IMS HEALTH INC
Form 10-Q
November 03, 2006

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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2006**

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

1499 Post Road, Fairfield, CT 06824
(Address of principal executive offices)(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

x Yes o No

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of the latest practicable date. At September 30, 2006, there were 198,439,909 shares of IMS Health Incorporated Common Stock, $0.01 par value, outstanding.

IMS HEALTH INCORPORATED

INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

IMS HEALTH INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

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

	As of September 30, 2006	As of December 31, 2005
Assets:		
Current Assets:		
Cash and cash equivalents	**$ 147,712**	$ 362,943
Accounts receivable, net of allowances of $6,448and $7,629 in 2006 and 2005, respectively	**324,331**	297,302
Other current assets	**173,098**	160,765
Total Current Assets	**645,141**	821,010
Securities and other investments	**5,893**	6,037
Property, plant and equipment, net of accumulated depreciation of $198,737 and $180,576 in 2006 and 2005, respectively	**155,642**	148,586
Computer software	**247,336**	241,298
Goodwill	**499,952**	457,006
Other assets	**329,032**	299,083
Total Assets	**$ 1,882,996**	$ 1,973,020
Liabilities, Minority Interests and Shareholders (Deficit) Equity:		
Current Liabilities:		
Accounts payable	**$ 53,007**	$ 71,737
Accrued and other current liabilities	**222,329**	231,475
Accrued income taxes	**82,648**	114,325
Short-term deferred tax liability	**11,497**	8,627
Deferred revenues	**117,460**	122,884
Total Current Liabilities	**486,941**	549,048
Postretirement and postemployment benefits	**114,887**	110,782
Long-term debt (Note 10)	**1,105,240**	611,431
Other liabilities	**154,117**	186,839
Total Liabilities	**$ 1,861,185**	$ 1,458,100
Commitments and Contingencies (Note 8)		
Minority Interests	**$ 100,229**	$ 99,865
Shareholders (Deficit) Equity:		
Common Stock, par value $.01, authorized 800,000 shares; issued 335,045 shares in 2006 and 2005, respectively	**$ 3,350**	$ 3,350
Capital in excess of par	**490,593**	468,299
Retained earnings	**2,553,517**	2,321,765
Treasury stock, at cost, 136,605 and 107,075 shares in 2006 and 2005, respectively	**(3,095,995)**	(2,315,404)
Cumulative translation adjustment	**1,454**	(31,521)
Minimum pension liability adjustment, net of taxesof $14,484 in 2006 and 2005, respectively	**(31,408)**	(31,408)
Unrealized gain (loss) on changes in fair value of cash flow hedges, net of tax	**6**	(59)
Unrealized gain on investments, net of tax	**65**	33
Total Shareholders (Deficit) Equity	**$ (78,418)**	$ 415,055
Total Liabilities, Minority Interests and Shareholders (Deficit) Equity	**$ 1,882,996**	$ 1,973,020

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

3

IMS HEALTH INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

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

	Three Months Ended September 30, 2006	2005
Operating Revenue	**$ 482,706**	$ 432,796
Operating costs *(exclusive of Depreciation and amortization shown separately below)*	**209,178**	195,484
Selling and administrative expenses	**129,144**	100,268
Depreciation and amortization	**28,995**	26,339
Merger costs (Note 17)		8,474
Operating Income	**115,389**	102,231
Interest income	**1,322**	2,448
Interest expense	**(10,623)**	(7,140)
(Losses) gains from investments, net	**(305)**	252
Other (expense) income, net	**(425)**	7,655
Non-Operating (Loss) Income, Net	**(10,031)**	3,215
Income before provision for income taxes	**105,358**	105,446
Provision for income taxes (Note 12)	**(36,094)**	(34,306)
Net Income	**$ 69,264**	$ 71,140
Basic Earnings Per Share of Common Stock	**$ 0.34**	$ 0.31
Diluted Earnings Per Share of Common Stock	**$ 0.34**	$ 0.30
Weighted average number of shares outstanding Basic	**200,900**	229,945
Dilutive effect of shares issuable as of period-end under Stock-based compensation plans and other	**3,702**	4,090
Adjustment of shares outstanding applicable to exercised and cancelled stock options during the period	**340**	600
Weighted Average Number of Shares Outstanding Diluted	**204,942**	234,635

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, 2006	2005
Operating Revenue	**$ 1,415,080**	$ 1,277,062
Operating costs (exclusive of Depreciation and amortization shown separately below)	**618,967**	560,801
Selling and administrative expenses	**386,537**	321,329
Depreciation and amortization	**85,109**	76,658
Merger costs (Note 17)	**6,016**	15,874
Operating Income	**318,451**	302,400
Interest income	**4,077**	7,195
Interest expense	**(29,270)**	(20,292)
Gains from investments, net	**2,443**	2,624
Other income, net	**38,207**	25,555
Non-Operating Income, Net	**15,457**	15,082
Income before provision for income taxes	**333,908**	317,482
Provision for income taxes (Note 12)	**(83,864)**	(122,820)
Net Income	**$ 250,044**	194,662
Basic Earnings Per Share of Common Stock	**$ 1.23**	$ 0.85
Diluted Earnings Per Share of Common Stock	**$ 1.20**	$ 0.84
Weighted average number of shares outstanding Basic	**203,610**	227,901
Dilutive effect of shares issuable as of period-end under stock-based compensation plans and other	**3,100**	2,999
Adjustment of shares outstanding applicable to exercised and cancelled stock options during the period	**807**	1,234
Weighted Average Number of Shares Outstanding Diluted	**207,517**	232,134

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

5

IMS HEALTH INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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

	Nine Months Ended September 30, 2006	2005
Cash Flows from Operating Activities:		
Net income	**$ 250,044**	$ 194,662
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Depreciation and amortization	**85,109**	76,658
Bad debt expense	**444**	2,552
Deferred income taxes	**(8,375)**	8,559
Gains from investments, net	**(2,443)**	(2,624)
Minority interests in net income of consolidated companies	**2,645**	2,525
Non-cash stock-based compensation charges	**32,987**	3,511
Excess tax benefits from stock-based compensation	**(4,262)**	
Change in assets and liabilities, excluding effects from acquisitions and dispositions:		
Net increase in restricted cash		(105,404)
Net increase in accounts receivable	**(25,577)**	(11,383)
Net (increase) decrease in inventory	**(3,898)**	5,037
Net increase in prepaid expenses and other current assets	**(4,433)**	(37,098)
Net decrease in accounts payable	**(19,945)**	(11,089)
Net decrease in accrued and other current liabilities	**(1,341)**	(11,957)
Net decrease in accrued severance, impairment and other charges	**(13,907)**	(25,034)
Net decrease in deferred revenues	**(8,144)**	(15,293)
Net decrease in accrued income taxes	**(68,643)**	(11,369)
Net increase in pension assets (net of liabilities)	**(13,296)**	(2,332)
Net (increase) decrease in other long-term assets (net of other long-term liabilities)	**(366)**	2,402
Net tax benefit on stock-based compensation	**10,182**	13,450
Net Cash Provided by Operating Activities	**206,781**	75,773
Cash Flows Used in Investing Activities:		
Capital expenditures	**(18,472)**	(13,384)
Additions to computer software	**(58,254)**	(60,724)
Proceeds from sale of TriZetto		37,414
Investments in short-term marketable securities		15,351
Payments for acquisitions of businesses, net of cash acquired	**(42,113)**	(191,840)
Funding of venture capital investments	**(1,400)**	(1,000)
Other investing activities, net	**(642)**	2,398
Net Cash Used in Investing Activities	**(120,881)**	(211,785)
Cash Flows Used in Financing Activities:		
Net increase (decrease) in revolving credit facility and other	**125**	(53,602)
Proceeds from short-term credit agreement, bank term loan and private placement notes	**650,000**	
Repayment of short-term credit agreement	**(150,000)**	
Payments for purchase of treasury stock	**(880,407)**	(147,945)
Proceeds from exercise of stock options	**77,364**	162,310
Excess tax benefits from stock-based compensation	**4,262**	
Dividends paid	**(18,292)**	(13,734)
Proceeds from employee stock purchase plan	**2,942**	2,391
Increase in cash overdrafts	**14,235**	3,976
Payments to minority interests and other financing activities	**(2,281)**	(2,418)
Net Cash Used in Financing Activities	**(302,052)**	(49,022)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**921**	**(13,670)**
Decrease in Cash and Cash Equivalents	**(215,231)**	**(198,704)**
Cash and Cash Equivalents, Beginning of Period	**362,943**	**444,903**
Cash and Cash Equivalents, End of Period	**$ 147,712**	**$ 246,199**

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 December 31, 2005 balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. 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 2005 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the 2006 presentation. Amounts presented in the Condensed Consolidated Financial Statements (Unaudited) may not add due to rounding.

Note 2. Basis of Presentation

IMS is the leading global provider of market intelligence to the pharmaceutical and healthcare industries. The Company offers leading-edge business intelligence products and services that are integral to our clients day-to-day operations, including portfolio optimization capabilities; launch and brand management solutions; sales force effectiveness innovations; managed care and over-the-counter offerings; and consulting and services solutions that improve ROI and the delivery of quality healthcare worldwide. The Company s information products are developed to meet client needs by using data secured from a worldwide network of suppliers in the markets where operations exist. Key information products include:

- Sales Force Effectiveness to optimize sales force productivity and territory management;
- Portfolio Optimization to provide clients with insights into market opportunity and business development assessment; and
- Launch, Brand Management and Other to support client needs relative to market segmentation and positioning and life cycle management for prescription and over-the-counter pharmaceutical products.

Within these key information products, the Company provides 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. Until December 21, 2004, the Company also owned approximately a 25.0% equity interest in the TriZetto Group, Inc. (TriZetto) (See Note 7).

The Company is managed on a global business model with global leaders for the majority of its critical business processes and accordingly has one reportable segment (See Note 16).

Note 3. Summary of Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This statement clarifies the application of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to beneficial interests in securitized financial assets and improves the consistency of accounting for similar financial instruments. This statement also amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The Company is currently evaluating this statement to determine any potential impact that it may have on its financial results.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This statement amends SFAS 140 and clarifies the accounting for, measurement of, and disclosure of servicing assets and servicing liabilities. This statement should be adopted as of the beginning of an entity s first fiscal year that begins after September 15, 2006, but earlier adoption is permitted. The Company is currently evaluating this statement to determine any potential impact that it may have on its financial results.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006, but earlier adoption is permitted. The Company is currently evaluating this interpretation to determine any potential impact that it may have on its financial results.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating this statement to determine any potential impact that it may have on its financial results.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158), which requires recognition of the funded status of pension and other postretirement benefit plans on the balance sheet. This statement amends and clarifies the financial accounting and reporting guidance for defined benefit pension and other postretirement plans. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income (AOCI), a component of shareholders equity, net of tax effects. The measurement date, the date at which the benefit obligation and plan assets are measured, is required to be the company s fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Since the Company already utilizes a fiscal year end measurement date, this particular provision does not affect the financial statements. Based on the Company s financial statements as of December 31, 2005, the adoption of SFAS 158 would have reduced Shareholders Equity (within AOCI) by approximately $34,000, increased the Postretirement and Postemployment benefit liability by approximately $50,000, decreased the intangible asset (within Other Assets) by approximately $1,000 and increased the long-term deferred tax asset (within Other Assets) by approximately $17,000. SFAS 158 does not affect the results of operations.

At this time, the Company is unable to estimate the effect of SFAS 158 on its financial position upon adoption at December 31, 2006. This will be determined once the actuarial and plan asset calculations are performed which are dependent on, among other things, the year-end discount rate and fair value of plan assets, which are not known until after December 31, 2006.

Note 4. Summary of Significant Accounting Policies

Stock-Based Compensation Expense

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS 123R) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock and employee stock purchases related to the Employee Stock Purchase Plan based on estimated fair values. SFAS 123R supersedes the Company s previous accounting under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company s fiscal year 2006. The Company s Condensed Consolidated Financial Statements (Unaudited) as of and for the three and nine months ended September 30, 2006, respectively, reflect the impact of SFAS 123R. In accordance with the modified prospective transition method, the Company s Condensed Consolidated Financial Statements (Unaudited) for prior periods have not been retrospectively adjusted to reflect, and do not include, the impact of SFAS 123R. See Note 9 for additional information.

SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period of the award in the Company s Condensed Consolidated Statements of Income (Unaudited). Prior to the adoption of SFAS 123R, the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). Under the intrinsic value method, stock-based compensation expense had been recognized in the Company s Condensed Consolidated Statements of Income (Unaudited) only for stock option modifications and restricted stock units because the exercise price of the Company s stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company s Condensed Consolidated Statements of Income (Unaudited) for the first nine months of fiscal 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and compensation expense for the share-based payment awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Prior to the adoption of SFAS 123R, the Company used the straight-line method of attributing the value of stock-based compensation and continued to use that method after the adoption. As stock-based compensation expense recognized in the Condensed Consolidated Statements of Income (Unaudited) for the first nine months of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company s pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for estimated forfeitures for stock option grants and for forfeitures as they occurred for restricted stock grants. The Company s method of valuation for share-based awards granted after January 1, 2006 is the Black-Scholes option-pricing model, which was also previously used for the Company s pro forma information required under SFAS 123. See Note 9 for additional information.

Computation of Net Income per Share

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee stock options and restricted stock units.

SFAS No. 128, Earnings per Share, requires that employee equity share options, restricted stock units and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include restricted stock units and the dilutive effect of in-the-money options which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of benefits that would be recorded in additional paid-in capital when the award becomes deductible for tax purposes are assumed to be used to repurchase shares.

