DUN & BRADSTREET CORP/NW
Form 10-Q
November 03, 2006

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended September 30, 2006**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from _____ to _____**

Commission file number 1-15967

The Dun & Bradstreet Corporation
(Exact name of registrant as specified in its charter)

Delaware *(State of incorporation)*	**22-3725387** *(I.R.S. Employer Identification No.)*
103 JFK Parkway, **Short Hills, NJ** *(Address of principal executive offices)*	**07078** *(Zip Code)*

Registrant s telephone number, including area code:
(973) 921-5500

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

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

Large accelerated filer þ 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). Yes o No þ

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

Title of Class	**Shares Outstanding at September 30, 2006**
Common Stock, $0.01 par value per share	61,412,488

THE DUN & BRADSTREET CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

The Dun & Bradstreet Corporation

Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(Unaudited) (Amounts in millions, except per share data)			
Revenue	$ 359.2	$ 341.6	$ 1,093.8	$ 1,034.6
Operating Expenses	114.5	105.7	341.6	307.8
Selling and Administrative Expenses	145.8	143.4	457.7	451.8
Depreciation and Amortization	8.2	8.6	22.2	26.0
Restructuring Charge	14.2	4.7	24.2	21.6
Operating Costs	282.7	262.4	845.7	807.2
Operating Income	76.5	79.2	248.1	227.4
Interest Income	1.3	2.2	5.6	8.1
Interest Expense	(5.1)	(5.4)	(14.7)	(15.7)
Minority Interest Income (Expense)	(0.2)	(0.2)	(0.4)	0.1
Other Income (Expense) Net	(0.4)	(2.7)	(0.5)	0.5
Non-Operating Income (Expense) Net	(4.4)	(6.1)	(10.0)	(7.0)
Income Before Provision for Income Taxes	72.1	73.1	238.1	220.4
Provision for Income Taxes	26.4	41.8	88.9	90.1
Equity in Net Income of Affiliates	0.1	0.4	0.3	0.6
Net Income	$ 45.8	$ 31.7	$ 149.5	$ 130.9
Basic Earnings per Share of Common Stock	$ 0.74	$ 0.48	$ 2.33	$ 1.95
Diluted Earnings per Share of Common Stock	$ 0.72	$ 0.46	$ 2.27	$ 1.87
Weighted Average Number of Shares Outstanding Basic	61.7	66.5	64.1	67.1
Weighted Average Number of Shares Outstanding Diluted	63.4	69.2	65.9	69.9

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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The Dun & Bradstreet Corporation

Consolidated Balance Sheets (Unaudited)

(Amounts in millions, except per share data)	September 30, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 138.9	$ 195.3
Marketable Securities		109.4
Accounts Receivable, Net of Allowance of $19.7 at September 30, 2006 and $22.0 at December 31, 2005	307.1	380.3
Other Receivables	25.7	36.0
Deferred Income Tax	33.6	22.3
Other Current Assets	21.2	16.0
Total Current Assets	526.5	759.3
Non-Current Assets		
Property, Plant and Equipment, Net of Accumulated Depreciation of $183.6 at September 30, 2006 and $190.2 at December 31, 2005	45.4	44.2
Prepaid Pension Costs	475.1	470.8
Computer Software, Net of Accumulated Amortization of $340.0 at September 30, 2006 and $315.9 at December 31, 2005	52.0	32.0
Goodwill	227.8	220.2
Deferred Income Tax	34.3	37.9
Other Non-Current Assets	89.6	49.0
Total Non-Current Assets	924.2	854.1
Total Assets	$ 1,450.7	$ 1,613.4
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 37.0	$ 43.9
Accrued Payroll	87.9	108.7
Accrued Income Tax		1.5
Short-Term Debt	0.1	300.8
Other Accrued and Current Liabilities	173.4	160.5
Deferred Revenue	430.8	413.7
Total Current Liabilities	729.2	1,029.1
Pension and Postretirement Benefits	428.3	432.6

