

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

October 29, 2010

[Table of Contents](#)

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form 10-Q

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

For the quarterly period ended September 30, 2010

or

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

Commission file number: 1-6686

## THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of

**13-1024020**

(I.R.S. Employer

incorporation or organization)

Identification No.)

**1114 Avenue of the Americas, New York, New York 10036**

(Address of principal executive offices) (Zip Code)

**(212) 704-1200**

(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 such filing requirements for the past 90 days.

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the registrant's common stock outstanding as of October 15, 2010 was 488,735,381.

**Table of Contents**

**INDEX**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009</u>	2
<u>Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>	4
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Nine Months Ended September 30, 2010 and 2009</u>	5
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	36
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 6. <u>Exhibits</u>	38
<u>SIGNATURES</u>	39
<u>INDEX TO EXHIBITS</u>	40

**INFORMATION REGARDING FORWARD-LOOKING DISCLOSURE**

This quarterly report on Form 10-Q contains forward-looking statements. Statements in this report that are not historical facts, including statements about management's beliefs and expectations, constitute forward-looking statements. Without limiting the generality of the foregoing, words such as may, will, expect, believe, anticipate, intend, could, would, estimate, continue or comparable terminology are used in forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined under Item 1A, Risk Factors, in our most recent annual report on Form 10-K. Forward-looking statements speak only as of the date they are made and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, the following:

potential effects of a challenging economy, for example, on the demand for our advertising and marketing services, on our clients' financial condition and on our business or financial condition;

our ability to attract new clients and retain existing clients;

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

our ability to retain and attract key employees;

risks associated with assumptions we make in connection with our critical accounting estimates, including changes in assumptions associated with any effects of a weakened economy;

potential adverse effects if we are required to recognize impairment charges or other adverse accounting-related developments;

risks associated with the effects of global, national and regional economic and political conditions, including counterparty risks and fluctuations in economic growth rates, interest rates and currency exchange rates; and

developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world.

Investors should carefully consider these factors and the additional risk factors outlined in more detail under Item 1A, Risk Factors, in our most recent annual report on Form 10-K.

**Table of Contents****Part I FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>REVENUE</b>	\$ 1,560.8	\$ 1,426.7	\$ 4,519.9	\$ 4,226.4
<b>OPERATING EXPENSES:</b>				
Salaries and related expenses	1,007.1	943.5	2,977.4	2,908.4
Office and general expenses	452.1	425.4	1,322.2	1,245.4
Restructuring and other reorganization-related charges (reversals), net	1.4	(0.5)	2.3	(0.7)
Total operating expenses	1,460.6	1,368.4	4,301.9	4,153.1
<b>OPERATING INCOME</b>	100.2	58.3	218.0	73.3
<b>EXPENSES AND OTHER INCOME:</b>				
Interest expense	(34.7)	(37.8)	(102.3)	(117.7)
Interest income	6.8	7.6	19.4	28.0
Other (expense) income, net	(3.1)	1.0	(4.7)	(17.4)
Total (expenses) and other income	(31.0)	(29.2)	(87.6)	(107.1)
<b>Income (loss) before income taxes</b>	69.2	29.1	130.4	(33.8)
Provision for (benefit of) income taxes	24.4	3.7	72.4	(18.0)
<b>Income (loss) of consolidated companies</b>	44.8	25.4	58.0	(15.8)
Equity in net income (loss) of unconsolidated affiliates	0.8	0.5	0.4	(0.5)
<b>NET INCOME (LOSS)</b>	45.6	25.9	58.4	(16.3)
Net (income) loss attributable to noncontrolling interests	(0.3)	(1.8)	4.8	1.2
<b>NET INCOME (LOSS) ATTRIBUTABLE TO IPG</b>	45.3	24.1	63.2	(15.1)
Dividends on preferred stock	(2.9)	(6.9)	(12.7)	(20.7)
Benefit from preferred stock repurchased	0.0	0.0	25.7	0.0
<b>NET INCOME (LOSS) AVAILABLE TO IPG COMMON STOCKHOLDERS</b>	\$ 42.4	\$ 17.2	\$ 76.2	\$ (35.8)

# Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Earnings (loss) per share available to IPG common stockholders:					
Basic	\$	0.09	\$	0.04	\$ 0.16 \$ (0.08)
Diluted	\$	0.08	\$	0.03	\$ 0.11 \$ (0.08)
Weighted-average number of common shares outstanding:					
Basic		474.7		470.5	473.0 467.3
Diluted		533.6		513.8	526.4 467.3

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

**Table of Contents****THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Amounts in Millions)

(Unaudited)

	September 30, 2010	December 31, 2009
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,927.7	\$ 2,495.2
Marketable securities	11.3	10.9
Accounts receivable, net of allowance of \$66.6 and \$66.0	3,805.4	3,756.5
Expenditures billable to clients	1,329.4	1,100.1
Other current assets	242.0	275.0
Total current assets	7,315.8	7,637.7
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,167.5 and \$1,119.1	441.1	490.1
Deferred income taxes	396.5	398.3
Goodwill	3,350.4	3,321.0
Other non-current assets	446.8	416.0
<b>TOTAL ASSETS</b>	<b>\$ 11,950.6</b>	<b>\$ 12,263.1</b>
<b>LIABILITIES:</b>		
Accounts payable	\$ 3,967.8	\$ 4,003.9
Accrued liabilities	2,549.9	2,593.1
Short-term borrowings	124.3	93.4
Current portion of long-term debt	231.0	215.2
Total current liabilities	6,873.0	6,905.6
Long-term debt	1,588.9	1,638.0
Deferred compensation	498.4	503.2
Other non-current liabilities	389.3	402.2
<b>TOTAL LIABILITIES</b>	<b>9,349.6</b>	<b>9,449.0</b>
Redeemable noncontrolling interests (see Note 6)	269.5	277.8
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock	221.5	525.0
Common stock	47.4	47.1
Additional paid-in capital	2,464.7	2,441.0
Accumulated deficit	(261.6)	(324.8)
Accumulated other comprehensive loss, net of tax	(161.8)	(176.6)
	2,310.2	2,511.7

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Less: Treasury stock	(14.1)	(14.0)
Total IPG stockholders' equity	2,296.1	2,497.7
Noncontrolling interests	35.4	38.6
<b>TOTAL STOCKHOLDERS' EQUITY</b>	2,331.5	2,536.3
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 11,950.6</b>	<b>\$ 12,263.1</b>

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



Table of Contents

## THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

(Unaudited)

	Nine months ended September 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 58.4	\$ (16.3)
<b>Adjustments to reconcile net income (loss) to net cash used in operating activities:</b>		
Depreciation and amortization of fixed assets and intangible assets	111.5	126.5
Provision for uncollectible receivables	8.6	13.6
Amortization of restricted stock and other non-cash compensation	38.5	37.7
Net amortization of bond (premiums) discounts and deferred financing costs	(3.0)	13.0
Loss on early extinguishment of debt	0.1	25.8
Deferred income tax benefit	(7.5)	(9.4)
Other	26.0	9.8
<b>Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash:</b>		
Accounts receivable	(82.7)	812.9
Expenditures billable to clients	(225.8)	(18.8)
Other current assets	(14.9)	14.2
Accounts payable	0.7	(863.4)
Accrued liabilities	(53.6)	(272.1)
Other non-current assets and liabilities	(18.1)	(72.0)
Net cash used in operating activities	(161.8)	(198.5)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of businesses and investments, net of cash sold	31.0	5.0
Acquisitions, including deferred payments, net of cash acquired	(63.0)	(71.2)
Capital expenditures	(49.7)	(43.7)
Net (purchases) sales and maturities of short-term marketable securities	(0.2)	157.9
Other investing activities	(1.7)	(0.7)
Net cash (used in) provided by investing activities	(83.6)	47.3
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of preferred stock	(265.9)	0.0
Proceeds from issuance of 10.00% Senior Notes due 2017	0.0	587.7
Purchase of long-term debt	(21.4)	(770.7)
Issuance costs and fees	(9.8)	(19.2)
Net increase (decrease) in short term bank borrowings	25.9	(12.1)
Distributions to noncontrolling interests	(18.2)	(21.1)
Preferred stock dividends	(16.7)	(20.7)
Other financing activities	(21.6)	(6.5)

# Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Net cash used in financing activities	(327.7)	(262.6)
Effect of foreign exchange rate changes on cash and cash equivalents	5.6	68.1
Net decrease in cash and cash equivalents	(567.5)	(345.7)
Cash and cash equivalents at beginning of period	2,495.2	2,107.2
Cash and cash equivalents at end of period	\$ 1,927.7	\$ 1,761.5

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

**Table of Contents****THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)**

(Amounts in Millions)

(Unaudited)

