade receivables do not represent significant concentrations of credit risk at September 30, 2005 due to the high quality of its customers and their dispersion across many geographic areas.

*Lines of Credit*

On April 5, 2004, the Company entered into a \$700,000 revolving credit facility with a syndicate of 12 banks (the Unsecured Facility). The Unsecured Facility replaced the Company's lines of credit with several domestic and international banks. On March 9, 2005, the Company renegotiated with the syndicate of 12 banks to amend and restate the Unsecured Facility (the Amended and Restated Facility). The terms of the Amended and Restated Facility extended the maturity of the facility in its entirety to a term of five years, maturing March 2010, reduced the borrowing margins and increased subsidiary borrowing limits. Total borrowings under these existing lines were \$422,799 and \$476,400 at September 30, 2005 and December 31, 2004, respectively, all of which were classified as long-term. The Company defines long-term lines as those where the lines are non-cancelable for more than 365 days from the balance sheet date by the financial institutions except for specified, objectively measurable violations of the provisions of the agreement. In general, rates for borrowing under the Amended and Restated Facility are LIBOR plus 50 basis points and can vary based on the Company's Debt to EBITDA ratio. The weighted average interest rates for the Company's lines were 0.71% and 2.83% at September 30, 2005 and December 31, 2004, respectively. In addition, the Company is required to pay a commitment fee on any unused portion of the facilities of 0.10%.

The Company's total debt of \$570,478 and \$626,670 at September 30, 2005 and December 31, 2004, respectively, included \$150,000 of private placement debt (as further discussed below), and an adjustment to the carrying amount of fair value hedged debt. At September 30, 2005, the Company had approximately \$277,201 available under its existing bank credit facilities.

In March and April 2002, the Company entered into interest rate swaps on a portion of its variable rate debt portfolio. \$50,000 of these swaps matured in March 2005. The remaining arrangement converts the variable interest rates to a fixed interest rate of 5.08% on a notional amount of \$25,000 and matures in April 2006. The Company accounted for the interest rate swaps as cash flow hedges and recorded any changes in fair value in Other Comprehensive Income (see Note 13). The Company determines the fair values based on estimated prices quoted by financial institutions. The fair values of these swaps were \$(210) and \$(1,022) as of September 30, 2005 and December 31, 2004, respectively.

In January 2003, the Company closed a private placement transaction pursuant to which it issued \$150,000 of five-year debt to several highly rated insurance companies at a fixed rate of 4.60%. The Company used the proceeds to pay down short-term debt. The Company also swapped \$100,000 of its fixed rate debt to floating rate based on six-month LIBOR plus a margin of approximately 107 basis points. The Company accounted for these swaps as fair value hedges under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company determined the fair values based on estimated prices quoted by financial institutions. The fair value of the swap was \$(2,321) and \$270 as of September 30, 2005 and December 31, 2004, respectively.

The Company's financing arrangements provide for certain covenants and events of default customary for similar instruments, including in the case of its main bank arrangements and the 2003 private placement transaction, covenants to maintain specific ratios of consolidated total indebtedness to EBITDA and of EBITDA to certain fixed charges. At September 30, 2005, the Company was in compliance with these financial debt covenants and it anticipates that it will remain in compliance with the covenants over the term of the borrowing arrangements.

**Note 10.** Pension and Postretirement Benefits



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The following tables provide the Company's expense associated with pension benefits that are accounted for under SFAS No. 87, for the three and nine months ended September 30, 2005. For a complete description of the Company's pension and postretirement benefits, refer to Note 12 of the Company's 2004 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.





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Components of Net Periodic Benefit Cost for the Three Months Ended September 30,	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Service cost	\$ 2,456	\$ 2,595	\$ 8	\$ 17
Interest cost	3,591	3,370	191	167
Expected return on plan assets	(5,466)	(4,721)	0	0
Amortization of prior service cost (credit)	(55)	(57)	(247)	(247)
Amortization of transition obligation	(1)	(23)	0	0
Amortization of net loss	771	648	119	60
Net periodic benefit cost (income)	\$ 1,296	\$ 1,812	\$ 71	\$ (3)

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Components of Net Periodic Benefit Cost for the Nine Months Ended September 30,	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Service cost	\$ 7,073	\$ 7,866	\$ 44	\$ 100
Interest cost	10,857	10,025	525	593
Expected return on plan assets	(16,615)	(14,093)	0	0
Amortization of prior service cost (credit)	(166)	(170)	(741)	(741)
Amortization of transition obligation	(3)	(69)	0	0
Amortization of net loss	2,222	1,945	245	376
Net periodic benefit cost	\$ 3,368	\$ 5,504	\$ 73	\$ 328

**Note 11.** Income Taxes



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The Company operates in more than 100 countries around the world and its earnings are taxed at the applicable income tax rate in each of these countries.

For the nine months ended September 30, 2005, the Company's effective tax rate was reduced primarily due to a favorable non-U.S. audit settlement of approximately \$29,300. For the nine months ended September 30, 2005, the effective tax rate was also impacted by \$39,600 of tax expense related to the decision to repatriate approximately \$647,000 of foreign earnings back to the U.S. during 2005 under the American Jobs Creation Act of 2004 ( AJCA ). In the first quarter of 2005, \$67,100 of tax expense was recorded related to the AJCA of which, \$24,300 and \$3,200 were reversed in the second and third quarters of 2005, respectively, primarily as a result of a technical correction passed by Congress to the AJCA. For the nine months ended September 30, 2004, the Company's effective tax rate was reduced primarily due to a favorable partial U.S. audit settlement of approximately \$15,100.

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While the Company intends to continue to seek global tax planning initiatives, there can be no assurance that the Company will be able to successfully implement such initiatives to reduce or maintain its overall tax rate.

The Company accrues for tax loss contingencies in the period in which they are probable and estimable in accordance with SFAS No. 5, Accounting for Contingencies. These reserves are included in current income taxes payable to the extent the related amounts are expected to be paid within the next twelve-month period. If the Company expects the liability to be settled beyond one year, these amounts are classified as a long-term liability.

**Note 12.**      IMS Health Capital Stock



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On December 14, 2004, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. As of September 30, 2005, approximately 4,374 of the 10,000 shares remained available for repurchase under the December 2004 program. As a result of the proposed merger with VNU N.V., the Company has suspended its current stock repurchase program (see Note 16).

On February 10, 2004, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in January 2005 at a total cost of \$232,770.

On April 15, 2003, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in May 2004 at a total cost of \$243,520.

During the nine months ended September 30, 2005, the Company repurchased approximately 6,213 shares of outstanding Common Stock at a total cost of approximately \$147,945 under these programs. During the nine months ended September 30, 2004, the Company repurchased approximately 11,176 shares of outstanding Common Stock at a total cost of approximately \$277,075, including the repurchase of 4,600 shares on January 9, 2004 pursuant to an accelerated share repurchase program ( ASR ). As required under the ASR agreement, the Company paid an additional \$942 of cash in May 2004 as the final settlement amount based on an increase in our share price over the settlement period. Shares acquired through the repurchase programs described above are open-market purchases or privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18.

The Company re-issued approximately 8,535 treasury shares under option exercises for proceeds of approximately \$162,310 during the nine months ended September 30, 2005. In addition, the Company paid dividends of \$0.02 per share for a total of approximately \$4,615 during the three months ended September 30, 2005. For the nine months ended September 30, 2005, the Company paid dividends of \$0.06 per share for a total of \$13,734.