Long-Term Debt	400.4	0.1
Other Non-Current Liabilities	80.7	74.0
Total Liabilities	1,638.6	1,535.8
Contingencies (Note 7)		
Shareholders Equity		
Series A Junior Participating Preferred Stock, $0.01 par value per share, authorized 0.5 shares; outstanding none		
Preferred Stock, $0.01 par value per share, authorized 9.5 shares; outstanding none		
Series Common Stock, $0.01 par value per share, authorized 10.0 shares; outstanding none		
Common Stock, $0.01 par value per share, authorized 200.0 shares; issued 81.9 shares	0.8	0.8
Unearned Compensation		(5.4)
Capital Surplus	184.3	183.8
Retained Earnings	1,041.0	891.5
Treasury Stock, at cost, 20.5 shares at September 30, 2006 and 14.9 shares at December 31, 2005	(1,147.5)	(705.5)
Cumulative Translation Adjustment	(158.2)	(175.7)
Minimum Pension Liability Adjustment	(112.7)	(112.7)
Other Comprehensive Income	4.4	0.8
Total Shareholders Equity	(187.9)	77.6
Total Liabilities and Shareholders Equity	$ 1,450.7	$ 1,613.4

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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The Dun & Bradstreet Corporation

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2006	2005
	(Unaudited) (Amounts in millions)	
Cash Flows from Operating Activities:		
Net Income	$ 149.5	$ 130.9
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	22.2	26.0
Gain from Sales of Businesses		(0.8)
Income Tax Benefit from Stock-Based Awards	37.0	35.2
Excess Tax Benefit on Stock-Based Awards	(30.2)	
Equity-Based Compensation	15.7	9.2
Restructuring Charge	24.2	21.6
Restructuring Payments	(13.3)	(26.8)
Deferred Income Taxes, Net	(3.9)	(35.7)
Accrued Income Taxes, Net	10.7	3.5
Changes in Current Assets and Liabilities:		
Decrease in Accounts Receivable	80.7	59.7
Increase in Other Current Assets	(0.9)	(8.0)
Increase in Deferred Revenue	9.0	5.2
Decrease in Accounts Payable	(9.1)	(16.0)
(Decrease) Increase in Accrued Liabilities	(5.4)	3.6
Decrease in Other Accrued and Current Liabilities	(8.1)	(9.1)
Changes in Non-Current Assets and Liabilities:		
Increase in Other Long-Term Assets	(38.9)	(13.8)
Decrease in Long-Term Liabilities	(5.9)	(26.1)
Other, Net	1.8	0.5
Net Cash Provided by Operating Activities	235.1	159.1
Cash Flows from Investing Activities:		
Investments in Marketable Securities	(149.6)	(99.0)
Redemptions of Marketable Securities	259.0	181.6
Proceeds from Sales of Businesses, Net of Cash Divested		18.5
Payments for Acquisitions of Businesses, Net of Cash Acquired	(8.3)	(17.9)
Cash Settlements of Foreign Currency Contracts	(2.5)	0.1
Capital Expenditures	(9.2)	(4.5)
Additions to Computer Software and Other Intangibles	(31.2)	(13.4)
Other, Net	0.1	0.6
Net Cash Provided by Investing Activities	58.3	66.0

Cash Flows from Financing Activities:		
Payments for Purchases of Treasury Shares	(511.6)	(207.6)
Net Proceeds from Stock-Based Awards	30.8	18.5
Spin-off Obligation	(20.9)	(9.2)
Payment of Debt	(300.0)	
Proceeds from Issuance of Long-Term Debt	299.2	
Proceeds from Borrowings on Credit Facilities	207.5	2.0
Payments of Borrowings on Credit Facilities	(106.5)	(1.0)
Payment of Bond Issue Costs	(2.2)	
Termination of Interest Rate Derivatives	5.0	
Excess Tax Benefit on Stock-Based Awards	30.2	
Other, Net	0.2	0.3
Net Cash Used in Financing Activities	(368.3)	(197.0)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	18.5	(16.4)
Decrease in Cash and Cash Equivalents	(56.4)	11.7
Cash and Cash Equivalents, Beginning of Period	195.3	252.9
Cash and Cash Equivalents, End of Period	$ 138.9	$ 264.6
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for:		
Income Taxes, Net of Refunds	$ 45.1	$ 87.1
Interest	$ 19.1	$ 18.8

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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THE DUN & BRADSTREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Tabular dollar amounts in millions, except per share data)

Note 1 Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with the instructions to the Quarterly Report on Form 10-Q. They should be read in conjunction with the consolidated financial statements and related notes, which appear in The Dun & Bradstreet Corporation s (D&B, we or our) Annual Report on Form 10-K for the year ended December 31, 2005. The consolidated results for interim periods do not include all disclosures required by accounting principles generally accepted in the United States of America for annual financial statements and are not necessarily indicative of results for the full year or any subsequent period. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the consolidated financial position, results of operations and cash flows at the dates and for the periods presented have been included.