	Preferred Stock	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholder Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2009	\$ 525.0	486.5	\$ 47.1	\$ 2,441.0	\$ (324.8)	\$ (176.6)	\$ (14.0)	\$ 2,497.7	\$ 38.6	\$ 2,536.3
Net income (loss)					63.2			63.2	(4.8)	58.4
Foreign currency translation adjustments, net of tax						8.3		8.3	0.9	9.2
Changes in market value of securities available-for-sale, net of tax						0.2		0.2		0.2
Recognition of previously unrealized gain on securities available-for-sale, net of tax						(0.2)		(0.2)		(0.2)
Unrecognized losses, transition obligation and prior service cost, net of tax						6.5		6.5		6.5
Total comprehensive income (loss)								\$ 78.0	\$ (3.9)	\$ 74.1
Reclassifications related to redeemable noncontrolling interests									18.6	18.6
Noncontrolling interest transactions				(26.0)				(26.0)	1.1	(24.9)
Distributions to noncontrolling interests									(18.2)	(18.2)
Change in redemption value of redeemable noncontrolling interests				(5.6)				(5.6)		(5.6)
Repurchase of preferred stock	(303.5)			35.9				(267.6)		(267.6)
Preferred stock dividends				(12.7)				(12.7)		(12.7)
Stock-based compensation				41.2				41.2		41.2
Restricted stock, net of forfeitures		2.3	0.3	(11.4)				(11.1)		(11.1)
Other		0.3	0.0	2.3			(0.1)	2.2	(0.8)	1.4
Balance at September 30, 2010	\$ 221.5	489.1	\$ 47.4	\$ 2,464.7	\$ (261.6)	\$ (161.8)	\$ (14.1)	\$ 2,296.1	\$ 35.4	\$ 2,331.5

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

**Table of Contents****THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (CONTINUED)**

(Amounts in Millions)

(Unaudited)

	Common Stock			Additional		Accumulated Other		Total		Total	
	Preferred	Shares	Amount	Paid-In	Accumulated	Loss, Net	Treasury	Stockholder	Noncontrolling	Stockholders	
	Stock			Capital	Deficit	of Tax	Stock	Equity	Interests	Equity	
Balance at December 31, 2008	\$ 525.0	477.1	\$ 46.4	\$ 2,413.5	\$ (446.1)	\$ (318.5)	\$ (14.0)	\$ 2,206.3	\$ 37.9	\$ 2,244.2	
Net loss					(15.1)			(15.1)	(1.2)	(16.3)	
Foreign currency translation adjustments, net of tax						109.0		109.0	2.7	111.7	
Changes in market value of securities available-for-sale, net of tax						0.6		0.6		0.6	
Recognition of previously unrealized loss on securities available-for-sale, net of tax						0.0		0.0		0.0	
Unrecognized losses, transition obligation and prior service cost, net of tax						9.5		9.5		9.5	
Total comprehensive income								\$ 104.0	\$ 1.5	\$ 105.5	
Reclassifications related to redeemable noncontrolling interests									12.1	12.1	
Noncontrolling interest transactions				(5.4)				(5.4)	0.3	(5.1)	
Distributions to noncontrolling interests									(21.1)	(21.1)	
Change in redemption value of redeemable noncontrolling interests				12.8				12.8		12.8	
Preferred stock dividends				(20.7)				(20.7)		(20.7)	
Stock-based compensation				38.4				38.4		38.4	
Restricted stock, net of forfeitures		9.0	0.6	(17.4)				(16.8)		(16.8)	
Other		0.4	0.0	3.3				3.3	0.8	4.1	
Balance at September 30, 2009	\$ 525.0	486.5	\$ 47.0	\$ 2,424.5	\$ (461.2)	\$ (199.4)	\$ (14.0)	\$ 2,321.9	\$ 31.5	\$ 2,353.4	

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

**Table of Contents**

**Notes to Consolidated Financial Statements**

**(Amounts in Millions, Except Per Share Amounts)**

**(Unaudited)**

**Note 1: Basis of Presentation**

The unaudited Consolidated Financial Statements have been prepared by The Interpublic Group of Companies, Inc. and subsidiaries ( IPG, we, us or our ) in accordance with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ) for reporting interim financial information on Form 10-Q. Accordingly, they do not include certain information and disclosures required for complete financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions and estimates that affect the amounts reported and disclosed. Actual results could differ from these estimates and assumptions. The consolidated results for interim periods are not necessarily indicative of results for the full year and should be read in conjunction with our 2009 Annual Report on Form 10-K.

In the opinion of management, these unaudited Consolidated Financial Statements include all adjustments of a normal and recurring nature necessary for a fair presentation of the information for each period contained therein. Certain reclassifications have been made to prior periods to conform to the current period presentation.

**Note 2: Earnings (Loss) Per Share**

Earnings (loss) per basic common share available to IPG common stockholders equals net income (loss) available to IPG common stockholders divided by the weighted-average number of common shares outstanding for the applicable period. Diluted earnings (loss) per share available to IPG common stockholders equals net income (loss) available to IPG common stockholders adjusted to exclude, if dilutive, preferred stock dividends, allocation to participating securities, interest expense related to potentially dilutive securities calculated using the effective interest rate and benefit from preferred stock repurchased, divided by the weighted-average number of common shares outstanding, plus any additional common shares that would have been outstanding if potentially dilutive shares had been issued.

We may be required to calculate earnings (loss) per basic share using the two-class method, pursuant to authoritative guidance for earnings per share, as a result of our redeemable noncontrolling interests. Each reporting period, redeemable noncontrolling interests are reported at their estimated redemption value, but not less than their initial fair value. Any adjustment to the redemption value will also impact additional paid-in capital, but will not impact net income (loss). Adjustments as a result of currency translation will affect the redeemable noncontrolling interest balance, but do not impact additional paid-in capital. To the extent that the redemption value increases and exceeds the then-current fair value of a redeemable noncontrolling interest, net income (loss) available to IPG common stockholders (used to calculate earnings (loss) per share) could be negatively impacted by that increase, subject to certain limitations. The partial or full recovery of these reductions to net income (loss) available to IPG common stockholders (used to calculate earnings (loss) per share) is limited to cumulative prior-period reductions. For the three and nine months ended September 30, 2010 and 2009, there was no impact to earnings (loss) per share for adjustments related to our redeemable noncontrolling interests.

## Table of Contents

### Notes to Consolidated Financial Statements (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

The following sets forth basic and diluted earnings (loss) per common share available to IPG common stockholders.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Net income (loss) available to IPG common stockholders basic</b>	\$ 42.4	\$ 17.2	\$ 76.2	\$ (35.8)
Adjustments: Effect of dilutive securities				
Interest on 4.25% Notes	0.3	0.3	1.0	0.0
Interest on 4.75% Notes	1.0	0.0	0.0	0.0
Benefit from preferred stock repurchased <sup>1</sup>	0.0	0.0	(21.7)	0.0
<b>Net income (loss) available to IPG common stockholders diluted</b>	\$ 43.7	\$ 17.5	\$ 55.5	\$ (35.8)
<b>Weighted-average number of common shares outstanding basic</b>	474.7	470.5	473.0	467.3
Add: Effect of dilutive securities				
Restricted stock, stock options and other equity awards	10.6	11.1	9.3	0.0
4.25% Notes	32.2	32.2	32.2	0.0
4.75% Notes	16.1	0.0	0.0	0.0
Preferred stock repurchased	0.0	0.0	11.9	0.0
<b>Weighted-average number of common shares outstanding diluted</b>	533.6	513.8	526.4	467.3
Earnings (loss) per share available to IPG common stockholders basic	\$ 0.09	\$ 0.04	\$ 0.16	\$ (0.08)
Earnings (loss) per share available to IPG common stockholders diluted	\$ 0.08	\$ 0.03	\$ 0.11	\$ (0.08)

<sup>1</sup> For the nine months ended September 30, 2010, the benefit from the preferred stock repurchased is excluded from net income available to IPG common stockholders for purposes of calculating diluted earnings per share since the associated common shares, if converted, were dilutive. In addition, the benefit is also net of \$4.0 of preferred dividends that were declared during the first quarter of 2010 and associated with the preferred stock repurchased. See Note 4 for further information.

Basic and diluted shares outstanding and loss per share are equal for the nine months ended September 30, 2009 because our potentially dilutive securities are antidilutive as a result of the net loss available to IPG common stockholders.

The following table presents the potential shares excluded from diluted earnings (loss) per share calculation because the effect of including these potential shares would be antidilutive.

Three months ended September 30,	Nine months ended September 30,
-------------------------------------	------------------------------------

# Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

	2010	2009	2010	2009
Restricted stock, stock options and other equity awards	0.0	0.0	0.0	7.7
4.75% Notes	0.0	16.1	16.1	16.1
4.25% Notes	0.0	0.0	0.0	32.2
4.50% Notes	0.0	0.7	0.0	0.7
Preferred stock outstanding	16.2	38.4	16.2	38.4
Total	16.2	55.2	32.3	95.1
Securities excluded from the diluted earnings (loss) per share calculation because the exercise price was greater than the average market price:				
Stock options <sup>1</sup>	16.6	21.6	19.5	21.6
Warrants <sup>2</sup>	0.0	0.0	0.0	67.9

1 These options are outstanding at the end of the respective periods. In any period in which the exercise price is less than the average market price, these options have the potential to be dilutive, and application of the treasury stock method would reduce this amount.