**Note 13.** Comprehensive Income





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The following table sets forth the components of comprehensive income, net of income tax expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Net Income</b>	\$ 71,140	\$ 65,632	\$ 194,662	\$ 211,831
Other comprehensive income, net of taxes:				
Unrealized gains (losses) on:				
Available-for-sale equity securities	37	(352)	(40)	75
Reclassification adjustment		312		531
Tax benefit (provision) on above	(13)	14	14	(212)
Change in unrealized gains (losses) on investments	24	(26)	(26)	394
Foreign currency translation losses	(9,868)	(573)	(57,758)	(7,986)
Changes in fair value of cash flow hedges	105	383	535	1,359
Total other comprehensive loss	(9,739)	(216)	(57,249)	(6,233)
<b>Comprehensive Income</b>	\$ 61,401	\$ 65,416	\$ 137,413	\$ 205,598

**Note 14.** Severance, Impairment and Other Charges

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During the fourth quarter of 2004, the Company recorded \$36,890 of Severance, impairment and other charges as a component of operating income. As a result of leveraging prior investments in technology and process improvements, the Company committed to a plan to eliminate selected positions involved primarily in production and development. The plan resulted in a charge for one-time termination benefits relating to a headcount reduction of approximately 465 employees located primarily in Europe and the U.S. These severance benefits were calculated pursuant to the terms of established employee protection plans, in accordance with local statutory minimum requirements or individual employee contracts, as applicable.

All of the 2004 fourth quarter charge will be settled in cash. The Company currently expects that all termination actions under this plan will be completed by the end of 2005.

	<b>Severance Related Charges</b>	
Charge at December 31, 2004	\$	36,890
2004 utilization		(452)
2005 utilization		(18,268)
Balance at September 30, 2005	\$	18,170

The Company currently expects that a substantial portion of the cash outlays relating to the 2004 fourth quarter charge will be applied against the remaining September 30, 2005 balance during the remainder of 2005 and 2006.

During the three months ended March 31, 2003, the Company recorded \$37,220 of Severance, impairment and other charges as a component of operating income. These charges were designed to further streamline operations and increase productivity through a worldwide reduction in headcount of approximately 80 employees and charges related to impaired contracts and assets. The severance benefits were calculated pursuant to the terms of established employee protection plans, in accordance with local statutory minimum requirements or individual employee contracts, as applicable. The contract-related charges were for impaired data supply and data processing contracts primarily in the Company's U.S. and Japanese operations. The asset write-down portion of the 2003 charge related to the Company's decision to abandon certain products and as such, certain computer software primarily in the U.S., Japan and Europe was written-down to its net realizable value.

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	Severance Related Charges	Contract Related Charges	Asset Write- Downs	Total
Charge at June 30, 2003	\$ 9,958	\$ 22,307	\$ 4,955	\$ 37,220
2003 utilization	(6,197)	(7,047)	(6,634)	(19,878)
2004 utilization	(1,637)	(3,614)		(5,251)
2005 utilization	(378)	(4,775)		(5,153)
Adjustments	(1,746)	67	1,679	
Balance at September 30, 2005	\$	\$ 6,938	\$	\$ 6,938

The cash portion of the first quarter 2003 charge amounted to \$30,586, of which the Company paid approximately \$5,153 during the first nine months of 2005. The remaining accrual of \$6,938 at September 30, 2005 relates to lease obligations.

The Company expects that cash outlays will be applied against the \$6,938 balance remaining of the first quarter 2003 charge at September 30, 2005 as follows:

Year Ended December 31,	Cash Outlays
2005	\$ 2,043
2006	2,504
2007	713
2008	258
2009	258
Thereafter	1,162
Total	\$ 6,938

During 2003, the Company reversed approximately \$1,750 of severance related charges originally included in the first quarter 2003 charge due to the Company's refinement of estimates. The Company also recorded additional charges during 2003 of approximately \$1,700 related primarily to a software impairment.

During the fourth quarter of 2001, the Company completed the assessment of its Competitive Fitness Program (the Program). This program was designed to streamline operations, increase productivity, and improve client service. In connection with this program, the Company recorded \$94,616 of Severance, impairment and other charges during the fourth quarter of 2001 as a component of operating income.

	Severance Related Charges	Contract Related Charges	Asset Write- Downs	Total
Charge at December 31, 2001	\$ 39,652	\$ 26,324	\$ 28,640	\$ 94,616
2001 utilization	(3,692)	(6,663)	(27,887)	(38,242)
2002 utilization	(26,277)	(9,819)	(1,474)	(37,570)
2003 utilization	(6,384)	(2,720)	(241)	(9,345)
2004 utilization	(455)	(1,232)		(1,687)
2005 utilization	(197)	(1,418)		(1,615)
Adjustments	(688)	(274)	962	
Balance at September 30, 2005	\$ 1,959	\$ 4,198	\$	\$ 6,157



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The Company expects that cash outlays will be applied against the \$6,157 balance remaining in the fourth quarter 2001 program at September 30, 2005 as follows:

<b>Year Ended December 31,</b>	<b>Cash Outlays</b>
2005	\$ 601
2006	2,216
2007	1,835
2008	262
2009	262
Thereafter	981
<b>Total</b>	<b>\$ 6,157</b>

The Company expects that future results will benefit from the 2001 and 2003 restructuring charges to the extent of the contract-related charges and asset write-downs primarily through 2007. The Company's severance actions in the 2001 and 2003 programs related to a shifting of resources around the Company. The benefits from the 2004 severance actions will be partially offset by headcount additions in selected locations. The benefits will be realized primarily in Operating costs and Selling and administrative expense, with a partial year of benefit realized in 2005 and a full year of benefit realized in 2006. For the 2001 and 2003 charges, the statement of income lines that will be impacted in future periods are Operating costs for the contract-related charges and Depreciation and amortization related to the asset write-downs. However, the Company does not expect a material impact on future cash flows due to the fact that it is still contractually obligated to continue to make payments under impaired contracts.

### **Note 15.** Operations by Business Segment



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Operating segments are defined as components of an enterprise about which financial information is available that is evaluated on a regular basis by the chief operating decision-maker, or decision-making groups, in deciding how to allocate resources to an individual segment and in assessing performance of the segment. The Company operates a globally consistent business model, offering pharmaceutical business information, software and related services to its customers in more than 100 countries. See Note 2.

The Company maintains regional geographic management to facilitate local execution of its global strategies. However, the Company maintains global leaders for the majority of its critical business processes; and the most significant performance evaluations and resource allocations made by the Company's chief operating decision makers are made on a global basis. As such, the Company has concluded that it maintains one operating and reportable segment.