For a description of the Company s other critical accounting policies, please refer to the Company s 2005 Annual Report on Form 10-K as filed with the SEC.

Note 5. Acquisitions

The Company makes acquisitions in order to expand its products, services and geographic reach. During the nine months ended September 30, 2006, the Company completed three acquisitions for an aggregate cost of approximately $24,500. These acquisitions were Läkemedelsstatistik AB (Sweden), Health Outcomes Research Europe, S.L. (Spain) and Genexis Servicos de Informacao Ltda. (Brazil). These acquisitions were accounted for under the purchase method of accounting. The aggregate purchase price has been allocated on a preliminary basis to the assets acquired and liabilities assumed based on estimated fair values as of the closing date. The purchase price allocations will be finalized after the completion of the valuation of certain assets and liabilities. Any adjustments resulting from the finalization of the purchase price allocations are not expected to have a material impact on the Company s financial position and results of operations. The Condensed Consolidated Financial Statements (Unaudited) include the results of these acquired companies subsequent to the closing of these acquisitions. Had these acquisitions occurred as of January 1, 2006 or 2005, the impact on the Company s results of operations would not have been significant. Goodwill of approximately $18,388 was recorded in connection with these acquisitions, of which none is deductible for tax purposes.

During the nine months ended September 30, 2005, the Company completed nine acquisitions for an aggregate cost of approximately $151,000. These acquisitions were Taskarena Software Engineering GmbH (Germany), SAI Healthcare (U.S.), Synchronous Knowledge, Inc. (U.S.), M-Tag (Australia and UK), Fricke & Pirk (Germany), BASS (Korea), Areks (France, Japan, Switzerland and U.S.), Pharmetrics (U.S.) and Envision (U.S.) and were accounted for under the purchase method of accounting. The aggregate purchase price had been allocated on a preliminary basis to the assets acquired and liabilities assumed based on estimated fair values as of the closing date. The Company finalized the purchase price allocations for these acquisitions prior to the end of the third quarter of 2006, which did not have a material impact on the Company s financial position and results of operations. The Condensed Consolidated Financial Statements (Unaudited) include the results of these acquired companies subsequent to the closing of the acquisitions. Had each of these acquisitions occurred as of January 1, 2005 or 2004, the impact on the Company s results of operations would not have been significant. Goodwill of approximately $112,301 was recorded in connection with these acquisitions. For tax purposes, approximately $45,700 of goodwill is deductible in connection with these acquisitions.

Additionally, during January 2005, the Company paid approximately $36,000 to acquire the 50% interest in IMS Health GmbH (IHA) not owned by IMS. The Company accounted for this purchase as a step transaction and allocated the purchase price to acquired intangible assets and goodwill. Prior to 2005, the Company consolidated the results of IHA and recorded minority interest expense for the 50% not owned by the Company.

Note 6. Goodwill and Intangible Assets

During the first nine months of 2006, the Company recorded additional goodwill of approximately $24,972 related primarily to the preliminary allocation of purchase price for the three acquisitions completed during the first nine months of 2006 and also to earn-out agreements for acquisitions completed prior to 2006 (see Note 8). During the nine months ended September 30, 2005, the Company recorded additional goodwill of approximately $148,508 related primarily to the acquisition of the remaining 50% of IHA in January 2005, the preliminary allocation of purchase price for the nine acquisitions completed in the first nine months of 2005 (see Note 5) and payments on earn-out agreements for acquisitions completed prior to 2005.

All of the Company s other acquired intangibles are subject to amortization. Intangible asset amortization expense was $4,286 and $12,870 during the three and nine months ended September 30, 2006, respectively and $5,038 and $13,333 during the three and nine months ended September 30, 2005, respectively. At September 30, 2006, intangible assets were primarily composed of customer relationships, databases and trade names (included in Other assets) and computer software. The gross carrying amounts and related accumulated amortization of these intangibles were $136,231 and $56,599, respectively, at September 30, 2006 and $131,338 and $41,978, respectively, at December 31, 2005. These intangibles are amortized over periods ranging from two to twenty years. As of September 30, 2006, 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	10.1
Computer Software and Algorithms	7.0
Databases	4.7
Trade Names	4.4
Other	3.9
Weighted average	8.8

Based on current estimated useful lives, amortization expense associated with intangible assets at September 30, 2006 is estimated to be approximately $4,400 for the remaining quarter in 2006. Thereafter, annual amortization expense associated with intangible assets is estimated to be as follows:

Year Ended December 31,	Amortization Expense
2007	$ 14,578
2008	13,058
2009	11,020
2010	7,927
2011	6,629
Thereafter	$ 21,994

Note 7. Investments in Equity Investees

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

Note 8. Contingencies

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

The Company routinely enters into agreements with its suppliers to acquire data and with its customers to sell data, all in the normal course of business. In these agreements, the Company sometimes agrees to indemnify and hold harmless the other party for any damages such other party may suffer as a result of potential intellectual property infringement and other claims related to the use of the data. 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.

In connection with the agreements (the LLC Agreements) governing the relationship among the Company and two of its subsidiaries and two third-party investors with respect to IMS Health Licensing Associates, L.L.C., the Company also entered into a guaranty agreement. Under the terms of this guaranty agreement, the Company guarantees in favor of the third-party investors the performance of the Company s subsidiaries under the LLC Agreements and agrees to indemnify and hold harmless the third-party investors against damages, including specified delay damages, the third-party investors may suffer as a result of failures to perform under the LLC Agreements by the Company and its subsidiaries.

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.

D&B Legacy and Related Tax Matters

Sharing Disputes. In 1996 the company then known as The Dun & Bradstreet Corporation (D&B) and now known as R.H. Donnelley (Donnelley) separated into three public companies by spinning-off ACNielsen Corporation (ACNielsen) and the company then known as Cognizant Corporation (Cognizant) and now known as Nielsen Media Research, Inc. (NMR) (the 1996 Spin-Off). The agreements effecting the 1996 Spin-Off allocated tax-related liability with respect to certain prior business transactions (the Legacy Tax Controversies) between D&B and Cognizant. The D&B portion of such liability is now shared among Donnelley and certain of its former affiliates (the Donnelley Parties), and the Cognizant portion of such liability is shared between NMR and the Company pursuant to the agreements effecting Cognizant s spin-off of the Company in 1998 (the 1998 Spin-Off).

The underlying tax controversies with the Internal Revenue Service (the IRS) have substantially all been resolved and the Company paid to the IRS the amounts that it believed were due and owing. In the first quarter of 2006, Donnelley indicated that it disputed the amounts contributed by the Company toward the resolution of these matters based on the Donnelley Parties interpretation of the allocation of liability under the 1996 Spin-Off agreements. The Donnelley Parties on the one hand, and NMR and the Company, on the other hand, have attempted to resolve these disputes through negotiation. The 1996 Spin-Off agreements provide that if the parties cannot reach agreement through negotiation they must arbitrate the disputes.

On August 14, 2006, the Donnelley Parties commenced arbitration regarding one of these disputes (referred to herein as the Dutch Partnership Dispute) by filing a Notice of Arbitration and Statement of Claim (the Donnelley Statement) with the American Arbitration Association International Center for Dispute Resolution (the AAA). In the Donnelley Statement, the Donnelley Parties claim that the Company and NMR collectively owe approximately an additional $10,800 with respect to the Dutch Partnership Dispute; (if determined liable, the Company s share of this amount would be approximately $5,800 (tax and interest, net of federal income tax benefit)). On October 16, 2006, the Company and NMR filed a Statement of Defense denying all claims made by the Donnelley Parties in the Donnelley Statement.

The Company accrued approximately $24,900 for the Dutch Partnership Dispute and the remaining disputes in the first quarter of 2006. In June 2006, the Company made payments with regard to one of the disputes of approximately $5,800 (including tax and interest, net of federal income tax benefit) related to certain 1995 and 1996 shared state and local legacy tax liabilities. As of September 30, 2006 the Company has a reserve of approximately $20,400 for the remainder of these matters. The Company intends to vigorously defend itself with respect to the Dutch Partnership Dispute and the remaining disputes.

The Partnership (Tax Year 1997). The IRS is seeking to reallocate certain items of partnership income and expense as well as disallow certain items of partnership expense with respect to a partnership now substantially owned by the Company (the Partnership) on the Partnership s 1997 tax return. During 1997, the Partnership was substantially owned by Cognizant, but liability for this matter was allocated to the Company pursuant to the agreements effecting the 1998 Spin-Off. The Company has filed a formal protest relating to the proposed assessment for 1997 with the IRS Office of Appeals. The Company is attempting to resolve this matter in the administrative appeals process before proceeding to litigation if necessary. If the IRS were to ultimately prevail in its position, the Company s liability (tax and interest, net of tax benefit) with respect to tax year 1997 would be approximately $19,900, which amount the Company had reserved in current accrued income taxes payable at September 30, 2006.

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

Matters Before the Belgian Competition Service

Complaints were filed in 1998 and 1999 against the Company with the Belgian Competition Service (BCS) alleging abuse of a dominant position on the Belgian market. In October 1999 and 2000, the Chairman of the Belgian Competition Council (BCC) adopted interim measures against the Company, with which the Company complied. In December 2004, the Company received a formal statement of objections alleging that the Company had abused its dominant position on the Belgian market in violation of Article 82 of the EC Treaty and corresponding Belgian law. The Company submitted its comments to the statement of objections in writing to the BCC in February 2005.

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

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

Other Contingencies

CTS Split-Off. On February 6, 2003, the Company completed an exchange offer to distribute its majority interest in Cognizant Technology Solutions (CTS) in a transaction qualifying as tax free under Section 355 of the IRC. If, contrary to expectations, the CTS distribution were not to qualify as tax free under Section 355, then the Company would generally be liable for the resulting corporate tax. However, 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.

Contingent Consideration. Under the terms of the purchase agreements related to acquisitions made from 2001 through 2006, the Company may be required to pay additional amounts as contingent consideration based on the achievement of certain targets during 2003 through 2008. Substantially all of these additional payments will be recorded as goodwill in accordance with Emerging Issues Task Force Issue (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, 2006, approximately $30,000 had been earned under these contingencies. Based on current estimates, management expects that additional contingent payments under these agreements may total approximately $36,000. It is expected that these contingent payments will be resolved within a specified time period after the end of each respective calendar year from 2006 through 2008.

Other Tax Contingencies. In addition to the tax items discussed above, the Company has net tax reserves of approximately $17,000 that relate to various positions it has taken on tax returns filed in numerous countries over the last several years. These reserves represent the Company s best estimate of the probable liability should the tax return positions be challenged by the relevant tax authorities. While the amount is material in the aggregate, no individual item is material and no single event will have a material impact related to these reserves. See Note 12 for additional tax related matters.

Note 9. Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS 123R. The Company elected to use the modified prospective transition method, therefore, prior period results were not retrospectively adjusted. Prior to the adoption of SFAS 123R, stock-based compensation expense related to stock options was not recognized in the results of operations if the exercise price was at least equal to the market value of the Common Stock on the grant date, in accordance with APB 25. As a result, the recognition of stock-based compensation expense was generally limited to the expense attributed to restricted stock units and stock option modifications.

SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period (generally the vesting period) in the consolidated financial statements based on their fair values. For options with graded vesting, the Company values the stock option grants and recognizes compensation expense as if each vesting portion of the award was part of the total award and not a separate award. Under the modified prospective method, awards that were granted, modified, or settled on or after January 1, 2006 are measured and accounted for in accordance with SFAS 123R. Unvested equity-classified awards that were granted prior to January 1, 2006 will continue to be accounted for in accordance with the pro forma provisions of SFAS 123, except that all awards are recognized in the results of operations over the remaining vesting periods. SFAS 123R requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As a result, for most awards, recognized stock compensation was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. Prior to January 1, 2006, forfeitures were estimated for stock option grants for purposes of required pro forma stock compensation disclosures and were recognized as they occurred for restricted stock grants. In addition, realized tax benefits in excess of amounts recognized in the Condensed Consolidated Statements of Income (Unaudited) are recognized as a financing activity rather than an operating activity subsequent to SFAS 123R adoption for purposes of the Condensed Consolidated Statement of Cash Flows (Unaudited).

The Company maintains four Stock Incentive Plans, which provide for the grant of stock options, restricted stock and restricted stock units to eligible employees and Non-Employee Directors. At September 30, 2006, there were 59,279 shares of Common Stock reserved for issuance under all of the Company s stock plans, of which 13,195 shares are still available for future grants. Common Stock reserved for issuance includes 18,448 shares from the 2000 Stock Incentive Plan, which the Board of Directors approved during 2000, 36,484 shares from the 1998 Employees Stock Incentive Plan, 29,784 of which was approved by the shareholders during 1998 and 6,700 of which were approved by the shareholders in May 2006, 3,437 shares from the 1998 Employees Stock Purchase Plan, which was approved by the shareholders during 1998, and 910 shares from the 1998 Non-Employee Directors Stock Incentive Plan, 410 shares of which were approved by the shareholders during 1998 and an additional 500 shares of which were approved by the shareholders in May 2003. Historically, stock options have been granted to broad groups of employees on a discretionary basis. Beginning in fiscal 2006, employees are generally eligible to receive restricted stock units with a service condition of four years instead of stock options with a service condition of three years. Certain senior employees will continue to be eligible to receive restricted stock units which contain both performance and service conditions.