2 The potential dilutive impact of the warrants was based upon the difference between the market price of one share of our common stock and the stated exercise prices of the warrants, adjusted to reflect the period during which the warrants were outstanding. The warrants expired in June 2009.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**Note 3: Debt and Credit Arrangements****Long-Term Debt**

A summary of the carrying amounts and fair values of our long-term debt is as follows.

	Effective Interest Rate	September 30, 2010		December 31, 2009	
		Book Value	Fair Value <sup>2</sup>	Book Value	Fair Value <sup>2</sup>
Floating Rate Senior Unsecured Notes due 2010 (less unamortized discount of \$0.4)	8.65%	\$ 192.1	\$ 192.3	\$ 211.7	\$ 210.5
7.25% Senior Unsecured Notes due 2011	7.25% <sup>1</sup>	36.3	36.3	36.3	36.2
6.25% Senior Unsecured Notes due 2014 (less unamortized discount of \$0.4)	6.29% <sup>1</sup>	353.5	374.5	351.5	332.5
10.00% Senior Unsecured Notes due 2017 (less unamortized discount of \$10.9)	10.38%	589.1	703.5	588.3	666.0
4.75% Convertible Senior Notes due 2023 (plus unamortized premium of \$5.5)	3.50%	205.5	226.1	207.2	213.3
4.25% Convertible Senior Notes due 2023 (plus unamortized premium of \$21.1)	0.58%	421.1	433.8	431.9	416.4
Other notes payable and capitalized leases		22.3		26.3	
Total long-term debt		1,819.9		1,853.2	
Less: current portion <sup>3</sup>		231.0		215.2	
Long-term debt, excluding current portion		\$ 1,588.9		\$ 1,638.0	

<sup>1</sup> Excludes the effect of related gains/losses on interest rate swaps.

<sup>2</sup> Fair values are derived from trading quotes by institutions making a market in the securities and estimations of value by those institutions using proprietary models.

<sup>3</sup> On August 15, 2011 our 7.25% Senior Unsecured Notes due 2011 (the "2011 Notes") mature. Therefore we included these Notes in current portion of long-term debt on our unaudited September 30, 2010 Consolidated Balance Sheet. On November 15, 2010 our Floating Rate Senior Unsecured Notes due 2010 (the "2010 Notes") mature. Therefore we included these Notes in current portion of long-term debt on our unaudited September 30, 2010 and December 31, 2009 Consolidated Balance Sheets.

In April 2010, we repurchased \$21.4 aggregate principal amount of our 2010 Notes that were scheduled to mature on November 15, 2010 for \$21.5 in cash, which includes accrued and unpaid interest.

**Credit Facilities**

In April 2010, we amended and restated our credit agreement originally dated as of July 18, 2008, (the "Credit Agreement"), which increased commitments of the lenders to \$650.0 from \$335.0, added five new lenders and extended the Credit Agreement's expiration. The Credit



## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Agreement is a revolving facility expiring July 18, 2013, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of \$650.0 or the equivalent in other currencies. The aggregate available amount of letters of credit outstanding may decrease or increase, subject to a limit on letters of credit of \$200.0 or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured.

**Table of Contents****Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)**

We were in compliance with all applicable restrictive and financial covenants in the Credit Agreement as of September 30, 2010. The financial covenants in the Credit Agreement require that we maintain, as of the end of each fiscal quarter listed below, the following financial covenants, as defined, for the four quarters then ended.

	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012 & Thereafter	Q3 2012
(i) Interest coverage ratio (not less than): <sup>1</sup>	3.75x	4.00x	4.25x	4.50x	5.00x	5.00x	5.50x	5.50x	5.75x
(ii) Leverage ratio (not greater than): <sup>2</sup>	3.75x	3.25x	3.25x	3.25x	3.00x	2.75x	2.75x	2.50x	2.50x
(iii) Minimum EBITDA (not less than):	\$ 550.0	\$ 550.0	\$ 550.0	\$ 550.0	\$ 550.0	\$ 600.0	\$ 600.0	\$ 600.0	\$ 600.0

<sup>1</sup> An interest coverage ratio (EBITDA, as defined in the Credit Agreement, to net interest expense plus cash dividends on convertible preferred stock for the four quarters then ended).

<sup>2</sup> A leverage ratio (debt as of the last day of such fiscal quarter to EBITDA, as defined in the Credit Agreement, for the four quarters then ended).

For purposes of the leverage ratio and interest coverage ratio calculated for any date in 2010, we may exclude from our total debt up to \$300.0 of any new senior notes we issue in 2010 with a minimum maturity of five years, less the amount of proceeds of such new indebtedness that are applied to reduce the principal amount of certain of our debt that is currently outstanding. Under certain circumstances, up to \$85.0 in principal amount of such new senior notes may be permanently excluded from total debt for purposes of such covenant calculations.

**Interest Rate Swaps**

In February 2010, we terminated all of the interest rate swaps related to our 6.25% Senior Unsecured Notes due 2014. We received a total of \$5.4 in cash, which included accrued and unpaid interest. The related gain of \$3.9 will be amortized as a reduction to interest expense over the remaining term of the notes, resulting in an annual effective interest rate of 6.0%.

**Note 4: Convertible Preferred Stock**

In April 2010, we launched a tender offer to purchase for cash up to 370,000 shares (actual number) of our outstanding 525,000 shares (actual number) 5 1/4% Series B Cumulative Convertible Perpetual Preferred Stock ( Series B Preferred Stock ).

In May 2010, we purchased 303,526 shares (actual number) of our Series B Preferred Stock that were validly tendered for cash for an aggregate purchase price of \$267.6. The aggregate purchase price was calculated as the number of shares tendered multiplied by the purchase price of \$869.86 per share plus unpaid dividends of \$1.9, which were prorated for the period the tendered shares were outstanding and transaction costs directly associated with the repurchase. The carrying value of the tendered shares was \$293.3 and was determined based on the number of shares tendered multiplied by the \$1,000 per share liquidation preference less \$10.2, which is the pro-rata amount of issuance costs associated with the original issuance of the preferred stock. The benefit of \$25.7 represents the excess carrying value of the tendered shares over consideration from the repurchase, which was recorded as an adjustment to additional paid-in capital. Additionally, we recorded an adjustment to additional paid-in capital of \$10.2 for the pro-rata amount of issuance costs.

As of September 30, 2010, 221,474 shares (actual number) of our Series B Preferred Stock remain outstanding.



**Table of Contents****Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)****Note 5: Supplementary Data*****Accrued Liabilities***

	September 30, 2010	December 31, 2009
Media and production expenses	\$ 1,986.6	\$ 1,936.1
Salaries, benefits and related expenses	356.1	405.7
Office and related expenses	56.0	59.5
Acquisition obligations	27.8	16.6
Interest	25.2	46.6
Professional fees	20.4	20.4
Other	77.8	108.2
Total accrued liabilities	\$ 2,549.9	\$ 2,593.1

***2004 Restatement Liabilities***

As part of the restatement we presented in our 2004 Annual Report on Form 10-K (the 2004 Restatement), we recognized liabilities related to vendor discounts and credits where we had a contractual or legal obligation to rebate such amounts to our clients or vendors. Reductions to these liabilities are achieved through settlements with clients and vendors, but also may occur if the applicable statute of limitations in a jurisdiction has lapsed. As of September 30, 2010 and December 31, 2009, we had vendor discounts and credit liabilities of \$96.4 and \$106.4, respectively, related to the 2004 Restatement.

***Other (Expense) Income, net***

Results of operations for the three and nine months ended September 30, 2010 and 2009 include certain items which are not directly associated with our revenue-producing operations.

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Net loss on early extinguishment of debt	\$ 0.0	\$ (1.2)	\$ (0.1)	\$ (25.8)
Gains (losses) on sales of businesses and investments	0.3	0.7	(2.8)	(2.1)
Vendor discounts and credit adjustments	0.3	1.5	2.4	7.7
Other (expense) income, net	(3.7)	0.0	(4.2)	2.8
Total other (expense) income, net	\$ (3.1)	\$ 1.0	\$ (4.7)	\$ (17.4)

**Net Loss on Early Extinguishment of Debt** During the first nine months of 2009, we recorded a net charge of \$25.8 primarily related to the settlement of our tender offers for the 5.40% Senior Unsecured Notes due 2009, the 2011 Notes and the 2010 Notes.

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

*Vendor Discounts and Credit Adjustments* We are in the process of settling our liabilities related to vendor discounts and credits established as part of the 2004 Restatement. These adjustments reflect the reversal of certain of these liabilities as a result of settlements with clients or vendors or where the statute of limitations has lapsed.

