IMS HEALTH INC
Form 10-Q
November 05, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from to

Commission file number 001-14049

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 (Address of principal executive offices)	**06824** (Zip Code)

Registrant s telephone number, including area code **(203) 319-4700**

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Title of Class	Shares Outstanding At September 30, 2004
Common Stock, par value $.01 per share	231,952,786

IMS HEALTH INCORPORATED

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PART I. FINANCIAL INFORMATION

Item I. 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, 2004	As of December 31, 2003
Assets:		
Current Assets:		
Cash and cash equivalents	**$ 403,633**	$ 344,432
Short-term marketable securities	**22,241**	40,108
Accounts receivable, net of allowances of $6,044 and $4,429 in 2004 and 2003, respectively	**256,929**	271,268
Other current assets	**141,678**	123,121
Total Current Assets	**824,481**	778,929
Securities and other investments	**10,687**	14,988
TriZetto equity investment (Note 8)	**41,682**	42,742
Property, plant and equipment, net of accumulated depreciation of $181,137 and $174,472 in 2004 and 2003, respectively	**138,788**	141,282
Computer software	**210,153**	198,558
Goodwill	**265,377**	247,958
Other assets	**228,598**	219,881
Total Assets	**$ 1,719,766**	$ 1,644,338
Liabilities, Minority Interests and Shareholders Equity:		
Current Liabilities:		
Accounts payable	**$ 47,036**	$ 47,513
Accrued and other current liabilities	**163,849**	190,478
Short-term debt	**241,477**	409,941
Accrued income taxes	**138,349**	67,369
Short-term deferred tax liability	**9,472**	9,248
Deferred revenues	**101,215**	112,076
Total Current Liabilities	**701,398**	836,625
Postretirement and postemployment benefits	**92,359**	86,920
Long-term debt (Note 10)	**392,927**	152,050
Other liabilities	**234,292**	277,313
Total Liabilities	**$ 1,420,976**	$ 1,352,908
Commitments and contingencies (Note 9)		
Minority Interests	**$ 101,361**	$ 101,853
Shareholders Equity:		
Common Stock, par value $.01, authorized 800,000 shares; issued 335,045 shares at September 30, 2004 and December 31, 2003, respectively	**$ 3,350**	$ 3,350
Capital in excess of par	**478,849**	490,297
Retained earnings	**1,987,130**	1,789,503
Treasury stock, at cost, 103,093 and 96,706 shares at September 30, 2004 and December 31, 2003, respectively	**(2,204,842)**	(2,032,748)
Cumulative translation adjustment	**(45,241)**	(37,255)
Minimum pension liability adjustment, net of taxes of $10,806 at September 30, 2004 and December 31, 2003	**(21,963)**	(21,963)
Unrealized loss on changes in fair value of cash flow hedges, net of tax	**(940)**	(2,299)
Unrealized gains on investments, net of taxes of $585 and $373 at September 30, 2004 and December 31, 2003, respectively	**1,086**	692
Total Shareholders Equity	**$ 197,429**	$ 189,577

Total Liabilities, Minority Interests and Shareholders Equity	**$**	**1,719,766**	$	1,644,338

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

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

IMS HEALTH INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

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

	Three Months Ended September 30,			
		2004		2003
Operating Revenue	**$**	**384,171**	$	345,978
Operating costs		**163,465**		142,457
Selling and administrative expenses		**94,460**		77,181
Depreciation and amortization		**23,355**		18,398
Operating Income		**102,891**		107,942
Interest income		**1,834**		739
Interest expense		**(4,751)**		(3,688)
Gains from investments, net		**2,188**		1,964
Gain (loss) on issuance of investees stock, net		**31**		(143)
Other expense, net		**(3,342)**		(1,117)
Non-Operating Income (Loss), Net		**(4,040)**		(2,245)
Income before provision for income taxes		**98,851**		105,697
Provision for income taxes (Note 12)		**(33,881)**		(36,702)
TriZetto equity income, net of income taxes of $(427) and $(141) for 2004 and 2003, respectively		**662**		218
Net Income	**$**	**65,632**	$	69,213
Basic Earnings Per Share of Common Stock	**$**	**0.28**	$	0.29
Diluted Earnings Per Share of Common Stock	**$**	**0.28**	$	0.29
Weighted average number of shares outstanding basic		**232,981**		239,141
Dilutive effect of shares issuable as of period-end under stock option plans		**4,048**		2,593
Adjustment of shares outstanding applicable to exercised and cancelled stock options during the period		**118**		64
Weighted Average Number of Shares Outstanding Diluted		**237,147**		241,798

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

IMS HEALTH INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

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

	Nine Months Ended September 30, 2004		Nine Months Ended September 30, 2003	
Operating Revenue	**$**	**1,125,330**	$	997,671
Operating costs		**475,405**		421,260
Selling and administrative expenses		**280,956**		237,773
Depreciation and amortization		**67,378**		55,027
Severance, impairment and other charges				37,220
Operating Income		**301,591**		246,391
Interest income		**4,899**		3,257
Interest expense		**(13,184)**		(11,662)
Gains from investments, net		**10,715**		1,120
Loss on issuance of investees stock, net		**(60)**		(404)
Other expense, net		**(2,169)**		(21,755)
Non-Operating Income (Loss), Net		**201**		(29,444)
Income before provision for income taxes		**301,792**		216,947
Provision for income taxes (Note 12)		**(89,354)**		(130,514)
TriZetto equity loss, net of income taxes of $393 and $117 for 2004 and 2003, respectively		**(607)**		(181)
TriZetto impairment charge, net of income taxes of $9,565 for 2003				(14,842)
Income from continuing operations		**211,831**		71,410
Income from discontinued operations, net of income taxes of $1,237 for 2003 (Note 6)				2,779
Gain on discontinued operations (Note 6)				495,053
Net Income	**$**	**211,831**	$	569,242
Basic Earnings Per Share of Common Stock:				
Income from continuing operations	**$**	**0.90**	$	0.29
Income from discontinued operations				2.02
Basic Earnings Per Share of Common Stock	**$**	**0.90**	$	2.31
Diluted Earnings Per Share of Common Stock:				
Income from continuing operations	**$**	**0.89**	$	0.29
Income from discontinued operations				2.01
Diluted Earnings Per Share of Common Stock	**$**	**0.89**	$	2.30
Weighted average number of shares outstanding basic		**234,369**		246,776
Dilutive effect of shares issuable as of period-end under stock option plans		**4,380**		1,058
Adjustment of shares outstanding applicable to exercised and cancelled stock options during the period		**464**		83
Weighted Average Number of Shares Outstanding Diluted		**239,213**		247,917

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

IMS HEALTH INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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

	Nine Months Ended September 30, 2004	2003
Cash Flows from Operating Activities:		
Net income	$ **211,831**	$ 569,242
Less income from discontinued operations and gain on disposal		(497,832)
Income from continuing operations	**211,831**	71,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**67,378**	55,027
Bad debt expense	**1,000**	864
Deferred income taxes	**8,710**	10,436
Gains from investments, net	**(10,715)**	(1,120)
Loss on issuance of investees stock, net	**60**	404
TriZetto equity loss, net	**607**	181
TriZetto impairment charge, net		14,842
Minority interests in net income of consolidated companies	**4,397**	6,189
Non-cash stock compensation charges	**2,345**	2,303
Non-cash portion of severance, impairment and other charges		6,576
Change in assets and liabilities, excluding effects from acquisitions and dispositions:		
Net decrease in accounts receivable	**19,207**	298
Net increase in inventory	**(2,305)**	(377)
Net increase in prepaid expenses and other current assets	**(15,704)**	(7,380)
Net decrease in accounts payable	**(1,769)**	(3,431)
Net decrease in accrued and other current liabilities	**(23,855)**	(224)
Net (decrease) increase in accrued severance, impairment and other charges	**(5,252)**	10,219
Net decrease in deferred revenues	**(12,470)**	(10,234)
Net increase in accrued income taxes	**19,161**	77,722
Net decrease in pension assets, net of liabilities	**1,162**	435
Net decrease in other long-term assets	**2,269**	3,061
Net tax benefit on stock option exercises	**8,424**	799
Nielsen Media Research payment received in respect of D&B Legacy Tax Matters		37,025
Net Cash Provided by Operating Activities	**274,481**	275,025
Cash Flows Used in Investing Activities:		
Capital expenditures	**(14,271)**	(12,948)
Additions to computer software	**(58,259)**	(56,743)
Investments in short-term marketable securities	**17,867**	(9,783)
Payments for acquisitions of businesses, net of cash acquired	**(23,078)**	(52,237)
Funding of venture capital investments	**(500)**	(1,200)
Other investing activities, net	**3,722**	1,296
Net Cash Used in Investing Activities	**(74,519)**	(131,615)
Cash Flows Used in Financing Activities:		
Net increase (decrease) in debt	**70,801**	(156,380)
Borrowings under private placement		150,000
Payments for purchase of treasury stock	**(277,075)**	(97,936)
Proceeds from exercise of stock options	**80,923**	11,545
Dividends paid	**(14,204)**	(14,575)
Proceeds from employee stock purchase plan	**1,841**	1,382
Increase in cash overdrafts	**2,932**	1,246
Payments to minority interests	**(4,889)**	(6,953)
Refund of cash portion of Synavant spin-off dividend		4,863
Net Cash Used in Financing Activities	**(139,671)**	(106,808)

Effect of Exchange Rate Changes		**(1,090)**		6,088
Increase in Cash and Cash Equivalents		**59,201**		42,690
Cash and Cash Equivalents, Beginning of Period		**344,432**		264,732
Cash and Cash Equivalents, End of Period	**$**	**403,633**	$	307,422

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

IMS HEALTH INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Note 1. Interim Condensed Consolidated Financial Statements (unaudited)

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 and 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 2003 Annual Report on Form 10-K and in its previous filings on Form 10-Q. Certain prior year amounts have been reclassified to conform to the 2004 presentation. Amounts presented in the Condensed Consolidated Financial Statements (unaudited) may not add due to rounding.

Note 2. Basis of Presentation

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;

Brand and Launch 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; and

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, and a 25.7% equity interest in The TriZetto Group, Inc. (TriZetto), at September 30, 2004.

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.

Until February 6, 2003, the Company also included the Cognizant Technology Solutions Corporation Segment (CTS), which provides custom Information Technology (IT) design, development, integration and maintenance services. CTS is a publicly traded corporation on the Nasdaq national market system. The Company owned 55.3% of the common shares outstanding of CTS (92.5% of the outstanding voting power) as of December 31, 2002, and accounted for CTS as a consolidated subsidiary. On February 6, 2003, the Company divested CTS through a split-off transaction, and as a result, the Company s share of CTS results are presented as discontinued operations for 2003 through the date of divestiture (see Note 6).

Note 3. Summary of Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, (FIN 46). FIN 46 requires all Variable Interest Entities (VIEs) to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In addition, FIN 46 expands disclosure requirements for both VIEs that are consolidated as well as VIEs from which the entity is the holder of a significant amount of the beneficial interest, but not the majority. In December 2003, the FASB issued Interpretation 46R, Consolidation of Variable Interest Entities (revised December 2003), (FIN 46R) which further clarified the provisions of FIN 46 and delayed the effective date for applying the provisions of FIN 46 until the end of the first quarter of 2004 for interests held by public entities in VIEs or potential VIEs created before February 1, 2003. The adoption of FIN 46R did not have a material impact on the Company s financial position, results of operations or cash flows for the three and nine months ended September 30, 2004.