The Employee Stock Purchase Plan (ESPP) was originally adopted in 1998 with a quarterly purchase period and a price equal to the lesser of 90% of the fair market value on the first trading day or the last trading day of the period. The Company amended its Employee Stock Purchase Plan in 2001 to allow employees to purchase a limited amount of Common Stock at the end of each six-month period at a price equal to the lesser of 85% of fair market value on (a) the first trading day of the period, or (b) the last trading day of the period. Beginning with the first purchase of 2006, the plan has been amended to allow employees to purchase a limited amount of Common Stock at the end of each six-month period at a price equal to 85% of the fair market value on the last trading day of the period.

Fair market value is defined as the average of the high and low prices of the shares on the relevant day. The 15% discount makes the plan compensatory under SFAS 123R.

Stock options are granted with an exercise price equal to the fair market value of a share of Common Stock on the date of grant. Stock options expire within five, seven, or ten years and generally vest ratably over three years for employees and one to three years for non-employee directors. The vesting period and option term for grants to employees is at the discretion of the Compensation and Benefits Committee of the Board of Directors.

Restricted stock units are granted at a price equal to the fair market value of a share of Common Stock on the date of grant. Restricted stock units with service vesting generally vest ratably over three to four years. The vesting period for grants to employees is at the discretion of the Compensation and Benefits Committee of the Board of Directors.

Participation in the Performance Restricted Stock Units program (PERS), under which performance restricted stock units are granted, is limited to key senior executives. The target award is denominated in cash and is equal to each eligible executive s annual incentive target. These awards are subject to fair value adjustments for any changes in the underlying market value of our Common Stock until the end of the performance period. The performance period is one year during which performance against the established financial criterion is measured. The actual award is quantified and granted to eligible employees in restricted stock units at the February Compensation and Benefits Committee of the Board of Directors meeting in the year following the one year performance period. Upon grant, there is an additional two year cliff vest service requirement which begins on the first business day of the year following the performance period. If performance criterion is not met, the award is forfeited and no restricted stock units are granted. The final value of the restricted stock units granted are at fair market value based on the average high/low stock price for the last 20 business days of the performance period in accordance with the PERS plan document.

Participation in the Long Term Incentive program (LTI), under which performance restricted stock units are granted, is at the CEO s discretion with participants varying from year to year. The target awards, by person, are approved by the Compensation and Benefits Committee of the Company s Board of Directors prior to the end of the first quarter of the performance cycle. The target award is denominated 50% in cash, or in non-restricted shares of stock at the fair market value of IMS Common Stock on the day of grant, which are payable after the two year performance period. The remaining 50% is payable in restricted stock units, which are granted after the two year performance period with an additional two year cliff vest service requirement. A restricted stock unit, if earned, may only be settled by issuance or delivery of a share. These awards are subject to fair value adjustments for any changes in the underlying market value of our Common Stock until the end of the two year performance period. At the end of the performance period, achievement against the established financial criterion is measured and the actual payout percentage is quantified and approved by the Compensation and Benefits Committee of the Board of Directors following approval of year end results by the Board of Directors. If performance criterion is not met, the award is forfeited and no restricted stock units are granted, or cash paid. The final value of the restricted stock units granted are at fair market value based on the average high/low stock price for the last 20 business days of the performance period in accordance with the LTI plan document.

The following table summarizes activity of stock options for the periods indicated:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Term	Aggregate Intrinsic Value
Options Outstanding, December 31, 2003	37,021	$ 20.89		
Granted	6,003	$ 23.90		
Exercised	(5,598)	$ 17.25		
Forfeited	(1,020)	$ 18.89		
Cancelled	(906)	$ 27.50		
Options Outstanding, December 31, 2004	35,500	$ 21.86		
Granted	4,813	$ 24.12		
Exercised	(8,726)	$ 18.97		
Forfeited	(575)	$ 20.63		
Cancelled	(1,028)	$ 26.93		
Options Outstanding, December 31, 2005	29,984	$ 22.91		
Granted	11	$ 24.54		
Exercised	(4,044)	$ 19.13		
Forfeited	(618)	$ 23.49		
Cancelled	(800)	$ 28.36		
Options Outstanding, September 30, 2006	24,533	$ 23.35	3.52	$ 99,914
Options Vested or Expected to Vest, September 30, 2006	24,186	$ 23.34	3.51	$ 98,956
Exercisable, September 30, 2006	19,991	$ 23.19	3.14	$ 87,202

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our Common Stock as of the end of the period. As of September 30, 2006, approximately $21,848 of unrecognized stock compensation related to unvested stock options (net of estimated forfeitures) is expected to be recognized over a weighted-average period of 1.19 years. As of September 30, 2005, approximately $52,061 of unrecognized stock compensation related to unvested stock options (net of estimated forfeitures) was expected to be recognized over a weighted-average period of 1.81 years. Proceeds received from the exercise of stock options were $36,016 and $77,364 for the three and nine months ended September 30, 2006, respectively, and $114,806 and $162,310 for the three and nine months ended September 30, 2005, respectively. The intrinsic value of stock options that were exercised was $14,724 and $31,489 for the three and nine months ended September 30, 2006, respectively, the majority of which is currently deductible for tax purposes, and $46,294 and $62,390 for the three and nine months ended September 30, 2005, respectively.

The fair value of stock options was estimated using the Black-Scholes option-pricing model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. The assumptions for the current period grants were developed based on SFAS 123R and SEC guidance contained in SAB 107. The following table summarizes the assumptions used to compute the weighted average fair value of stock option grants:

	Three Months Ended September 30, 2006 (1)	2005	Nine Months Ended September 30, 2006	2005
Dividend Yield	n/a	0.3 %	0.5 %	0.3 %
Weighted Average Volatility	n/a	29.4 %	29.4 %	29.6 %
Risk Free Interest Rate	n/a	3.93 %	4.49 %	3.87 %
Expected Term	n/a	4.39 years	4.39 years	4.39 years
Weighted Average Fair Value of Options Granted	n/a	$ 8.37	$ 7.82	$ 7.45
Weighted Average Grant Price	n/a	$ 27.09	$ 24.54	$ 24.11

(1) The company did not grant stock options during the three months ended September 30, 2006.

- The dividend yield is equal to the annualized dividend divided by the closing stock price on the date of payment. The increase in the dividend yield from 2005 to 2006 was due to a $0.01 per share increase in the quarterly dividend payment. An increase in the dividend yield will decrease stock compensation expense.

- The weighted average volatility for the current periods was developed using historical volatility for periods equal to the expected life of the options. An increase in the weighted average volatility assumption will increase stock compensation expense.

- The risk-free interest rate was developed using the U.S. Treasury yield curve for periods equal to the expected life of the options on the grant date. An increase in the risk-free interest rate will increase stock compensation expense.

- The expected term for the current period and prior period grants was estimated by reviewing the historical exercise experience of a fully vested material grant that was close to maturity. An increase in the expected holding period will increase stock compensation expense.

The following table summarizes activity of restricted stock units with service conditions:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Unvested, December 31, 2003	411	$ 19.65	
Granted	38	$ 24.39	
Vested	(29)	$ 20.79	
Forfeited	(10)	$ 19.37	
Unvested, December 31, 2004	410	$ 20.01	
Granted	153	$ 24.46	
Vested	(119)	$ 24.41	
Forfeited	0	$ 0.00	
Unvested, December 31, 2005	444	$ 20.30	
Granted	1,294	$ 26.04	
Vested	(211)	$ 22.02	
Forfeited	(39)	$ 25.68	
Unvested, September 30, 2006	1,488	$ 24.90	$ 39,907

The intrinsic value for restricted stock units is calculated based on the market price of our Common Stock as of the end of the period. As of September 30, 2006, approximately $23,197 of unrecognized

stock compensation expense related to unvested restricted stock units (net of estimated forfeitures) is expected to be recognized over a weighted-average period of 3.21 years. As of September 30, 2005, approximately $2,574 of unrecognized stock compensation related to unvested restricted stock units was expected to be recognized over a weighted-average period of 2.18 years. The total fair value of restricted stock units with service conditions which vested during the periods ended September 30, 2006 and 2005 was $4,321 and $2,802, respectively.

The following table summarizes activity of restricted stock units with performance conditions.

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Unvested, December 31, 2003	106	$ 17.82	
Granted	156	$ 23.19	
Vested	0	$ 0.00	
Forfeited	(21)	$ 21.63	
Unvested, December 31, 2004	241	$ 20.96	
Granted	194	$ 20.62	
Vested	(53)	$ 18.97	
Forfeited	(7)	$ 17.72	
Unvested, December 31, 2005	375	$ 21.12	
Granted	154	$ 24.53	
Vested	(145)	$ 23.18	
Forfeited	(28)	$ 24.08	
Unvested, September 30, 2006	356	$ 21.52	$ 9,539

The intrinsic value for restricted stock units is calculated based on the market price of our Common Stock as of the end of the period. As of September 30, 2006, approximately $1,733 of unrecognized stock compensation expense related to unvested restricted stock units (net of estimated forfeitures) is expected to be recognized over a weighted-average period of 0.76 years. As of September 30, 2005, approximately $2,793 of unrecognized stock compensation related to unvested restricted stock units was expected to be recognized over a weighted-average period of 0.83 years. The total fair value of restricted stock units with a performance condition which vested during the periods ended September 30, 2006 and 2005 was $4,630 and $1,231, respectively.

The following table summarizes the pro forma effect of stock-based compensation as if the fair value method of accounting for stock compensation had been applied:

		Three months ended September 30, 2005	Nine months ended September 30, 2005
Net Income:	As reported	**$ 71,140**	**$ 194,662**
	Add: Stock-based employee compensation expense included in reported net income, net of tax	**1,059**	**2,991**
	Deduct: Total stock-based employee compensation expense under fair value method for all awards, net of tax	**(6,884)**	**(21,254)**
	Pro forma	**$ 65,315**	**$ 176,399**
Earnings Per Share:			
Basic	As reported	**$ 0.31**	**$ 0.85**
	Pro forma	**$ 0.28**	**$ 0.77**
Diluted			
	As reported	**$ 0.30**	**$ 0.84**
	Pro forma	**$ 0.28**	**$ 0.76**

The following table summarizes the components and classification of stock-based compensation expense:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Stock Options	$ 5,693	$ 24,316
Restricted Stock Units	$ 2,774	$ 7,991
Employee Stock Purchase Plan	$ 166	$ 680
Total Stock-Based Compensation Expense	**$ 8,633**	**$ 32,987**
Operating Costs	$ 1,449	$ 5,073
Selling and Administrative Expenses	$ 7,184	$ 27,914
Total Stock-Based Compensation Expense	**$ 8,633**	**$ 32,987**
Tax Benefit on Stock-Based Compensation Expense	**$ 2,583**	**$ 10,054**

The Company satisfies stock option exercises, vested restricted stock units and ESPP shares with repurchased treasury stock on hand. For further information regarding the Company s share repurchase programs and shares available for repurchase under such programs, see Note 13.

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 non-US Dollar anticipated royalties, 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, 2006 was a net gain of $502 and a net loss of $4,030, respectively and net gains in the three and nine months ended September 30, 2005 of $8,611 and $29,443, respectively. In addition, at September 30, 2006, the Company had approximately $443,530 in foreign exchange forward contracts outstanding with various expiration dates through August 2007 relating to net income and non-US Dollar anticipated royalties and 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 the contracts hedging net income and non-functional currency assets and liabilities do not qualify for hedge accounting in accordance with SFAS 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (collectively, SFAS No. 133), and therefore are not deferred and are included in the Condensed Consolidated Statements of Income (Unaudited) in Other income, net.

Unrealized gains and losses on the contracts hedging non-US Dollar anticipated royalties qualify for hedge accounting under SFAS No. 133 and are therefore deferred and included in OCI Other Comprehensive Income.

Fair Value of Financial Instruments

At September 30, 2006, the Company s financial instruments included cash, cash equivalents, receivables, accounts payable and long-term debt. At September 30, 2006, the fair values of cash, cash equivalents, receivables and accounts payable approximated carrying values due to the short-term nature of these instruments. At September 30, 2006, the fair value of long-term debt approximated carrying value.

Credit Concentrations

The Company continually monitors its positions with, and the credit quality of, the financial institutions 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, 2006 in the event of non-performance by any one counterparty. The Company enters into transactions only with financial institution counterparties that have a credit rating of A or better. In addition, the Company limits the amount of credit exposure with any one institution.

The Company maintains accounts receivable balances ($324,331 and $297,302, net of allowances, at September 30, 2006 and December 31, 2005, respectively), principally from customers in the pharmaceutical industry. The Company s trade receivables do not represent significant concentrations of credit risk at September 30, 2006 due to the high quality of its customers and their dispersion across many geographic areas.