### **Note 6: Acquisitions**

We continue to evaluate strategic opportunities to grow and to increase our ownership interests in current investments, particularly in our digital and marketing services offerings, and to expand our presence in high-growth and key strategic world markets. Our acquisitions provide for an initial payment at the time of closing, and certain of these acquisitions include

**Table of Contents****Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)**

additional contingent purchase payments based on the future performance of the acquired entity. Due to the characteristics of advertising, specialized marketing and communication services companies, our acquisitions typically do not have significant amounts of tangible assets, as the principal asset we typically acquire is creative talent. As a result, a substantial portion of the purchase price of these acquisitions is allocated to identifiable intangible assets, primarily customer lists, trade names and goodwill.

In July 2010, we purchased Delaney Lund Knox Warren for a total payment of approximately \$43.0 in cash. During the first nine months of 2010, we completed five additional acquisitions, including a new media and digital marketing service company in Brazil. During the first nine months of 2010, we recorded approximately \$58.0 of goodwill and intangible assets related to our acquisitions. Of our six acquisitions, five are included in the Integrated Agency Networks ( IAN ) operating segment and one is included in the Constituency Management Group ( CMG ) operating segment. The results of operations of our acquired companies were included in our consolidated results from the closing date of each acquisition. Details of cash paid for current and prior years' acquisitions are listed below.

	<b>Nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Cash paid for current year acquisitions:		
Cost of investment	\$ 47.1	\$ 3.8
Operating expense	3.3	0.0
Cash paid for prior-year acquisitions:		
Cost of investment	40.0	73.3
Operating expense	3.0	0.0
Less: cash acquired	(3.1)	(0.1)
 Total cash paid for acquisitions <sup>1</sup>	 \$ 90.3	 \$ 77.0

<sup>1</sup> Includes payments of \$21.0 and \$5.8 for the nine months ended September 30, 2010 and 2009, respectively, relating to transactions with consolidated subsidiaries where we have increased our ownership interests, which are classified within the financing section of the unaudited Consolidated Statements of Cash Flows, rather than the investing section.

Many of our acquisitions also include provisions under which the noncontrolling equity owners can require us to purchase additional interests in a subsidiary at their discretion. The following table presents changes in our redeemable noncontrolling interests.

	<b>Nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Balance at beginning of period	\$ 277.8	\$ 288.4
Noncontrolling interest balance related to redeemable noncontrolling interests	(18.6)	(12.1)
Changes in redemption value of redeemable noncontrolling interests:		
Additions	31.7	0.5
Redemptions and reclassifications	(28.5)	(5.3)
Redemption value adjustments <sup>1</sup>	7.1	(9.1)
 Balance at end of period	 \$ 269.5	 \$ 262.4

- 1 Redeemable noncontrolling interests are reported at their estimated redemption value in each reporting period, but not less than their initial fair value. Any adjustment to the redemption value impacts additional paid-in capital, except adjustments as a result of currency translation.

**Table of Contents****Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)****Note 7: Income Taxes**

For the three months ended September 30, 2010, the effective tax rate is comparable to the statutory rate of 35% primarily due to losses in certain foreign locations for which we receive no benefit due to 100% valuation allowances and an increase in unrecognized tax benefits offset by the reversal of valuation allowances in Europe and tax benefits from the exercise of stock options. For the nine months ended September 30, 2010, the difference between the effective tax rate and the statutory rate of 35% was primarily due to factors similar to those noted above as well as the impact of state and local taxes.

In September 2010, we effectively settled our New York State examination for the 1999-2001 tax years. The settlement resulted in a cash payment of \$11.7 consisting of \$5.4 of tax and \$6.3 of interest, which was previously reserved.

We have various tax years under examination by tax authorities in various countries, such as the United Kingdom, and in various states, such as New York, in which we have significant business operations. It is not yet known whether these examinations will, in the aggregate, result in our paying additional taxes. We believe our tax reserves are adequate in relation to the potential for additional assessments in each of the jurisdictions in which we are subject to taxation. We regularly assess the likelihood of additional tax assessments in those jurisdictions and, if necessary, adjust our reserves as additional information or events require.

With respect to all tax years open to examination by U.S. federal and various state, local and non-U.S. tax authorities, we currently anticipate that total unrecognized tax benefits will decrease by an amount between \$20.0 and \$30.0 in the next twelve months, a portion of which will affect the effective tax rate, primarily as a result of the settlement of tax examinations and the lapsing of statutes of limitations. This net decrease is related to various items of income and expense, including transfer pricing adjustments and adjustments in various state and local jurisdictions.

We are effectively settled with respect to U.S. federal income tax audits for years prior to 2007. With limited exceptions, we are no longer subject to state and local income tax audits for years prior to 1999, or non-U.S. income tax audits for years prior to 2000.

On August 10, 2010, the Education Jobs and Medicaid Assistance Act was signed into law. The Act contains various provisions that could limit our ability to use foreign tax credits. There was no material impact on us in the third quarter of 2010. While we continue to assess the future impact of this Act on us, we do not expect a material impact to our effective or cash tax rates in the near future.

**Note 8: Comprehensive Income**

	<b>Three months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 45.6	\$ 25.9
Foreign currency translation adjustment, net of tax	77.1	62.6
Adjustments to pension and other postretirement plans, net of tax	3.0	3.3
Net unrealized holding losses on securities, net of tax	(0.1)	(0.2)
Total comprehensive income	125.6	91.6
Comprehensive income attributable to noncontrolling interests	1.3	3.0
Comprehensive income attributable to IPG	\$ 124.3	\$ 88.6



Comprehensive income (loss) for the nine months ended September 30, 2010 and 2009 is displayed in the unaudited Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss).

**Table of Contents****Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)****Note 9: Incentive Compensation Plans**

We issue stock-based compensation and cash awards to our employees under a plan established by the Compensation and Leadership Talent Committee of the Board of Directors (the Compensation Committee) and approved by our shareholders.

***Stock-Based Compensation***

We issued the following stock-based awards under the 2009 Performance Incentive Plan (the 2009 PIP) during the nine months ended September 30, 2010.

	<b>Awards</b>	<b>Weighted-average grant-date fair value (per award)</b>
Stock options	0.5	\$ 3.88
Stock-settled awards	3.7	\$ 8.46
Cash-settled awards	0.6	\$ 8.47
Performance-based awards	0.1	\$ 11.01
<b>Total stock-based compensation awards <sup>1</sup></b>	<b>4.9</b>	

<sup>1</sup> Additional performance cash awards of \$19.0 were granted under the 2009 PIP in the first quarter of 2010 and will be settled in shares upon vesting, which is three years from the grant date. The number of shares to be settled on the vesting date will be calculated as the cash value adjusted for performance divided by our stock price on the vesting date.

***Cash Awards***

During the nine months ended September 30, 2010, the Compensation Committee granted cash awards under the Interpublic Restricted Cash Plan and performance cash awards under the 2009 PIP with a total target value of \$30.9 and \$18.5, respectively, which will be amortized over the vesting period, typically three years.

**Note 10: Employee Benefits**

We have a defined benefit plan which covers substantially all regular U.S. employees employed through March 31, 1998. Some of our agencies have additional domestic plans, which are closed to new participants. We also have numerous plans outside of the U.S., some of which are funded, while others provide payments at the time of retirement or termination under applicable labor laws or agreements. Some of our domestic and foreign subsidiaries also provide postretirement health benefits to eligible employees and their dependents. Additionally, some of our domestic subsidiaries provide postretirement life insurance to eligible employees. Certain immaterial foreign pension plans have been excluded from the table below. The components of net periodic cost for the domestic pension plans, the principal foreign pension plans and the postretirement benefit plans are listed below.

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Three months ended September 30,	Domestic Pension Plans		Foreign Pension Plans		Postretirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
Service cost	\$ 0.0	\$ 0.0	\$ 3.2	\$ 2.8	\$ 0.1	\$ 0.1
Interest cost	1.9	1.9	5.7	6.0	0.7	0.7
Expected return on plan assets	(1.8)	(1.7)	(4.3)	(3.7)	0.0	0.0
Amortization of:						
Prior service cost (credit)	0.0	0.0	0.1	0.1	0.0	0.0
Unrecognized actuarial losses	2.1	2.1	0.5	0.6	0.0	0.0
Net periodic cost	\$ 2.2	\$ 2.3	\$ 5.2	\$ 5.8	\$ 0.8	\$ 0.8

**Table of Contents****Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)**

Nine months ended September 30,	Domestic Pension Plans		Foreign Pension Plans		Postretirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
Service cost	\$ 0.0	\$ 0.0	\$ 8.8	\$ 8.1	\$ 0.2	\$ 0.3
Interest cost	5.5	6.0	17.3	17.0	2.1	2.3
Expected return on plan assets	(5.2)	(5.5)	(12.8)	(10.2)	0.0	0.0
Settlement losses	0.0	0.0	1.0	1.5	0.0	0.0
Amortization of:						
Transition obligation	0.0	0.0	0.0	0.0	0.1	0.1
Prior service cost (credit)	0.0	0.0	0.2	0.2	0.0	(0.1)
Unrecognized actuarial losses	6.5	7.3	1.4	1.8	0.0	0.0
Net periodic cost	\$ 6.8	\$ 7.8	\$ 15.9	\$ 18.4	\$ 2.4	\$ 2.6

During the nine months ended September 30, 2010, we contributed \$20.5 to our foreign pension plans and \$9.6 to our domestic pension plans. In the fourth quarter of 2010, we expect to contribute approximately \$8.0 to our foreign pension plans, and we do not expect to make any contributions to our domestic pension plans. A significant portion of our contributions to the foreign pension plans relates to the Interpublic Pension Plan in the U.K.