In December 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 132 (revised 2003), Employer s Disclosures about Pensions and Other Postretirement Benefits, an amendment of SFAS Nos. 87, Employers Accounting for Pensions , 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination of Benefits, and 106, *Employers Accounting for Postretirement Benefits Other Than Pensions,* and a revision of SFAS No. 132. SFAS No. 132 (revised 2003) requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans, but does not change the measurement or recognition of such plans. The new disclosure requirements contained in SFAS No. 132 (revised 2003) are effective for fiscal years ending after December 15, 2003, with a delayed effective date for certain disclosures, for foreign plans, and for non-public entities. The Company has adopted all aspects of SFAS No. 132 (revised 2003) for all foreign and non-foreign plans, with the exception of the estimated future benefit payment disclosure. This requirement was first effective for fiscal years ending after June 15, 2004. Additionally the Company is required to disclose components of the net benefit cost in the quarterly financial statements beginning with the first quarter of 2004. This interim disclosure information is included in Note 11. The adoption of SFAS No. 132 (revised 2003) did not have a material impact on the Company s financial position, results of operations or cash flows for the three and nine months ended September 30, 2004.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in the U.S. The Act introduced a prescription drug benefit under Medicare Part D and a federal subsidy to sponsors of retirement health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued Staff Position No. (FSP) FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This statement requires entities to disclose the effects of the Act and to assess the impact of the subsidy on the accumulated postretirement benefit obligation and the net periodic postretirement benefit cost in the first interim period beginning after June 15, 2004. FAS 106-2 was first effective for the quarter ended September 30, 2004. The adoption of FAS 106-2 did not have a material effect on the Company s financial position, results of operations or cash flows for the three and nine months ended September 30, 2004.

Note 4. Summary of Significant Accounting Policies

Stock-based compensation. SFAS No. 123, Accounting for Stock-Based Compensation , as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123 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 Accounting Principles Board (APB) Opinion No. 25, 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, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net Income:	As reported	**$ 65,632**	$ 69,213	**$ 211,831**	$ 569,242
	Add: Stock-based employee compensation expense included in reported net income, net of tax	**677**	586	**2,334**	1,760
	Deduct: Total stock-based employee compensation expense under fair value method for all awards, net of tax	**(6,818)**	(5,136)	**(19,888)**	(16,011)
	Pro forma	**$ 59,491**	$ 64,663	**$ 194,277**	$ 554,991
Earnings Per Share:					
Basic:	As reported	**$ 0.28**	$ 0.29	**$ 0.90**	$ 2.31
	Pro forma	**$ 0.26**	$ 0.27	**$ 0.83**	$ 2.25
Diluted:	As reported	**$ 0.28**	$ 0.29	**$ 0.89**	$ 2.30
	Pro forma	**$ 0.25**	$ 0.27	**$ 0.81**	$ 2.24

For a description of the Company s other critical accounting policies, please refer to the Company s 2003 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Note 5. Acquisitions

The Company makes acquisitions in order to expand its products, services and geographic reach. 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 has been allocated on a preliminary basis to the assets and liabilities acquired based on estimated fair values as of the closing date. The purchase price allocations will be finalized after 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, 2004 or 2003, the impact on the Company s results of operations would not have been significant. Goodwill of approximately $11,966 was recorded in connection with these acquisitions, none of which is deductible for tax purposes.

During the nine months ended September 30, 2003, the Company completed five acquisitions with an aggregate cost of $58,238. These acquisitions were Data Niche Associates, Inc. (U.S.), Azyx Polska Geopharma Information Services, Sp.z.o.o. (Poland), Azyx Serviços de Geomarketing Farmacéutico, Ltda. (Portugal), Interpharma Asia Pacific s healthcare consulting business (China) and Rx Canada, Inc. (Canada). These were accounted for under the purchase method of accounting. As such, the aggregate purchase price was allocated on a preliminary basis to the assets and liabilities acquired based on estimated fair values as of the closing date. 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, 2003, the impact on the Company s results of operations would not have been significant. Goodwill of approximately $35,926 was recorded in connection with these acquisitions, of which $26,990 is deductible for tax purposes.

The Company made tax related and other acquisition related payments during the nine months ended September 30, 2003. Accordingly, additional goodwill of $4,509 was recorded. This included a reduction of $3,012 related to the deferred tax liabilities resulting from intangible assets which are not amortizable for tax purposes.

Further, during October 2004, the Company completed its sixth acquisition of 2004 for a cost of $23,500, including estimated costs of completing the acquisition. This acquisition will be accounted for under the purchase method of accounting and the purchase price will be allocated to the assets and liabilities acquired based on estimated fair values as of the closing date. Had this acquisition occurred as of January 1, 2004 or 2003, the impact on the Company s results of operations would not have been significant.

Note 6. CTS Split-Off

On February 6, 2003, the Company completed an exchange offer to distribute its majority interest in CTS. 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 21.115717%.

As a result of this exchange offer, during the three months ended March 31, 2003, the Company recorded a net gain from discontinued operations of $495,053. This gain was based on the Company s closing market price on February 6, 2003 multiplied by the 36,540 shares of IMS common shares accepted in the offer, net of the Company s carrying value of CTS and after deducting direct and incremental expenses related to the exchange offer.

During the first quarter of 2003, the Company recorded direct and incremental costs related to the CTS Split-Off of approximately $17,300, consisting primarily of investment advisor, legal and accounting fees. During the fourth quarter of 2003, the Company reversed $1,834 of expenses as a true up of actual costs incurred. This reversal resulted in an increase to the gain from discontinued operations of $1,834.

In accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, for the period from January 1, 2003 through the disposition date the Company recorded the results of CTS and the gain on disposal as income from discontinued operations net of income taxes in the Condensed Consolidated Statements of Income (unaudited).

If, contrary to expectations, the CTS distribution were not to qualify as tax free under Section 355 of the Internal Revenue Code, 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 and as such the Company has not accrued for this potential liability. The Company estimates that the aggregate tax liability in this regard would not exceed $215,725.

Note 7. Goodwill and Intangible Assets

During the first nine months of 2004, the Company recorded additional goodwill of $17,899 related primarily to the preliminary allocation of purchase price for the five acquisitions completed in 2004 (see Note 5) and payments on earn-out agreements on certain acquisitions completed prior to 2004. As of September 30, 2004, goodwill amounted to $265,377.

All of the Company s acquired intangibles are subject to amortization. Intangible asset amortization expense was $2,970 and $8,703, during the three and nine months ended September 30, 2004, respectively. At September 30, 2004, intangible assets were primarily composed of Customer Relationships, Databases and Trade Names (principally included in Other assets) and Computer software. The gross carrying amounts and related accumulated amortization of these intangibles were $74,987 and $20,580, respectively, at September 30, 2004 and $58,752 and $9,975, respectively, at September 30, 2003. These intangibles are amortized over periods ranging from two to fifteen years with a weighted average life of 7.7 years. The weighted average amortization periods of the acquired intangibles by asset class are listed in the following table:

Intangible Asset Type	**Weighted average amortization (years) period**
Customer Relationships	8.4
Computer Software and Algorithms	9.8
Databases	4.9
Trade Names	3.7
Other	4.5
Weighted average	7.7

Customer relationships accounted for the largest portion of the Company s acquired intangibles at September 30, 2004.In accordance with the principles of SFAS No. 142, Goodwill and Other Intangible Assets and Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* when determining the value of customer relationships for purposes of allocating the purchase price of an acquisition, the Company looks at existing customer contracts of the acquired business to determine if they represent a reliable future source of income and hence, a valuable intangible asset for the Company. The Company determines the fair value of the customer relationships based on the estimated future benefits the Company expects from the acquired customer contracts. In performing its evaluation and estimation of the useful life of customer relationships, the Company looks to the historical growth rate of operating revenue of the acquired company s existing customers as well as the historical attrition rates.

Based on current estimated useful lives, amortization expense associated with intangible assets at September 30, 2004 is estimated to be approximately $3,000 for the last quarter of 2004. Annual amortization expense associated with intangible assets is estimated to be as follows:

Year Ended December 31,		**Amortization expense**
2005	$	11,602
2006		10,260
2007		7,985
2008		5,613
2009		4,598
Thereafter	$	11,390

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Note 8. Investments in Equity Investees

The Company s investment in TriZetto is accounted for 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). The Company s share of the adjusted operating results of TriZetto amounted to a gain of $218 and a loss of $181 for the three and nine months ended September 30, 2003, respectively (net of income taxes of $(141) and $117, respectively).

The Company performs a periodic assessment in accordance with its policy to determine whether an other-than-temporary decline in fair value has occurred. Based on this assessment, an impairment charge of $14,842, net of taxes of $9,565, was recorded in the first quarter of 2003, to write down the Company s investment in TriZetto following the continued significant decline in the market value of TriZetto shares below the Company s carrying value. The Company concluded that these declines were other-than-temporary in accordance with Staff Accounting Bulletin (SAB) No. 59, Views on Accounting for Noncurrent Marketable Equity Securities, and the impairment charge recorded brought the Company s book value in TriZetto down to TriZetto s March 31, 2003 market value. As of September 30, 2004, the market value of TriZetto exceeded the carrying value by approximately $29,111.

Note 9. 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 consolidated financial statements 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 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 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 s liabilities under the agreements effecting the 1996 Spin-Off.

IRI Litigation. The following is a description of an antitrust lawsuit filed in 1996 by Information Resources, Inc. (IRI). As more fully described below, VNU N.V., a publicly traded Dutch company (VNU), and its U.S. subsidiaries VNU, Inc., ACNielsen, AC Nielsen (US), Inc. (ACN (US)), and NMR (collectively, the VNU Parties), have assumed exclusive joint and several liability for any judgment or settlement of this antitrust lawsuit. As a result of the indemnity obligation, the Company does not have any exposure to a judgment or settlement of this lawsuit unless the VNU Parties default on their obligations. In the event of such default, the Company could be liable as a successor to one of the named parties in the IRI Action (as defined below).

In July 1996, IRI filed a complaint, subsequently amended in 1997, in the U.S. District Court for 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 alleges various violations of U.S. antitrust laws under Sections 1 and 2 of the Sherman Antitrust Act. The amended complaint also alleges a claim of tortious interference with a contract and a claim of tortious interference with a prospective business relationship. These claims relate to the acquisition by defendants of Survey Research Group Limited (SRG). IRI alleged SRG violated an alleged agreement with IRI when it agreed to be acquired by defendants and that defendants induced SRG to breach that agreement.

IRI s antitrust claims allege that defendants developed and implemented a plan to undermine IRI s ability to compete within the United States and foreign markets in North America, Latin America, Asia, Europe and Australia/New Zealand through a series of anti-competitive practices, including: unlawfully tying/bundling services in the markets in which defendants allegedly had monopoly power with services in markets in which ACNielsen competed with IRI; entering into exclusionary contracts with retailers in certain countries to deny IRI s access to sales data necessary to provide retail tracking services or to artificially raise the cost of that data; predatory pricing; acquiring foreign market competitors with the intent of impeding IRI s efforts to expand; disparaging IRI to financial analysts and clients; and denying IRI access to capital necessary for it to compete.

IRI s amended complaint originally alleged damages in excess of $350,000, which IRI asked to be trebled under antitrust laws. IRI has since revised its allegation of damages to exceed $650,000, which IRI also asked to be trebled. IRI has filed with the court the report of its expert who has opined that IRI suffered damages of between $581,600 and $651,700 from the defendants alleged practices. IRI also sought punitive damages in an unspecified amount.

