DUN & BRADSTREET CORP/NW
Form 10-Q
May 05, 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 March 31, 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	**22-3725387**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
103 JFK Parkway, Short Hills, NJ	**07078**
(Address of principal executive offices	**(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 March 31, 2006

Common Stock, par value $0.01 per share	66,285,112

THE DUN & BRADSTREET CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

The Dun & Bradstreet Corporation
Consolidated Statements of Operations

	Three Months Ended March 31, 2006	2005
	(Unaudited) (Amounts in millions, except per share data)	
Revenue	$ 367.2	$ 341.3
Operating Expenses	109.4	95.1
Selling and Administrative Expenses	158.9	155.2
Depreciation and Amortization	6.5	8.6
Restructuring Charge	6.4	10.4
Operating Costs	281.2	269.3
Operating Income	86.0	72.0
Interest Income	2.7	2.8
Interest Expense	(5.4)	(5.3)
Minority Interest	(0.1)	0.7
Other (Expense) Income Net	(0.5)	(0.2)
Non-Operating (Expense) Income Net	(3.3)	(2.0)
Income Before Provision for Income Taxes	82.7	70.0
Provision for Income Taxes	31.3	18.1
Equity in Net Income of Affiliates	0.1	0.2
Net Income	$ 51.5	$ 52.1
Basic Earnings per Share of Common Stock	$ 0.77	$ 0.76
Diluted Earnings per Share of Common Stock	$ 0.75	$ 0.73
Weighted Average Number of Shares Outstanding Basic	66.4	68.5
Weighted Average Number of Shares Outstanding Diluted	68.4	71.4

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

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The Dun & Bradstreet Corporation
Consolidated Balance Sheets

	March 31, 2006	December 31, 2005
	(Unaudited) (Amounts in millions, except per share data)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 126.1	$ 195.3
Marketable Securities	103.2	109.4
Accounts Receivable Net of Allowance of $21.6 at March 31, 2006 and $22.0 at December 31, 2005	372.3	380.3
Other Receivables	32.2	36.0
Deferred Income Tax	24.2	22.3
Other Current Assets	15.4	16.0
Total Current Assets	673.4	759.3
Non-Current Assets		
Property, Plant and Equipment, Net of Accumulated Depreciation of $193.7 at March 31, 2006 and $190.2 at December 31, 2005	43.3	44.2
Prepaid Pension Costs	472.6	470.8
Computer Software, Net of Accumulated Amortization of $322.4 at March 31, 2006 and $315.9 at December 31, 2005	32.7	32.0
Goodwill	222.6	220.2
Deferred Income Tax	39.5	37.9
Other Non-Current Assets	92.2	49.0
Total Non-Current Assets	902.9	854.1
Total Assets	$ 1,576.3	$ 1,613.4
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 32.7	$ 43.9
Accrued Payroll	56.8	108.7
Accrued Income Tax	0.3	1.5
Short-Term Debt	1.1	300.8
Other Accrued and Current Liabilities	147.1	160.5
Deferred Revenue	476.2	413.7
Total Current Liabilities	714.2	1,029.1
Pension and Postretirement Benefits	431.7	432.6
Long-Term Debt	299.3	0.1
Other Non-Current Liabilities	73.2	74.0

Total Liabilities	1,518.4	1,535.8
Commitments and 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	179.9	183.8
Retained Earnings	942.9	891.5
Treasury Stock, at cost, 15.7 shares at March 31, 2006 and 14.9 shares at December 31, 2005	(786.5)	(705.5)
Cumulative Translation Adjustment	(171.4)	(175.7)
Minimum Pension Liability Adjustment	(112.7)	(112.7)
Other Comprehensive Income	4.9	0.8
Total Shareholders Equity	57.9	77.6
Total Liabilities and Shareholders Equity	$ 1,576.3	$ 1,613.4

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

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The Dun & Bradstreet Corporation
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2006	2005
	(Dollar amounts in millions) (Unaudited)	
Cash Flows from Operating Activities:		
Net Income	$ 51.5	$ 52.1
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6.5	8.6
Income Tax Benefit from Stock-Based Awards	23.8	2.5
Excess Tax Benefit on Stock-Based Awards	(18.1)	
Amortization of Stock-Based Awards	8.5	8.5
Restructuring Expense	6.4	10.4
Restructuring Payments	(3.9)	(6.7)
Deferred Income Taxes, Net	0.8	1.2
Accrued Income Taxes, Net	2.4	3.2
Changes in Current Assets and Liabilities:		
Decrease in Accounts Receivable	7.1	4.0
Net Decrease (Increase) in Other Current Assets	3.0	(4.8)
Increase in Deferred Revenue	60.7	67.8
Decrease in Accounts Payable	(15.0)	(17.4)
Net Decrease in Accrued Liabilities	(49.0)	(54.3)
Net Decrease in Other Accrued and Current Liabilities	(6.7)	(5.6)
Changes in Non-Current Assets and Liabilities:		
Increase in Other Long-Term Assets	(38.6)	(3.9)
Net (Increase) Decrease in Long-Term Liabilities	(3.5)	1.2
Net, Other Non-Cash Adjustments	0.3	0.1
Net Cash Provided by Operating Activities	36.2	66.9
Cash Flows from Investing Activities:		
Investments in Marketable Securities	(139.6)	(48.2)
Redemptions of Marketable Securities	145.8	96.4
Proceeds from Sales of Businesses, Net of Cash Divested		(1.5)
Payments for Acquisitions of Businesses, Net of Cash Acquired	(7.6)	(1.3)
Cash Settlements of Foreign Currency Contracts	(0.2)	(1.9)
Capital Expenditures	(1.6)	(3.1)
Additions to Computer Software and Other Intangibles	(4.1)	(1.5)
Net, Other	(0.5)	0.1
Net Cash (Used in) Provided by Investing Activities	(7.8)	39.0
Cash Flows from Financing Activities:		