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**Note 11: Segment Information**

We have two reportable segments: IAN, which is comprised of McCann Worldgroup, Draftfcb, Mediabrands, Lowe and our domestic integrated agencies, and CMG, which is comprised of a number of our specialist marketing service offerings. We also report results for the Corporate and other group. The profitability measure employed by our chief operating decision maker for allocating resources to operating divisions and assessing operating division performance is operating income, excluding the impact of restructuring and other reorganization-related charges (reversals), net and long-lived asset impairment and other charges, if applicable. Segment information is presented consistently with the basis described in our 2009 Annual Report on Form 10-K. Summarized financial information concerning our reportable segments is shown in the following table.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Revenue:</b>				
IAN	\$ 1,299.3	\$ 1,191.9	\$ 3,794.6	\$ 3,555.0
CMG	261.5	234.8	725.3	671.4
Total	\$ 1,560.8	\$ 1,426.7	\$ 4,519.9	\$ 4,226.4
<b>Segment operating income:</b>				
IAN	\$ 113.6	\$ 78.7	\$ 270.1	\$ 135.7
CMG	21.7	18.2	51.4	43.5
Corporate and other	(33.7)	(39.1)	(101.2)	(106.6)
Total	101.6	57.8	220.3	72.6
Restructuring and other reorganization-related (charges) reversals, net	(1.4)	0.5	(2.3)	0.7
Interest expense	(34.7)	(37.8)	(102.3)	(117.7)
Interest income	6.8	7.6	19.4	28.0
Other (expense) income, net	(3.1)	1.0	(4.7)	(17.4)
<b>Income (loss) before income taxes</b>	\$ 69.2	\$ 29.1	\$ 130.4	\$ (33.8)
<b>Depreciation and amortization of fixed assets and intangible assets:</b>				
IAN	\$ 29.5	\$ 32.7	\$ 87.3	\$ 98.8
CMG	3.6	3.6	10.2	10.8
Corporate and other	4.2	5.7	14.0	16.9
Total	\$ 37.3	\$ 42.0	\$ 111.5	\$ 126.5

**Capital expenditures:**

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

IAN	\$	18.0	\$	9.5	\$	42.3	\$	30.4
CMG		1.8		1.6		3.7		3.8
Corporate and other		1.6		4.9		3.7		9.5
Total	\$	21.4	\$	16.0	\$	49.7	\$	43.7

	September 30, 2010	December 31, 2009
<b>Total assets:</b>		
IAN	\$ 9,931.0	\$ 9,763.9
CMG	890.5	897.8
Corporate and other	1,129.1	1,601.4
Total	\$ 11,950.6	\$ 12,263.1

**Table of Contents****Notes to Consolidated Financial Statements (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**Note 12: Fair Value Measurements**

Authoritative guidance for fair value measurements establishes a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. We primarily apply the market approach for recurring fair value measurements. There are three levels of inputs that may be used to measure fair value:

- Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no changes to our valuation techniques used to measure the fair value of assets and liabilities on a recurring basis during the nine months ended September 30, 2010. The following tables present information about our assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and September 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	September 30, 2010				
	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
<b>Assets</b>					
Cash equivalents	\$ 1,205.7	\$ 0.0	\$ 0.0	\$ 1,205.7	Cash and cash equivalents
Short-term marketable securities	11.3	0.0	0.0	11.3	Marketable securities
Long-term investments	1.3	13.7	0.0	15.0	Other assets
Foreign currency derivatives <sup>1</sup>	0.0	0.0	0.2	0.2	Other assets
Total	\$ 1,218.3	\$ 13.7	\$ 0.2	\$ 1,232.2	
As a percentage of total assets	10.2%	0.1%	0.0%	10.3%	
<b>Liabilities</b>					
Mandatorily redeemable noncontrolling interests <sup>2</sup>	\$ 0.0	\$ 0.0	\$ 48.1	\$ 48.1	

	September 30, 2009				
	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
<b>Assets</b>					
Cash equivalents	\$ 1,106.0	\$ 0.0	\$ 0.0	\$ 1,106.0	Cash and cash equivalents
Short-term marketable securities	10.6	0.0	0.0	10.6	Marketable securities

# Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Long-term investments <sup>3</sup>	15.7	0.0	6.7	22.4	Other assets
Foreign currency derivatives <sup>1</sup>	0.0	0.0	0.7	0.7	Other assets
Total	\$ 1,132.3	\$ 0.0	\$ 7.4	\$ 1,139.7	
As a percentage of total assets	10.3%	0.0%	0.1%	10.4%	
<b>Liabilities</b>					
Mandatorily redeemable noncontrolling interests <sup>2</sup>	\$ 0.0	\$ 0.0	\$ 42.3	\$ 42.3	

1 Fair value is derived from changes in market value of obligations denominated in foreign currency based on an internal valuation model.



**Table of Contents****Notes to Consolidated Financial Statements (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

- 2 Relates to unconditional obligations to purchase additional noncontrolling equity shares of consolidated subsidiaries. Fair value measurement of the obligation was based upon the amount payable as if the forward contracts were settled. The amount redeemable within the next twelve months is classified in accrued liabilities; any interests redeemable thereafter are classified in other non-current liabilities.
- 3 Fair value related to our Level 3 investments was based on an internal valuation model. During the fourth quarter of 2009, we sold our entire position in asset-backed auction-rate securities.

The following tables present additional information about assets and liabilities measured at fair value on a recurring basis and for which we utilize Level 3 inputs to determine fair value.

	Three months ended September 30, 2010		Three months ended September 30, 2009		
	Assets	Liabilities	Assets		Liabilities
		Mandatorily redeemable noncontrolling interests	Auction-rate securities	Foreign currency derivatives	Mandatorily redeemable noncontrolling interests
Balance at beginning of period	\$ 0.3	\$ 61.8	\$ 6.7	\$ 0.8	\$ 37.2
Level 3 (reductions) additions	0.0	(14.0)	0.0	0.0	2.4
Realized losses included in net income	(0.1)	(0.3)	0.0	(0.1)	(2.7)
Balance at end of period	\$ 0.2	\$ 48.1	\$ 6.7	\$ 0.7	\$ 42.3

	Nine months ended September 30, 2010		Nine months ended September 30, 2009		
	Assets	Liabilities	Assets		Liabilities
		Mandatorily redeemable noncontrolling interests	Auction-rate securities	Foreign currency derivatives	Mandatorily redeemable noncontrolling interests
Balance at beginning of period	\$ 0.6	\$ 47.8	\$ 6.7	\$ 0.8	\$ 21.6
Level 3 (reductions) additions	0.0	(0.8)	0.0	0.0	22.5
Realized (losses) gains included in net income (loss)	(0.4)	(1.1)	0.0	(0.1)	1.8
Balance at end of period	\$ 0.2	\$ 48.1	\$ 6.7	\$ 0.7	\$ 42.3

Level 3 reductions relate to payments made related to unconditional obligations to purchase additional equity interests in previous acquisitions for cash. Level 3 additions relate to unconditional obligations to purchase additional equity interests in previous acquisitions for cash in future periods. Realized (losses) gains included in net income (loss) for foreign currency derivatives and mandatorily redeemable noncontrolling interests are reported as a component of other (expense) income, net and interest expense, respectively, in the unaudited Consolidated Statements of Operations.

**Note 13: Commitments and Contingencies****Legal Matters**

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

We are involved in legal and administrative proceedings of various types. While any litigation contains an element of uncertainty, we do not believe that the outcome of such proceedings will have a material adverse effect on our financial condition, results of operations or cash flows.

**Table of Contents**

**Notes to Consolidated Financial Statements (continued)**

**(Amounts in Millions, Except Per Share Amounts)**

**(Unaudited)**

***Guarantees***

As discussed in our 2009 Annual Report on Form 10-K, we have guarantees of certain obligations of our subsidiaries relating principally to credit facilities, certain media payables and operating leases of certain subsidiaries. The amount of such parent company guarantees was \$798.5 and \$769.3 as of September 30, 2010 and December 31, 2009, respectively.