In April 2003, the Court denied a motion for partial summary judgment by defendants that sought to dismiss certain of IRI s claims and granted in part a motion by IRI seeking reconsideration of certain summary judgment rulings the Court had previously made in favor of defendants. The motion granted by the Court concerns IRI s claims of injuries from defendants alleged conduct in certain foreign markets.

Pursuant to a scheduling order entered by the Court on April 8, 2004, discovery is scheduled to end on November 1, 2004, and trial is scheduled to begin April 18, 2005.

On June 21, 2004, pursuant to a stipulation between IRI and defendants, the Court ordered that certain of IRI s claims be dismissed with prejudice from the lawsuit, including the claim for tortious interference with the SRG acquisition. ACNielsen has advised the Company that based on discussions with its counsel ACNielsen believes that the dismissal of the tortious interference claims also precludes any claim for punitive damages.

In connection with the 1996 Spin-Off, D&B (now Donnelley), Cognizant (now NMR) and ACNielsen entered into an Indemnity and Joint Defense Agreement (the Original JDA), pursuant to which they agreed to:

allocate potential liabilities that may relate to, arise out of or result from the IRI Action (IRI Liabilities); and conduct a joint defense of such action.

In particular, the Original JDA provided that:

ACNielsen would assume exclusive liability for IRI Liabilities up to a maximum amount to be calculated at such time as such liabilities became payable as a result of a final non-appealable judgment or any settlement permitted under the Original JDA (the ACN Maximum Amount); and

D&B and Cognizant would share liability equally for any amounts in excess of the ACN Maximum Amount.

The Original JDA also provided that if it became necessary to post any bond pending an appeal of an adverse judgment, then Cognizant and D&B would be required to obtain the bond required for the appeal, and each shall pay 50% of the costs of such bond, if any, which cost will be added to IRI Liabilities.

In 2001, ACNielsen was acquired by VNU N.V., a publicly traded Dutch company (VNU). VNU assumed ACNielsen s obligations under the Original JDA, and pursuant to the Original JDA VNU was to be included with ACNielsen for purposes of determining the ACN Maximum Amount.

On July 30, 2004, 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 IRI 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 will be jointly and severally assumed and fully discharged exclusively by the VNU Parties. Under the Amended JDA, the VNU Parties have 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 a result, the concept of the ACN Maximum Amount, which previously represented a cap on VNU s liability for the IRI Liabilities, no longer exists and all such liabilities are the responsibility of the VNU Parties pursuant to the Amended JDA.

In addition, the Amended JDA provides that if it becomes necessary to post any bond pending an appeal of an adverse judgment, then the VNU Parties shall obtain the bond required for the appeal and shall pay the full cost of such bond.

In connection with entering into the Amended JDA, Donnelley, D&B II, Moody s and IMS agreed to amend certain covenants of the Original JDA to provide operational flexibility for ACNielsen going forward. In addition, the Amended JDA includes certain amendments to the covenants of ACNielsen (which, under the Amended JDA, are now also applicable to ACN (US), which we understand holds ACNielsen s operating assets) that are designed to preserve such parties claim-paying ability and protect Donnelley, D&B II, Moody s and IMS. Among other covenants, ACNielsen and ACN (US) agreed that neither they nor any of their respective subsidiaries will incur any indebtedness to any affiliated person, except indebtedness the payment of which will, after a payment obligation under the Amended JDA comes due, be conditioned on, and subordinated to, the

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payment and performance of the obligations of such parties under the Amended JDA. VNU has agreed to having a process agent in New York to receive on its behalf service of any process concerning the Amended JDA.

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 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, Donnelly, 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 $41,000 relating to 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 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.

The Company is unable to predict the outcome of the IRI Action, 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 pursuant to the Amended JDA or the amount of the 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. As discussed above, provided that the VNU Parties ultimately fulfill their obligations under the Amended JDA, the Company believes that the resolution of the IRI Action should not have a material adverse effect on the Company s financial position, results of operations or cash flows. If, however, IRI were to prevail in whole or in part in this action and if the Company is required to pay a substantial portion of any significant settlement or judgment, the outcome of this matter could have a material adverse effect on the Company s financial position, results of operations and cash flows.

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 partnership established in 1993. In January of 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 share of the total liability for 1995 and 1996 would be approximately $37,300, its liability for 1997 would be approximately $18,100, and its aggregate liability for 1998 and 1999 would be approximately $27,400 (all net of income tax benefit). If the IRS were to take a comparable position with respect to all of the Company s tax years subsequent to 1999 and ultimately prevail, the Company s additional liability would be approximately $44,000 (net of income tax benefit).

In addition, in the second quarter of 2003, the IRS issued an additional agent s final examination report to the partnership described above 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 this report are inconsistent with the IRS s denial of the royalty expense deductions described above. If the IRS were to ultimately prevail in this matter, the Company s share of the liability for 1996 would be approximately an additional $21,200 (net of income tax benefit).

In addition, the IRS has asserted penalties for the years described above based on its interpretation of applicable law. If the IRS were to prevail in its assertion of penalties and interest thereon, the Company estimates that its liability for such penalties and interest would be approximately $7,900 for 1995 and 1996 and $8,800 for 1997 through 1999 (all net of income tax benefit). D&B II and the Company dispute the IRS s position.

D&B II, as agent for Donnelley in the D&B Legacy Tax Matters, has filed protests relating to the proposed assessments for 1995 and 1996 with the IRS Office of Appeals. D&B II advised that it will 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 1995 and 1996, the Company reclassified its tax reserves related to 1995 and 1996 from long-term (Other liabilities) to short-term (Accrued income taxes). In addition, the Company has filed protests relating to the proposed assessments for 1997, 1998 and 1999 with the IRS Office of Appeals and will attempt to resolve these matters in the administrative appeals process before proceeding to litigation if necessary.

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, the inconsistent positions described above were eliminated and the Company s expected share of the liability was estimated to range from approximately $28,500 to $35,500 (tax, penalty and interest, net of associated tax benefits).

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.

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 a specified partnership organized by Donnelley prior to the 1996 Spin-Off (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. Such excess liability could approximate $46,000.

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 advised NMR and the Company that it is treating the Company s position as a withholding of consent, and that therefore under the 1996 Spin-Off agreements, NMR and the Company are obligated to assume management of the controversy and to indemnify Donnelley to the extent any ultimate resolution of the controversy is less favorable to Donnelley than that contained in the Revised Proposed Settlement. The Company does not agree with Donnelley s assertions and believes that Donnelley has breached and continues to breach the terms of the 1996 Spin-Off agreements by negotiating and requesting consent for matters beyond its authority. If the parties cannot resolve this disagreement as provided in the dispute resolution provisions of the 1996 Spin-Off agreements, the Company will pursue legal action to remedy Donnelley s breach and believes that it will prevail.

On November 1, 2004, D&B II contacted the IRS to ask whether it would be willing to modify the Revised Proposed Settlement to delete certain matters beyond the DLA Matter. On November 3, 2004, the IRS responded that it was unwilling to modify the Revised Proposed Settlement and would pursue collection of the disputed tax through applicable enforcement procedures.

In another D&B Legacy Tax Matter, in June 2000, the IRS completed its review of Donnelley s utilization of certain capital losses generated during 1989 and 1990 and issued a formal notice of adjustment. 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. D&B I paid the IRS $349,291 of this amount on May 12, 2000, and the Company paid the IRS $212,291 on May 17, 2000. D&B I advised the Company that, notwithstanding the filing and payment, it intended to contest the assessment and would also contest the assessment of amounts, if any, in excess of the amounts paid. D&B I filed the complaint for a refund in the U.S. District Court on September 21, 2000. In June 2004, D&B II advised the Company that it has decided not to pursue the refund claim and believes it has reached a basis for settlement with the IRS. The agreement is tentative and non-binding until a definitive settlement agreement is executed. The pending settlement requires Donnelley to withdraw its complaint for a refund. The Company expects that its share of any liability in excess of the amount already paid could range from approximately $5,800 to $11,900 (penalty and interest, net of associated tax benefits), and that any such payment could be made in 2004.

During the first quarter of 2003, the Company increased its reserve to its anticipated share of the probable liability in connection with all of the foregoing tax matters. As of September 30, 2004, the Company had reserves for these tax matters of approximately $136,400. In the opinion of management, it is not probable, but may be reasonably possible that the Company will have additional liability of $16,700 in excess of the amount reserved for these matters attributable to potential penalties (and net interest thereon) for the years 1995 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.

Sharing Dispute. In May 2000, the Company paid $212,291 to the IRS in connection with a D&B Legacy Tax Matter. Pursuant to the terms of the 1998 Spin-Off, NMR was liable for a portion of this amount but was not obligated to pay the Company for its share until January 2, 2001. In December 2000, the Company requested reimbursement from NMR in the amount of $41,136, which represented NMR s share of the liability according to the Company s calculations. On January 2, 2001, NMR made a payment of $10,530 but refused to pay the remaining $30,606 based on its interpretation of the applicable agreements. At March 31, 2003, the Company had a receivable of $36,805, which included the outstanding principal and accumulated accrued interest of $6,199. These amounts were reflected in Other receivable in the Condensed Consolidated Statements of Financial Position (unaudited). On April 29, 2003, a panel from the American Arbitration Association International Center for Dispute Resolution issued an award in favor of the Company and ordered that NMR pay the Company the entire principal balance plus 9% simple interest from January 2, 2001, together with all legal fees and costs incurred by the Company in connection with the arbitration. On April 30, 2003, the Company received $37,025 from NMR in satisfaction of the principal amount plus interest from January 2, 2001 through April 30, 2003. On May 16, 2003, the Company received an additional $1,332 from NMR as reimbursement of the Company s legal fees and costs in connection with the arbitration.

Matters Before the European Commission and Belgian Competition Service

In December 2000, National Data Corporation (now NDCHealth Corporation, NDC) filed a complaint against the Company with the European Commission (the Commission), requesting that the Commission initiate a proceeding against the Company for an alleged infringement of Article 82 of the EC Treaty. Article 82 of the EC Treaty relates to abuses of a dominant position that adversely affect competition. The complaint concerned an IMS geographic mapping structure used for the reporting of regional sales data in Germany, which the German courts have ruled is copyright protected. In addition to seeking a formal Commission proceeding against the Company, the complaint requested that the Commission grant interim relief requiring the Company to grant NDC a compulsory license to enable NDC to use this structure in its competing regional sales data service in Germany.

In March 2001, the Commission initiated formal proceedings against the Company in this matter and in July 2001, the Commission ordered interim measures against the Company pending a final decision (the Interim Decision). Under the Interim Decision, the Company was ordered to grant a license of the geographic mapping structure on commercially reasonable terms without delay to NDC and to any other competitor then present in the German regional sales data market that requested a license.

In August 2001, the Company filed an appeal with the Court of First Instance (CFI) seeking the suspension and annulment of the Interim Decision in its entirety (the Annulment Appeal). In October 2001, the President of the CFI suspended the Interim Decision pending a judgment on the Annulment Appeal. In April 2002, the European Court of Justice (ECJ) denied an appeal by NDC attempting to overturn the CFI s October 2001 suspension.

In October 2002, the CFI postponed further consideration of the Annulment Appeal until after the ECJ decided certain questions separately referred to it by a German court that is presiding over certain litigation that the Company is maintaining against NDC in Germany. In the German litigation, the Company is seeking an injunction and damages against NDC for misappropriation of the Company s intellectual property rights (the Infringement Claim).

In August 2003, the Commission withdrew its Interim Decision and then subsequently (in October 2003), the Commission applied to the CFI to have the Annulment Appeal declared moot in its entirety. Most recently, in April 2004, the ECJ rendered its decision in the case referred to it by the German court. This will permit the CFI to move forward with its consideration of the Annulment Appeal and the German court to move forward with its consideration of the Infringement Claim against NDC.