All significant inter-company transactions have been eliminated in consolidation.

The financial statements of the subsidiaries outside the United States (U.S.) and Canada reflect three month and nine month periods ended August 31, 2006 and 2005, in order to facilitate timely reporting of our unaudited consolidated financial results.

Where appropriate, we have reclassified certain prior period amounts to conform to our current presentation.

Significant Accounting Policies

In preparing our unaudited consolidated financial statements and accounting for the underlying transactions and balances reflected therein, we have applied the significant accounting policies described in Note 1 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005. During the nine months ended September 30, 2006, we updated the significant accounting policy titled Stock-Based Compensation as follows:

Stock-Based Awards

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) or SFAS No. 123R, or Share-Based Payments, requiring the recognition of compensation expense in the income statement related to the fair value of our employee stock options and our 15% discount from market value, subject to limitations, under our Employee Stock Purchase Plan (ESPP). Determining the fair value of stock options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Judgment is also required in estimating the amount of stock-based awards expected to be forfeited prior to vesting. For further detail on Stock-Based Awards, see Note 9 to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Note 2 Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (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), or SFAS No. 158, which requires the recognition of the underfunded or overfunded status of defined benefit

postretirement plans (other than multiemployer plans) as an asset or liability in its statement of financial position and to recognize changes in the funded status through comprehensive income in the year in which the changes occur. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the employer s fiscal year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for recognition of the funded status of the benefit plans for fiscal years ending after December 15, 2006 and is effective for the measurement date provisions for fiscal years ending after December 15, 2008. As of September 30, 2006, we currently estimate that we will reduce our total assets by approximately $230 million

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THE DUN & BRADSTREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(Tabular dollar amounts in millions, except per share data)

to $250 million, our total liabilities by approximately $20 million to $30 million and our shareholders equity by approximately $210 million to $220 million, net of tax of approximately $115 million to $125 million.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) in the United States of America and expands fair value measurement disclosures. SFAS No. 157 does not require new fair value measurements and is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently assessing the impact the adoption of SFAS No. 157 will have, if any, on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, or SAB No. 108, which provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 in the third quarter of 2006 did not have an impact on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, or FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation sets forth 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. We plan to adopt the provisions of FIN 48 as required on January 1, 2007. The cumulative effect of applying FIN 48, if any, will be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. We are currently assessing the impact, if any, that the adoption of FIN 48 will have on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, or SFAS No. 154, which changes the accounting and reporting requirements for a change in accounting principle. Accounting Principle Board (APB) Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, are superseded by SFAS No. 154, which requires retrospective application to prior periods financial statements of changes in an accounting principle. SFAS No. 154 applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 also defines a restatement as the revising of previously issued financial statements to reflect the correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 in the first quarter of 2006 did not have an impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123R which revises SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. This standard requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the award (with limited exceptions). The cost will be recognized over the period that an employee provides service in exchange for the award, which normally would be

the vesting period. We adopted SFAS No. 123R on January 1, 2006, as required by the SEC, under the Modified Prospective method. During the three month and nine month periods ended September 30, 2006, we incurred additional expenses of approximately $3.1 million and $10.5 million, respectively, related to stock options and our ESPP. In addition, SFAS No. 123R also requires the benefits of tax deductions in excess of the tax impact of recognized compensation expense to be reported as cash flows from financing activities, rather than cash