**Note 14: Recent Accounting Standards**

In March 2010, the Emerging Issues Task Force ( EITF ) reached a consensus related to guidance when applying the milestone method of revenue recognition. The consensus was issued by the Financial Accounting Standards Board ( FASB ) as an update to authoritative guidance for revenue recognition and will be effective for us beginning January 1, 2011. The amended guidance provides criteria for identifying those deliverables in an arrangement that meet the definition of a milestone. In addition, the amended guidance includes enhanced quantitative and qualitative disclosures about the arrangements when an entity recognizes revenue using the milestone method. We do not expect the adoption of this guidance to have a significant impact on our Consolidated Financial Statements.

In February 2010, the FASB issued amended guidance for subsequent events, which was effective for us in February 2010. In accordance with the revised guidance, an SEC filer no longer is required to disclose the date through which subsequent events have been evaluated in issued and revised financial statements. The adoption of the revised guidance did not have a material impact on our unaudited Consolidated Financial Statements.

In January 2010, the FASB issued amended guidance to enhance disclosure requirements related to fair value measurements. The amended guidance for Level 1 and Level 2 fair value measurements was effective for us January 1, 2010. The amended guidance for Level 3 fair value measurements will be effective for us January 1, 2011. The guidance requires disclosures of amounts and reasons for transfers in and out of Level 1 and Level 2 recurring fair value measurements as well as additional information related to activities in the reconciliation of Level 3 fair value measurements. The guidance expanded the disclosures related to the level of disaggregation of assets and liabilities and information about inputs and valuation techniques. The adoption of the guidance for Level 1 and Level 2 fair value measurements did not have a material impact on our unaudited Consolidated Financial Statements. We do not expect the adoption of the guidance related to Level 3 fair value measurements to have a significant impact on our Consolidated Financial Statements.

In January 2010, the FASB issued amended authoritative guidance related to consolidations when there is a decrease in ownership. The guidance was effective for us January 1, 2010. Specifically, the amendment clarifies the scope of the existing guidance and increases the disclosure requirements when a subsidiary is deconsolidated or when a group of assets is de-recognized. The adoption of the amended guidance did not have a significant impact on our unaudited Consolidated Financial Statements.

In December 2009, the FASB amended authoritative guidance related to accounting for transfers and servicing of financial assets and extinguishments of liabilities. The guidance was effective for us January 1, 2010. The guidance eliminates the concept of a qualifying special-purpose entity and changes the criteria for derecognizing financial assets. In addition, the guidance requires additional disclosures related to a company's continued involvement with financial assets that have been transferred. The adoption of this amended guidance did not have a significant impact on our unaudited Consolidated Financial Statements.

In December 2009, the FASB amended authoritative guidance for consolidating variable interest entities. The guidance was effective for us January 1, 2010. Specifically, the guidance revises factors that should be considered by a reporting entity when determining whether an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance also includes revised financial statement disclosures regarding the reporting entity's involvement, including significant risk exposures as a result of that involvement, and the impact the relationship has on the reporting entity's financial statements. The adoption of this amended guidance did not have a

significant impact on our unaudited Consolidated Financial Statements.

**Table of Contents**

**Notes to Consolidated Financial Statements (continued)**

**(Amounts in Millions, Except Per Share Amounts)**

**(Unaudited)**

In September 2009, the EITF reached a consensus related to revenue arrangements with multiple deliverables. The consensus was issued by the FASB as an update to authoritative guidance for revenue recognition and will be effective for us January 1, 2011. The updated guidance revises how the estimated selling price of each deliverable in a multiple element arrangement is determined when the deliverables do not have stand-alone value. In addition, the guidance requires additional disclosures about the methods and assumptions used to evaluate multiple element arrangements and to identify the significant deliverables within those arrangements. We do not expect the amended guidance to have a significant impact on our Consolidated Financial Statements.

**Table of Contents**

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

**(Amounts in Millions, Except Per Share Amounts)**

**(Unaudited)**

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help you understand The Interpublic Group of Companies, Inc. and its subsidiaries (IPG, we, us or our). MD&A should be read in conjunction with our unaudited Consolidated Financial Statements and the accompanying notes included in this report, our 2009 Annual Report on Form 10-K, as well as our other reports on Form 8-K and other Securities and Exchange Commission (SEC) filings. Our Annual Report includes additional information about our significant accounting policies and practices as well as details about our most significant risks and uncertainties associated with our financial and operating results. Our MD&A includes the following sections:

EXECUTIVE SUMMARY provides a discussion about our strategic outlook, factors influencing our business and an overview of our results of operations and liquidity.

RESULTS OF OPERATIONS provides an analysis of the consolidated and segment results of operations for the periods presented.

LIQUIDITY AND CAPITAL RESOURCES provides an overview of our cash flows, funding requirements, financing and sources of funds and debt credit ratings.

CRITICAL ACCOUNTING ESTIMATES provides an update to the discussion of our accounting policies that require critical judgment, assumptions and estimates in our 2009 Annual Report on Form 10-K.

RECENT ACCOUNTING STANDARDS, by reference to Note 14 to the unaudited Consolidated Financial Statements, provides a discussion of certain accounting standards that have been adopted during 2010 and certain accounting standards that we have not yet been required to implement and may be applicable to our future operations.

**EXECUTIVE SUMMARY**

We are one of the world's premier global advertising and marketing services companies. Our agencies create customized programs for clients across the full spectrum of marketing disciplines around the world. Comprehensive global services are critical to effectively serving our multinational clients, as well as our local clients in markets throughout the world, as they seek to build brands, increase sales of their products and services and gain market share in an increasingly complex and fragmented media landscape.

Our business objective is to continue to strengthen our full range of marketing expertise and competitive positioning. We develop and invest in a range of talent, tools and businesses that are highly relevant to the needs of our clients and offer us strong financial returns. These include investments in fast-growth marketing channels and geographic regions as well as key strategic world markets. Our long-term financial goals include maintaining organic revenue growth at competitive levels while expanding our operating margin. Accordingly, we remain focused on meeting the evolving needs of our clients while carefully managing our cost structure. We continually seek greater efficiency in the delivery of our services, focusing on more effective resource utilization, including the productivity of our employees, real estate and information technology. The improvements we have made in our financial reporting and business information systems during recent years provide us with more timely and actionable insights from our global operations. Our conservative approach to our balance sheet and liquidity provide us with a solid financial foundation and financial flexibility.

During the first nine months of 2010, we have seen economic improvement in many of our key markets and an increase in spending from many of our clients across multiple business sectors. As a result, we have experienced growth across our marketing disciplines. We are continuing to invest to support growth and where we see strategic opportunity. We have achieved improved operating leverage in 2010 as a result of higher revenues and our ongoing cost discipline. There still remains a degree of caution on the part of marketers that continues to have an effect on the demand for advertising and marketing services, particularly in light of uncertainty about the prospects for continued improvements in the global

economy. However, we continue to derive benefits from our diversified client base, global footprint and the broad range and strength of our professional offerings. As a result, we believe we are well-positioned to benefit from a renewed focus on growth.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**Third Quarter and First Nine Months of 2010 and 2009 Highlights**

% Increase	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	Total	Organic	Total	Organic
<b>Revenue</b>	9.4%	9.4%	6.9%	5.2%
<b>Salaries and related expenses</b>	6.7%	7.4%	2.4%	1.0%
<b>Office and general expenses</b>	6.3%	6.5%	6.2%	4.2%
	Three months ended September 30, 2010		Nine months ended September 30, 2009	
	2010	2009	2010	2009
<b>Operating margin</b>	6.4%	4.1%	4.8%	1.7%
<b>Expenses as % of revenue:</b>				
Salaries and related expenses	64.5%	66.1%	65.9%	68.8%
Office and general expenses	29.0%	29.8%	29.3%	29.5%
<b>Net income (loss) available to IPG common stockholders</b>	\$ 42.4	\$ 17.2	\$ 76.2	\$ (35.8)
<b>Earnings (loss) per share available to IPG common stockholders:</b>				
Basic	\$ 0.09	\$ 0.04	\$ 0.16	\$ (0.08)
Diluted	\$ 0.08	\$ 0.03	\$ 0.11	\$ (0.08)

When we analyze period-to-period changes in our operating performance, we determine the portion of the change that is attributable to foreign currency rates and the net effect of acquisitions and divestitures, and the remainder we call organic change, which indicates how our underlying business performed. The performance metrics that we use to analyze our results include the organic change in revenue, salaries and related expenses and office and general expenses, and the components of operating expenses, expressed as a percentage of total consolidated revenue. Additionally, in certain of our discussions we analyze revenue by business sector, where we focus on our top 100 clients, which typically constitute 50%-55% of our annual consolidated revenues. We also analyze revenue by geographic region.