The Company intends to continue to vigorously assert that its refusal to grant licenses for the use of its copyright protected geographic mapping structure to its direct competitors in Germany, which compete in the same market for which the copyright exists, is not in contravention of Article 82 of the EC Treaty. Management of the Company is unable to predict at this time the final outcome of this matter or whether the resolution of this matter could materially affect the Company s future results of operations, cash flows or financial position.

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 BCS adopted interim measures against the Company, with which the Company has complied. In April 2004, the Company acquired Source and in June 2004 the BCS sent information requests to the Company, Source and the successor to SKB. The Company and Source have responded to the requests. In October 2004, the BCS notified IMS of its intention to investigate IMS s acquisition of Source as a potential abuse of a dominant position in violation of Belgian and European law. The Company will vigorously contest any adverse determination (including the assertion of penalties) by the BCS. Management of the Company is unable to predict at this time the final outcome of this matter or whether an adverse resolution 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 2004, 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, 2004, approximately $3,000 was earned and paid under these contingencies. Based on current estimates, management expects the remaining additional contingent payments under these agreements to total approximately $23,000. It is expected that these contingent payments will be resolved within a specified time period after the end of each respective calendar year from 2004 through 2007.

Synavant Spin-Off. In August 2000, the Company spun off Synavant, Inc. Pursuant to the terms of that spin-off, Synavant undertook to be jointly and severally liable to the other parties to the 1996 Spin-Off for any future liabilities of Cognizant under the terms of that spin-off and to NMR for any future liabilities of the Company under the 1998 Spin-Off. However, as between the Company and Synavant, each agreed to bear 50% of the Company s share of any future liability arising out of the IRI Action or the D&B Legacy Tax Matters (net of the liability borne by NMR), up to a maximum liability of $9,000 for Synavant. In connection with the acquisition of Synavant by Dendrite International, Inc., on June 16, 2003, Synavant satisfied its current and future liabilities to the Company in respect of the IRI Action and the D&B Legacy Tax Matters by paying $8,345 to the Company of which approximately $4,900 represented an adjustment to the Synavant Spin dividend, approximately $2,200 represented the reimbursement of previously expensed legal fees and approximately $1,100 was a prepayment of Synavant s future 50% share of legal fees associated with the IRI Action.

If, contrary to expectations, the spin-off of Synavant were not to qualify as tax free under Section 355 of the Internal Revenue Code, 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 tax liability in this regard would not exceed $100,000.

CTS Split-Off. The Company completed the CTS Split-Off exchange offer on February 6, 2003 (see Note 6). If, contrary to expectations, the CTS distribution were not to qualify as tax free under Section 355 of the Internal Revenue Code, 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. The Company has reserved approximately $22,000 of income tax benefits related to a 1998 non-U.S. tax reorganization that gave rise to tax deductible amortization of non-U.S. intangible assets. This represents the Company s best estimate of the probable liability in the event the relevant tax authorities challenge such tax benefits. Accordingly, based on information currently available, management does not believe that this matter 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 the tax items discussed above, the Company has tax reserves of approximately $27,500 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.

Other Litigation. On January 17, 2003, the Company was served with a summons in a litigation matter (the Douglas Litigation). Also named as defendants in this litigation were approximately 60 software vendors from which the Company purchased prescription data in the 1990 s (and, for many of these vendors, from which the Company continues to purchase data). In this action, it was alleged the Company misappropriated the trade secrets (i.e., prescription data) of thousands of pharmacies in the United States and used this information either without authorization or outside the scope of any authorization. This same conduct was alleged to breach contracts between the Company and the software vendors from which the Company had purchased this prescription data.

The action was brought in state court in southern Illinois (Circuit Court of the 20th Judicial Circuit) by two pharmacies. Plaintiffs sought class action status, representing all pharmacies whose data was sold to the Company by their pharmacy dispensary software vendors from 1990 to the present. The pharmacies were seeking $100,000 in actual damages plus an unspecified amount of unjust enrichment damages (i.e., share of the Company profits) derived from use of the prescription data by the Company and the other defendants, or, in the alternative, a reasonable royalty paid for the use of the prescription data. However, the Company believed and continues to believe that its practices with respect to the acquisition and use of this prescription data are consistent with applicable law and industry practices, and that the claims were without merit.

The Company was a defendant in another litigation brought in state court in southern Illinois (Circuit Court of the 20th Judicial Circuit) (the Mayberry Litigation). This lawsuit was originally brought in 1994 against Mayberry Systems, a small developer of pharmacy dispensary software in the Midwest. Two pharmacy customers alleged Mayberry Systems was taking prescription data from their systems without authorization, and selling it to others (including the Company). The Company was subsequently added to the lawsuit in 1996, alleging that the Company knew or should have known that Mayberry Systems was taking the data and selling it without authorization (i.e., misappropriation of trade secrets). The lawsuit was later certified as a class action on behalf of all former and current customers of Mayberry Systems (approximately 350 pharmacies). Plaintiffs were demanding damages in the amount of $20,000 plus punitive damages and attorney s fees.

Although the Company believed that the two actions described above were without merit, the Company pursued a joint settlement of the cases. During the third quarter of 2003, the Company proposed a preliminary settlement agreement with the plaintiffs counsel on both the actions which was subject to several significant contingencies. On February 17, 2004, the Illinois state court approved the proposed settlement. The period for the filing of appeals and motions for rehearing expired on March 18, 2004. As a result of the resolution of the significant contingencies related to the settlement, in the fourth quarter of 2003, the Company recorded a pre-tax charge of $10,636, net of $5,500 to be reimbursed under the Company s insurance coverage. Under the settlement, the Company will make certain cash payments, provide certain product credits and enter into certain agreements for the purchase of data originating from the independent pharmacy plaintiffs. This will provide the Company the opportunity to acquire new data for new offerings while eliminating the costs and risks of litigation. During the first nine months of 2004, the Company paid approximately $8,000 related to this settlement and received $5,500 from insurance coverage.

During the second quarter of 2003 and up to the date of this filing, the Company has been served with 66 complaints filed with the Labor Court in Frankfurt, Germany. The plaintiffs are part of a group of approximately 110 employees of GIC Global Information Technology and Consulting GmbH (GIC Global) whose employment was terminated in the second quarter of 2003 in connection with GIC Global s insolvency proceedings. GIC Global is owned by former senior managers of what was once the Company s data processing center in Frankfurt, Germany. GIC Global purchased the assets and business of the Frankfurt data processing center from the Company in September 2000 as part of a management buyout. Thereafter, the Company moved its data processing to its data center in the United States. The plaintiffs are seeking reemployment and/or severance from the Company.

As of the date of this filing, a total of 25 of the complaints described above were dismissed by the Labor Court and two complaints were voluntarily withdrawn. Five of the dismissal actions have been appealed by the respective plaintiffs, one of which was voluntarily withdrawn, and proceedings with respect to the other four appeals remain pending. On April 13, 2004 and May 11, 2004, judgments on two of the complaints were rendered against the Company in the aggregate amount of approximately $240, which judgments the Company intends to appeal. Actions on four additional complaints remain pending.

Although the Company continues to believe that these claims are without merit and intends to vigorously defend the remaining actions, on April 13, 2004, the Company entered into settlements with 54 (which settlement superceded 18 of the 25 dismissals described above) of the GIC plaintiffs in the aggregate amount of approximately $200 in order to avoid the potential future costs of numerous appeals. During the third quarter, the Company settled two additional claims for approximately $19. The Company has expensed approximately $460 with respect to these settlements and the two judgments which the Company intends to appeal, but has not accrued a liability with respect to the four remaining actions, because management currently believes that the Company s exposure to any material loss with respect to those remaining actions is remote.

Note 10.   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 Canadian Dollar.

The impact of foreign exchange risk management activities on pre-tax income in the three and nine months ended September 30, 2004 were net gains (losses) of $(502) and $5,089, respectively, and in the three and nine months ended September 30, 2003 were net gains (losses) of $222 and $(16,762), respectively. In addition, at September 30, 2004, the Company had approximately $214,657 in foreign exchange forward contracts outstanding with various expiration dates through December 2004 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 (expense), net.

Fair Value of Financial Instruments

At September 30, 2004, the Company s financial instruments included cash, cash equivalents, short-term marketable securities, accounts receivables, accounts payable, short-tem debt, long-term debt and foreign currency forward contracts. At September 30, 2004, the fair values of cash, cash equivalents, accounts receivables, accounts payable and short-term debt approximated carrying values due to the short-term nature of these instruments. The contractual value of the Company s foreign currency forward contracts was approximately $214,657 at September 30, 2004, and all contracts mature in 2004. The estimated fair values of the forward contracts were determined based on quoted market prices.

Credit Concentrations

The Company continually monitors its positions with, and the credit quality of, the financial institutions that 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, 2004 in the event of non-performance by any one counterparty. The Company enters into transactions only with financial institution counterparties that have primarily credit ratings of A or better. In addition, the Company limits the amount of credit exposure with any one institution.

The Company maintains accounts receivable balances ($256,929 and $271,268, net of allowances, at September 30, 2004 and December 31, 2003, respectively), principally from customers in the pharmaceutical industry. The Company s trade receivables do not represent significant concentrations of credit risk at September 30, 2004 due to the high quality of its customers and their dispersion across many geographic areas.

Lines of Credit and Liquidity

The Company had borrowing arrangements with several domestic and international banks to provide lines of credit up to $700,000 at September 30, 2004. Total borrowings under these existing lines were $479,200 and $407,600 at September 30, 2004 and December 31, 2003, respectively, of which $237,000 and $407,600 were classified as short-term, and $242,200 and $0 were classified as long-term as of September 30, 2004 and December 31, 2003, respectively.

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. The Unsecured Facility is comprised of $430,000 of short-term lines that expire April 2005 and $270,000 of long-term lines expiring April 2007. In general, rates for borrowing under both the short-term and long-term components are LIBOR plus 45 basis points and can vary based on the Company s Debt to EBITDA ratio. The weighted average interest rates for the short-term lines were 2.28% and 1.61% at September 30, 2004 and December 31, 2003, respectively. The weighted average interest rates for the long-term lines were 2.28% and 1.84% at September 30, 2004 and December 31, 2003, respectively. In addition, the Company will pay a commitment fee on the unused portion of the short-term and long-term facilities of 0.08% and 0.10%, respectively.

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 violations of the provisions of the agreement. Borrowings under these three-year facilities are short-term in nature; however, the Company has the ability and the intent to refinance the short-term borrowings as they come due through April 2007. At September 30, 2004, the Company reclassified $242,200 of its debt outstanding as long-term debt in accordance with the provisions of SFAS No. 6, Classification of Short-Term Obligations Expected to be Refinanced.

Total debt of $634,404 and $561,991 at September 30, 2004 and December 31, 2003, respectively, included $150,000 of private placement debt (as further discussed below), and $5,204 and $4,391 at September 30, 2004 and December 31, 2003, respectively, related primarily to cash overdrafts, certain capital leases, mortgages and an adjustment to the carrying amount of fair value hedged debt. At September 30, 2004, the Company had $27,800 and $193,000 available under its long and short-term lines of credit, respectively.

During the fourth quarter of 2001, the Company renegotiated with several banks and entered into three-year lines of credit for borrowings of up to $175,000. Borrowings had maturity dates of up to 90 days from their inception. These lines of credit were due to mature in 2004 and as such $175,000 was reclassified to short-term debt as of December 31, 2003.