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(Tabular dollar amounts in millions, except per share data)

flows from operating activities. As a result, we reclassified $30.2 million from net cash flows from operating activities to net cash used in financing activities during the nine months ended September 30, 2006.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law. The Act provides a deduction from income for qualified domestic production activities, which will be phased in from 2005 through 2010. The Act also provides for a two-year phase-out of the existing extra-territorial income exclusion for foreign sales. In December 2004, the FASB issued Financial Statement Position (FSP) No. FAS 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. FSP No. FAS 109-1 provides guidance on the accounting implications of the Act related to the deduction for qualified domestic production activities. The deduction will be treated as a special deduction as described in SFAS No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. In May 2006, the Treasury and the Internal Revenue Service issued final regulations relating to the domestic production activities. Based on these regulations, during the nine months ended September 30, 2006, we recorded tax benefits relating to this deduction in our effective tax rate of approximately $0.6 million, of which $0.4 million related to the nine months ended September 30, 2006 and $0.2 million related to the year ended December 31, 2005. We anticipate recording a tax benefit of approximately $0.7 million (inclusive of the $0.2 million related to the year ended December 31, 2005) for the year ended December 31, 2006.

Note 3 Impact of Implementation of the Blueprint for Growth Strategy

Restructuring Charge

Since the launch of our Blueprint for Growth Strategy, we have implemented Financial Flexibility Programs. In each of these Programs, we identified ways to reduce our expense base and reallocated some of the identified spending to other areas of our operations to drive revenue growth. With each Program, we have incurred restructuring charges (which generally consist of employee severance and termination costs, contract terminations, asset write-offs, and/or costs to terminate lease obligations less assumed sublease income). These charges are incurred as a result of eliminating, consolidating, standardizing, automating and/or outsourcing operations of our business. We have also incurred transition costs such as consulting fees, costs of temporary workers, relocation costs and stay bonuses to implement our Financial Flexibility Programs.

For the three month and nine month periods ended September 30, 2006 and 2005 the restructuring charges were recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Under SFAS No. 146 the current period charge represents the liabilities incurred during the quarter for each of these obligations. The curtailment gains were recorded in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions and the curtailment charges were recorded in accordance with SFAS No. 87, Employers Accounting for Pensions and SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.

Three Months Ended September 30, 2006 vs. Three Months Ended September 30, 2005

During the three months ended September 30, 2006, we recorded a $14.0 million restructuring charge in connection with the Financial Flexibility Program announced in February 2006 (2006 Financial Flexibility Program) and a

$0.2 million restructuring charge in connection with the Financial Flexibility Program announced in February 2005 (2005 Financial Flexibility Program). The components of these charges included:

- severance and termination costs of $4.5 million associated with approximately 100 employees related to the 2006 Financial Flexibility Program and $0.1 million associated with approximately 5 employees related to the 2005 Financial Flexibility Program. During the three months ended September 30, 2006, approximately 50 positions were eliminated in conjunction with our 2006 Financial Flexibility Program; and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(Tabular dollar amounts in millions, except per share data)

lease termination obligations, other costs to consolidate or close facilities and other exit costs of $9.5 million and $0.1 million related to the 2006 Financial Flexibility Program and 2005 Financial Flexibility Program, respectively.

During the three months ended September 30, 2005, we recorded a $4.5 million restructuring charge in connection with the 2005 Financial Flexibility Program and a $0.2 million net restructuring charge for the International Business Machines Corporation (IBM) outsourcing agreement in connection with the Financial Flexibility Program announced in February 2004 (2004 Financial Flexibility Program). The components of these charges and gains included:

severance and termination costs of $4.1 million associated with approximately 60 employees related to the 2005 Financial Flexibility Program and $0.3 million associated with approximately 50 employees related to the 2004 Financial Flexibility Program. During the three months ended September 30, 2005, approximately 44 positions and 24 positions were eliminated in conjunction with our 2005 Financial Flexibility Program and 2004 Financial Flexibility Program, respectively;

other costs to consolidate or close facilities and other exit costs of $0.3 million related to the 2005 Financial Flexibility Program;

curtailment charge of $0.1 million related to our U.S. Qualified Plan for the 2005 Financial Flexibility Program. In accordance with SFAS No. 87 and SFAS No. 88, we were required to recognize a one-time curtailment charge to the U.S. Qualified Plan related to the headcount actions of the 2005 Financial Flexibility Program. The curtailment accounting requirement of SFAS No. 88 required us to recognize immediately a pro-rata portion of the unrecognized prior service cost and the cost of any special charges related to benefit enhancements that might occur as a result of employee termination actions, such as full vesting; and

curtailment gain of $0.1 million related to our U.S. postretirement benefit plan resulting from employee termination actions for the 2004 Financial Flexibility Program. In accordance with SFAS No. 106, we were required to recognize immediately a pro-rata portion of the unrecognized prior service cost as a result of the employee terminations.