Lines of Credit

The following table summarizes the Company s long-term debt at September 30, 2006 and December 31, 2005:

	September 30, 2006	**December 31, 2005**
4.6% Private Placement Note, principal payment of $150,000 due January 2008, net of interest rate swaps of $(2,626) and $(2,710), respectively	$ 147,374	$ 147,290
5.55% Private Placement Notes, principal payment of $150,000 due April 2016	150,000	
1.70% Private Placement Note, principal payment of 34,395,000 Japanese Yen due January 2013	293,600	
Revolving Credit Facility:		
Japanese Yen denominated borrowings at average floating rates of approximately 0.70%	76,653	371,924
Swiss Franc denominated borrowings at average floating rates of approximately 2.02%	74,413	92,217
U.S. Dollar denominated borrowings at average floating rates of approximately 5.63%	313,200	
Bank Term Loan, principal payment of $50,000 due June, 2009 at average floating rate of approximately 5.58%	50,000	
Total Long-Term Debt	$ 1,105,240	$ 611,431

In July 2006, the Company entered into a $1,000,000 revolving credit facility with a syndicate of 12 banks (Revolving Credit Facility) replacing its existing $700,000 Amended and Restated Facility (see below). The terms of the Revolving Credit Facility extended the maturity of the facility in its entirety to a term of five years, maturing July 2011, reduced the borrowing margins, and increased subsidiary borrowing limits. Total borrowings under the Revolving Credit Facility were $464,266 and

$464,141 at September 30, 2006 and December 31, 2005, respectively, all of which were classified as long-term. In April 2004, the Company entered into a $700,000 revolving credit facility with a syndicate of 12 banks (the Unsecured Facility). The Unsecured Facility replaced the Company s lines of credit with several domestic and international banks. On March 9, 2005, the Company renegotiated with the syndicate of 12 banks to amend and restate the Unsecured Facility (the Amended and Restated Facility). The terms of the Amended and Restated Facility extended the maturity of the facility in its entirety to a term of five years, maturing March 2010, reduced the borrowing margins and increased subsidiary borrowing limits.

The Company defines long-term lines as those where the lines are non-cancellable for more than 365 days from the balance sheet date by the financial institutions except for specified, objectively measurable violations of the provisions of the agreement. In general, rates for borrowing under the Revolving Credit Facility are LIBOR plus 30 basis points and can vary based on the Company s Debt to EBITDA ratio. The weighted average interest rates for the Company s lines were 4.37% and 0.62% at September 30, 2006 and December 31, 2005, respectively. In addition, the Company is required to pay a commitment fee on any unused portion of the facilities of 0.075%. At September 30, 2006, the Company had approximately $535,734 available under its existing bank credit facilities.

In June 2006, the Company closed a $50,000 three year term loan with a bank. The term loan allows the Company to borrow at a floating rate with a lower borrowing margin than the Company s revolving credit facility, and provides the Company with an option to extend the term up to an additional two years. The Company used the proceeds to refinance existing debt borrowed under the revolving credit facility.

In April 2006, the Company closed a private placement transaction pursuant to which it issued $150,000 of ten-year notes to two highly rated insurance companies at a fixed rate of 5.55%. The Company used the proceeds to refinance existing debt of $150,000 drawn under a short term credit agreement with a bank in January 2006.

In January 2006, the Company closed a private placement transaction pursuant to which its Japanese subsidiary issued 34,395,000 Japanese Yen seven-year debt (equal to $300,000 at date of issuance) to several highly rated insurance companies at a fixed rate of 1.70%. The Company used the proceeds to refinance existing debt in Japan borrowed under the Company s Amended and Restated Facility.

In January 2003, the Company closed a private placement transaction pursuant to which it issued $150,000 of five-year debt to several highly rated insurance companies at a fixed rate of 4.60%. The Company used the proceeds to pay down short-term debt. The Company also swapped $100,000 of its fixed rate debt to floating rate based on six-month LIBOR plus a margin of approximately 107 basis points. The Company accounted for these swaps as fair value hedges under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company determined the fair values based on estimated prices quoted by financial institutions. The fair values of these swaps were $(2,626) and $(2,710) as of September 30, 2006 and December 31, 2005, respectively.

In March and April 2002, the Company entered into interest rate swaps on a portion of its variable rate debt portfolio. These swaps matured in March 2005 and April 2006. The Company accounted for the interest rate swaps as cash flow hedges and recorded any changes in fair value in Other Comprehensive Income. The Company determined the fair values based on estimated prices quoted by financial institutions. The fair values of these swaps were $(100) as of December 31, 2005.

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, the private placement transactions, and the term loan, covenants to maintain specific ratios of consolidated total indebtedness to EBITDA and of EBITDA to certain fixed charges. At September 30, 2006, the Company was in compliance with these financial debt covenants.

Note 11. Pension and Postretirement Benefits

The following table provides the Company s expense associated with pension benefits that are accounted for under SFAS No. 87, Employers Accounting for Pensions, and postretirement benefits that are accounted for under SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. For a complete description of the Company s pension and postretirement benefits, refer to Note 12 of the Company s 2005 Annual Report on Form 10-K as filed with the SEC.

Components of Net Periodic Benefit Cost for the Three Months Ended September 30,	**Pension Benefits 2006**	**Pension Benefits 2005**	**Other Benefits 2006**	**Other Benefits 2005**
Service cost	$ 3,527	$ 2,456	$ (3)	$ 8
Interest cost	4,027	3,591	114	191
Expected return on plan assets	(6,513)	(5,466)	0	0
Amortization of prior service cost (credit)	(45)	(55)	(9)	(247)
Amortization of transition obligation	(1)	(1)	0	0
Amortization of net loss (gain)	1,197	771	(73)	119
Net periodic benefit cost	$ 2,192	$ 1,296	$ 29	$ 71

Components of Net Periodic Benefit Cost for the Nine Months Ended September 30,	**Pension Benefits 2006**	**Pension Benefits 2005**	**Other Benefits 2006**	**Other Benefits 2005**
Service cost	$ 10,590	$ 7,073	$ 17	$ 44
Interest cost	11,916	10,857	500	525
Expected return on plan assets	(19,304)	(16,615)	0	0
Amortization of prior service cost (credit)	(134)	(166)	(159)	(741)
Amortization of transition obligation	(3)	(3)	0	0
Amortization of net loss	3,484	2,222	231	245
Net periodic benefit cost	$ 6,549	$ 3,368	$ 589	$ 73

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 three months ended September 30, 2006, the Company s effective tax rate was reduced by approximately $4,500 related to a non-U.S. audit settlement. For the nine months ended September 30, 2006, the Company s effective tax rate was reduced due to a favorable U.S. partnership audit

26

settlement of approximately $69,200 for the tax years 1998 through 2003 and a favorable U.S. corporate audit settlement of approximately $17,600 for the tax years 2000 through 2003. Also in the first nine months of 2006, approximately $21,400 of tax expense was recorded related to a reorganization of several of the Company s subsidiaries. Further, approximately $24,800 of tax expense was recorded in the first quarter of 2006 related to disputes between the Company and NMR, on the one hand, and Donnelley and certain of its former affiliates on the other hand, as to proper interpretation of, and allocation of tax liabilities under, the 1996 Spin-Off agreements (see Note 8).

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

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

The Company s share repurchase program has been developed to buy opportunistically, when the Company believes that its share price provides it with an attractive use of its cash flow and debt capacity.

On January 25, 2006, the Board of Directors authorized a stock repurchase program to buy up to 30,000 shares. As of September 30, 2006, 6,444 shares remained available for repurchase under the January 2006 program.

On November 16, 2005, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in February 2006 at a total cost of $251,619.

On December 14, 2004, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in January 2006 at a total cost of $242,680.

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

During the first nine months of 2006, the Company repurchased 33,931 shares of outstanding Common Stock under these programs at a total cost of $880,407, including the repurchase of 25,000 shares on January 30, 2006 pursuant to an accelerated share repurchase program (ASR). During the nine months ended September 30, 2005, the Company repurchased approximately 6,213 shares of outstanding Common Stock at a total cost of approximately $147,945 under these programs.

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, with the exception of purchases pursuant to the ASR.

Under the Company s Restated Certificate of Incorporation as amended, the Company has authority to issue 820,000 shares with a par value of $.01 per share of which 800,000 represent shares of Common Stock, 10,000 represent shares of preferred stock and 10,000 represent shares of Series Common Stock. The preferred and series Common Stock can be issued with varying terms, as determined by the Board of Directors.

The Company paid cash dividends of $0.03 and $0.02 per share which amounted to $6,150 and $4,615 during the three months ended September 30, 2006 and 2005, respectively. The Company paid cash dividends of $0.09 and $0.06 per share which amounted to $18,292 and $13,734 during the nine months ended September 30, 2006 and 2005, respectively. The payments and level of cash dividends made by the Company are subject to the discretion of the Board of Directors.

Note 14. Comprehensive Income

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Net Income	**$ 69,264**	$ 71,140	**$ 250,044**	$ 194,662
Other comprehensive income, net of taxes:				
Unrealized (losses) gains on:				
Available-for-sale equity securities	**168**	37	**50**	(40)
Tax benefit (provision) on above	**(59)**	(13)	**(18)**	14
Change in unrealized (losses) gains on investments	**109**	24	**32**	(26)
Foreign currency translation gains (losses)	**14,517**	(9,868)	**32,975**	(57,758)
Changes in fair value of cash flow hedges		105	**65**	535
Total other comprehensive income (loss)	**14,626**	(9,739)	**33,072**	(57,249)
Comprehensive Income	**$ 83,890**	$ 61,401	**$ 283,116**	$ 137,413

Note 15. Severance, Impairment and Other Charges

During the fourth quarter of 2004, the Company recorded $36,890 of severance, impairment and other charges as a component of operating income. As a result of leveraging prior investments in technology and process improvements, the Company committed to a plan to eliminate selected positions involved primarily in production and development. The plan resulted in a charge for one-time termination benefits relating to a headcount reduction of approximately 490 employees located primarily in Europe and the U.S. These severance benefits were calculated pursuant to the terms of established employee protection plans, in accordance with local statutory minimum requirements or individual employee contracts, as applicable.

All of the 2004 fourth quarter charge will be settled in cash. Substantially all termination actions under this plan have been completed.

	Severance Related Reserves
Charge at December 31, 2004	$ 36,890
2004 utilization	(452)
2005 utilization	(24,052)
2006 utilization	(10,170)
Balance at September 30, 2006	$ 2,216

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

During the three months ended March 31, 2003, the Company recorded $37,220 of severance, impairment and other charges as a component of operating income. These charges were designed to further streamline operations and increase productivity through a worldwide reduction in headcount of approximately 80 employees and charges related to impaired contracts and assets. The contract-related charges were for impaired data supply and data processing contacts primarily in the Company s U.S. and Japanese operations. The asset write-downs portion of the 2003 charge related to the Company s decision to abandon certain products and as such, certain computer software primarily in the U.S., Japan and Europe was written-down to its net realizable value.

	Severance Related Reserves	Contract Related Reserves	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	(1,637)	(3,614)		(5,251)
2005 utilization	(378)	(6,747)		(7,125)
2006 utilization		(2,138)		(2,138)
Adjustments	(1,746)	67	1,679	
Balance at September 30, 2006	$	$ 2,828	$	$ 2,828

Approximately $9,958 of the 2003 charge related to a worldwide reduction in headcount of approximately 80 employees. 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.

The cash portion of the first quarter 2003 charge amounted to $30,586, of which the Company paid approximately $2,138 during the first nine months of 2006 for contract related charges. The remaining accrual of $2,828 at September 30, 2006 relates to lease obligations.

The Company expects that cash outlays will be applied against the $2,828 balance remaining of the first quarter 2003 charge at September 30, 2006 as follows:

Year Ended December 31,	Cash Outlays
2006	$ 146
2007	2,682
Total	$ 2,828

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

During the fourth quarter of 2001, the Company completed the assessment of its Competitive Fitness Program. 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 Reserves	Contract Related Reserves	Asset Write-Downs	Total
Charge at December 31, 2001	$ 39,652	$ 26,324	$ 28,640	$ 94,616
2001 utilization	(3,692)	(6,663)	(27,887)	(38,242)
2002 utilization	(26,277)	(9,819)	(1,474)	(37,570)
2003 utilization	(6,384)	(2,720)	(241)	(9,345)
2004 utilization	(455)	(1,232)		(1,687)
2005 utilization	(262)	(1,881)		(2,143)
2006 utilization	(198)	(1,401)		(1,599)
Adjustments	(688)	(274)	962	
Balance at September 30, 2006	$ 1,696	$ 2,334	$	$ 4,030

The Company expects that cash outlays will be applied against the $4,030 balance remaining in the program at September 30, 2006 as follows:

Year Ended December 31,	Cash Outlays
2006	$ 622
2007	1,903
2008	262
2009	262
2010	262
Thereafter	719
Total	$ 4,030

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 and related services to its customers in more than 100 countries. See Note 2.

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

Geographic Financial Information:

The following represents selected geographic information for the regions in which we operate for the three and nine months ended September 30, 2006 and 2005:

	Americas (1)	Europe (2)	Asia Pacific (3)	Corporate & Other	Total IMS
Three months ended September 30, 2006:					
Operating Revenue (4)	$ 215,603	$ 199,874	$ 67,229		$ 482,706
Operating Income (Loss) (5)	$ 75,876	$ 30,932	$ 27,826	$ (19,245)	$ 115,389
Nine months ended September 30, 2006:					
Operating Revenue (4)	$ 641,248	$ 577,670	$ 196,162		$ 1,415,080
Operating Income (Loss) (5)	$ 221,673	$ 83,572	$ 82,779	$ (69,573)	$ 318,451
Three months ended September 30, 2005:					
Operating Revenue (4)	$ 198,787	$ 171,830	$ 62,179		$ 432,796
Operating Income (Loss) (5)	$ 74,820	$ 24,075	$ 26,761	$ (23,425)	$ 102,231
Nine months ended September 30, 2005:					
Operating Revenue (4)	$ 564,364	$ 534,170	$ 178,528		$ 1,277,062
Operating Income (Loss) (5)	$ 211,103	$ 72,894	$ 80,707	$ (62,304)	$ 302,400

Notes to Geographic Financial Information:

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

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

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

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

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

A summary of the Company s operating revenue by product line for the three and nine months ended September 30, 2006 and 2005 is presented below:

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Sales Force Effectiveness	**$ 226,118**	$ 207,073	**$ 670,250**	$ 614,128
Portfolio Optimization	**134,676**	126,201	**403,039**	377,533
Launch, brand and other	**121,912**	99,522	**341,791**	285,401
Total Operating Revenue	**$ 482,706**	$ 432,796	**$ 1,415,080**	$ 1,277,062

Note 17. Merger Costs

On July 11, 2005, the Company announced a definitive agreement to merge with VNU, a global information and media company based in Haarlem, The Netherlands. On November 17, 2005, the Company announced the termination of the proposed merger with VNU.