In March and April 2002, the Company entered into interest rate swaps on a portion of its variable rate debt portfolio. These arrangements convert the variable interest rates to a fixed interest rate on a notional amount of $75,000 and mature at various times from March 2005 through April 2006. The fixed rates range from 4.05% to 5.08%. The interest rate swaps are accounted for as cash flow hedges and any changes in fair value are recorded in Other Comprehensive Income, in the Condensed Consolidated Statements of Shareholders Equity (unaudited). The fair values are determined based on estimated prices quoted by financial institutions. The mark-to-market adjustment for the three and nine months ended September 30, 2004 was an unrealized net loss of $383 and $1,359, respectively.

In January 2003, the Company closed a private placement transaction pursuant to which the Company issued $150,000 of five-year debt to several highly rated insurance companies at a fixed rate of 4.60%. The proceeds were used 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. These swaps have been accounted for as fair value hedges under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The fair values are determined based on estimated prices quoted by financial institutions. The cumulative fair value adjustment to the swap as of September 30, 2004 was an increase of $727.

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, 2004, the Company was in compliance with these financial debt covenants and anticipates that it will remain in compliance with the covenants over the term of the borrowing arrangements.

Note 11. Pension and Postretirement Benefits

Components of Net Periodic Benefit Cost for the Three Months Ended September 30,	**Pension Benefits**		**Other Benefits**	
	2004	**2003**	**2004 (1)**	**2003**
Service cost	**$ 2,595**	$ 2,262	**$ 17**	$ 36
Interest cost	**3,370**	2,749	**167**	190
Expected return on plan assets	**(4,721)**	(3,582)	**0**	0
Amortization of prior service cost (credit)	**(57)**	(34)	**(247)**	(247)
Amortization of transition obligation	**(23)**	10	**0**	0
Amortization of net loss	**648**	424	**60**	113
Net periodic benefit cost	**$ 1,812**	$ 1,829	**$ (3)**	$ 92

Components of Net Periodic Benefit Cost for the Nine Months Ended September 30,	**Pension Benefits**		**Other Benefits**	
	2004	**2003**	**2004 (1)**	**2003**
Service cost	**$ 7,866**	$ 6,994	**$ 100**	$ 108
Interest cost	**10,025**	8,682	**593**	570
Expected return on plan assets	**(14,093)**	(10,412)	**0**	0
Amortization of prior service cost (credit)	**(170)**	78	**(741)**	(741)
Amortization of transition obligation	**(69)**	4	**0**	0
Amortization of net loss	**1,945**	1,591	**376**	339
Net periodic benefit cost	**$ 5,504**	$ 6,937	**$ 328**	$ 276

(1) Reflects accounting for the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 prospectively beginning in the third quarter of 2004. The Medicare Part D subsidy reduced the accumulated postretirement benefit obligation by $1,384. The total reduction in the net periodic benefit cost due to the Act was $169 for the three months ended September 30, 2004 of which $67 related to the subsidy.

Plans accounted for under APB Opinion No. 12, Omnibus Opinion 1967 . The Company provides certain executives with supplemental pension benefits in accordance with their individual employment arrangements. As individual arrangements, these pension benefits are accounted for under APB Opinion No. 12 (which addresses accounting for deferred compensation contracts) and not SFAS No. 87, and as a result, the tables of this Note do not include the Company s expense associated with providing these benefits.

Note 12. Income Taxes

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, 2004, the Company s effective tax rate was impacted by approximately $15,100 primarily due to a favorable partial U.S. audit settlement. For the nine months ended September 30, 2003, the Company s effective tax rate was impacted by approximately $69,600 due to the Company s reassessment, based on information received in April 2003, of its liability associated with certain D&B Legacy Tax Matters and related subsequent transactions. This is more fully described in Note 9. Further, the 2003 effective tax rate was affected by the favorable settlement of a non-U.S. audit, which approximated $13,900.

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 13. IMS Health Capital Stock

On February 10, 2004, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. As of September 30, 2004, approximately 4,400 shares remained available for repurchase under the February 2004 program.

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.

On July 19, 2000, the Board of Directors authorized a stock repurchase program to buy up to 40,000 shares. This program was completed in June 2003 at a total cost of $868,314.

During the nine months ended September 30, 2004, the Company repurchased approximately 11,176 shares of outstanding common stock under these programs, including the repurchase of 4,600 shares on January 9, 2004 pursuant to an accelerated share repurchase program (ASR). The ASR agreement provides for the final settlement of the contract in either cash or additional shares of the Company s common stock at the Company s sole discretion. During the second quarter of 2004, the Company was required to pay an additional $942 as the final settlement amount based on an increase in the Company s share price over the settlement period. The total cost of the shares repurchased during the nine months ended September 30, 2004 was $277,075.

Shares acquired through the Company s repurchase programs described above are open-market purchases or privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18.

As discussed in Note 6, during the three months ended March 31, 2003, the Company completed the CTS Split-Off exchange offer and accepted 36,540 IMS common shares tendered in exchange for all 11,291 CTS common shares that the Company owned.

The Company re-issued approximately 4,676 treasury shares under option exercises for proceeds of $80,923 during the nine months ended September 30, 2004. In addition, the Company paid dividends of $0.02 per share for a total of $4,704 during the three months ended September 30, 2004. For the nine months ended September 30, 2004, the Company paid dividends of $0.06 per share for a total of $14,204.

Note 14. Comprehensive Income

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

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net Income	**$ 65,632**	$ 69,213	**$ 211,831**	$ 569,242
Other comprehensive income, net of taxes:				
Unrealized gains (losses) on:				
Available-for-sale equity securities	**(352)**	2,742	**75**	3,460
Reclassification adjustment	**312**	(2,692)	**531**	(2,893)
Tax benefit on above	**14**	(18)	**(212)**	(199)
Change in unrealized gains (losses) on investments	**(26)**	32	**394**	368
Foreign currency translation gains (losses)	**(573)**	7,664	**(7,986)**	36,937
Changes in fair value of cash flow hedges	**383**	461	**1,359**	332
Total other comprehensive income (loss)	**(216)**	8,157	**(6,233)**	37,637
Comprehensive Income	**$ 65,416**	$ 77,370	**$ 205,598**	$ 606,879

Note 15. Severance, Impairment and Other Charges

During the three months ended March 31, 2003, the Company recorded $37,220 of severance, impairment and other charges (the first quarter charge) as a component of operating income. These charges were incurred due to a number of business and strategic factors affecting the Company:

severance-related charges of $9,958 were incurred in an effort to streamline operations and increase productivity through a worldwide reduction in headcount of approximately 80 employees. This reduction in headcount was primarily focused on upgrading the skills and capabilities of our employee base as we transform the business to provide new and enhanced analytical and consulting offerings to our customers. The reduction in headcount also led to charges for impaired leases in the U.S. and U.K. for office space no longer being used by the Company and for which the Company has not been able to obtain subleases at rates comparable to the terms of its lease obligations. 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;

contract-related charges of $22,307 were incurred for impaired data supply, data processing and impaired lease contracts in the Company s U.S. and Japanese operations. An impairment for a data supply contract in the U.S. was realized due to the fact that in the first quarter of 2003 we determined that expected revenues under a co-marketing agreement with a data supplier would not be generated, but the Company was still required to make payments under the terms of the contract. The Company also realized an impairment for a data processing contract in Japan related to a weekly data product in Japan that was discontinued at the end of the first quarter of 2003, due to the interruption in data supply; and

asset write-downs of $4,955 were recorded to write-down certain computer software primarily in the U.S. and Japan to its net realizable value. In the U.S., a decision to change the underlying technology in a product required the write-down of a previous version. In Japan, the termination of the weekly data product required the write-down of the software used for that product.

		Severance related charges		**Contract related charges**		**Asset write-downs**		**Total**
Charge at March 31, 2003	$	9,958	$	22,307	$	4,955	$	37,220
2003 Utilization		(6,197)		(7,047)		(6,634)		(19,878)
2004 Utilization		(1,447)		(2,727)				(4,174)
Adjustments		(1,746)		67		1,679		
Balance at September 30, 2004	$	568	$	12,600	$	0	$	13,168

The cash portion of the first quarter charge amounted to $30,586, of which the Company paid approximately $13,244 during 2003 and $4,174 during the nine months ended September 30, 2004, related primarily to employee termination benefits and contract-related charges. The remaining accrual of $13,168 at September 30, 2004 relates to contract related obligations and continuing payments related to employee termination benefits.

The Company expects that cash outlays will be applied against the $13,168 balance remaining as follows:

Year Ended December 31,		**Cash Outlays**
2004	$	1,718
2005		7,917
2006		923
2007		752
2008		228
Thereafter		1,630
Total	$	13,168

During 2003, the Company reversed approximately $1,750 of severance related charges originally included in the first quarter 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	(353)	(725)		(1,078)
Adjustments	(688)	(274)	962	
Balance at September 30, 2004	$ 2,258	$ 6,123	$ 0	$ 8,381

Approximately $39,652 was charged to expense in the fourth quarter of 2001 related to a worldwide reduction in headcount. This included $33,376 of severance benefits that were calculated pursuant to the terms of established employee protection plans in accordance with local statutory minimum requirements or individual employee contracts, as applicable. This also included $6,277 of severance benefits for approximately 175 employees that were recorded as part of the Program in accordance with EITF Statement No. 94-3, Liability Recognition of Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in Restructuring).

The Company recorded $15,827 in contract-related charges, including $7,493 in payments to exit data supply and processing contracts and $8,334 related to onerous lease obligations. These costs are incremental and either relate to existing contractual obligations that do not have any future economic benefit or represent a contract cancellation penalty. They relate, in part, to the decision in the fourth quarter of 2001 to close down or vacate leased facilities in order to consolidate functions geographically as part of the Program.

Approximately $17,723 was charged to expense in the fourth quarter of 2001 to write down deferred software costs to their net realizable value. These write-downs resulted from the Company s decision to abandon certain products or introduce new regional or global platforms. The Company also charged $4,243 of goodwill to expense in the fourth quarter of 2001 as a result of the decision to cease product offerings as well as increased competition in certain markets.

Approximately $17,170 of the 2001 charge relates to GIC and resulted from the Company s decision to exit the GIC relationship and accelerate the transition of certain data processing functions that were rendered by GIC to the IMS Global Data Center. Of the total GIC charge, approximately $14,600 is for lease and other asset impairments with the remaining balance of $2,570 representing contract termination payments to be made to GIC.

As of September 30, 2004, the Company paid approximately $56,633 under the Program. Total terminations under the Program were 535. Although the total number of terminations from the

Program was lower than the original plan by approximately 18%, due to a change in the mix of actual employee terminations, the Company has experienced a higher level of severance costs per employee, thereby offsetting any cost savings from fewer actual terminations. As expected, all actions under the Program were completed by December 31, 2002. The remaining accrual of $8,381 at September 30, 2004 related primarily to a facility shutdown and employee termination payments.

The adjusted cash portion of the 2001 charge amounted to $65,014, primarily for severance payments and contract terminations. The non-cash portion amounted to $29,602 and is composed primarily of asset write-offs. The Company expects that cash outlays will be applied against the $8,381 balance remaining as follows:

Year Ended December 31,	**Cash Outlays**	
2004	$	2,724
2005		1,754
2006		1,754
2007		2,149
Total	$	8,381

The Company expects that future results will benefit from the Program and the first quarter charge to the extent of the contract-related charges and asset write-downs primarily through 2007. The Company s severance actions related to a shifting of resources around the Company and as such are not expected to generate material cost savings. The income statement lines that will be impacted in future periods are Operating costs for the contract-related charges and Depreciation and amortization for the asset write-downs. However, the Company does not expect a material impact on future cash flows due to the fact that the Company is still contractually obligated to continue to make payments under impaired contracts.