Nine Months Ended September 30, 2006 vs. Nine Months Ended September 30, 2005

During the nine months ended September 30, 2006, we recorded a $22.1 million restructuring charge in connection with the 2006 Financial Flexibility Program, a $2.4 million net restructuring charge in connection with the 2005 Financial Flexibility Program and a $0.3 million net restructuring curtailment gain in connection with the 2004 Financial Flexibility Program. The components of these charges and gains included:

severance and termination costs of $11.7 million associated with approximately 150 employees related to the 2006 Financial Flexibility Program and $2.1 million associated with approximately 25 employees related to the 2005 Financial Flexibility Program. During the nine months ended September 30, 2006, approximately 180 positions and 25 positions were eliminated in conjunction with our 2006 Financial Flexibility Program and 2005 Financial Flexibility Program, respectively. As part of the ongoing reengineering effort, approximately 20 new

positions were created and filled due to office consolidations, relocations and job function changes under our 2006 Financial Flexibility Program;

lease termination obligations, other costs to consolidate or close facilities and other exit costs of $10.4 million related to the 2006 Financial Flexibility Program and $0.4 million related to the 2005 Financial Flexibility Program; and

curtailment gains of $0.1 million for the 2005 Financial Flexibility Program and $0.3 million for the 2004 Financial Flexibility Program related to our U.S. postretirement benefit plan resulting from employee

THE DUN & BRADSTREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(Tabular dollar amounts in millions, except per share data)

termination actions. In accordance with SFAS No. 106, we were required to recognize immediately a pro-rata portion of the unrecognized prior service cost as a result of the employee terminations.

During the nine months ended September 30, 2005, we recorded a $22.0 million restructuring charge in connection with the 2005 Financial Flexibility Program and a $0.4 million net restructuring gain in connection with the 2004 Financial Flexibility Program. The components of these charges and gains included:

severance and termination costs of $20.2 million associated with approximately 340 employees related to the 2005 Financial Flexibility Program and $5.4 million associated with approximately 630 employees related to the 2004 Financial Flexibility Program. During the nine month period ended September 30, 2005, approximately 325 positions and 340 positions were eliminated in conjunction with our 2005 Financial Flexibility Program and 2004 Financial Flexibility Program, respectively;

lease termination obligations, other costs to consolidate or close facilities and other exit costs of $1.4 million related to the 2005 Financial Flexibility Program;

curtailment charge of $0.3 million related to our UK Pension Plan and $0.1 million related to our U.S. Qualified Plan for the 2005 Financial Flexibility Program. In accordance with SFAS No. 87 and SFAS No. 88 we were required to recognize a one-time curtailment charge to our plans related to the headcount actions of the 2005 Financial Flexibility Program. The curtailment accounting requirement of SFAS No. 88 required us to recognize immediately a pro-rata portion of the unrecognized prior service cost and the cost of any special charges related to benefit enhancements that might occur as a result of employee termination actions, such as full vesting; and

curtailment gain of $5.8 million related to our U.S. postretirement benefit plan resulting from employee termination actions for the 2004 Financial Flexibility Program. In accordance with SFAS No. 106, we were required to recognize immediately a pro-rata portion of the unrecognized prior service cost as a result of the employee terminations.

Since the launch of our Blueprint for Growth Strategy, we have eliminated approximately 5,000 positions through September 30, 2006, which included approximately 300 open positions, and approximately 4,700 employees that were terminated (via attrition and termination) under our Financial Flexibility Programs. These figures include the 220 employees who were transitioned to IBM as part of the 2004 Financial Flexibility Program and approximately 400 employees who were transitioned to Computer Sciences Corporation (CSC) as part of the 2002 Financial Flexibility Program. Under the terms of the CSC agreement, we outsourced certain technology functions in which approximately 400 of our employees who performed data center operations, technology help desk and network management functions in the U.S. and in the UK were transitioned to CSC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(Tabular dollar amounts in millions, except per share data)

The following table sets forth, in accordance with SFAS No. 146, the restructuring reserves and utilization related to our 2006 Financial Flexibility Program.