In accordance with the terms of the merger termination agreement, VNU was required to pay the Company $45,000 as a result of the acquisition of VNU by a private equity group in June 2006. This $45,000 payment was received during the second quarter of 2006 and has been reflected in Other income, net in the Condensed Consolidated Statements of Income (Unaudited) for the nine months ended September 30, 2006. Additionally, the Company was required to pay $6,016 during the second quarter of 2006 of investment banker fees and expenses related to the $45,000 payment received, which are included in Merger costs in the Condensed Consolidated Statements of Income (Unaudited) for the nine months ended September 30, 2006. The Company had incurred merger costs of $8,474 and $15,874 for the three and nine months ended September 30, 2005, respectively, primarily for professional fees.

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.

Executive Summary

Our Business

IMS Health Incorporated (we , us or our) is the leading global provider of market intelligence to the pharmaceutical and healthcare industries. We offer leading-edge business intelligence products and services that are integral to our clients day-to-day operations, including portfolio optimization capabilities; launch and brand management solutions; sales force effectiveness innovations; managed care and over-the-counter offerings; and consulting and services solutions that improve ROI and the delivery of quality healthcare worldwide. Our information products are developed to meet client needs by using data secured from a worldwide network of suppliers in the markets where operations exist. Key information products include:

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

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

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

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

We operate in more than 100 countries. Until December 21, 2004, we also owned approximately a 25% equity interest in the TriZetto Group, Inc. (TriZetto) (see Note 7 to the Condensed Consolidated Financial Statements (Unaudited)).

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

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

Performance Overview

Our operating revenue grew 11.5% to $482,706 in the third quarter of 2006 as compared to $432,796 in the third quarter of 2005. Our operating revenue grew 10.8% to $1,415,080 in the nine months ended September 30, 2006 as compared to $1,277,062 in the nine months ended September 30, 2005. The quarterly and nine month operating revenue increases were a result of growth in all three of our business lines. Our operating income grew 12.9% to $115,389 in the third quarter of 2006 as compared to $102,231 in the third quarter of 2005. Our operating income grew 5.3% to $318,451 in the nine months ended September 30, 2006 as compared to $302,400 in the nine months ended September 30, 2005. Both the quarterly and nine month operating income growth were a result of increased operating revenues offset by increases in operating costs, selling and administrative expenses and depreciation and amortization, as discussed below. Our net income was $69,264 for the third quarter of 2006 as compared to $71,140 for the third quarter of 2005 and $250,044 for the nine months ended September 30, 2006 compared to $194,662 for the nine months ended September 30, 2005, due to the Non-Operating Income, net items discussed below and certain tax items as discussed in Note 12 of the Condensed Consolidated Financial Statements (Unaudited). Our diluted earnings per share of Common Stock increased to $0.34 for the third quarter of 2006 as compared to $0.30 for the third quarter of 2005 and increased to $1.20 for the nine months ended September 30, 2006 as compared to $0.84 for the nine months ended September 30, 2005.

Results of Operations

Reclassifications. Certain prior-year amounts have been reclassified to conform to the 2006 presentation.

References to constant dollar results. We report results in U.S. dollars, but we do business on a global basis. Exchange rate fluctuations affect the rate at which we translate foreign revenues and expenses into U.S. dollars and have important effects on our results. In order to illustrate these effects, the discussion of our business in this report sometimes describes the magnitude of changes in constant dollar terms. We believe this information facilitates a comparative view of business growth. In the first nine months of 2006, the U.S. dollar was generally stronger against most other currencies as compared to the first nine months of 2005, so growth at constant dollar exchange rates was generally higher 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 section of our annual report on Form 10-K for the year ended December 31, 2005 for a more complete discussion regarding the impact of foreign currency translation on our business.

Stock-Based Compensation Expense

SFAS 123R was adopted on January 1, 2006, which now requires among other items, the recognition of stock option expense in the results of operations. The modified prospective transition method was elected; therefore, prior period results were not retrospectively adjusted. Prior to the adoption of SFAS 123R, stock-based compensation expense related to stock options was not recognized in the results of operations if the exercise price was at least equal to the market value of the Common Stock on the grant date, in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25). As a result, the recognition of stock-based compensation expense was generally limited to the expense attributed to restricted stock units and stock option modifications. Historically, stock options have been granted to broad groups of employees on a discretionary basis. Beginning in fiscal 2006, employees are eligible to receive restricted stock units with a service condition of four years instead of stock options with a service condition of three years. Employees in more advanced leadership positions will continue to be eligible to receive restricted stock units which contain performance and service conditions.

As a result of adopting SFAS 123R on January 1, 2006, our income before income taxes and net income for the three months ended September 30, 2006 are $7,965 lower and $5,617 lower, respectively, and for the nine months ended September 30, 2006 are $29,656 lower and $20,857 lower, respectively, than if the company had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended September 30, 2006 were $0.34 and $0.34, respectively, but would have been $0.37 and $0.37, respectively, if we had not adopted SFAS 123R. Basic and diluted earnings per share for the nine months ended September 30, 2006 were $1.23 and $1.20, respectively, but would have been $1.33 and $1.30, respectively, if we had not adopted SFAS 123R. Stock-based compensation expense was $8,633 and $32,987 before taxes during the three and nine months ended September 30, 2006, respectively, and $9,353 and $28,873 before taxes during the three and nine months ended September 30, 2005, respectively. Stock-based compensation expense recognized in the results of operations for the three months ended September 30, 2006 was $720 lower than the pro forma amount determined under the fair value-based method and disclosed in accordance with SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), for the comparable prior year period. This decrease was due to the reversal of restricted stock and stock option amortization expense due to terminated employees and the reduction in the current quarter s stock award grants versus prior year. Stock-based compensation expense recognized in the results of operations for the nine months ended September 30, 2006 was $4,114 higher than the pro forma amount determined under the fair value-based method and disclosed in accordance with SFAS 123 for the comparable prior year period. This increase, offset by the activity that decreased the current quarter s expense, was primarily due to higher fair value amounts attributed to the more recent awards, acceleration of the vesting of restricted stock units and stock options of one employee in an advanced leadership position due to retirement, and an increase in restricted stock unit amortization expense due to the timing of the Company s annual employee stock awards.

Summary of Operating Results

	Three Months Ended September 30, 2006	2005	% Variance 2006 vs 2005
Operating revenue	**$ 482,706**	$ 432,796	11.5 %
Operating costs (exclusive of Depreciation and amortization shown separately below)	**209,178**	195,484	7.0 %
Selling and administrative expenses	**129,144**	100,268	28.8 %
Depreciation and amortization	**28,995**	26,339	10.1 %
Merger costs	**0**	8,474	(100.0 %)
Operating income	**$ 115,389**	$ 102,231	12.9 %

35

	Nine Months Ended September 30, 2006	2005	% Variance 2006 vs 2005
Operating revenue	**$ 1,415,080**	$ 1,277,062	10.8 %
Operating costs (exclusive of Depreciation and amortization shown separately below)	**618,967**	560,801	10.4 %
Selling and administrative expenses	**386,537**	321,329	20.3 %
Depreciation and amortization	**85,109**	76,658	11.0 %
Merger costs	**6,016**	15,874	(62.1 %)
Operating income	**$ 318,451**	$ 302,400	5.3 %

Operating Income

Our operating income for the third quarter of 2006 grew 12.9% to $115,389 from $102,231 in the third quarter of 2005. This was due to the increase in our operating revenue, offset by increases in our operating costs and selling and administrative expenses driven by increased cost of data, investments in consulting and services capabilities, the adoption of SFAS 123R, and decreased merger costs, as discussed below. Our operating income increased 12.5% in constant dollar terms. Excluding the effects of our adoption of SFAS 123R and merger costs, our operating income increased 11.9% on a reported basis and 11.5% in constant dollar terms. Our operating income for the first nine months of 2006 grew 5.3% to $318,451 from $302,400 in the first nine months of 2005. This was due to the increase in our operating revenue, offset by increases in our operating costs and selling and administrative expenses driven by increased cost of data, investments in consulting and services capabilities, the adoption of SFAS 123R, and decreased merger costs, as discussed below. Our operating income increased 5.7% in constant dollar terms. Excluding the effect of our adoption of SFAS 123R and merger costs, our operating income increased 11.4% on a reported basis and 11.8% in constant dollar terms.

Operating Revenue

Revenue in 2005 reflects a reclassification between our three business lines to conform to the 2006 presentation.

Our operating revenue for the third quarter of 2006 grew 11.5% to $482,706 from $432,796 in the third quarter of 2005. On a constant dollar basis our operating revenue growth was 9.9%. Our operating revenue for the first nine months of 2006 grew 10.8% to $1,415,080 from $1,277,062 in the first nine months of 2005. On a constant dollar basis our operating revenue growth was 11.6%. Acquisitions made during the last 12 months contributed approximately 0.7 percentage points for the third quarter and 2.7 percentage points for the first nine months of 2006 to both reported and constant dollar operating revenue growth. The increase in our operating revenue resulted from growth in revenue in all three of our business lines, together with the effect of currency translation. On a constant dollar basis, all business lines grew.

Summary of Operating Revenue

	Three Months Ended September 30, 2006	2005	% Variance 2006 vs 2005 Reported Rates	Constant Dollar
Sales force effectiveness	**$ 226,118**	$ 207,073	9.2 %	7.6 %
Portfolio optimization	**134,676**	126,201	6.7 %	5.3 %
Launch, brand and other	**121,912**	99,522	22.5 %	20.4 %
Operating revenue	**$ 482,706**	$ 432,796	11.5 %	9.9 %

	Nine Months Ended September 30, 2006	2005	% Variance 2006 vs 2005 Reported Rates	Constant Dollar
Sales force effectiveness	**$ 670,250**	$ 614,128	9.1 %	9.8 %
Portfolio optimization	**403,039**	377,533	6.8 %	7.8 %
Launch, brand and other	**341,791**	285,401	19.8 %	20.4 %
Operating revenue	**$ 1,415,080**	$ 1,277,062	10.8 %	11.6 %

- *Sales Force Effectiveness:* The Americas, Europe and Asia Pacific regions contributed about equally to the revenue growth for the third quarter and first nine months of 2006.

- *Portfolio Optimization:* Europe contributed more than three-quarters of the growth during the third quarter of 2006 and two-thirds of the growth for the first nine months of 2006.

- *Launch, Brand Management and Other product lines:* The Americas and Europe regions contributed about equally to the revenue growth for the third quarter of 2006. The Americas region contributed more than three-quarters of the growth for the first nine months of 2006 due to acquisitions completed in 2005.

Operating Costs

Our operating costs include data processing costs, the costs of data collection and production, and costs attributable to personnel involved in production, data management and the processing and delivery of our consulting and services offerings. Our operating costs grew 7.0% to $209,178 in the third quarter of 2006, from $195,484 in the third quarter of 2005. Our operating costs grew 10.4% to $618,967 in the first nine months of 2006, from $560,801 in the first nine months of 2005.

- *SFAS 123R*: The effect of the adoption of SFAS 123R increased our operating costs by approximately $2,000 and $5,000 for the third quarter and first nine months of 2006 as compared to 2005, respectively (See Note 9 to our Condensed Consolidated Financial Statements (Unaudited)).

- *Foreign Currency Translation*: The effect of foreign currency translation increased our operating costs by approximately $4,000 for the third quarter of 2006 as compared to the third quarter of 2005. The effect of foreign currency decreased our operating costs by approximately $6,000 for the first nine months of 2006 as compared to the first nine months of 2005.

Excluding the effect of SFAS 123R and the change due to foreign currency translation, our operating costs grew 4.3% and 10.5% in the third quarter and first nine months of 2006, respectively, as compared to the third quarter and first nine months of 2005.

- *Data*: Data costs increased by approximately $3,000 and $24,000 in the third quarter and first nine months of 2006, compared to 2005, respectively.

- *Consulting*: Consulting and services costs increased by $2,000 and $20,000 in the third quarter and first nine months of 2006 compared to 2005, respectively.

- *Production, Client Services and Other*: Production, client services and other costs increased by approximately $3,000 and $15,000 in the third quarter and first nine months of 2006 compared to 2005, respectively.

Selling and Administrative Expenses

Our selling and administrative expenses consist primarily of the expenses attributable to sales, marketing, and administration, including human resources, legal, management and finance. Our selling and administrative expenses grew 28.8% in the third quarter of 2006 to $129,144 from $100,268 in the third quarter of 2005. Our selling and administrative expenses grew 20.3% in the first nine months of 2006 to $386,537 from $321,329 in the first nine months of 2005:

- *SFAS 123R*: The effect of the adoption of SFAS 123R increased our selling and administrative expenses by approximately $7,000 and $25,000 for the third quarter and first nine months of 2006 as compared to 2005, respectively (See Note 9 to our Condensed Consolidated Financial Statements (Unaudited)).