Note 16. Operations by Business Segment

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 1.

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 the Company operates as of and for the three and nine months September 30, 2004 and 2003:

	Americas (1)	Europe (2)	Asia Pacific (3)	Corporate & Other	Total IMS
Three Months Ended September 30, 2004:					
Operating revenue (4)	$ 175,660	$ 156,643	$ 51,868		$ 384,171
Operating income (5)	$ 78,756	$ 24,300	$ 26,790	$ (26,955)	$ 102,891
Nine Months Ended September 30, 2004:					
Operating revenue (4)	$ 515,063	$ 456,016	$ 154,251		$ 1,125,330
Operating income (5)	$ 227,238	$ 80,500	$ 80,838	$ (86,985)	$ 301,591
Three Months Ended September 30, 2003:					
Operating revenue (4)	$ 168,747	$ 129,439	$ 47,792		$ 345,978
Operating income (5)	$ 81,489	$ 22,648	$ 28,288	$ (24,483)	$ 107,942
Nine Months Ended September 30, 2003:					
Operating revenue (4)	$ 480,476	$ 377,375	$ 139,820		$ 997,671
Operating income (5)	$ 221,313	$ 67,398	$ 81,472	$ (123,792)	$ 246,391

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. For the three months ended March 31, 2003, Severance, impairment and other charges of $17,369, $5,040 and $11,081 for the Americas, Europe and Asia Pacific, respectively, are presented in Corporate and Other. The operating income for the geographic segments includes the impact of foreign exchange in converting results into U.S. Dollars.*

A summary of the Company s operating revenue by product line, as of and for the three and nine months ended September 30, 2004 and 2003 is presented below:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2004	2003	2004	2003
Sales Force Effectiveness	**$ 174,784**	$ 163,847	**$ 514,573**	$ 475,822
Portfolio Optimization	**$ 107,475**	$ 104,852	**$ 330,250**	$ 304,784
Brand and Launch Management and Other	**$ 59,967**	$ 49,510	**$ 161,153**	$ 137,670
Consulting and Services	**$ 41,945**	$ 27,769	**$ 119,354**	$ 79,395
Total Operating revenue	**$ 384,171**	$ 345,978	**$ 1,125,330**	$ 997,671

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

(Dollars and shares in thousands, except 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

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;

Brand and Launch 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; and

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, and a 25.7% equity interest in The TriZetto Group, Inc. (TriZetto), at September 30, 2004.

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.

Split-Off of Cognizant Technology Solutions Corporation Segment (CTS)

Until February 6, 2003, we also included CTS, which provides custom Information Technology (IT) design, development, integration and maintenance services. CTS is a publicly traded corporation on the Nasdaq national market system. We owned 55.3% of the common shares outstanding of CTS (92.5% of the outstanding voting power) as of December 31, 2002, and accounted for CTS as a consolidated subsidiary. On February 6, 2003, we divested CTS through a split-off transaction, and as a result, during the first quarter of 2003, we recorded a net gain from discontinued operations of $495,053. Our share of CTS results are presented as discontinued operations for 2003

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through the date of divestiture (see Note 6 to the unaudited Condensed Consolidated Financial Statements).

Operating Results

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 2004, the U.S. Dollar was generally weaker against other currencies compared to the first nine months of 2003, 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, 2003 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
		2004		**2003**	**2004 vs. 2003**
Operating revenue	**$**	**384,171**	$	345,978	11.0%
Operating costs		**163,465**		142,457	14.7%
Selling and administrative expenses		**94,460**		77,181	22.4%
Depreciation and amortization		**23,355**		18,398	26.9%
Operating income	**$**	**102,891**	$	107,942	(4.7)%

	Nine Months Ended September 30,				% Variance
		2004		**2003**	**2004 vs. 2003**
Operating revenue	**$**	**1,125,330**	$	997,671	12.8%
Operating costs		**475,405**		421,260	12.9%
Selling and administrative expenses		**280,956**		237,773	18.2%
Depreciation and amortization		**67,378**		55,027	22.4%
Severance, impairment and other charges				37,220	n/a
Operating income	**$**	**301,591**	$	246,391	22.4%

Operating Income

Our operating income for the third quarter of 2004 decreased 4.7% at reported exchange rates and 6.3% at constant dollar terms to $102,891 from $107,942 in the third quarter of 2003. The change was primarily due to the increase in our operating costs and selling and administrative expenses driven primarily by investments in new products and consulting and services capabilities and increased cost of data. Operating income for the nine months ended September 30, 2004 grew 22.4%

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to $301,591 from $246,391 in the nine months ended September 30, 2003. The change was largely the result of $37,220 in severance, impairment and other charges we recorded in the first quarter of 2003 and the increase in our operating revenue in the first nine months of 2004 compared to the same period of 2003. Absent the impact of severance, impairment and other charges, our operating income increased by 6.3% at reported exchange rates and 3.2% at constant dollar terms.

Operating Revenue

Our operating revenue for the third quarter of 2004 grew 11.0% to $384,171 from $345,978 in the third quarter of 2003. On a constant dollar basis our operating revenue growth was 6.9%. On a constant dollar basis, revenue from all product and service categories grew with the exception of portfolio optimization. Operating revenue for the first nine months of 2004 grew 12.8% to $1,125,330 from $997,671 in the first nine months of 2003. On a constant dollar basis our operating revenue growth was 7.7%. The increase in our operating revenue resulted from growth in revenue in all four of our product and service categories, together with the effect of currency translation.

Summary of Operating Revenue

	Three Months Ended September 30,				% Variance 2004 vs 2003	
		2004		**2003**	**Reported Rates**	**Constant Dollar**
Sales Force Effectiveness	**$**	**174,784**	$	163,847	7%	3%
Portfolio Optimization	**$**	**107,475**	$	104,852	3%	(2)%
Brand and Launch Management and Other	**$**	**59,967**	$	49,510	21%	16%
Consulting and Services	**$**	**41,945**	$	27,769	51%	46%
Operating Revenue	**$**	**384,171**	$	345,978	11%	7%

	Nine Months Ended September 30,				% Variance 2004 vs 2003	
		2004		**2003**	**Reported Rates**	**Constant Dollar**
Sales Force Effectiveness	**$**	**514,573**	$	475,822	8%	3%
Portfolio Optimization	**$**	**330,250**	$	304,784	8%	3%
Brand and Launch Management and Other	**$**	**161,153**	$	137,670	17%	11%
Consulting and Services	**$**	**119,354**	$	79,395	50%	45%
Operating Revenue	**$**	**1,125,330**	$	997,671	13%	8%

Sales Force Effectiveness revenue grew primarily due to core Xponent offerings in the United States, Canada and Europe, and growth in the Asia Pacific region (excluding Japan), Latin America, and acquisitions. The revenue decline in Japan is leveling off and we anticipate a gradual return to growth in 2005 now that key contracts with data suppliers have been finalized.

Portfolio Optimization revenue for the first nine months of 2004 grew primarily due to strong demand for certain of our core products, including our next generation MIDAS offering, called MIDAS Quantum; KnowledgeLink, our proprietary search engine; and

NPA Market-Dynamics, our premier longitudinal offering in the United States. The decrease in third quarter constant dollar revenue is primarily due to quarterly fluctuations in MIDAS revenue as clients migrate to the new MIDAS Quantum pricing structure.

Brand Management, Launch Management and other product lines revenue grew primarily due to Prescriber Profiler and Market Prognosis in the United States and Consumer Health in Europe.

Consulting and Services revenue grew strongly across all our service lines, especially in our Management Consulting service line.

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 14.7% to $163,465 in the third quarter of 2004, from $142,457 in the third quarter of 2003, and for the first nine months of 2004 grew 12.9% to $475,405 from $421,260 for the comparable period in 2003. The increase in our operating costs was primarily due to foreign currency translation, increased cost of data, increases in costs related to consulting and services, and operating costs of acquired businesses. The effect of foreign currency translation increased our operating costs by approximately $7,000 for the third quarter of 2004 as compared to the third quarter of 2003 and $24,000 for the first nine months of 2004 as compared to the first nine months of 2003. Excluding the effect of the change in foreign currency translation, our operating costs grew 9.7% in the third quarter of 2004 as compared to the third quarter of 2003 and grew 7.2% in the first nine months of 2004 as compared to the first nine months of 2003.

Operating costs have increased at a rate approximately equal to the increase in revenue in the first nine months of 2004 as compared to the first nine months of 2003. Our operating costs generally have increased at a rate greater than operating revenues in each of the last two full fiscal years. This increase has been due to the impact of foreign currency translation, 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 22.4% in the third quarter of 2004, to $94,460 from $77,181 in the third quarter of 2003 and grew 18.2% to $280,956 from $237,773 in the first nine months of 2004 compared to the first nine months of 2003, primarily due to the following factors:

Foreign Currency Translation: The effect of foreign currency translation increased our selling and administrative expenses by approximately $5,000 for the third quarter of 2004 as compared to the third quarter of 2003 and $16,000 for the first nine months of 2004 compared to the first nine months of 2003. Excluding the effect of the change in foreign currency translation, our selling and administrative expenses grew 16.2% in the third

quarter of 2004 as compared to the third quarter of 2003 and 11.3% in the first nine months of 2004 as compared to the first nine months of 2003.

Sales and Marketing: Sales and marketing expense increased by approximately $1,000 in the third quarter of 2004, compared to the third quarter of 2003 and increased by approximately $10,000 in the first nine months of 2004, compared to the first nine months of 2003 to support operating revenue growth.

Consulting: Consulting and services expenses increased by approximately $7,000 in the third quarter of 2004, compared to the third quarter of 2003 and increased by approximately $9,000 in the first nine months of 2004, compared to the first nine months of 2003 to support growth in this product category.

Depreciation and Amortization

Our depreciation and amortization charges increased 26.9% to $23,355 in the third quarter of 2004, from $18,398 in the third quarter of 2003, primarily due to computer software amortization associated with new products, which increased by approximately $5,000 in the third quarter of 2004 compared to the third quarter of 2003. Depreciation and amortization charges increased 22.4% to $67,378 in the first nine months of 2004, from $55,027 in the first nine months of 2003, primarily due to computer software amortization associated with new products, which increased by approximately $11,000.

Severance, Impairment and Other Charges

During the first quarter of 2003, we recorded a $37,220 pretax charge for severance, impairment and other charges, consisting primarily of severance charges of approximately $9,958 for approximately 80 employees, charges to exit data supply and processing contracts of $16,500, lease obligations associated with abandoned properties of $5,807, and approximately $4,955 to write down computer software to its net realizable value. For more detail concerning these changes see Note 8 to the Consolidated Financial Statements and the discussion of Severance, Impairment and Other Charges in the Management Discussion and Analysis, both in our Annual Report on Form 10-K for the year ended December 31, 2003.

Trends in our Operating Margins

Our operating margin for both the third quarter and first nine months of 2004 were 26.8%, as compared to 31.2% and 24.7% in the third quarter of 2003 and first nine months of 2003, respectively. The decrease in our operating margin for the third quarter is primarily due to continuing investments in new products and consulting and services capabilities and increased cost of data. The improvement in our operating margins for the first nine months of 2004 was primarily due to the absence in 2004 of the Severance, impairment and other charges of $37,220 recorded in the first quarter of 2003.