The change in our operating performance attributable to foreign currency rates is determined by converting the prior-period reported results using the current period exchange rates and comparing the prior-period adjusted amounts to the prior-period reported results. Although the U.S. Dollar is our reporting currency, a substantial portion of our revenues and expenses are generated in foreign currencies. Therefore, our reported results are affected by fluctuations in the currencies in which we conduct our international businesses. We do not use derivative financial instruments to manage this translation risk. As a result, both positive and negative currency fluctuations against the U.S. Dollar affect our consolidated results of operations, and the magnitude of the foreign currency impact on us related to each geographic region depends on the significance and operating performance of the region. The primary foreign currencies that impacted our results during the first nine months of 2010 include the Australian Dollar, Brazilian Real, Canadian Dollar and Euro. For the third quarter of 2010, foreign currency fluctuations resulted in net decreases of approximately 1% in revenues, salaries and related expenses and office and general expenses, which contributed on a net basis to an increase in operating income of approximately 6% compared to the prior-year period. For the first nine months of 2010, foreign currency fluctuations resulted in net increases of approximately 2% in revenues and office and general expenses and approximately 1% in salaries and related expenses, which contributed on a net basis to an increase in operating income of approximately 6% compared to the prior-year period. During the first nine months of 2010, the U.S. Dollar weakened against several foreign currencies compared to the prior-year periods, which had a net positive impact on our consolidated results of operations. However, over the past several months, this effect was partially offset by the strengthening of the U.S. Dollar against the Euro and Pound Sterling.



## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

For purposes of analyzing changes in our operating performance attributable to the net effect of acquisitions and divestitures, transactions are treated as if they occurred on the first day of the quarter during which the transaction occurred. During the past few years we have acquired companies that we believe will enhance our offering and disposed of businesses

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

that are not consistent with our strategic plan. For the third quarter and first nine months of 2010, the net effect of acquisitions and divestitures was a slight increase to revenue and operating expenses compared to the respective prior-year period.

**RESULTS OF OPERATIONS**

*Consolidated Results of Operations Three and Nine Months Ended September 30, 2010 Compared to Three and Nine Months Ended September 30, 2009*

**REVENUE**

	Three months ended September 30, 2009	Components of change			Three months ended September 30, 2010	Change	
		Foreign currency	Net acquisitions/ (divestitures)	Organic		Organic	Total
<b>Consolidated</b>	\$ 1,426.7	\$ (9.3)	\$ 9.2	\$ 134.2	\$ 1,560.8	9.4%	9.4%
<b>Domestic</b>	834.1	0.0	(0.8)	83.4	916.7	10.0%	9.9%
<b>International</b>	592.6	(9.3)	10.0	50.8	644.1	8.6%	8.7%
United Kingdom	104.2	(6.8)	6.7	4.1	108.2	3.9%	3.8%
Continental Europe	190.9	(18.0)	(1.2)	(1.9)	169.8	(1.0)%	(11.1)%
Asia Pacific	140.9	8.7	0.0	4.9	154.5	3.5%	9.7%
Latin America	73.3	3.1	3.5	21.1	101.0	28.8%	37.8%
Other	83.3	3.7	1.0	22.6	110.6	27.1%	32.8%

During the third quarter of 2010, our revenue increased by \$134.1, or 9.4%, compared to the third quarter of 2009, primarily consisting of an organic revenue increase of \$134.2, or 9.4%. Our organic increase was primarily attributable to higher spending from existing clients and net client wins in most sectors of our business and in nearly all regions. The sectors that primarily contributed to the organic revenue increase were auto and transportation and financial services. Our technology and telecom sector also contributed to the organic increase in the third quarter of 2010 as the impact of certain lost assignments in this sector on prior-period comparisons has diminished. Regionally, the largest organic revenue increase was in our domestic market, primarily related to the factors noted above. In our international market, the organic revenue increase occurred in nearly all regions, most notably in the Latin America region, primarily in Brazil, and in our Other region, which included increases in South Africa. In Continental Europe, where the impact of a weakened economic climate continues to be felt, we had organic decreases in most countries which were partially offset by organic increases in certain other European countries.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Our revenue is directly impacted by our ability to win new clients and the retention and spending levels of existing clients. Most of our expenses are recognized ratably throughout the year and are therefore less seasonal than revenue. Our revenue is typically lowest in the first quarter and highest in the fourth quarter. This reflects the seasonal spending of our clients, incentives earned at year end on various contracts and project work completed that is typically recognized during the fourth quarter. Additionally, revenues can fluctuate due to the timing of completed projects in the events marketing business, as revenue is typically recognized when the project is complete. We generally act as principal for these projects and as such record the gross amount billed to the client as revenue and the related costs incurred as pass-through costs in office and general expenses. For the third quarter of 2010, our organic revenue increase includes higher revenue attributable to certain projects where we act as principal.

	Nine months ended September 30, 2009	Foreign currency	Components of change Net acquisitions/ (divestitures)	Organic	Nine months ended September 30, 2010	Organic	Change Total
<b>Consolidated</b>	\$ 4,226.4	\$ 63.2	\$ 8.8	\$ 221.5	\$ 4,519.9	5.2%	6.9%
<b>Domestic</b>	2,462.6	0.0	(3.8)	222.0	2,680.8	9.0%	8.9%
<b>International</b>	1,763.8	63.2	12.6	(0.5)	1,839.1	(0.0)%	4.3%
United Kingdom	317.0	0.5	6.7	(23.1)	301.1	(7.3)%	(5.0)%
Continental Europe	605.0	(8.7)	(2.8)	(34.3)	559.2	(5.7)%	(7.6)%
Asia Pacific	389.4	30.9	3.2	4.5	428.0	1.2%	9.9%
Latin America	206.3	18.5	4.5	31.3	260.6	15.2%	26.3%
Other	246.1	22.0	1.0	21.1	290.2	8.6%	17.9%

During the first nine months of 2010, our revenue increased by \$293.5, or 6.9%, compared to the first nine months of 2009, primarily consisting of an organic revenue increase of \$221.5, or 5.2%, and a favorable foreign currency rate impact of \$63.2. Consistent with the third quarter, the organic increase was primarily attributable to higher spending from existing clients and net client wins in nearly all sectors of our business and in several regions, most notably the domestic market. The sectors that primarily contributed to the organic revenue increase were auto and transportation, financial services and retail. Our slight international organic revenue decline was due to the Continental Europe region, where the impact of a weakened economic climate continues to be felt in certain European countries, and the United Kingdom, which was primarily attributable to decreases in the technology and telecom sector, most notably in the first half of 2010. The decreases in these two regions were nearly offset by organic increases in the Latin America region, primarily in Brazil.

Refer to the segment discussion later in this MD&A for information on changes in revenue by segment.

**OPERATING EXPENSES**

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Salaries and related expenses	\$ 1,007.1	\$ 943.5	\$ 2,977.4	\$ 2,908.4
Office and general expenses	452.1	425.4	1,322.2	1,245.4
Restructuring and other reorganization-related charges (reversals), net	1.4	(0.5)	2.3	(0.7)
Total operating expenses	\$ 1,460.6	\$ 1,368.4	\$ 4,301.9	\$ 4,153.1

Operating income	\$ 100.2	\$ 58.3	\$ 218.0	\$ 73.3
------------------	----------	---------	----------	---------

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**Salaries and Related Expenses**

		Components of change Net				Change	
	2009	Foreign currency	acquisitions/ (divestitures)	Organic	2010	Organic	Total
Three months ended September 30,	\$ 943.5	\$ (9.8)	\$ 3.2	\$ 70.2	\$ 1,007.1	7.4%	6.7%
Nine months ended September 30,	2,908.4	37.7	2.1	29.2	2,977.4	1.0%	2.4%

Salaries and related expenses in the third quarter of 2010 increased by \$63.6 compared to the third quarter of 2009, primarily consisting of an organic increase of \$70.2, partially offset by a favorable foreign currency rate impact of \$9.8. However, salaries and related expenses as a percentage of total consolidated revenue decreased in the third quarter of 2010 to 64.5% from 66.1% in the prior-year period. The organic increase was primarily due to higher base salaries and benefits of \$31.3 and higher temporary help of \$16.7 incurred to support revenue growth (organic revenue increase of \$134.2), primarily in our domestic market and certain international regions. In regions where we had organic revenue decreases, such as various countries in the Continental Europe region, we continue to realize lower salaries, benefits and temporary help related to the work force reductions taken during 2009. In regions where we have revenue growth, we may need to continue to add resources to support this growth, which would result in additional increases in salaries and related expenses. Severance expense decreased by \$6.5 compared to the prior-year period. Also contributing to the organic increase was higher incentive award expense of \$28.1, primarily due to improved operating results in the current year. This is in contrast to the third quarter of 2009, where we had lower incentive award expense due to lower performance, primarily as a result of difficult economic conditions.