- *Foreign Currency Translation*: The effect of foreign currency translation increased our selling and administrative expenses by approximately $3,000 for the third quarter of 2006 as compared to the third quarter of 2005. The effect of foreign currency decreased our selling and administrative expenses by approximately $2,000 for the first nine months of 2006 as compared to the first nine months of 2005.

Excluding the effect of SFAS 123R and the change due to foreign currency translation, our selling and administrative expenses grew 19.2% and 13.2% in the third quarter and first nine months of 2006, respectively, as compared to the third quarter and first nine months of 2005.

- *Sales and Marketing*: Sales and marketing expense increased by approximately $3,000 and $11,000 in the third quarter and first nine months of 2006, compared to 2005, respectively, to support revenue growth.

- *Consulting*: Consulting and services expenses increased by approximately $9,000 and $26,000 in the third quarter and first nine months of 2006 compared to 2005, respectively, to support the growth in this revenue stream.

- *Administrative and Other*: Administrative and other expenses increased by approximately $7,000 and $5,000 in the third quarter and first nine months of 2006, compared to 2005, respectively, to support revenue growth.

Depreciation and Amortization

Our depreciation and amortization charges increased 10.1% to $28,995 in the third quarter of 2006, from $26,339 in the third quarter of 2005, and 11.0% to $85,109 in the first nine months of 2006, from $76,658 in the first nine months of 2005, primarily due to computer software amortization associated with new products which increased by approximately $2,000 and $7,000, and amortization of intangibles related to recent acquisitions, which decreased by approximately $600 and increased by approximately $1,000 in the third quarter and first nine months of 2006 as compared to 2005, respectively.

Merger Costs

During the second quarter of 2006, we incurred $6,016 of investment banker fees and expenses related to a payment received from VNU in accordance with the terms of the merger termination agreement (see Other Income, net below). During the third quarter and first nine months of 2005, we incurred $8,474 and $15,874, respectively, of costs in connection with the terminated merger with VNU primarily for professional fees. See Note 17 to our Condensed Consolidated Financial Statements (Unaudited).

Trends in our Operating Margins

Our operating margin for the third quarter of 2006 was 23.9%, as compared to 23.6% in the third quarter of 2005. The increase in our operating margins for the third quarter of 2006 is due to the elimination of prior year merger costs, partially offset by the adoption of SFAS 123R in 2006. Excluding the effect of SFAS 123R and merger costs, our operating margin would have been relatively flat at 25.7% in the third quarter of 2006 compared to 25.6% in the third quarter of 2005. Our operating margin for the first nine months of 2006 was 22.5%, as compared to 23.7% in the first nine months of 2005. The decrease in our operating margins for the first nine months of 2006 is primarily due to the adoption of SFAS 123R and costs related to the terminated merger with VNU. Excluding the effect of SFAS 123R and merger costs, our operating margin would have increased 0.2 percentage points to 25.1% in the first nine months of 2006 from 24.9% in the first nine months of 2005.

Recent acquisitions have had an adverse effect on our operating margins due to the fact that some of our small business acquisitions 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.

Excluding the effect of SFAS 123R and merger costs, our operating margin stabilized during the third quarter and first nine months of 2006.

Non-Operating (Loss) Income, net

Our non-operating (loss) income, net decreased to a loss of $10,031 in the third quarter of 2006 from income of $3,215 in the third quarter of 2005. Our non-operating income, net increased to $15,457 in the first nine months of 2006 from income of $15,082 in the first nine months of 2005. This was due to the following factors:

- *Interest Expense, net*: Net interest expense was $9,301 and $25,193 for the third quarter and first nine months of 2006, respectively, compared with $4,692 and $13,097 for the third quarter and first nine months of 2005, respectively, due to both higher debt levels (see Note 10 to our Condensed Consolidated Financial Statements (Unaudited)) and higher interest rates.

- *Gains (Losses) from Investments, net*: We had losses from investments of $305 during the third quarter of 2006, as a result of management fees related to our Enterprise portfolio. We had gains from investments of $252 during the third quarter of 2005 within the Enterprise portfolio. We had gains from investments of $2,443 during the first nine months of 2006 as a result of the sale of our investment in Allscripts Healthcare Solutions, Inc. Gains from investments of $2,624 in the first nine months of 2005 were as a result of a divestiture of an interest we had in a German company.

- *Other Income, net*: Other income, net, decreased by $8,080 due to net foreign exchange gains of $502 in the third quarter of 2006 as compared with $8,611 in the third quarter of 2005. Other income, net, increased $12,652 in the first nine months of 2006 as compared with 2005 due to the receipt of $45,000 in the second quarter of 2006 from VNU as a result of the agreement to terminate the proposed merger (see Note 17 to our Condensed Consolidated Financial Statements (Unaudited)). This income was offset by net foreign exchange losses of $4,030 in the first nine months of 2006 compared with net foreign exchange gains of $29,443 in the first nine months of 2005.

Taxes

For the three months ended September 30, 2006, our effective tax rate was reduced by approximately $4,500 related to a non-U.S. audit settlement. For the nine months ended September 30, 2006, our effective tax rate was reduced due to a favorable U.S. partnership audit settlement of approximately $69,200 for the tax years 1998 through 2003 and a favorable U.S. corporate audit settlement of approximately $17,600 for the tax years 2000 through 2003. Also in the first nine months of 2006, approximately $21,400 of tax expense was recorded related to a reorganization of several of our subsidiaries. Further, approximately $24,800 of tax expense was recorded in the first quarter of 2006 related to disputes between the Company and NMR, on the one hand, and Donnelley and certain of its former affiliates on the other hand, as to proper interpretation of, and allocation of tax liabilities under, the 1996 Spin-Off agreements (See Note 8 to our Condensed Consolidated Financial Statements (Unaudited)).

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

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 identify and implement such initiatives to reduce or maintain our overall tax rate.

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, 2006 and 2005:

	Americas (1)	Europe (2)	Asia Pacific (3)	Corporate & Other	Total IMS
Three months ended September 30, 2006:					
Operating Revenue (4)	$ 215,603	$ 199,874	$ 67,229		$ 482,706
Operating Income (Loss) (5)	$ 75,876	$ 30,932	$ 27,826	$ (19,245)	$ 115,389
Nine months ended September 30, 2006:					
Operating Revenue (4)	$ 641,248	$ 577,670	$ 196,162		$ 1,415,080
Operating Income (Loss) (5)	$ 221,673	$ 83,572	$ 82,779	$ (69,573)	$ 318,451
Three months ended September 30, 2005:					
Operating Revenue (4)	$ 198,787	$ 171,830	$ 62,179		$ 432,796
Operating Income (Loss) (5)	$ 74,820	$ 24,075	$ 26,761	$ (23,425)	$ 102,231
Nine months ended September 30, 2005:					
Operating Revenue (4)	$ 564,364	$ 534,170	$ 178,528		$ 1,277,062
Operating Income (Loss) (5)	$ 211,103	$ 72,894	$ 80,707	$ (62,304)	$ 302,400

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 recognized primarily based on the location of the customer. The operating revenue for the geographic regions includes the impact of foreign exchange in converting results into U.S. dollars.

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

The factors affecting the regional operating margin performance discussed below were generally consistent with overall operating margin factors. The notable exception was in our Europe region where for the third quarter of 2006, we had data and production cost reductions of approximately $2,000 whereas these costs increased in all other regions.

Americas Region

Operating revenue growth in the Americas region was 8.5% and 13.6% in the third quarter and first nine months of 2006, respectively, compared to the third quarter and first nine months of 2005. Excluding the effect of foreign currency translations, operating revenue grew 7.7% and 12.6%, respectively. About two thirds of this growth is driven by our Launch, Brand Management and Other business line and about one-third by Sales Force Effectiveness for the third quarter and first nine months of 2006.

Operating income in the Americas region grew 1.4% and 5.0% in the third quarter and first nine months of 2006, respectively, compared to the third quarter and first nine months of 2005. Excluding the effect of foreign currency translations, operating income grew by 0.6% and 4.0%, respectively. Excluding the effect of SFAS 123R, after adjusting for currency, operating income grew 4.0% and 5.2%, respectively, in the Americas region.

Europe Region

Operating revenue increased in the Europe region by 16.3% and 8.1% in the third quarter and first nine months of 2006, compared to the third quarter and first nine months of 2005. Excluding the effect of foreign currency translations, operating revenue grew 12.3% and 9.5%, respectively. About half of this growth is driven by Launch, Brand Management and Other for the third quarter of 2006. In the first nine months of 2006 more than three-quarters of this growth is driven by Sales Force Effectiveness and Portfolio Optimization, about equally.

Operating income in the Europe region increased by 28.5% and 14.6% in the third quarter and first nine months of 2006, respectively, compared to the third quarter and first nine months of 2005. Excluding the effect of foreign currency translations, operating income grew by 27.0% and 14.2%, respectively. Excluding the effect of SFAS 123R, after adjusting for currency, operating income grew 38.2% and 17.9%, respectively.

Asia Pacific Region

Operating revenue in the Asia Pacific region increased 8.1% and 9.9%, respectively, in the third quarter and first nine months of 2006, compared to the third quarter and first nine months of 2005. Excluding the effect of foreign currency translations, operating revenue grew 10.2% and 14.6%, respectively. About three-quarters of this growth is driven by Sales Force Effectiveness for the third quarter and first nine months of 2006.

Operating income in the Asia Pacific region increased by 4.0% and 2.6% in the third quarter and first nine months of 2006, respectively, compared to the third quarter and first nine months of 2005. Excluding the effect of foreign currency translations, operating income grew by 5.9% and 7.5%, respectively. Excluding the effect of SFAS 123R, after adjusting for currency, operating income grew by 8.0% and 8.2% in the Asia Pacific region.

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 U.S. dollar operating results. We enter into foreign currency forward contracts to partially offset the effect of currency fluctuations. In 2006, foreign currency translation increased U.S. dollar revenue growth by approximately 1.6 percentage points in the third quarter of 2006 and decreased U.S. dollar revenue growth by approximately 0.8 percentage points in the first nine months of 2006, while the impact on operating income growth was an approximate increase of 0.4 percentage points in the third quarter of 2006 and an approximate decrease of 0.4 percentage points in the first nine months of 2006.

Non-U.S. monetary assets are maintained in currencies other than the U.S. dollar, principally the Euro, the Japanese Yen and the Swiss Franc. Where monetary assets are held in the functional currency of the local entity, changes in the value of these currencies relative to the U.S. dollar are charged or credited to Cumulative translation adjustment in the Condensed Consolidated Statements of Financial Position (Unaudited). The effect of exchange rate changes during the first nine months of 2006 increased the U.S. dollar amount of Cash and cash equivalents by $921.

Liquidity and Capital Resources

Our cash and cash equivalents decreased $215,231 during the first nine months of 2006 to $147,712 at September 30, 2006 compared to $362,943 at December 31, 2005. The decrease reflects cash provided by operating activities of $206,781, offset by cash used in investing activities of $120,881 and financing activities of $302,052.

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

- development of software to be used in our new products and capital expenditures to expand and upgrade our information technology capabilities and to build or acquire facilities to house our growing business (we currently expect to spend approximately $99,000 to $106,000 during 2006 for software development and capital expenditures);

- acquisitions (see Note 5 to our Condensed Consolidated Financial Statements (Unaudited));

- share repurchases (see Note 13 to our Condensed Consolidated Financial Statements (Unaudited));
- dividends to our shareholders (we expect 2006 dividends will be $0.12 per share or approximately $24,000);
- payments for tax-related matters, including the D&B Legacy Tax Matters discussed further in Note 8 to our Condensed Consolidated Financial Statements (Unaudited). Payments for certain of the D&B Legacy Tax Matters could be up to approximately $40,200 prior to September 30, 2007; and
- pension and other postretirement benefit plan contributions (we currently expect contributions to U.S. and non-U.S. pension and other postretirement benefit plans to total approximately $11,300 in 2006, in addition to approximately $10,500 paid in January 2006).

Net cash provided by operating activities amounted to $206,781 for the nine months ended September 30, 2006, an increase of cash provided of $131,008 over the comparable period in 2005. The increase relates primarily to higher net income, the subsequent reversal of $105,404 of funding to a Rabbi Trust during the third quarter of 2005 as a result of the terminated merger with VNU, and lower funding of prepaid expenses (related to prepayments in the first nine months of 2005 on the purchase of an airplane) and accounts payable, partially offset by the funding of accounts receivable, inventory, accrued and other current liabilities, and accrued severance, impairment and other charges. Cash invested in accounts receivable is driven by the increase in revenues, and DSO (days sales outstanding) for each of the first three quarters of 2006 was at or below the comparable quarter in 2005.

Net cash used in investing activities amounted to $120,881 for the nine months ended September 30, 2006, a decrease in cash used of $90,904 over the comparable period in 2005. The decrease relates primarily to lower payments for acquisitions during the first nine months of 2006 as compared to the first nine months of 2005 (see Note 5 to our Condensed Consolidated Financial Statements (Unaudited)), partially offset by proceeds from the sale of our investment in TriZetto during the first quarter of 2005 (see Note 7 of the Condensed Consolidated Financial Statements (Unaudited)), and a reduction in short-term marketable security investments.

Net cash used in financing activities amounted to $302,052 for the nine months ended September 30, 2006, an increase of $253,030 over the comparable period in 2005. This increase in cash used was primarily due to an increase of $732,462 in purchases of our stock and a decrease of $84,946 in proceeds from the exercise of stock options during the first nine months of 2006 compared to the first nine months of 2005, partially offset by an increase of $553,727 in debt during the first nine months of 2006 compared to the first nine months of 2005. Refer to the Stock Repurchase Programs and Debt sections for further information on our variance between the first nine months of 2006 and 2005.