**Geographic Financial Information:**

The following represents selected geographic information for the regions in which we operate for the three and nine months ended September 30, 2005 and 2004:

	Americas (1)	Europe (2)	Asia Pacific (3)	Corporate & Other	Total IMS
<b>Three months ended September 30, 2005:</b>					
Operating Revenue (4)	\$ 198,733	\$ 172,097	\$ 61,966		\$ 432,796
Operating Income (5)	\$ 74,863	\$ 24,278	\$ 26,550	\$ (23,460)	\$ 102,231
<b>Nine months ended September 30, 2005:</b>					
Operating Revenue (4)	\$ 565,012	\$ 534,154	\$ 177,896		\$ 1,277,062
Operating Income (5)	\$ 211,765	\$ 72,820	\$ 80,078	\$ (62,263)	\$ 302,400
<b>Three months ended September 30, 2004:</b>					
Operating Revenue (4)	\$ 175,707	\$ 156,590	\$ 51,874		\$ 384,171
Operating Income (5)	\$ 70,093	\$ 20,250	\$ 26,885	\$ (14,337)	\$ 102,891
<b>Nine months ended September 30, 2004:</b>					
Operating Revenue (4)	\$ 515,705	\$ 455,337	\$ 154,288		\$ 1,125,330
Operating Income (5)	\$ 202,596	\$ 66,305	\$ 81,130	\$ (48,440)	\$ 301,591

**Notes to Geographic Financial Information:**

- (1) *Americas includes the United States, Canada and Latin America.*
- (2) *Europe includes countries in Europe, the Middle East and Africa.*
- (3) *Asia Pacific includes Japan, Australia and other countries in the Asia Pacific region.*
- (4) *Operating revenue relates to external customers and is primarily based on the location of the customer. The operating revenue for the geographic regions includes the impact of foreign exchange in converting results into U.S. Dollars.*
- (5) *Operating income for the three geographic regions does not reflect the allocation of certain expenses that are maintained in Corporate and Other and as such, is not a true measure of the respective regions' profitability. The operating income for the geographic segments includes the impact of foreign exchange in converting results into U.S. Dollars.*

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A summary of the Company's operating revenue by product line, as of and for the three and nine months ended September 30, 2005 and 2004 is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Sales Force Effectiveness	\$ 207,967	\$ 193,917	\$ 615,366	\$ 563,590
Portfolio Optimization	\$ 124,132	\$ 109,716	\$ 371,961	\$ 335,540
Launch and Brand Management and Other	\$ 100,697	\$ 80,538	\$ 289,735	\$ 226,200
<b>Total Operating Revenue</b>	<b>\$ 432,796</b>	<b>\$ 384,171</b>	<b>\$ 1,277,062</b>	<b>\$ 1,125,330</b>

### Note 16. VNU Merger



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On July 11, 2005, the Company announced a definitive agreement to merge with VNU N.V. ( VNU ), a global information and media company based in Haarlem, The Netherlands. VNU is a leader and has recognized brands in marketing information (ACNielsen), media measurement and

information (Nielsen Media Research) and business information (publications and trade shows). Under the terms of the agreement, the Company's shareholders will receive \$11.25 in cash and 0.60415 VNU shares for each IMS share. The Company expects the merger to be completed in the first quarter of 2006, subject to the approval of shareholders of the Company and VNU, regulatory approvals and other customary conditions.

In connection with the proposed merger with VNU, the Company has incurred merger costs of \$15,874 through September 30, 2005, primarily for professional fees. The Company currently expects total merger-related costs to range between \$40,000 and \$45,000, primarily for investment banking and professional fees.

The Company may also reorganize certain of its subsidiaries provided certain conditions to the proposed merger have been satisfied. As a result of these reorganizations, the Company may incur tax-related charges of approximately \$55,000 to \$60,000 prior to the effective date of the merger. As of September 30, 2005 the Company has not recorded any tax-related charges in connection with any potential reorganizations since the Company does not have any intention to undertake these reorganizations unless the conditions of the proposed merger with VNU are satisfied.

Further, the Company has Employment and Change-in-Control Agreements (CIC) with certain of its executives that provide for severance and other benefits if, following a change in control of IMS, the executive's employment is adversely affected. In connection with the proposed merger with VNU and the CIC provisions under these agreements, the Company funded \$105,404 in a Rabbi Trust on September 23, 2005. These amounts will be payable to the executives only in the event the proposed merger with VNU is completed and the executive suffers an adverse change in his or her employment status. As such, the funds in the Rabbi Trust are reflected as restricted cash on our Condensed Consolidated Statement of Financial Position (unaudited) as of September 30, 2005.

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

**(Dollars and shares in thousands, except for per share data)**

*This discussion and analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements (unaudited) and related notes.*

***Our Business***



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IMS Health Incorporated ( we , us or our ) is a leading global provider of information solutions to the pharmaceutical and healthcare industries. Our revenues are derived primarily from the sale of a broad line of market information, sales management and consulting services to the pharmaceutical and healthcare industries. Our information products are developed to meet client needs by using data secured from a worldwide network of suppliers in the markets where operations exist. Key information products include:

Sales Force Effectiveness to optimize sales force productivity and territory management;

Portfolio Optimization to provide clients with insights into market opportunity and business development assessment; and

Launch and Brand Management and Other to support client needs relative to market segmentation and positioning and life cycle management for prescription and over-the-counter pharmaceutical products.

Within these business lines, we provide consulting and services that use in-house capabilities and methodologies to assist pharmaceutical clients in analyzing and evaluating market trends, strategies and tactics, and to help in the development and implementation of customized software applications and data warehouse tools.

We operate in more than 100 countries. We also own a venture capital unit, Enterprise Associates, LLC ( Enterprises ), which is focused on investments in emerging businesses. Until December 21, 2004, we also owned an approximately 25% equity interest in the TriZetto Group, Inc. TriZetto (See Note 7 to the Condensed Consolidated Financial Statements (Unaudited)).

We manage on a global business model with global leaders for the majority of our critical business processes and accordingly have one reportable segment.

We believe that important measures of our financial condition and results of operations include operating revenue, constant dollar revenue growth, operating income, operating margin and cash flows.

### **Operating Results**

*Reclassifications.* Certain prior-year amounts have been reclassified to conform to the 2005 presentation.

*References to constant dollar results.* We report results in U.S. Dollars but we do business on a global basis. Exchange rate fluctuations affect the rate at which we translate foreign revenues and expenses into U.S. Dollars and have important effects on our results. In order to illustrate these





effects, the discussion of our business in this report sometimes describes the magnitude of changes in constant dollar terms. We believe this information facilitates a comparative view of business growth. In the first nine months of 2005, the U.S. Dollar was generally weaker against other currencies compared to the first nine months of 2004, so growth at constant dollar exchange rates was lower than growth at actual currency exchange rates. See *How Exchange Rates Affect Our Results* below and the discussion of *Market Risk* in the Management Discussion and Analysis in our annual report on Form 10-K for the year ended December 31, 2004 for a more complete discussion regarding the impact of foreign currency translation on our business.