	Severance and Termination	Pension Plan/ Postretirement Curtailment Charges (Gains)	Lease Termination Obligations and Other Exit Costs	Total
2006 Restructuring Charges				
Charge Taken during First Quarter 2006	$ 4.6	$	$	$ 4.6
Payments during First Quarter 2006	(0.8)			(0.8)
Balance Remaining as of March 31, 2006	$ 3.8	$	$	$ 3.8
Charge Taken during Second Quarter 2006	$ 2.6	$	$ 0.9	$ 3.5
Payments during Second Quarter 2006	(1.7)		(0.1)	(1.8)
Balance Remaining as of June 30, 2006	$ 4.7	$	$ 0.8	$ 5.5
Charge Taken during Third Quarter 2006	$ 4.5	$	$ 9.5	$ 14.0
Payments during Third Quarter 2006	(2.3)		(2.0)	(4.3)
Balance Remaining as of September 30, 2006	$ 6.9	$	$ 8.3	$ 15.2

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The following table sets forth, in accordance with SFAS No. 146, the restructuring reserves and utilization related to our 2005 Financial Flexibility Program.

	Severance and Termination	Pension Plan/ Postretirement Curtailment Charges (Gains)	Lease Termination Obligations and Other Exit Costs	Total
2005 Restructuring Charges				
Charge Taken during First Quarter 2005	$ 7.9	$	$ 0.3	$ 8.2
Payments during First Quarter 2005	(2.4)		(0.2)	(2.6)
Balance Remaining as of March 31, 2005	$ 5.5	$	$ 0.1	$ 5.6
Charge Taken during Second Quarter 2005	$ 8.2	$ 0.3	$ 0.8	$ 9.3
Payments/Pension Plan Curtailment Charge during Second Quarter 2005	(5.0)	(0.3)	(0.1)	(5.4)
Balance Remaining as of June 30, 2005	$ 8.7	$	$ 0.8	$ 9.5
Charge Taken during Third Quarter 2005	$ 4.1	$ 0.1	$ 0.3	$ 4.5
Payments/Pension Plan Curtailment Charge during Third Quarter 2005	(6.8)	(0.1)	(0.3)	(7.2)
Balance Remaining as of September 30, 2005	$ 6.0	$	$ 0.8	$ 6.8
Charge Taken during Fourth Quarter 2005	$ 3.1	$ 2.4	$ 3.3	$ 8.8
Payments/Pension Plan and Postretirement Curtailment, Net Charges during Fourth Quarter 2005	(2.2)	(2.4)	(3.1)	(7.7)
Balance Remaining as of December 31, 2005	$ 6.9	$	$ 1.0	$ 7.9
Charge Taken during First Quarter 2006	$ 1.7	$	$ 0.3	$ 2.0
Payments during First Quarter 2006	(2.7)			(2.7)
Balance Remaining as of March 31, 2006	$ 5.9	$	$ 1.3	$ 7.2
Charge Taken during Second Quarter 2006	$ 0.3	$ (0.1)	$	$ 0.2
Payments during Second Quarter 2006	(1.4)	0.1	(0.2)	(1.5)

Balance Remaining as of June 30, 2006	$	4.8	$		$	1.1	$ 5.9
Charge Taken during Third Quarter 2006	$	0.1	$		$	0.1	$ 0.2
Payments during Third Quarter 2006		(1.2)					(1.2)
Balance Remaining as of September 30, 2006	$	3.7	$		$	1.2	$ 4.9

Actions under the 2004 Financial Flexibility Program have been substantially completed.