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

Recent acquisitions have also had an adverse effect on our operating margins due to the fact that some of our acquisitions of small, niche businesses 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 years 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 years of each completed acquisition.

Non-Operating Income (Loss)

Our non-operating loss increased 80.0% to a net loss of $4,040 in the third quarter of 2004 from a net loss of $2,245 in the third quarter of 2003 and grew 100.7% to a net gain of $201 in the nine months ended September 30, 2004 from a net loss of $29,444 in the nine months ended September 30, 2003. The increase in our non-operating income was primarily due to the following factors:

Gains from Investments: We had gains from investment of $2,188 during the third quarter of 2004, primarily as a result of the sale of investments in the Enterprises portfolio. Gains from investment in the third quarter of 2003 were $1,964. We had gains from investment of $10,715 during the first nine months of 2004, primarily as a result of the sale of investments in the Enterprises portfolio. Gains from investment in the first nine months of 2003 were $1,120.

Other Income: Other income (expense), net, increased primarily due to net foreign exchange gains/(losses) of $(502) and $5,089 in the third quarter and first nine months of 2004, respectively, compared with net foreign exchange gains/(losses) of $222 and $(16,762) in the third quarter and first nine months of 2003, respectively.

Taxes

For the nine months ended September 30, 2004, our effective tax rate was impacted by approximately $15,100, primarily due to a favorable partial U.S. audit settlement. For the nine months ended September 30, 2003, our effective tax rate was impacted by approximately $69,600, due to our reassessment, based on information received in April 2003, of our liability associated with certain D&B Legacy Tax Matters and related subsequent transactions. This is more fully described in Note 9 to the Condensed Consolidated Financial Statements (unaudited). Further, our effective tax rate for the nine months ended September 30, 2003 was affected by the favorable settlement of a non-U.S. audit which approximated $13,900.

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.

TriZetto

In the first quarter of 2003, we recorded an impairment charge of $14,842, net of taxes of $9,565, to write down our investment in TriZetto following the continued significant decline in the market value of TriZetto shares below our carrying value. We concluded that this decline was other-than-temporary in accordance with SAB No. 59, Views on Accounting for Noncurrent Marketable Equity Securities. As of March 31, 2003, TriZetto shares closed at $4.13 compared to our book value per share of $6.14 prior to recording the impairment charge. As of September 30, 2004, the market value of TriZetto exceeded our carrying value by approximately $29,111. There can be no assurance that TriZetto shares will continue to trade above our carrying value or that further impairment charges will not be required.

TriZetto equity income, net, of $662 and $218 was recorded in the three months ended September 30, 2004 and 2003, respectively. A charge for TriZetto equity loss, net, of $607 and $181 was recorded in the nine months ended September 30, 2004 and 2003, respectively. We do not control TriZetto and our results may be significantly affected by our share of its income or losses.

Operating Results by Geographic Region

The following represents selected geographic information for the regions in which we operate for the three and nine months ended September 30, 2004 and 2003:

	Americas (1)	Europe (2)	Asia Pacific (3)	Corporate & Other	Total IMS
Three Months Ended September 30, 2004:					
Operating revenue (4)	$ 175,660	$ 156,643	$ 51,868		$ 384,171
Operating income (5)	$ 78,756	$ 24,300	$ 26,790	$ (26,955)	$ 102,891
Nine Months Ended September 30, 2004:					
Operating revenue (4)	$ 515,063	$ 456,016	$ 154,251		$ 1,125,330
Operating income (5)	$ 227,238	$ 80,500	$ 80,838	$ (86,985)	$ 301,591
Three Months Ended September 30, 2003:					
Operating revenue (4)	$ 168,747	$ 129,439	$ 47,792		$ 345,978
Operating income (5)	$ 81,489	$ 22,648	$ 28,288	$ (24,483)	$ 107,942
Nine Months Ended September 30, 2003:					
Operating revenue (4)	$ 480,476	$ 377,375	$ 139,820		$ 997,671
Operating income (5)	$ 221,313	$ 67,398	$ 81,472	$ (123,792)	$ 246,391

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. For the three months ended March 31, 2003, Severance, impairment and other charges of $17,369, $5,040 and*

$11,081 for the Americas, Europe and Asia Pacific, respectively, are presented in Corporate and Other. 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 4.1% in the third quarter of 2004, compared to the third quarter of 2003, primarily due to strong performance in the consulting and services business in the U.S. and Canada, and continued strength of the sales force effectiveness business line, particularly in Latin America. Operating revenue growth was 7.2% in the first nine months of 2004, compared to the first nine months of 2003, primarily due to increases in all areas of the region for our core sales force effectiveness and portfolio optimization offerings. Growth was also strong in our consulting and services line in the United States and Canada.

Operating income in the Americas region declined 3.4% in the third quarter of 2004, compared to the third quarter of 2003. The operating income decline was due to investment in global consulting capabilities and higher data collection costs and software development to support new products. Operating income growth was 2.7% in the first nine months of 2004, compared to the first nine months of 2003, primarily due to increased revenue offset by increased costs of data, investments in product development and acquisitions.

Europe Region

Operating revenue growth in the Europe region was 21.0% in the third quarter of 2004, compared to the third quarter of 2003, primarily due to growth in core sales force effectiveness products, our next-generation MIDAS offering, strong growth in our services and consulting business as well as foreign exchange. Operating revenue growth was 20.8% in the first nine months of 2004, compared to the first nine months of 2003, primarily due to strong growth in the consulting and services business and the sales force effectiveness business line, as well as foreign exchange.

Operating income in the Europe region increased by 7.3% in the third quarter of 2004, compared to the third quarter of 2003. The operating income growth in 2004 was primarily driven by operating revenue growth offset by investments in the consulting business and acquisitions. Operating income growth was 19.4% in the first nine months of 2004, compared to the first nine months of 2003, primarily driven by operating revenue growth.

Asia Pacific Region

Operating revenue in the Asia Pacific region increased 8.5% in the third quarter of 2004, compared to the third quarter of 2003, due to foreign exchange and continued strong growth in the region, excluding Japan. Operating revenue growth was 10.3% in the first nine months of 2004, compared to the first nine months of 2003, primarily due to foreign exchange and strong growth in the region outside of Japan. Operating revenue growth in Japan was adversely affected by a data supplier issue that had resulted in the interruption of the data supply used in a weekly product. We discontinued that product at the end of the first quarter of 2003 and it has not yet been replaced with a new product.

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Operating income in the Asia Pacific region decreased by 5.3% in the third quarter of 2004, compared to the third quarter of 2003, primarily due to the operating revenue issues discussed above. Operating income decreased 0.8% in the first nine months of 2004, compared to the first nine months of 2003. The decline in operating margin in the region was due to the impact of the revenue decline in Japan from the discontinuation of the weekly product; because costs are primarily fixed in nature, the revenue decline produced an operating income decline. In addition, we are incurring expenses to develop new products and services in Japan that are intended to replace and grow those revenues lost from the discontinuation of the weekly product.

How Exchange Rates Affect Our Results

We operate globally, deriving a significant portion of our 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 our U.S. Dollar operating results. We enter into forward foreign currency contracts to partially offset the effect of currency fluctuations. In 2004, foreign currency translation increased our U.S. Dollar revenue growth by approximately 4.1 percentage points in the third quarter and 5.1 percentage points in the first nine months, while the impact on our operating income growth was an approximate increase of 1.6 percentage points in the third quarter and 3.1 percentage points in the first nine months.

Our 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 Canadian 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 our Condensed Consolidated Statements of Shareholders Equity (unaudited). The effect of exchange rate changes during 2004 decreased our U.S. Dollar amount of Cash and cash equivalents by $1,090.

Liquidity and Capital Resources

On February 6, 2003, we divested CTS through a split-off transaction, and as a result, our share of CTS results are presented as discontinued operations for 2003 through the date of divestiture (see Note 6 to our unaudited Condensed Consolidated Financial Statements).

Our cash and cash equivalents increased $59,201 during the first nine months of 2004 to $403,633 at September 30, 2004 compared to $344,432 at December 31, 2003. The increase primarily reflects cash we generated from operating activities of $274,481, offset by cash used in investing and financing activities of $74,519 and $139,671, respectively. 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 increased to $425,874 at September 30, 2004 compared to $384,540 at December 31, 2003, an increase of $41,334.

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

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our growing business (we currently expect to spend approximately $85,000 to $95,000 during 2004 for software development and capital expenditures);

acquisitions;

share repurchases;

dividends to our shareholders (we expect 2004 dividends will be $0.08 per share or approximately $19,000);

payments for tax related matters, including the D&B Legacy Tax Matters discussed further in Note 9 to our Condensed Consolidated Financial Statements (unaudited). Payments for certain of the D&B Legacy Tax Matters could be up to approximately $42,000 in the last quarter of 2004; and

pension plan contributions (we currently expect contributions to U.S. and non-U.S. pension plans to total approximately $21,000 in 2004).

Net cash provided by operating activities amounted to $274,481 for the nine months ended September 30, 2004, a decrease of $544 over the comparable period in 2003. The decrease relates primarily to the funding of income taxes, accrued and other current liabilities during the nine months ended September 30, 2004, and the payment from Nielsen Media Research in 2003, as discussed in Note 9 to the Condensed Consolidated Financials Statements (unaudited), with no comparable payment in the same period in 2004, offset by higher income from continuing operations in the first nine months of 2004.

Net cash used in investing activities amounted to $74,519 for the nine months ended September 30, 2004, a decrease in cash used of $57,096 over the comparable period in 2003. The lower cash requirements during the first nine months of 2004 relate primarily to the fact that we made net payments of $23,078 for acquisitions during the first nine months of 2004, compared to net payments of $52,237 made for acquisitions during the comparable period in 2003. We also had a $27,650 reduction in funding requirements for short-term marketable securities for the first nine months of 2004 compared with 2003.

Net cash used in financing activities amounted to $139,671 for the nine months ended September 30, 2004, an increase of $32,863 over the comparable period in 2003. This increase was primarily due to an increase of $179,139 for payments to purchase our stock during the first nine months of 2004 compared with the comparable period in 2003, offset by a $69,378 increase in proceeds we received from the exercise of stock options by our employees and a $77,181 net increase in our borrowings during the first nine months of 2004 compared with the comparable period in 2003.

Our financing activities include cash dividends we paid of $0.02 per share quarterly, which amounted to $14,204 and $14,575 during the first nine months of 2004 and 2003, 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 quarterly dividends for 2004, which were declared by our Board of Directors in February 2004, April 2004,

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July 2004 and October 2004, will be based on, and affected by, a number of factors, including our operating results and financial requirements.

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 9 to our Condensed Consolidated Financial Statements (unaudited) for the period ended September 30, 2004. We do not know of any material tax or other contingencies, other than those described in Note 9 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, a 1998 non-U.S. tax reorganization and certain tax return positions in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies , the actual liability for these matters may exceed the amount of the reserve. We have not established any reserves in respect of the other contingencies described in Note 9 to the Condensed Consolidated Financial Statements (unaudited). 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

Our share repurchase program has been developed to buy opportunistically, when we believe that our share price provides us with an attractive use of our cash flow and debt capacity.

On February 10, 2004, our Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. As of September 30, 2004, approximately 4,400 shares remained available for repurchase under the February 2004 program.

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

On July 19, 2000, our Board of Directors authorized a stock repurchase program to buy up to 40,000 shares. We completed this program in June 2003 at a total cost of $868,314.