### Summary of Operating Results

	Three months ended September 30,		% Variance
	2005	2004	2005 vs. 2004
Operating revenue	\$ 432,796	\$ 384,171	12.7%
Operating costs	199,654	165,575	20.6%
Selling and administrative expenses	96,098	92,350	4.1%
Depreciation and amortization	26,339	23,355	12.8%
Merger costs	8,474		N/A
Operating income	\$ 102,231	\$ 102,891	(0.6)%

	Nine months ended September 30,		% Variance
	2005	2004	2005 vs. 2004
Operating revenue	\$ 1,277,062	\$ 1,125,330	13.5%
Operating costs	572,514	481,485	18.9%
Selling and administrative expenses	309,616	274,876	12.6%
Depreciation and amortization	76,658	67,378	13.8%
Merger costs	15,874		N/A
Operating income	\$ 302,400	\$ 301,591	0.3%

#### Operating Income

Our operating income for the third quarter of 2005 decreased 0.6% to \$102,231 from \$102,891 in the third quarter of 2004. The change was due to the increase in our operating revenue, offset by increases in our operating costs and selling and administrative expenses driven primarily by costs associated with acquisitions, increased cost of data, consulting and services capabilities and costs associated with the proposed merger with VNU N.V. (See Note 16 to our Condensed Consolidated Financial Statements (Unaudited) for a description of the proposed merger with VNU). Our operating income decreased 1.5% in constant dollar terms. Absent the costs associated with the proposed merger, operating income would have increased 7.6% at reported rates and 6.8% at constant dollar terms. Our operating income for the first nine months of 2005 increased 0.3% to \$302,400 from \$301,591 for the first nine months of 2004. The change was primarily due to the increase in our operating revenue, partially offset by increases in our operating costs and selling and administrative expenses driven primarily by costs associated with acquisitions, consulting and services capabilities,

increased cost of data, and costs associated with the proposed merger with VNU. Our operating income decreased 1.1% in constant dollar terms. Absent the costs associated with the merger, operating income would have increased 5.5% at reported rates and 4.2% at constant dollar terms.

### Operating Revenue

Revenue in 2004 reflects a reclassification of consulting and services revenue into the other three business lines to conform to the 2005 presentation.

Our operating revenue for the third quarter of 2005 grew 12.7% to \$432,796 from \$384,171 in the third quarter of 2004. On a constant dollar basis our operating revenue growth was 12.0%. Acquisitions made during 2004 and 2005 contributed 5.4 percentage points of reported operating revenue and constant dollar revenue growth. Our operating revenue for the first nine months of 2005 grew 13.5% to \$1,277,062 from \$1,125,330 for the first nine months of 2004. On a constant dollar basis our operating revenue growth was 11.4%. Acquisitions made during 2004 and 2005 contributed 4.2 percentage points of reported operating revenue growth and 4.0 percentage points of constant dollar revenue growth. The increase in our operating revenue resulted from growth in revenue in all three of our business lines, together with the effect of currency translation. On a constant dollar basis, all business lines grew.

### Summary of Operating Revenue

	Three months ended September 30,		Reported Rates	% Variance 2005 vs 2004	
	2005	2004		Constant Dollar	
Sales Force Effectiveness	\$ 207,967	\$ 193,917	7.2%		6.4%
Portfolio Optimization	\$ 124,132	\$ 109,716	13.1%		12.5%
Launch and Brand Management and Other	\$ 100,697	\$ 80,538	25.0%		24.8%
Operating Revenue	\$ 432,796	\$ 384,171	12.7%		12.0%

	Nine months ended September 30,		Reported Rates	% Variance 2005 vs 2004	
	2005	2004		Constant Dollar	
Sales Force Effectiveness	\$ 615,366	\$ 563,590	9.2%		7.1%
Portfolio Optimization	\$ 371,961	\$ 335,540	10.9%		8.8%
Launch and Brand Management and Other	\$ 289,735	\$ 226,200	28.1%		25.9%
Operating Revenue	\$ 1,277,062	\$ 1,125,330	13.5%		11.4%

*Sales Force Effectiveness* revenue grew primarily due to DDD data offerings in Japan, Sales and Account Management consulting engagements in Europe and Japan, Xponent and the suite of new long-term care products in the United States, and steady growth in all of the other regions.

*Portfolio Optimization* revenue grew primarily due to the demand for our assessments of market strategies

aimed at generic threats, as well as continued demand for MIDAS Quantum global information offerings.

*Launch and Brand Management and other product lines* revenue grew primarily due to the increasing demand for health economics and outcomes research analytics and our broader capabilities in promotion evaluation globally.

Consulting and services revenue, as included in the business lines above, was \$67,285 in the third quarter of 2005, up 64.0% from \$41,039 in the third quarter of 2004 (up 63.5% on a constant-dollar basis). Consulting and services revenue was \$184,351 for the first nine months of 2005, up 52.8% from \$120,674 for the first nine months of 2004 (up 50.4% on a constant-dollar basis). Approximately two-thirds of the consulting and services revenue growth for the third quarter and first nine months of 2005 was attributable to acquisitions completed during 2004 and the first nine months of 2005.

#### *Operating Costs*

Our operating costs include data processing costs, the costs of data collection and production, and costs attributable to personnel involved in production, data management and the processing and delivery of our consulting and services offerings. Our operating costs grew 20.6% to \$199,654 in the third quarter of 2005, from \$165,575 in the third quarter of 2004. The increase in our operating costs was primarily due to operating costs of acquired businesses, increased cost of data, and increases in costs related to consulting and services. The effect of foreign currency translation increased our operating costs by approximately \$1,000 for the third quarter of 2005. Excluding the effect of the change in foreign currency translation, our operating costs grew 20.1% in the third quarter of 2005 as compared to the third quarter of 2004. Our operating costs grew 18.9% to \$572,514 for the first nine months of 2005, from \$481,485 for the first nine months of 2004. The increase in our operating costs was primarily due to operating costs of acquired businesses, increased cost of data, increases in costs related to consulting and services, and foreign currency translation. The effect of foreign currency translation increased our operating costs by approximately \$10,800 for the first nine months of 2005. Excluding the effect of the change in foreign currency translation, our operating costs grew 16.7% in the first nine months of 2005 as compared to the first nine months of 2004.

Our operating costs generally have increased at a rate greater than operating revenues in each of the last three full fiscal years. This increase has been due to higher data costs to support revenue growth and acquisitions.

#### *Selling and Administrative Expenses*

Our selling and administrative expenses consist primarily of the costs attributable to sales, marketing, and administration, including human resources, legal, management and finance. Our selling and administrative expenses grew 4.1% in the third quarter of 2005, to \$96,098 from \$92,350 in the third quarter of 2004. Our selling and administrative expenses grew 12.6% in the first nine months of 2005, to \$309,616 from \$274,876 for the first nine months of 2004.

*Foreign Currency Translation:* The effect of foreign currency translation increased our selling and administrative expenses by approximately \$1,000 for the third quarter of 2005 as compared to the third quarter of 2004. The effect of foreign currency translation increased our selling and administrative expenses by approximately \$7,000 for the first nine



months of 2005 as compared to the first nine months of 2004. Excluding the effect of the change in foreign currency translation, our selling and administrative expenses grew 3.2% and 9.9% in the third quarter and first nine months of 2005 as compared to the third quarter and first nine months of 2004, respectively.

*Sales and Marketing:* Sales and marketing expense increased by approximately \$4,000 and \$7,000 in the third quarter and first nine months of 2005, compared to the third quarter and first nine months of 2004, respectively, to support revenue growth.

*Consulting:* Consulting and services expenses increased by approximately \$3,000 and \$9,000 in the third quarter and first nine months of 2005, compared to the third quarter and first nine months of 2004, respectively, to support the growth in this revenue stream.

*Software Development:* Software Development costs decreased approximately \$4,000 and \$3,000 in the third quarter and first nine months of 2005, compared to the third quarter and first nine months of 2004, respectively, due to a reduction in new product development.