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Note 4 Notes Payable and Indebtedness

Our borrowings are summarized in the following table:

	September 30, 2006		December 31, 2005	
Debt Maturing Within One Year:				
Fixed-Rate Notes	$		$	300.0
Other		0.1		0.8
Total Debt Maturing Within One Year	$	0.1	$	300.8
Debt Maturing After One Year:				
Long-Term Fixed-Rate Notes (Net of $0.7 million discount as of September 30, 2006)	$	299.3	$	
Credit Facilities		101.0		
Other		0.1		0.1
Total Debt Maturing After One Year	$	400.4	$	0.1

Fixed-Rate Notes

In March 2006, we issued senior notes with a face value of $300 million that mature on March 15, 2011 (the 2011 notes), bearing interest at a fixed annual rate of 5.50%, payable semi-annually. The proceeds were used to repay our existing $300 million notes which matured on March 15, 2006. The 2011 notes of $299.3 million, net of $0.7 million of discount, are recorded as Long-Term Debt in our consolidated balance sheet at September 30, 2006. The $300 million notes that matured on March 15, 2006 were recorded as Short-Term Debt at December 31, 2005.

The 2011 notes were issued at a discount of $0.8 million and we incurred underwriting and other fees in the amount of approximately $2.2 million. These costs are being amortized over the life of the 2011 notes. The 2011 notes contain certain covenants that limit our ability to create liens, enter into sale and leaseback transactions and consolidate, merge or sell assets to another entity. The 2011 notes do not contain any financial covenants.

On September 30, 2005 and February 10, 2006, we entered into interest rate derivative transactions with aggregate notional amounts of $200 million and $100 million, respectively. The objective of these hedges was to mitigate the variability of future cash flows from market changes in Treasury rates in the anticipation of the above referenced debt issuance. These transactions were accounted for as cash flow hedges, and as such, changes in fair value of the hedges that took place through the date of debt issuance were recorded in accumulated other comprehensive income. In connection with the issuance of the 2011 notes, these interest rate derivative transactions were terminated, resulting in proceeds of approximately $5.0 million at the dates of termination. The proceeds are recorded in other comprehensive

income and will be amortized over the life of the 2011 notes.

Credit Facilities

At September 30, 2006 and December 31, 2005, we had a $300 million bank credit facility available at prevailing short-term interest rates, which expires in September 2009. At September 30, 2006, we had $101.0 million of borrowings outstanding under this facility with a weighted average interest rate of 5.61%. We borrowed under our facility during the nine months ended September 30, 2006 primarily to fund our share repurchase program. We had not drawn on the facility and we did not have any borrowings outstanding under this facility at December 31, 2005. This facility also supports our commercial paper borrowings up to $300 million (reduced by borrowed amounts outstanding under the facility). We had not borrowed under our commercial paper

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program as of September 30, 2006 and December 31, 2005. The facility requires the maintenance of interest coverage and total debt to EBITDA ratios (each as defined in the agreement). We were in compliance with these requirements at September 30, 2006 and December 31, 2005.

Other

At September 30, 2006 and December 31, 2005, we had $0.1 million and $0.8 million, respectively, of capital lease obligations maturing within one year. At September 30, 2006 and December 31, 2005, we had $0.1 million of capital lease obligations maturing after one year.

At September 30, 2006 and December 31, 2005, certain of our international operations had non-committed lines of credit of $15.1 million and $17.2 million, respectively. There were no borrowings outstanding under these lines of credit at September 30, 2006 and December 31, 2005. These arrangements have no material commitment fees and no compensating balance requirements.

At September 30, 2006 and December 31, 2005, we were contingently liable under open standby letters of credit issued by our bank in favor of third parties totaling $4.9 million and $7.9 million, respectively.

During the three month and nine month periods ended September 30, 2006, interest paid totaled $9.0 million and $19.1 million, respectively. During the three month and nine month periods ended September 30, 2005, interest paid totaled $9.9 million and $18.8 million, respectively.

Note 5 Reconciliation of Weighted Average Shares Outstanding

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
	(Share data in millions)			
Weighted average number of shares outstanding basic	61.7	66.5	64.1	67.1
Dilutive effect of our stock incentive programs	1.7	2.7	1.8	2.8
Weighted average number of shares outstanding diluted	63.4	69.2	65.9	69.9

Stock-based awards to acquire 0.9 million and 0.1 million shares of common stock were outstanding at September 30, 2006 and 2005, respectively, but were not included in the quarterly or year-to-date computations of diluted earnings per share because the assumed proceeds, as calculated under the treasury stock method, resulted in these awards being anti-dilutive. Our stock options generally expire 10 years after the grant date.