Payments for Purchases of Treasury Shares		(122.5)		(74.2)
Net Proceeds from Stock-Based Awards		20.0		8.5
Spin-Off Obligation		(20.9)		
Payment of Debt		(300.0)		
Proceeds from Issuance of Long-Term Debt		299.2		
Payment of Bond Issue Costs		(2.2)		
Termination of Interest Rate Derivative		5.0		
Excess Tax Benefit on Stock-Based Awards		18.1		
Net, Other		0.8		0.1
Net Cash Used in Financing Activities		(102.5)		(65.6)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		4.9		2.2
(Decrease) Increase in Cash and Cash Equivalents		(69.2)		42.5
Cash and Cash Equivalents, Beginning of Period		195.3		252.9
Cash and Cash Equivalents, End of Period	$	126.1	$	295.4
Supplemental Disclosure of Cash Flow Information:				
Cash Paid				
Income Taxes, Net of Refunds	$	4.3	$	11.2
Interest	$	10.1	$	8.5

The accompanying notes are an integral part of the 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 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 or We) 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.

Significant Accounting Policies

In preparing our 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 three months ended March 31, 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, Share-Based Payments, requiring the recognition of compensation expense in the income statement related to the fair value of our employee stock options. 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 8 to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Note 2 Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R which revises SFAS No. 123, Accounting for Stock-Based Compensation, and supercedes Accounting Principle Board (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. The standard has two transition application methods to choose from. They are the Modified Prospective application or Modified Retrospective application. Under the Modified Prospective application, compensation cost is recognized for new grants and modifications made after the required effective date, plus the remaining unrecognized expense associated with previously issued awards that are not vested as of the date of adoption. Prior periods remain unchanged and pro forma disclosures previously required by SFAS No. 123 continue to be required. Under the Modified Retrospective application, a company is required to restate its financial statements back either (a) to all prior years for which SFAS No. 123 was effective or (b) to only prior interim periods in the year in which SFAS No. 123R is adopted. In April 2005, the Securities and Exchange Commission (SEC) announced the adoption of a rule that deferred the required effective date of SFAS No. 123R. The SEC rule states that SFAS No. 123R is effective for

THE DUN & BRADSTREET CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(Tabular dollar amounts in millions, except per share data)

registrants as of the beginning of the first fiscal year beginning after June 15, 2005, instead of the beginning of the first quarter after June 15, 2005 (as prescribed originally by the FASB Statement). Accordingly, we deferred the adoption of SFAS No. 123R until January 1, 2006 at which time we began to utilize the Modified Prospective application. During the three months ended March 31, 2006, we incurred additional expenses of approximately $4.0 million related to stock options and our Employee Stock Purchase Plan (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 flows from operating activities. As a result, we reclassified $18.1 million from net cash flows from operating activities to net cash used in financing activities during the three months ended March 31, 2006.

In December 2004, the FASB issued (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. 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. In return, the Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (ETI) for foreign sales. 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. Rather, the impact of this deduction, if any, will be reported in the period in which the deduction is claimed on our tax return. Until final U.S. treasury regulations are issued on this matter, management will be unable to determine the full impact, if any, this will have on our effective income tax rate.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which changes the accounting and reporting requirements for a change in accounting principle. APB Opinion 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.

Note 3 Impact of Implementation of the Blueprint for Growth Strategy

Restructuring Charges

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, then we reallocated some of the identified spending to other areas of our operations to improve 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.

During the three months ended March 31, 2006, we recorded a $4.6 million restructuring charge in connection with the Financial Flexibility Program announced in February 2006 (2006 Financial Flexibility

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THE DUN & BRADSTREET CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
(Tabular dollar amounts in millions, except per share data)

Program), a $2.0 million restructuring charge in connection with the Financial Flexibility Program announced in February 2005 (2005 Financial Flexibility Program) and a $0.2 million net restructuring curtailment gain in connection with the Financial Flexibility Program announced in February 2004 (2004 Financial Flexibility Program). The restructuring charges were recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The curtailment gain was recorded in accordance with SFAS 106, Employers Accounting for Postretirement Benefits Other Than Pensions. The components of these charges and gains included:

severance and termination costs of $4.6 million associated with approximately 50 positions related to the 2006 Financial Flexibility Program and $1.7 million associated with approximately 25 positions related to the 2005 Financial Flexibility Program;

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

curtailment gain of $0.2 million related to the 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.

During the three months ended March 31, 2005, we recorded an $8.2 million restructuring charge in connection with the 2005 Financial Flexibility Program and a $2.2 million net restructuring charge primarily for the International Business Machines Corporation (IBM) outsourcing agreement in connection with the 2004 Financial Flexibility Program. The restructuring charges were recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The components of these charges and gains included:

severance and termination costs of $7.9 million associated with approximately 270 positions related to the 2005 Financial Flexibility Program and $5.0 million associated with approximately 400 positions related to the 2004 Financial Flexibility Program;

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

curtailment gain of $2.8 million related to the 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 4,900 positions through March 31, 2006 which included 300 open positions and terminated (via attrition and termination) approximately 4,600 employees under our Financial Flexibility Programs since inception in October 2000. These figures include the 220 employees who were transitioned to IBM as part of the 2004 Financial Flexibility Program and the 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 United States and in the United Kingdom 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 to date 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

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