#### *Depreciation and Amortization*

Our depreciation and amortization charges increased 12.8% to \$26,339 in the third quarter of 2005, from \$23,355 in the third quarter of 2004, and 13.8% to \$76,658 for the first nine months of 2005, from \$67,378 for the first nine months of 2004, primarily due to computer software amortization associated with new products which increased by approximately \$1,500 and \$6,000, respectively, and amortization of intangibles related to recent acquisitions, which increased by approximately \$2,500 and \$5,500 in the third quarter and first nine months of 2005 compared to the third quarter and first nine months of 2004, respectively.

#### *Merger Costs*

During the third quarter and first nine months of 2005, we incurred \$8,474 and \$15,874 of costs, respectively, in connection with the proposed merger with VNU. See Note 16 to our Condensed Consolidated Financial Statements (Unaudited) for a description of the proposed merger with VNU.

#### *Trends in our Operating Margins*

Our operating margin for the third quarter of 2005 was 23.6%, as compared to 26.8% in the third quarter of 2004. Our operating margin for the first nine months of 2005 was 23.7% as compared to 26.8% in the first nine months of 2004. During the third quarter and first nine months of 2005, we incurred \$8,474 and \$15,874, respectively, of costs in connection with the proposed merger with VNU. If these costs had not been

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incurred, our operating margin for the third quarter and first nine months of 2005 would have been 25.6% and 24.9%, respectively. The decrease in our operating margins for the third quarter and first nine months of 2005 (excluding the merger costs) is primarily due to continuing investments in new products and consulting and services capabilities, increased cost of data, and operating costs in Japan.

Recent acquisitions also have had an adverse effect on our operating margins due to the fact that some of the businesses we have acquired have historically experienced lower operating margins than



ours, and the revenue and cost synergies that we incorporate into our business plans are not all immediately realized. We also experience higher intangible amortization in the first year after completing an acquisition and may incur additional costs in integrating the acquired operations into ours, both of which tend to increase our costs and thus decrease our operating margins in the initial year of each completed acquisition.

Operating margins generally have declined over the past three years and may continue to decline in future periods as we invest in acquisitions and new products and services to drive future revenue growth.

### *Non-Operating Income*

Our non-operating income improved to \$3,215 in the third quarter of 2005 from a net expense of \$4,040 in the third quarter of 2004. Our non-operating income grew to \$15,082 for the first nine months of 2005 from \$201 for the first nine months of 2004. The increase in our non-operating income was primarily due to the following factors:

*Interest Expense, net:* Net interest expense was \$4,692 and \$13,097 for the third quarter and first nine months of 2005, respectively, compared with \$2,917 and \$8,285 for the third quarter and first nine months of 2004, respectively, primarily due to higher debt levels through August and higher interest rates.

*Gains from Investments, net:* We had gains from investments of \$252 during the third quarter of 2005, primarily as a result of gains within the Enterprise portfolio partially offset by fees and write-offs of investments. Gains from investments of \$2,188 in the third quarter of 2004 were primarily from the sale of investments within the Enterprise portfolio. We had gains from investments of \$2,624 during the first nine months of 2005, primarily as a result of a divestiture of an interest we had in a German company. Gains from investments of \$10,715 during the first nine months of 2004 were primarily from the sale of investments within the Enterprise portfolio.

*Other Income, net:* Other income, net, increased by \$10,997 and \$27,724 in the third quarter and first nine months of 2005, respectively. The increase was primarily due to net foreign exchange hedge gains of \$8,611 and \$29,443 in the third quarter and first nine months of 2005, respectively, compared with net foreign exchange hedge gains/(losses) of \$(502) and \$5,089 in the third quarter and first nine months of 2004, respectively.

### *Taxes*

For the nine months ended September 30, 2005, our effective tax rate was reduced primarily due to a favorable non-U.S. audit settlement of approximately \$29,300. For the nine months ended September 30, 2005, the effective tax rate was also impacted by \$39,600 of tax expense related to the decision to repatriate approximately \$647,000 of foreign earnings back to the U.S. during 2005 under the American Jobs Creation Act of 2004 (AJCA). In the first quarter of 2005, \$67,100 of tax expense was recorded related to the AJCA of which, \$24,300 and \$3,200 were reversed in the second and third quarters of 2005, respectively, primarily as a result of a technical correction passed by



Congress to the AJCA. For the nine months ended September 30, 2004, our effective tax rate was reduced primarily due to a favorable partial U.S. audit settlement of approximately \$15,100.

For all periods presented, our effective tax rate was reduced as a result of global tax planning initiatives. While we intend to continue to seek global tax planning initiatives, there can be no assurance that we will be able to successfully implement such initiatives to reduce or maintain our overall tax rate.

**Operating Results by Geographic Region**

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The following represents selected geographic information for the regions in which we operate for the three and nine months ended September 30, 2005 and 2004:

	Americas (1)	Europe (2)	Asia Pacific (3)	Corporate & Other	Total IMS
<b>Three months ended September 30, 2005:</b>					
Operating Revenue (4)	\$ 198,733	\$ 172,097	\$ 61,966		\$ 432,796
Operating Income (5)	\$ 74,863	\$ 24,278	\$ 26,550	\$ (23,460)	\$ 102,231
<b>Nine months ended September 30, 2005:</b>					
Operating Revenue (4)	\$ 565,012	\$ 534,154	\$ 177,896		\$ 1,277,062
Operating Income (5)	\$ 211,765	\$ 72,820	\$ 80,078	\$ (62,263)	\$ 302,400
<b>Three months ended September 30, 2004:</b>					
Operating Revenue (4)	\$ 175,707	\$ 156,590	\$ 51,874		\$ 384,171
Operating Income (5)	\$ 70,093	\$ 20,250	\$ 26,885	\$ (14,337)	\$ 102,891
<b>Nine months ended September 30, 2004:</b>					
Operating Revenue (4)	\$ 515,705	\$ 455,337	\$ 154,288		\$ 1,125,330
Operating Income (5)	\$ 202,596	\$ 66,305	\$ 81,130	\$ (48,440)	\$ 301,591

### Notes to Geographic Financial Information:

(1) *Americas includes the United States, Canada and Latin America.*

(2) *Europe includes countries in Europe, the Middle East and Africa.*

(3) *Asia Pacific includes Japan, Australia and other countries in the Asia Pacific region.*

(4) *Operating revenue relates to external customers and is primarily based on the location of the customer. The operating revenue for the geographic regions includes the impact of foreign exchange in converting results into U.S. Dollars.*

(5) *Operating income for the three geographic regions does not reflect the allocation of certain expenses that are maintained in Corporate and Other and as such, is not a true measure of the respective regions profitability. The operating income for the geographic segments includes the impact of foreign exchange in converting results into U.S. Dollars.*

*Americas Region*

Operating revenue growth in the Americas region was 13.1% in the third quarter of 2005, compared to the third quarter of 2004, and 9.6% in the first nine months of 2005, compared to the first nine months of 2004. The growth for the third quarter and first nine months was primarily due to

strong performance in consulting and services within the launch and brand management and other business lines and continued overall strength of the sales force effectiveness business line.