During the nine months ended September 30, 2004, we repurchased approximately 11,176 shares of outstanding common stock under these programs, including the repurchase of 4,600 shares on January 9, 2004 pursuant to an accelerated share repurchase program (ASR). The ASR agreement provides for the final settlement of the contract in either cash or additional shares of our common stock at our sole discretion. We were required to pay an additional $942 as the final settlement amount based on an increase in our share price over the settlement period. The total cost of the shares repurchased during the nine months ended September 30, 2004 was $277,075.

Shares acquired through our repurchase programs described above are open-market purchases or privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18.

Debt

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, 2004, our debt totaled $634,604, 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 $300,000;

at September 30, 2004, we had $425,874 in worldwide cash and cash equivalents and short-term marketable securities;

at September 30, 2004, we had $220,800 of unused debt capacity under our existing bank credit facilities ($27,800 and $193,000 available under our long and short-term lines, respectively); and

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

We had borrowing arrangements with several domestic and international banks to provide lines of credit up to $700,000 at September 30, 2004. Total borrowings under these existing lines were $479,200 and $407,600 at September 30, 2004 and December 31, 2003, respectively, of which $237,000 and $407,600 were classified as short-term and $242,200 and $0 were classified as long-term as of September 30, 2004 and December 31, 2003, respectively.

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. The Unsecured Facility is comprised of $430,000 of short-term lines that expire April 2005 and $270,000 of long-term lines expiring April 2007. In general, rates for borrowing under both the short-term and long-term components are LIBOR plus 45 basis points and can vary based on our Debt to EBITDA ratio. The weighted average interest rates for our short-term lines were 2.28% and 1.61% at September 30, 2004 and December 31, 2003, respectively. The weighted average interest rates for our long-term lines were 2.28% and 1.84% at September 30, 2004 and December 31, 2003, respectively. In addition, we will pay a commitment fee on the unused portion of the short-term and long-term facilities of 0.08% and 0.10%, respectively.

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 violations of the

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provisions of the agreement. Borrowings under these three-year facilities are short-term in nature; however, we have the ability and the intent to refinance the short-term borrowings as they come due through April 2007. At September 30, 2004, we reclassified $242,200 of our short-term debt outstanding as long-term debt in accordance with the provisions of SFAS No. 6, Classification of Short-Term Obligations Expected to be Refinanced.

Our total debt of $634,604 and $561,991 at September 30, 2004 and December 31, 2003, respectively, included $150,000 of private placement debt (as further discussed below), and $5,204 and $4,391 at September 30, 2004 and December 31, 2003, respectively, related primarily to cash overdrafts, certain capital leases, mortgages and an adjustment to the carrying amount of fair value hedged debt. At September 30, 2004, we had $27,800 and $193,000 available under our long and short-term lines of credit, respectively.

During the fourth quarter of 2001, we renegotiated with several banks and entered into three-year lines of credit for borrowings of up to $175,000. Borrowings had maturity dates of up to 90 days from their inception. These lines of credit were due to mature in 2004 and as such $175,000 was reclassified to short-term as of December 31, 2003.

In March and April 2002, we entered into interest rate swaps on a portion of our variable rate debt portfolio. These arrangements convert the variable interest rates to a fixed interest rate on a notional amount of $75,000 and mature at various times from March 2005 through April 2006. The fixed rates range from 4.05% to 5.08%. We accounted for the interest rate swaps as cash flow hedges and we recorded any changes in fair value in Other Comprehensive Income, in our Condensed Consolidated Statements of Shareholders Equity (unaudited). We determine the fair values based on estimated prices quoted by financial institutions. The mark-to-market adjustment for the three and nine months ended September 30, 2004 was an unrealized net loss of 383 and $1,359, 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 cumulative fair value adjustment to the swap as of September 30, 2004 was an increase of $727.

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, 2004, 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 three months ended March 31, 2003, we recorded $37,220 of severance, impairment and other charges (the first quarter charge) as a component of operating income. We incurred these charges due to a number of business and strategic factors affecting us:

severance-related charges of $9,958 were incurred in an effort to streamline operations and increase productivity through a worldwide reduction in headcount of approximately 80 employees. This reduction in headcount was primarily focused on upgrading the skills and capabilities of our employee base as we transform the business to provide new and enhanced analytical and consulting offerings to our customers. The reduction in headcount also led to charges for impaired leases in the U.S. and U.K. for office space no longer being used by us and for which we had not been able to obtain subleases at rates comparable to the terms of our lease obligations. 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;

contract-related charges of $22,307 were incurred for impaired data supply, data processing and impaired lease contracts in our U.S. and Japanese operations. An impairment for a data supply contract in the U.S. was realized due to the fact that in the first quarter of 2003 we determined that expected revenues under a co-marketing agreement with a data supplier would not be generated, but we are still required to make payments under the terms of the contract. We also realized an impairment for a data processing contract in Japan related to a weekly data product in Japan that was discontinued at the end of the first quarter of 2003, due to the interruption in data supply; and

asset write-downs of $4,955 were recorded to write-down certain of our computer software primarily in the U.S. and Japan to its net realizable value. In the U.S., our decision to change the underlying technology in a product required the write-down of a previous version. In Japan, the termination of our weekly data product required the write-down of our software used for that product.

	Severance related charges	Contract related charges	Asset write-downs	Total
Charge at March 31, 2003	$ 9,958	$ 22,307	$ 4,955	$ 37,220
2003 Utilization	(6,197)	(7,047)	(6,634)	(19,878)
2004 Utilization	(1,447)	(2,727)		(4,174)
Adjustments	(1,746)	67	1,679	
Balance at September 30, 2004	$ 568	$ 12,600	$ 0	$ 13,168

The cash portion of the first quarter charge amounted to $30,586, of which we paid approximately $13,244 during 2003 and $4,174 during the nine months ended September 30, 2004, related primarily to employee termination benefits and contract-related charges. The remaining accrual of $13,168 at September 30, 2004 relates to contract related obligations and continuing payments related to employee termination benefits.

We expect that cash outlays will be applied against the $13,168 balance remaining as follows:

Year Ended December 31,		**Cash Outlays**
2004	$	1,718
2005		7,917
2006		923
2007		752
2008		228
Thereafter		1,630
Total	$	13,168

During the nine months ended December 31, 2003, we reversed approximately $1,750 of severance related charges originally included in the first quarter charge due to our refinement of estimates. We also recorded additional charges during 2003 of approximately $1,700 related primarily to a software impairment.

We expect that future results will benefit from the first quarter charge to the extent of the contract-related charges and asset write-downs primarily through 2007. Our severance actions related to a shifting of resources and as such are not expected to generate material cost savings. The income statement lines that will be impacted in future periods are Operating costs for the contract-related charges and Depreciation and amortization for the asset write-downs. However, we do not expect a material impact on future cash flows due to the fact that we are still contractually obligated to continue to make payments under impaired contracts.

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, (FIN 46). FIN 46 requires all Variable Interest Entities (VIEs) to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In addition, FIN 46 expands disclosure requirements for both VIEs that are consolidated as well as VIEs from which the entity is the holder of a significant amount of the beneficial interest, but not the majority. In December 2003, the FASB issued Interpretation 46R, Consolidation of Variable Interest Entities (revised December 2003), (FIN 46R) which further clarified the provisions of FIN 46 and delayed the effective date for applying the provisions of FIN 46 until the end of the first quarter of 2004 for interests held by public entities in VIEs or potential VIEs created before February 1, 2003. The adoption of FIN 46R did not have a material impact on our financial position, results of operations or cash flows for the three and nine months ended September 30, 2004.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), Employer s Disclosures about Pensions and Other Postretirement Benefits, an amendment of SFAS Nos. 87, Employers Accounting for Pensions , 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination of Benefits, and 106, *Employers Accounting for Postretirement Benefits Other Than Pensions,* and a revision of SFAS No. 132. SFAS No. 132 (revised 2003) requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans, but does not change the measurement or recognition of such plans. The new disclosure requirements contained in SFAS No. 132 (revised 2003) are effective for fiscal years ending after December 15,

2003, with a delayed effective date for certain disclosures, for foreign plans, and for non-public entities. We have adopted all aspects of SFAS No. 132 (revised 2003) for all foreign and non-foreign plans, with the exception of the estimated future benefit payment disclosure. This requirement was first effective for fiscal years ending after June 15, 2004. Additionally, we are required to disclose components of the net benefit cost in quarterly financial statements beginning with the first quarter of 2004. This interim disclosure information is included in Note 11 to the Condensed Consolidated Financial Statements (unaudited). The adoption of SFAS No. 132 (revised 2003) did not have a material impact on our financial position, results of operations or cash flows for the three and nine months ended September 30, 2004.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in the U.S. The Act introduced a prescription drug benefit under Medicare Part D and a federal subsidy to sponsors of retirement health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued Staff Position No. (FSP) FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This statement requires entities to disclose the effects of the Act and to assess the impact of the subsidy on the accumulated postretirement benefit obligation and the net periodic postretirement benefit cost in the first interim period beginning after June 15, 2004. FAS 106-2 was first effective for the quarter ended September 30, 2004. The adoption of FAS 106-2 did not have a material effect on the Company s financial position, results of operations or cash flows for the three and nine months ended September 30, 2004.

Forward-Looking Statements

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 the intent, plans, beliefs or our expectations or 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 61% of our operating revenue in 2003 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 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 may 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, including the investment in TriZetto 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; and

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.

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 three and nine months ended September 30, 2004 and by the material set forth under the headings Business and Factors That May Affect Future Results in our Annual Report on Form 10-K for the year ended December 31, 2003. 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.

Critical Accounting Policies

Income Taxes. In addition to the tax items discussed in Note 9 to the Condensed Consolidated Financial Statements (unaudited), we have tax reserves of approximately $27,500 that relate to various positions we have taken on tax returns filed in numerous countries over the last several years. These reserves represent our 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information in response to this Item is set forth in Note 10. Financial Instruments in the Notes to the Condensed Consolidated Financial Statements (unaudited) on pages 25 through 27 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 are designed to do, and 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, 2004 (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 our 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, our 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 9. Contingencies in the Notes to the Condensed Consolidated Financial Statements (unaudited) on pages 13 through 25 hereof.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table provides information about the purchase by the Company during the quarter ended September 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased Under Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs(2)
July 1-31, 2004	1,114,500	22.85	1,114,500	6,415,100
August 1-31, 2004	1,209,500	23.39	1,209,500	5,205,600
September 1-30, 2004	795,000	23.82	795,000	4,410,600
Total	3,119,000	23.31	3,119,000	4,410,600

(1) All shares were repurchased through the Company s publicly announced stock repurchase programs.

(2) On April 15, 2003, the Company announced a stock repurchase program to buy up to 10,000,000 shares of the Company s common stock. The Company completed the April 2003 program during the quarter ended June 30, 2004. On February 10, 2004, the Company announced a stock repurchase program to buy up to 10,000,000 shares of the Company s common stock. Unless terminated earlier by resolution of the Company s Board of Directors, this program will expire when the Company has repurchased all shares authorized for repurchase thereunder. As of September 30, 2004, 5,589,400 shares had been purchased under the February 2004 program.

Item 6. Exhibits

Exhibit Number	Description of Exhibits

10.1	Form of Non-Employee Directors Restricted Stock Unit Agreement
10.2	Form of Non-Employee Directors Stock Option Agreement
10.3	Forms A and B of Employees Restricted Stock Unit Agreements
10.4	Forms A, B and C of Employees Stock Option Agreements
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 5, 2004	By:	/s/ Nancy E. Cooper Nancy E. Cooper Senior Vice President and Chief Financial Officer (principal financial officer)
Date: November 5, 2004		/s/ Leslye G. Katz Leslye G. Katz Vice President, Controller (principal accounting officer)

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