Our financing activities include cash dividends we paid of $0.03 and $0.02 per share quarterly for 2006 and 2005, respectively, which amounted to $18,292 and $13,734 during the first nine months of 2006 and 2005, respectively. The payments and level of cash dividends made by us are subject to the discretion of our Board of Directors. Any future dividends, other than the $0.03 per share dividend for the fourth quarter of 2006, which was declared by our Board of Directors in October 2006, will be based on, and affected by, a number of factors, including our operating results and financial requirements.

Prior to the adoption of SFAS 123R, we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Beginning on January 1, 2006, we changed our cash flow presentation in accordance with SFAS 123R which requires the cash flows from tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

Tax and Other Contingencies

We are exposed to certain known tax and other contingencies that are material to our investors. The facts and circumstances surrounding these contingencies and a discussion of their effect on us are included in Note 8 to our Condensed Consolidated Financial Statements (Unaudited) for the period ended September 30, 2006. We do not know of any material tax or other contingencies, other than those described in Note 8 to our Condensed Consolidated Financial Statements (Unaudited).

These contingencies may have a material effect on our liquidity, capital resources or results of operations. Although we have established reserves for D&B Legacy Tax Matters in accordance with SFAS No. 5, Accounting for Contingencies, the actual liability may exceed the amount of the reserve. We have not established any reserves in respect of the other contingencies other than those discussed in Note 8 of our Notes to 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 January 25, 2006, the Board of Directors authorized a stock repurchase program to buy up to 30,000 shares. As of September 30, 2006, 6,444 shares remained available for repurchase under the January 2006 program.

On November 16, 2005, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in February 2006 at a total cost of $251,619.

On December 14, 2004, the Board of Directors authorized a stock repurchase program to buy up to 10,000 shares. This program was completed in January 2006 at a total cost of $242,680.

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

During the first nine months of 2006, we repurchased 33,931 shares of outstanding Common Stock under these programs at a total cost of $880,407, including the repurchase of 25,000 shares on January 30, 2006 pursuant to an accelerated share repurchase program (ASR). During the nine months ended September 30, 2005, we repurchased approximately 6,213 shares of outstanding Common Stock at a total cost of approximately $147,945 under these programs.

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, with the exception of purchases pursuant to the ASR.

Under our Restated Certificate of Incorporation as amended, we have authority to issue 820,000 shares with a par value of $.01 per share of which 800,000 represent shares of Common Stock, 10,000 represent shares of preferred stock and 10,000 represent shares of Series Common Stock. The preferred and series Common Stock can be issued with varying terms, as determined by the Board of Directors.

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, 2006, our debt totaled $1,105,240 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 three years, we have generated strong net cash provided by operating activities in excess of $300,000;

- at September 30, 2006, we had $147,712 in worldwide cash and cash equivalents;

- at September 30, 2006, we had $535,734 of unused debt capacity under our existing bank credit facilities; and

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

The following table summarizes our long-term debt at September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
4.6% Private Placement Note, principal payment of $150,000 due January 2008, net of interest rate swaps of $(2,626) and $(2,710), respectively	$ 147,374	$ 147,290
5.55% Private Placement Notes, principal payment of $150,000 due April 2016	150,000	
1.70% Private Placement Note, principal payment of 34,395,000 Japanese Yen due January 2013	293,600	
Revolving Credit Facility:		
Japanese Yen denominated borrowings at average floating rates of approximately 0.70%	76,653	371,924
Swiss Franc denominated borrowings at average floating rates of approximately 2.02%	74,413	92,217
U.S. Dollar denominated borrowings at average floating rates of approximately 5.63%	313,200	
Bank Term Loan, principal payment of $50,000 due June, 2009 at average floating rate of approximately 5.58%	50,000	
Total Long-Term Debt	$ 1,105,240	$ 611,431

In July 2006, we entered into a $1,000,000 revolving credit facility with a syndicate of 12 banks (Revolving Credit Facility) replacing its existing $700,000 Amended and Restated Facility (see below). The terms of the Revolving Credit Facility extended the maturity of the facility in its entirety to a term of five years, maturing July 2011, reduced the borrowing margins, and increased subsidiary borrowing limits. Total borrowings under the Revolving Credit Facility were $464,266 and $464,141 at September 30, 2006 and December 31, 2005, respectively, all of which were classified as long-term. In April 2004, we entered into a $700,000 revolving credit facility with a syndicate of 12 banks (the Unsecured Facility). The Unsecured Facility replaced our lines of credit with several domestic and international banks. On March 9, 2005, we renegotiated with the syndicate of 12 banks to amend and restate the Unsecured Facility (the Amended and Restated Facility). The terms of the Amended and Restated Facility extended the maturity of the facility in its entirety to a term of five years, maturing March 2010, reduced the borrowing margins and increased subsidiary borrowing limits.

We define long-term lines as those where the lines are non-cancellable for more than 365 days from the balance sheet date by the financial institutions except for specified, objectively measurable violations of the provisions of the agreement. In general, rates for borrowing under the Revolving Credit Facility are LIBOR plus 30 basis points and can vary based on our Debt to EBITDA ratio. The weighted average interest rates for our lines were 4.37% and 0.62% at September 30, 2006 and December 31, 2005, respectively. In addition, we are required to pay a commitment fee on any unused portion of the facilities of 0.075%. At September 30, 2006, we had approximately $535,734 available under its existing bank credit facilities.

In June 2006, we closed a $50,000 three year term loan with a bank. The term loan allows us to borrow at a floating rate with a lower borrowing margin than our revolving credit facility, and provides us with an option to extend the term up to an additional two years. We used the proceeds to refinance existing debt borrowed under the revolving credit facility.

In April 2006, we closed a private placement transaction pursuant to which we issued $150,000 of ten-year notes to two highly rated insurance companies at a fixed rate of 5.55%. We used the proceeds to refinance existing debt of $150,000 drawn under a short term credit agreement with a bank in January 2006.

In January 2006, we closed a private placement transaction pursuant to which our Japanese subsidiary issued 34,395,000 Japanese Yen seven-year debt (equal to $300,000 at date of issuance) to several highly rated insurance companies at a fixed rate of 1.70%. We used the proceeds to refinance existing debt in Japan borrowed under our Amended and Restated Facility.

In January 2003, we closed a private placement transaction pursuant to which we issued $150,000 of five-year debt to several highly rated insurance companies at a fixed rate of 4.60%. We used the proceeds to pay down short-term debt. We also swapped $100,000 of our fixed rate debt to floating rate based on six-month LIBOR plus a margin of approximately 107 basis points. We accounted for these swaps as fair value hedges under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. We determined the fair values based on estimated prices quoted by financial institutions. The fair values of these swaps were $(2,626) and $(2,710) as of September 30, 2006 and December 31, 2005, respectively.

In March and April 2002, we entered into interest rate swaps on a portion of our variable rate debt portfolio. These swaps matured in March 2005 and April 2006. We accounted for the interest rate swaps as cash flow hedges and recorded any changes in fair value in Other Comprehensive Income. We determined the fair values based on estimated prices quoted by financial institutions. The fair values of these swaps were $(100) as of December 31, 2005.

Our financing arrangements provide for certain covenants and events of default customary for similar instruments, including in the case of our main bank arrangements, the private placement transactions, and the term loan, covenants to maintain specific ratios of consolidated total indebtedness to EBITDA and of EBITDA to certain fixed charges. At September 30, 2006, we were in compliance with these financial debt covenants.

Severance, Impairment and Other Charges

During the fourth quarter of 2004, we recorded $36,890 of severance, impairment and other charges as a component of operating income. As a result of leveraging prior investments in technology and process improvements, we committed to a plan to eliminate selected positions involved primarily in production and development. The plan resulted in a charge for one-time termination benefits relating to a headcount reduction of approximately 490 employees located primarily in Europe and the U.S. These severance benefits were calculated pursuant to the terms of established employee protection plans, in accordance with local statutory minimum requirements or individual employee contracts, as applicable.

All of the 2004 fourth quarter charge will be settled in cash. Substantially all termination actions under this plan have been completed.

	Severance Related Reserves
Charge at December 31, 2004	$ 36,890
2004 utilization	(452)
2005 utilization	(24,052)
2006 utilization	(10,170)
Balance at September 30, 2006	$ 2,216

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

See Note 15 of our Condensed Consolidated Financial Statements (Unaudited) for a description of our 2001 and 2003 restructuring programs.

We expect that future results will benefit from the 2001 and 2003 restructuring charges to the extent of the contract-related charges and asset write-downs primarily through 2007. Our severance actions in the 2001 and 2003 programs related to a shifting of resources around the Company. The benefits from the 2004 severance actions will be partially offset by headcount additions in selected locations. The benefits will be realized primarily in Operating costs and Selling and administrative expense, with a partial year of benefit realized in 2005 and a full year of benefit expected to be realized in 2006. For the 2001 and 2003 charges the income statement lines that will be impacted in future periods are Operating costs for the contract-related charges and Depreciation and amortization related to the asset write-downs. However, 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 February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This statement clarifies the application of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to beneficial interests in securitized financial assets and improves the consistency of accounting for similar financial instruments. This statement also amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We are currently evaluating this statement to determine any potential impact that it may have on our financial results.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This statement amends SFAS 140 and clarifies the accounting for, measurement of, and disclosure of servicing assets and servicing liabilities. This statement should be adopted as of the beginning of an entity s first fiscal year that begins after September 15, 2006, but earlier adoption is permitted. We are currently evaluating this statement to determine any potential impact that it may have on our financial results.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006, but earlier adoption is permitted. We are currently evaluating this interpretation to determine any potential impact that it may have on our financial results.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating this statement to determine any potential impact that it may have on its financial results.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158), which requires recognition of the funded status of pension and other postretirement benefit plans on the balance sheet. This statement amends and clarifies the financial accounting and reporting guidance for defined benefit pension and other postretirement plans. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income (AOCI), a component of shareholders equity, net of tax effects. The measurement date, the date at which the benefit obligation and plan assets are measured, is required to be our fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Since we already utilize a fiscal year end measurement date, this particular provision does not affect the financial statements. Based on our financial statements as of December 31, 2005, the adoption of SFAS 158 would have reduced Shareholders Equity (within AOCI) by approximately $34,000, increased the Postretirement and Postemployment benefit liability by approximately $50,000, decreased the intangible asset (within Other Assets) by approximately $1,000 and increased the long-term deferred tax asset (within Other Assets) by approximately $17,000. SFAS 158 does not affect the results of operations.

At this time, we are unable to estimate the effect of SFAS 158 on its financial position upon adoption at December 31, 2006. This will be determined once the actuarial and plan asset calculations are performed which are dependent on, among other things, the year-end discount rate and fair value of plan assets, which are not known until after December 31, 2006.

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, will, may, should, future, predicts, potential, continue and similar expressions identify these forward-looki statements, which appear in a number of places in this Quarterly Report and include, but are not limited to, all statements relating to plans for future growth and other business development activities as well as capital expenditures, financing sources, dividends and the effects of regulation and competition, foreign currency conversion and all other statements regarding our intent, plans, beliefs or expectations or those of our directors or officers. Investors are cautioned that such forward-looking statements are not assurances for future performance or events and involve risks and uncertainties that could cause actual results and developments to differ materially from those covered in such forward-looking statements. These risks and uncertainties include, but are not limited to:

- risks associated with operating on a global basis, including fluctuations in the value of foreign currencies relative to the U.S. dollar, and the ability to successfully hedge such risks we derived approximately 64% of our operating revenue in 2005 from non-U.S. operations;

- regulatory, legislative and enforcement initiatives to which we are, or may become, subject relating to access to medical data and to the collection and dissemination of data, e.g. prescriber-identifiable data and anonymized patient-specific information, which information we anticipate to be an increasingly important tool in the design, development and marketing of pharmaceuticals;

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

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

- 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 prescription or other pharmaceutical products, the manner in which such products may be marketed or sold or the data that may be used in such marketing efforts;

- our ability to maintain and defend our intellectual property rights in jurisdictions around the world;
- our ability to successfully maintain historic effective tax rates;
- to the extent unforeseen cash needs arise, the ability to obtain financing on favorable terms;
- competition, particularly in the markets for pharmaceutical information;
- deterioration in economic conditions, particularly in the pharmaceutical, healthcare, or other industries in which our customers operate;
- consolidation in the pharmaceutical industry and the other industries in which our customers operate;
- the imposition of additional restrictions on our use of or access to data, or the refusal by data suppliers to provide data to us;
- conditions in the securities markets that may affect the value or liquidity of portfolio investments; and management s estimates of lives of assets, recoverability of assets, fair market value, estimates and liabilities and accrued income tax benefits and liabilities;
- regulatory, legislative and enforcement initiatives to which we are or may become subject, relating to tax; 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 of the forward-looking statements we make in this document 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, 2006 and by the material set forth under the headings Business and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005. We are under no obligation to publicly release any revision to any forward-looking statement contained or incorporated herein to reflect any future events or occurrences.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information in response to this Item is set forth in Note 10. Financial Instruments in the Notes to the Condensed Consolidated Financial Statements (Unaudited).

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 principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as the Company s disclosure controls and procedures are designed to do. Thus, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company s Chief Executive Officer and acting principal 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, 2006 (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 to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information included or incorporated by reference into this Quarterly Report on Form 10-Q, including the matters addressed under the caption Forward-Looking Statements, set forth below are some of the risks and uncertainties that, if they were to occur, could materially adversely affect our business or that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and other public statements we make.