Operating income in the Americas region grew 6.8% in the third quarter of 2005, compared to the third quarter of 2004, and 4.5% in the first nine months of 2005, compared to the first nine months of 2004. The operating income growth for the third quarter and first nine months of 2005 reflects revenue growth in the region, partially offset by increased cost of data and investment in consulting capabilities.

### ***Europe Region***

Operating revenue growth in the Europe region was 9.9% in the third quarter of 2005, compared to the third quarter of 2004, and 17.3% for the first nine months of 2005, compared to the first nine months of 2004. The growth in the third quarter and first nine months of 2005 was primarily due to strong growth in our consulting and services related to all of our business lines, in addition to growth in brand management and portfolio optimization data sales.

Operating income in the Europe region increased by 19.9% in the third quarter of 2005, compared to the third quarter of 2004, and 9.8% in the first nine months of 2005, compared to the first nine months of 2004. The growth in the third quarter and first nine months of 2005 was primarily driven by operating revenue growth partially offset by increased cost of data and investments in the consulting business.

### ***Asia Pacific Region***

Operating revenue in the Asia Pacific region increased 19.5% in the third quarter of 2005, compared to the third quarter of 2004, and 15.3% in the first nine months of 2005 compared to the first nine months of 2004. The growth in the third quarter and first nine months of 2005 was due to continued strong growth in the region, including solid growth in Japan, and foreign exchange.

Operating income in the Asia Pacific region decreased by 1.2% in the third quarter of 2005, compared to the third quarter of 2004, primarily due to revenue growth in Japan offset by increased investments in new products and data costs in Japan. Operating income in the Asia Pacific region decreased by 1.3% in the first nine months of 2005, compared to the first nine months of 2004, primarily due to increased investments in new products and data costs in Japan.

### **How Exchange Rates Affect Our Results**



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IMS operates globally, deriving a significant portion of its operating income from non-U.S. operations. As a result, fluctuations in the value of foreign currencies relative to the U.S. dollar may increase the volatility of U.S. dollar operating results. IMS enters into forward foreign currency contracts to partially offset the effect of currency fluctuations. In 2005, foreign currency translation increased U.S. dollar revenue growth by approximately 0.7 percentage points in the third quarter of 2005 and 2.1 percentage points in the first nine months of 2005, while impact on operating income



growth was an approximate increase of 0.8 percentage points for the third quarter of 2005 and 1.3 percentage points in the first nine months of 2005.

Non-U.S. monetary assets are maintained in currencies other than the U.S. dollar, principally the Euro, the Japanese Yen, the British Pound, the Swiss Franc, and the Australian Dollar. Where monetary assets are held in the functional currency of the local entity, changes in the value of these currencies relative to the U.S. dollar are charged or credited to Cumulative translation adjustment in the Consolidated Statements of Shareholders' Equity. The effect of exchange rate changes during 2005 decreased the U.S. dollar amount of Cash and cash equivalents by \$13,670.

*Liquidity and Capital Resources*



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Our cash and cash equivalents decreased \$198,704 during the first nine months of 2005 to \$246,199 at September 30, 2005 compared to \$444,903 at December 31, 2004. The decrease reflects cash provided by operating activities of \$75,773 offset by cash used in investing activities of \$211,785 and financing activities of \$49,022. Including the change in short-term marketable securities, which is included in cash used in investing activities, our cash and cash equivalents and short-term marketable securities decreased to \$246,199 at September 30, 2005 compared to \$459,956 at December 31, 2004, a decrease of \$213,757.

We currently expect that we will use our cash and cash equivalents primarily to fund:

development of software to be used in our new products and capital expenditures to expand and upgrade our information technology capabilities and to build or acquire facilities to house our growing business (we currently expect to spend approximately \$105,000 to \$115,000 during 2005 for software development and capital expenditures);

acquisitions;

dividends to our shareholders (we expect 2005 dividends will be \$0.08 per share or approximately \$18,000);

payments for tax related matters, including the D&B Legacy Tax Matters discussed further in Note 8 to our Condensed Consolidated Financial Statements (Unaudited). Payments for certain of the D&B Legacy Tax Matters could be up to approximately \$72,800 prior to December 31, 2005; and

pension and other postretirement benefit plan contributions (we currently expect contributions to U.S. and non-U.S. pension and other postretirement benefit plans to total approximately \$23,700 in 2005).

Net cash provided by operating activities amounted to \$75,773 for the nine months ended September 30, 2005, a decrease in cash provided of \$198,708 over the comparable period in 2004. The decrease relates primarily to the funding of \$105,404 to a Rabbi Trust in conjunction with the proposed VNU merger (see Note 16 to our Condensed Consolidated Financial Statements

(Unaudited)), accounts receivable, prepaid expenses, accounts payable and severance, impairment and other charges during the nine months ended September 30, 2005.

Net cash used in investing activities amounted to \$211,785 for the nine months ended September 30, 2005, an increase in cash used of \$137,266 over the comparable period in 2004. The increase during the first nine months of 2005 relates primarily to the fact that we made payments of \$191,840 for acquisitions during the first nine months of 2005, compared to payments made for acquisitions of \$23,078 during the comparable period in 2004. This was partially offset by \$37,414 of proceeds from the sale of our investment in TriZetto (see Note 7 of the Condensed Consolidated Financial Statements (unaudited)).

Net cash used in financing activities amounted to \$49,022 for the nine months ended September 30, 2005, a decrease of \$90,649 over the comparable period in 2004. This decrease in cash used was primarily due to a decrease of \$129,130 in purchases of our stock during the first nine months of 2005 compared to the first nine months of 2004. Refer to the Stock Repurchase Programs section for further information on our variance between the first quarters of 2005 and 2004. The decrease in cash used was also due to an increase of \$81,387 in proceeds from the exercise of stock options during the first nine months of 2005 compared to the first nine months of 2004. These amounts were partially offset by a \$124,403 decrease in net borrowings during the first nine months of 2005 compared to the first nine months of 2004.

Our financing activities include cash dividends we paid of \$0.02 per share quarterly, which amounted to \$13,734 and \$14,204 during the first nine months of 2005 and 2004, respectively. The payments and level of cash dividends made by us are reviewed quarterly and are subject to the discretion of our Board of Directors. Any future dividends, other than the \$0.02 per share dividend for the first four quarters of 2005, which were declared by our Board of Directors in February, April, July and October 2005, will be based on, and affected by, a number of factors, including our operating results and financial requirements.

As discussed under the Taxes section, we will repatriate approximately \$647,000 of foreign earnings back to the U.S. during 2005 under the AJCA. In the third quarter of 2005, approximately 90% of the Company's repatriation was executed, with the balance expected to be completed by the end of 2005. Foreign earnings repatriated under the AJCA have increased liquidity in the U.S., with a corresponding reduction in liquidity at our foreign subsidiaries. Certain foreign subsidiaries had to borrow in order to repatriate their earnings to the U.S. We expect our significant positive foreign cash flows will be sufficient to repay any foreign debt and replenish foreign cash balances over time. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

#### **Tax and other Contingencies**

We are exposed to certain known tax and other contingencies that are material to our investors. The facts and circumstances surrounding these contingencies and a discussion of their effect on us are included in Note 8 to our Condensed Consolidated Financial Statements (Unaudited) for the period

ended September 30, 2005. We do not know of any material tax or other contingencies, other than those described in Note 8 to our Condensed Consolidated Financial Statements (Unaudited).

These contingencies may have a material effect on our liquidity, capital resources or results of operations. Although we have established reserves for D&B Legacy Tax Matters in accordance with SFAS No. 5, Accounting for Contingencies, the actual liability may exceed the amount of the reserve. We have not established any reserves in respect of the other contingencies. In addition, even where our reserves are adequate, the incurrence of any of these liabilities may have a material effect on our liquidity and the amount of cash available to us for other purposes.

Management believes that we have made appropriate arrangements in respect of the future effect on us of these known tax and other contingencies. Management also believes that the amount of cash available to us from our operations, together with cash from financing, will be sufficient for us to pay any known tax and other contingencies as they become due without materially affecting our ability to conduct our operations and invest in the growth of our business.

#### **Stock Repurchase Programs**

On December 14, 2004, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. As of September 30, 2005, approximately 4,374 of the 10,000 shares remained available for repurchase under the December 2004 program. As a result of the proposed merger with VNU N.V., the Company has suspended its current stock repurchase program (see Note 16 to our Condensed Consolidated Financial Statements (unaudited)).

On February 10, 2004, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in January 2005 at a total cost of \$232,770.

On April 15, 2003, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in May 2004 at a total cost of \$243,520.

During the nine months ended September 30, 2005, the Company repurchased approximately 6,213 shares of outstanding Common Stock at a total cost of approximately \$147,945 under these programs. During the nine months ended September 30, 2004, the Company repurchased approximately 11,176 shares of outstanding Common Stock at a total cost of approximately \$277,075, including the repurchase of 4,600 shares on January 9, 2004 pursuant to an accelerated share repurchase program (ASR). As required under the ASR agreement, the Company paid an additional \$942 of cash in May 2004 as the final settlement amount based on an increase in our share price over the settlement period. Shares acquired through the repurchase programs described above are open-market purchases or privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18.

The Company re-issued approximately 8,535 treasury shares under option exercises for proceeds of approximately \$162,310 during the nine months ended September 30, 2005. In addition, the Company paid dividends of \$0.02 per share for a total of approximately \$4,615 during the three months ended September 30, 2005. For the nine months ended September 30, 2005, the Company paid dividends of \$0.06 per share for a total of \$13,734.



**Debt**





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In recent years, we have increased debt levels to balance appropriately the objective of generating an attractive cost of capital with providing us a reasonable amount of financial flexibility. At September 30, 2005, our debt totaled \$570,478, and management does not believe that this level of debt poses a material risk to us due to the following factors:

in each of the last two years, we have generated strong net cash provided by operating activities in excess of \$350,000;

at September 30, 2005, we had \$246,199 in worldwide cash and cash equivalents;

at September 30, 2005, we had \$277,201 of unused debt capacity under our existing bank credit facilities; and

we believe that we have the ability to obtain additional debt capacity outside of our existing debt arrangements.

On April 5, 2004, we entered into a \$700,000 revolving credit facility with a syndicate of 12 banks (the Unsecured Facility). The Unsecured Facility replaced our lines of credit with several domestic and international banks. On March 9, 2005, we renegotiated with the syndicate of 12 banks to amend and restate the Unsecured Facility (the Amended and Restated Facility). The terms of the Amended and Restated Facility extended the maturity of the facility in its entirety to a term of five years, maturing March 2010, reduced the borrowing margins and increased subsidiary borrowing limits. Total borrowings under these existing lines were \$422,799 and \$476,400 at September 30, 2005 and December 31, 2004, respectively, all of which were classified as long-term. We define long-term lines as those where the lines are non-cancelable for more than 365 days from the balance sheet date by the financial institutions except for specified, objectively measurable violations of the provisions of the agreement. In general, rates for borrowing under the Amended and Restated Facility are LIBOR plus 50 basis points and can vary based on our Debt to EBITDA ratio. The weighted average interest rates for our lines were 0.71% and 2.83% at September 30, 2005 and December 31, 2004, respectively. In addition, we are required to pay a commitment fee on any unused portion of the facilities of 0.10%.

Our total debt of \$570,478 and \$626,670 at September 30, 2005 and December 31, 2004, respectively, included \$150,000 of private placement debt (as further discussed below), and an adjustment to the carrying amount of fair value hedged debt. At September 30, 2005, we had approximately \$277,201 available under our existing bank credit facilities.

In March and April 2002, we entered into interest rate swaps on a portion of our variable rate debt portfolio. \$50,000 of these swaps matured in March 2005. The remaining arrangement converts the variable interest rates to a fixed interest rate of 5.08% on a notional amount of \$25,000 and matures in April 2006. We accounted for the interest rate swaps as cash flow hedges and recorded any changes in fair value in Other Comprehensive Income (see Note 13 to our Condensed Consolidated Financial Statements (Unaudited)). We determine the fair values based on estimated prices quoted by

financial institutions. The fair values of these swaps were \$(210) and \$(1,022) as of September 30, 2005 and December 31, 2004, respectively.

In January 2003, we closed a private placement transaction pursuant to which we issued \$150,000 of five-year debt to several highly rated insurance companies at a fixed rate of 4.60%. We used the proceeds to pay down short-term debt. We also swapped \$100,000 of our fixed rate debt to floating rate based on six-month LIBOR plus a margin of approximately 107 basis points. We accounted for these swaps as fair value hedges under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. We determined the fair values based on estimated prices quoted by financial institutions. The fair value of the swap was \$(2,321) and \$270 as of September 30, 2005 and December 31, 2004, respectively.

Our financing arrangements provide for certain covenants and events of default customary for similar instruments, including in the case of our main bank arrangements and the 2003 private placement transaction, covenants to maintain specific ratios of consolidated total indebtedness to EBITDA and of EBITDA to certain fixed charges. At September 30, 2005, we were in compliance with these financial debt covenants and we anticipate that we will remain in compliance with the covenants over the term of the borrowing arrangements.

#### Severance, Impairment and Other Charges

During the fourth quarter of 2004, the Company recorded \$36,890 of Severance, impairment and other charges as a component of operating income. As a result of leveraging prior investments in technology and process improvements, the Company committed to a plan to eliminate selected positions involved primarily in production and development. The plan resulted in a charge for one-time termination benefits relating to a headcount reduction of approximately 465 employees located primarily in Europe and the U.S. These severance benefits were calculated pursuant to the terms of established employee protection plans, in accordance with local statutory minimum requirements or individual employee contracts, as applicable.

All of the 2004 fourth quarter charge will be settled in cash. The Company currently expects that all termination actions under this plan will be completed by the end of 2005.

	<b>Severance Related Charges</b>	
Charge at December 31, 2004	\$	36,890
2004 utilization		(452)
2005 utilization		(18,268)
Balance at September 30, 2005	\$	18,170

The Company currently expects that a substantial portion of the cash outlays relating to the 2004 fourth quarter charge will be applied against the remaining September 30, 2005 balance during the remainder of 2005 and 2006.

The benefits from the 2004 severance actions will be partially offset by headcount additions in selected locations. The benefits will be realized primarily in Operating costs and Selling and



administrative expense, with a partial year of benefit realized in 2005 and a full year of benefit realized in 2006. See Note 14 of our Condensed Consolidated Financial Statements (Unaudited) for a description of our 2001 and 2003 restructuring programs.