Our data suppliers might restrict our use of or refuse to license data, which could lead to our inability to provide certain products or services.

Our products and services incorporate data that we collect from third parties. These suppliers of data may increase restrictions on our use of such data, fail to adhere to our quality control standards or refuse altogether to license the data to us. For example, in 2002 certain of our data suppliers in Japan began withholding certain data from us. This interruption in data supply led us to discontinue one of our Japanese products and adversely affected our operating results. If the suppliers of a significant amount of data that we use for one or more of our products or services were to impose additional contractual restrictions on our use or access to data, fail to adhere to our quality control standards, or refuse to provide data, now or in the future, our ability to provide products and services to our clients could be materially adversely impacted, which could result in decreased revenue, net income and earnings per share.

Data protection laws may restrict our activities.

Data protection laws affect our collection, use, storage and transfer of personally identifiable information both abroad and in the United States. Compliance with such laws may require investment or may dictate that we not offer certain types of products and services. Failure to comply with such laws may result in, among other things, civil and criminal liability, negative publicity, data being blocked from use and liability under contractual warranties.

In addition, there is an increasing public concern regarding data protection issues and the number of jurisdictions with data protection laws has been slowly increasing. For example, there have been a number of legislative and regulatory initiatives in the U.S. and abroad in the area of access to medical data. These initiatives tend to seek to place restrictions on the use and disclosure of patient-identifiable information without consent and, in some cases, seek to extend restrictions to non-patient identifiable information, e.g. prescriber identifiable information, or to the process of anonymizing data. There are also some initiatives that seek to restrict access to this information to non-commercial uses. While most of the current initiatives should not impact our business, there can be no assurance that these initiatives or future initiatives will not adversely affect IMS ability to generate or assemble data or to develop or market current or future products or services.

Our business is subject to exchange rate fluctuations and our revenue and net income may suffer due to currency translations.

We operate globally, deriving approximately 64% of our 2005 revenue from non-United States operations. As a result, fluctuations in the value of foreign currencies relative to the U.S. dollar increase the volatility of U.S. dollar-denominated operating results. Emerging markets currencies tend to be considerably less stable than those in established markets, which may further contribute to volatility in our U.S. dollar-denominated operating results.

As a result of devaluations and fluctuations in currency exchange rates or the imposition of limitations on conversion of foreign currencies into dollars, we are subject to currency translation exposure on the profits of our operations, in addition to economic exposure.

Our international operations present risks to our current businesses that could impede growth in the future.

International operations are subject to various risks that could adversely affect our business, including:

- costs of customizing services for foreign clients;
- reduced protection for intellectual property rights in some countries;
- the burdens of complying with a wide variety of foreign laws;
- exposure to local economic conditions; and
- exposure to local political conditions, including the risks of an outbreak of war, the escalation of hostilities, acts of terrorism and nationalization, expropriation, price controls or other restrictive government actions.

We are involved in tax related matters that could have a material effect on us.

We (and our predecessors) have entered, and we continue to enter, into global tax planning initiatives in the normal course of business. These activities are subject to review by applicable tax authorities and courts. As a result of the review process, uncertainties exist and it is possible that some of these matters could be resolved adversely to us, including those tax related matters described in Part I, Item 3 of this Quarterly Report on Form 10-Q. Moreover, there can be no assurance that we will be able to maintain our effective tax rate.

We are, and may become, involved in litigation that could harm the value of our business.

In the normal course of our business, we are involved in lawsuits, claims, audits and investigations, such as those described in Part I, Item 3 of this Quarterly Report on Form 10-Q. The outcome of these matters could have a material adverse effect on our business, results of operation or financial condition. In addition, we may become subject to future lawsuits, claims, audits and investigations that could result in substantial costs and divert our attention and resources.

Significant technological changes could render our products and services obsolete. We may not be able to develop the technology necessary for our business, or to do so efficiently.

We operate in businesses that require sophisticated data collection and processing systems and software and other technology. Some of the technologies supporting the industries we serve are changing rapidly and we must continue to develop cost-effective technologies for data collection and processing to accommodate such changes. We also must continue to deliver data to our clients in forms that are easy to use while simultaneously providing clear answers to complex questions. There can be no guarantee that we will be able to develop new technologies for data collection, processing and delivery or that we will be able to do so as quickly or cost-effectively as our competition. Significant technological change could render our products and services obsolete.

Moreover, the introduction of new products and services embodying new technologies and the emergence of new industry standards could render existing products and services obsolete. Our continued success will depend on our ability to adapt to changing technologies, manage and process ever-increasing amounts of data and information and improve the performance, features and reliability of our products and services in response to changing client and industry demands. We may experience difficulties that could delay or prevent the successful design, development, testing, introduction or marketing of our products and services. New products and services, or enhancements to existing products and services, may not adequately meet the requirements of current and prospective clients or achieve any degree of significant market acceptance.

Government imposed price restrictions on pharmaceutical companies could reduce demand for our products and services.

A number of countries in which we operate have enacted regulations limiting the prices pharmaceutical companies may charge for drugs. We believe that such cost containment measures will cause pharmaceutical companies to seek more effective means of marketing their products (which will benefit us in the medium and long-term). However, such governmental regulation may cause pharmaceutical companies to revise or reduce their marketing programs in the near term, which may in turn reduce the demand for certain of our products and services. This could result in decreased revenue, net income and earnings per share.

Our success will depend on our ability to protect our intellectual property rights.

The success of our businesses will continue to depend, in part, on:

- obtaining patent protection for our technology, products and services;
- defending our patents, copyrights and other intellectual property;
- preserving our trade secrets and maintaining the security of our know-how; and
- operating without infringing upon patents and proprietary rights held by third parties.

We rely on a combination of contractual provisions, confidentiality procedures and patent, copyright, trademark, service mark and trade secret laws to protect the proprietary aspects of our products, services, databases and technologies. There can be no assurance that these protections will be adequate, or that we will adequately employ each and every one of these protections at all times, to provide sufficient protection in the future to prevent the use or misappropriation of our data, technology and other products and services. Further, our competitors may develop products, services, databases or technologies that are substantially equivalent or superior to our products, services, databases or technologies. Although we believe that our products, services, databases, technologies and related proprietary rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us in the future. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets and to determine the validity and scope of our proprietary rights. For example, we have been involved in litigation with Insight Health GmbH & Co. KG in Germany in order to protect our proprietary mapping software. In addition, the growing need for global data, along with increased competition and technological advances, puts increasing pressure on us to share our intellectual property for client applications. Any future litigation, regardless of outcome, could result in substantial expense and diversion of resources with no assurance of success and could seriously harm our business, financial condition and operating results.

If we are unable to attract, retain and motivate employees, we will not be able to compete effectively and will not be able to expand our business.

Our success and ability to grow are dependent, in part, on our ability to hire, retain and motivate sufficient numbers of talented people, with the increasingly diverse skills needed to serve clients and expand our business, in many locations around the world. Competition for highly qualified technical and managerial, and particularly consulting personnel, is intense. Recruiting, training and retention costs and benefits place significant demands on our resources. The inability to attract qualified employees in sufficient numbers to meet particular demands or the loss of a significant number of our employees could have a serious negative effect on us, including our ability to obtain and successfully complete important client engagements and thus maintain or increase our revenues.

We may be unsuccessful in identifying acquisition candidates or evaluating the material risks involved in any acquisition.

An important aspect of the Company s business strategy in the past has been growth through acquisitions or joint ventures and we may continue to acquire or make investments in complementary businesses, technologies, services or products. There can be no assurance that we will be able to continue to identify and consummate acquisitions or joint ventures on satisfactory terms. Moreover, every acquisition and joint venture entails some degree of uncertainty and risk. For example, we may be unsuccessful in identifying and evaluating business, legal or financial risks as part of the due diligence process associated with a transaction. In addition, some acquisitions will have contingent consideration components that may require the Company to pay additional amounts in the future in relation to future performance results of the acquired business. If we do not properly assess these risks, or if we fail to realize the benefits from one or more acquisitions, our business, results of operations and financial condition could be adversely affected.

We may be unsuccessful in integrating any acquired operations with our existing business.

We may experience difficulties in integrating operations acquired from other companies. These difficulties include the diversion of management s attention from other business concerns and the potential loss of key employees of the acquired operations. Acquisitions also frequently involve significant costs, often related to integrating information technology, accounting and management services and rationalizing personnel levels. If we experience difficulties in integrating one or more acquisitions, our business, results of operations and financial condition could be adversely affected.

Consolidation in the industries in which our clients operate may put pressure on the pricing of our products and services, and could increase the cost of acquiring data, leading to decreased earnings.

Consolidation in the pharmaceutical industry could put pressure on the pricing of our information products and services, as the consolidated client seeks pricing concessions from us, and could limit available dollars for our products and services. In addition, when companies merge, the products and services they previously purchased separately are now purchased only once by the combined entity, leading to contract compression and loss of revenue. While we have experienced success in mitigating the revenue impact of any pricing pressure through effective negotiations and by providing services to individual businesses within a particular group, there can be no assurance as to the degree to which we will be able to continue to do so as consolidation continues.

Hardware and software failures, delays in the operation of our computer and communications systems or the failure to implement system enhancements may harm our business.

Our success depends on the efficient and uninterrupted operation of our computer and communications systems. A failure of our network or data gathering procedures could impede the processing of data, delivery of databases and services, client orders and day-to-day management of our business and could result in the corruption or loss of data. While many of our operations have appropriate disaster recovery plans in place, we currently do not have full backup facilities everywhere in the world to provide redundant network capacity in the event of a system failure. Despite any precautions we may take, damage from fire, floods, hurricanes, power loss, telecommunications failures, computer viruses, break-ins and similar events at our various computer facilities could result in interruptions in the flow of data to our servers and from our servers to our clients. In addition, any failure by our computer environment to provide our required data communications capacity could result in interruptions in our service. In the event of a delay in the delivery of data, we could be required to transfer our data collection operations to an alternative provider of server hosting services. Such a transfer could result in significant delays in our ability to deliver our products and services to our clients. Additionally, significant delays in the planned delivery of system enhancements, improvements and inadequate performance of the systems once they are completed could damage our reputation and harm our business. Finally, long-term disruptions in the infrastructure caused by events such as natural disasters, the outbreak of war, the escalation of hostilities, and acts of terrorism (particularly involving cities in which we have offices) could adversely affect our businesses. Although we carry property and business interruption insurance, our coverage may not be adequate to compensate us for all losses that may occur.

Changes in tax laws or their application may adversely affect our reported results.

We operate in approximately 100 countries worldwide and our earnings are subject to taxation in many differing jurisdictions and at differing rates. We seek to organize our affairs in a tax efficient manner, taking account of the jurisdictions in which we operate. Tax laws that apply to our business may be amended by the relevant authorities, for example as a result of changes in fiscal circumstances or priorities. Such amendments, or their application to our business, may adversely affect our reported results.

Our businesses are subject to significant or potential competition that is likely to intensify in the future.

Our future growth and success will be dependent on our ability to successfully compete with other companies that provide similar services in the same markets, some of which may have financial, marketing, technical and other advantages.

The success of our business will largely depend on the performance of the pharmaceutical and healthcare industries.

The vast majority of our revenues are generated from sales to the pharmaceutical and healthcare industries. To the extent the businesses we serve, especially our clients in the pharmaceutical and healthcare industries, are subject to financial pressures of, for example, price controls, increased costs or reduced demand for their products, the demand for our products and services, or the price our clients are willing to pay for those products and services, may decline.

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

Period	Total Number of Shares Purchased	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(1)
July 1-31, 2006	10,000	$	26.92	10,000	11,364,200
August 1-31, 2006	2,763,600	$	27.09	2,763,600	8,600,600
September 1-30, 2006	2,156,900	$	27.04	2,156,900	6,443,700
Total	4,930,500	$	27.07	4,930,500	6,443,700

(1) In January 2006, the Board of Directors authorized a stock repurchase program to buy up to 30,000,000 shares. As of September 30, 2006, 6,443,700 shares remained available for repurchase under the January 2006 program. 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. See Note 13 of our Notes to Condensed Consolidated Financial Statements (Unaudited) for further details.

Item 6. Exhibits

(a) Exhibits:

Exhibit Number	**Description of Exhibits**
10.1	Amended and Restated Agreement of Limited Liability Company of IMS Health Licensing Associates, L.L. C. by and among IMS Health Incorporated, Coordinated Management Systems, Inc., IMS AG, Utrecht-America Finance Co. and Edam, L.L.C., dated as of July 1, 2006 (incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K, filed on July 6, 2006).
10.2	Fourth Amended and Restated IMS Health Guaranty made by IMS Health Incorporated in favor of Utrecht-America Finance Co. and Edam, L.L.C., dated as of July 1, 2006 (incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K, filed on July 6, 2006).
10.3	$1,000,000,000 Credit Agreement, dated as of July 27, 2006, by and among IMS Health Incorporated, as a borrower, IMS AG, as a borrower, IMS Japan K.K, as a borrower, the lenders party thereto, Wachovia Bank, National Association, as administrative agent, Barclays Bank PLC and ABN Amro Bank N.V., as co-syndication agents, Suntrust Bank and Bank of America, N,A., as co-documentation agents, and Wachovia Capital Markets, LLC, as lead arranger and sole book runner (incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K, filed on August 1, 2006).
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
	By:	/s/ Leslye G. Katz
Date: November 3, 2006		Leslye G. Katz
		Vice President and Controller
		(principal accounting and acting principal financial officer)

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