***Recently Issued Accounting Standards***

In December 2004, the FASB issued Statement of Financial Accounting Standard SFAS No. 123R, *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, or incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of all employee share-based payments, including grants of employee stock options, using a fair-value based method, such as the Black-Scholes option valuation model at the date of the grant. The resulting cost is then recognized as compensation cost in the Consolidated Statements of Income over the service period during which an employee is required to provide service in exchange for the award (usually the vesting period). In April 2005, the Securities and Exchange Commission deferred the effective date of SFAS No. 123R to the first annual reporting period beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 123R; however, based upon outstanding as well as future anticipated stock-based award grants through December 31, 2006, the Company expects that the adoption under the modified prospective method will have approximately an \$0.11 to \$0.12 fully diluted earnings per share impact on its consolidated results of operations for the year ending December 31, 2006. For a description of the Company's model and assumptions used to calculate the fair value of the Company's stock-based awards, refer to Note 13 of the Company's 2004 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets-An Amendment of APB Opinion No. 29*. SFAS No. 153 amends APB No. 29, *Accounting for Nonmonetary Transactions*, to eliminate the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's financial position, results of operations or cash flows for the year ending December 31, 2006.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. SFAS No. 154 will require entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless it would be impracticable to do so. SFAS No. 154 supersedes APB No. 20, *Accounting Changes*, which previously required most voluntary changes in accounting principle to be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS No. 154 also

makes a distinction between retrospective application of an accounting principle and the restatement of financial statements to reflect the correction of an error. Further, under SFAS No. 154, if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate. Under APB No. 20, such a change would have been reported as a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material impact on the Company's financial position, results of operations or cash flows for the year ending December 31, 2006.

*Forward-Looking Statements*



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This Quarterly Report on Form 10-Q, as well as information included in oral statements or other written statements made or to be made by us, contain statements that, in our opinion, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words such as believe, expect, anticipate, intend, plan, foresee, likely, project, estimate, will, may, predicts, potential, continue and similar expressions identify these forward-looking statements, which appear in a number of places in this Quarterly Report and include, but are not limited to, all statements relating to plans for future growth and other business development activities as well as capital expenditures, financing sources, dividends and the effects of regulation and competition, foreign currency conversion and all other statements regarding our intent, plans, beliefs or expectations or those of our directors or officers. Investors are cautioned that such forward-looking statements are not assurances for future performance or events and involve risks and uncertainties that could cause actual results and developments to differ materially from those covered in such forward-looking statements. These risks and uncertainties include, but are not limited to:

risks associated with operating on a global basis, including fluctuations in the value of foreign currencies relative to the U.S. dollar, and the ability to successfully hedge such risks we derived approximately 64% of our operating revenue in 2004 from non-U.S. operations;

to the extent we seek growth through acquisitions, alliances or joint ventures, the ability to identify, consummate and integrate acquisitions, alliances and joint ventures on satisfactory terms;

our ability to develop new or advanced technologies, including sophisticated information systems, software and other technology used to deliver our products and services and to do so on a timely and cost-effective basis, and the exposure to the risk of obsolescence or incompatibility of these technologies with those of our customers or suppliers;

our ability to maintain and defend our intellectual property rights in jurisdictions around the world;

our ability to successfully maintain historic effective tax rates;

competition, particularly in the markets for pharmaceutical information;

regulatory, legislative and enforcement initiatives to which we are or may become subject, relating particularly to tax and to patient privacy and the collection and dissemination of data and specifically, the use of anonymized patient-specific information, which we anticipate to be an increasingly important tool in the design, development and marketing of pharmaceuticals;

regulatory, legislative and enforcement initiatives to which our customers in the pharmaceutical industry are or may become subject restricting the prices that may be charged for subscription or other pharmaceutical products or the manner in which such products may be marketed or sold;

deterioration in economic conditions, particularly in the pharmaceutical, healthcare, or other industries in which our customers operate;

consolidation in the pharmaceutical industry and the other industries in which our customers operate;

the imposition of additional restrictions on our use of or access to data, or the refusal by data suppliers to provide data to us;

conditions in the securities markets that may affect the value or liquidity of portfolio investments; and management's estimates of lives of assets, recoverability of assets, fair market value, estimates and liabilities and accrued income tax benefits and liabilities;

to the extent unforeseen cash needs arise, the ability to obtain financing on favorable terms;

terrorist activity, the threat of such activity, and responses to and results of such activity and threats, including but not limited to effects, domestically and/or internationally, on us, our personnel and facilities, our customers and suppliers, financial markets and general economic conditions; and

the inability, for any reason, to consummate the merger with VNU N.V., as expected.

Consequently, all the forward-looking statements contained in this Quarterly Report on Form 10-Q are qualified by the information contained herein, including, but not limited to, the information contained under this heading and our Condensed Consolidated Financial Statements (Unaudited) and notes thereto for the nine months ended September 30, 2005 and by the material set forth under the headings "Business" and



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Factors That May Affect Future Results in our Annual Report on Form 10-K for the year ended December 31, 2004. We are under no obligation to publicly release any revision to any forward-looking statement contained or incorporated herein to reflect any future events or occurrences.

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

Information in response to this Item is set forth in Note 9. Financial Instruments in the Notes to the Condensed Consolidated Financial Statements (Unaudited) on pages 19 through 20 hereof.

**Item 4. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as the Company's disclosure controls and procedures are designed to do. Thus, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14c and 15d-14c under the Exchange Act) as of September 30, 2005 (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Information in response to this Item is incorporated by reference to the information set forth in Note 8. Contingencies in the Notes to the Condensed Consolidated Financial Statements (Unaudited) on pages 12 through 19 hereof.

**Item 6. Exhibits**

(a) Exhibits:

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
4.1	First Amendment dated as of August 26, 2005 to the Note Purchase Agreement dated as of January 15, 2003, among IMS Health Incorporated and each purchaser party thereto relating to the issuance and sale of \$150,000,000 aggregate principal amount of 4.60% Senior Notes due 2008
10.1	First Amendment executed on July 18, 2005 and effective as of June 17, 2005 to the Amended and Restated Credit Agreement among IMS Health Incorporated as a Borrower, IMS AG as a Borrower, IMS Japan K.K. as a Borrower, The Lenders Parties Thereto, Wachovia Bank, National Association, as Administrative Agent, Barclays Bank PLC and ABN Amro Bank N.V., as Co-Syndication Agents, and Suntrust Bank and Fortis Capital Corp, as Co-Documentation Agents dated April 5, 2004
31.1	CEO 302 Certification pursuant to Rule 13a-14(a)/15d-14(a)
31.2	CFO 302 Certification pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Joint CEO/CFO Certification Required Under Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements 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.

IMS Health Incorporated

Date: November 2, 2005                      By:                      /s/ Nancy E. Cooper  
Nancy E. Cooper  
Senior Vice President and  
Chief Financial Officer  
(principal financial officer)

Date: November 2, 2005                      /s/ Leslye G. Katz  
Leslye G. Katz  
Vice President, Controller  
(principal accounting officer)

**EXHIBIT INDEX**

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31.1	CEO 302 Certification pursuant to Rule 13a-14(a)/15d-14(a)
31.2	CFO 302 Certification pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Joint CEO/CFO Certification Required Under Section 906 of the Sarbanes-Oxley Act of 2002