Salaries and related expenses in the first nine months of 2010 increased by \$69.0 compared to the first nine months of 2009, primarily consisting of an adverse foreign currency rate impact of \$37.7 and an organic increase of \$29.2. However, salaries and related expenses as a percentage of total consolidated revenue decreased in the first nine months of 2010 to 65.9% from 68.8% in the prior-year period. The organic increase was primarily due to higher temporary help of \$43.4 to support business growth, primarily in the domestic market, partially offset by lower base salaries and benefits of \$29.0, primarily related to work force reductions during 2009. Severance expense decreased by \$52.6 compared to the prior-year period. The organic increase also included higher incentive award expense of \$50.3 due to factors similar to those noted above for the third quarter of 2010.

Changes in our incentive awards mix can impact future-period expense, as annual bonus awards are expensed during the year they are earned and long-term incentive awards are expensed over the performance period, generally three years. Factors impacting long-term incentive awards are the actual number of awards vesting, the change in our stock price and changes to our projected results, which could impact the achievement of certain performance targets. See Note 9 to the unaudited Consolidated Financial Statements for further information on our incentive compensation plans.

The following table details our salaries and related expenses as a percentage of total consolidated revenue.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Salaries and related expenses	64.5%	66.1%	65.9%	68.8%
Base salaries, benefits and tax	53.1%	56.3%	54.8%	58.6%
Incentive expense	4.2%	2.7%	3.9%	2.9%

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Severance expense	1.0%	1.6%	1.0%	2.2%
Temporary help	3.8%	2.9%	3.6%	2.7%
All other salaries and related expenses	2.4%	2.6%	2.6%	2.4%

25

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Our staff cost ratio, defined as salaries and related expenses as a percentage of total consolidated revenue, decreased in the third quarter of 2010 to 64.5% from 66.1%, and decreased in the first nine months of 2010 to 65.9% from 68.8% from the comparable prior-year periods, primarily driven by higher revenues, and, to a lesser extent, lower severance expense, partially offset by an increase in temporary help and incentive expense.

**Office and General Expenses**

	Components of change Net				Change		
	2009	Foreign currency	acquisitions/ (divestitures)	Organic	2010	Organic	Total
<b>Three months ended September 30,</b>	\$ 425.4	\$ (3.1)	\$ 2.0	\$ 27.8	\$ 452.1	6.5%	6.3%
<b>Nine months ended September 30,</b>	1,245.4	21.1	3.4	52.3	1,322.2	4.2%	6.2%

Office and general expenses in the third quarter of 2010 increased by \$26.7 compared to the third quarter of 2009, primarily consisting of an organic increase of \$27.8. Approximately eighty percent of the organic increase was attributable to higher production expenses related to pass-through costs for certain projects where we acted as a principal that increased in size or were new during the third quarter of 2010. The remainder of the organic increase is due to higher discretionary spending to support business growth. Production expenses can vary significantly between periods depending on the timing of completion of certain projects where we act as principal, which could impact trends between various periods in the future.

Office and general expenses in the first nine months of 2010 increased by \$76.8 compared to the first nine months of 2009, primarily consisting of an organic increase of \$52.3 and an adverse foreign currency rate impact of \$21.1. The organic increase was due to factors similar to those noted above for the third quarter of 2010, as well as a foreign currency exchange translation loss of approximately \$5.0 in the first quarter of 2010 related to our Venezuela agencies transitioning to inflationary accounting as of January 1, 2010. The organic increase was partially offset by lower occupancy costs, which was partly due to lease terminations we initiated in 2009.

The following table details our office and general expenses as a percentage of total consolidated revenue. All other office and general expenses primarily include production expenses, and to a lesser extent, depreciation and amortization, bad debt expense, foreign currency gains (losses) and other expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Office and general expenses</b>	<b>29.0%</b>	<b>29.8%</b>	<b>29.3%</b>	<b>29.5%</b>
Professional fees	1.6%	1.9%	1.8%	2.0%
Occupancy expense (excluding depreciation and amortization)	8.0%	9.0%	8.2%	9.0%
Travel & entertainment, office supplies and telecommunications	3.7%	3.5%	3.8%	3.6%
All other office and general expenses	15.7%	15.4%	15.5%	14.9%

Our office and general expense ratio, defined as office and general expenses as a percentage of total consolidated revenue, decreased in the third quarter of 2010 to 29.0% from 29.8%, and decreased in the first nine months of 2010 to 29.3% from 29.5%, in each case compared to the respective prior-year period, primarily driven by higher revenues and lower occupancy expenses, partially offset by higher production expenses.

***Restructuring and Other Reorganization-Related Charges (Reversals), net***

During the third quarter of 2010 we initiated plans to integrate our recent acquisition of Delaney Lund Knox Warren ( DLKW ) into our Lowe London operations. We expect to incur approximately \$4.0 of other reorganization-related charges associated with this alignment as we finish implementing our plan through the remainder of 2010 and into 2011. As a result



## Table of Contents

### Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

of the alignment, Lowe will be strengthened by the addition of a premier full-service communications agency in its London operations, and DLKW will benefit from the multinational reach of Lowe. The agency will be called DLKW Lowe, and will serve as the United Kingdom hub for Lowe and Partners Worldwide. These charges relate to severance and termination costs and lease termination and other exit costs as we execute these plans. The charges will be separated from the rest of our operating expenses within the unaudited Consolidated Statements of Operations because they did not occur in the normal course of business.

#### EXPENSES AND OTHER INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Cash interest on debt obligations	\$ (35.5)	\$ (34.9)	\$ (104.2)	\$ (105.4)
Non-cash interest	0.8	(2.9)	1.9	(12.3)
Interest expense	(34.7)	(37.8)	(102.3)	(117.7)
Interest income	6.8	7.6	19.4	28.0
Net interest expense	(27.9)	(30.2)	(82.9)	(89.7)
Other (expense) income, net	(3.1)	1.0	(4.7)	(17.4)
Total (expenses) and other income	\$ (31.0)	\$ (29.2)	\$ (87.6)	\$ (107.1)

#### Net Interest Expense

For the three and nine months ended September 30, 2010, net interest expense decreased by \$2.3 and \$6.8, respectively, as compared to the respective prior-year periods, primarily due to a decrease in non-cash interest expense, partially offset by a decrease in interest income. The change in non-cash interest expense for the three and nine months ended September 30, 2010 was due to changes in the value of obligations to purchase noncontrolling equity shares of consolidated subsidiaries. The value of these obligations may fluctuate depending on projected future operating performance of these subsidiaries. See Note 12 to the unaudited Consolidated Financial Statements for further information. Additionally, for the nine months ended September 30, 2010, the decrease in non-cash interest expense was due to a decrease in deferred warrant costs and amortization of debt issuance costs in connection with the expiration in June 2009 of our \$750.0 Three-Year Credit Agreement dated as of June 13, 2006. The decrease in interest income for the nine months ended September 30, 2010 was primarily due to lower interest rates in various countries around the world, including the United States. Cash interest expense remained virtually unchanged for the three and nine months ended September 30, 2010.

#### Other (Expense) Income, net

Results of operations for the three and nine months ended September 30, 2010 and 2009 include certain items which are not directly associated with our revenue-producing operations.

Three months ended September 30,		Nine months ended September 30,	
2010	2009	2010	2009

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Net loss on early extinguishment of debt	\$ 0.0	\$ (1.2)	\$ (0.1)	\$ (25.8)
Gains (losses) on sales of businesses and investments	0.3	0.7	(2.8)	(2.1)
Vendor discounts and credit adjustments	0.3	1.5	2.4	7.7
Other (expense) income, net	(3.7)	0.0	(4.2)	2.8
Total other (expense) income, net	\$ (3.1)	\$ 1.0	\$ (4.7)	\$ (17.4)

## Table of Contents

### Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**Net Loss on Early Extinguishment of Debt** During the first nine months of 2009, we recorded a net charge of \$25.8 primarily related to the settlement of our tender offers for our 5.40% Senior Unsecured Notes due 2009, our 7.25% Senior Unsecured Notes due 2011 (the 2011 Notes) and our Floating Rate Senior Unsecured Notes due 2010 (the 2010 Notes).

**Vendor Discounts and Credit Adjustments** We are in the process of settling our liabilities related to vendor discounts and credits established during the restatement we presented in our 2004 Annual Report on Form 10-K. These adjustments reflect the reversal of certain of these liabilities as a result of settlements with clients or vendors or where the statute of limitations has lapsed.

### INCOME TAXES

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Income (loss) before income taxes	\$ 69.2	\$ 29.1	\$ 130.4	\$ (33.8)
Provision for (benefit of) income taxes	\$ 24.4	\$ 3.7	\$ 72.4	\$ (18.0)
Effective tax rate	35.3%	12.7%	55.5%	53.3%

Our tax rates are affected by many factors, including our worldwide earnings from various countries, changes in legislation and tax characteristics of our income. Specifically, for the three months ended September 30, 2010, the effective tax rate is comparable to the statutory rate of 35% primarily due to losses in certain foreign locations for which we receive no benefit due to 100% valuation allowances and an increase in unrecognized tax benefits offset by the reversal of valuation allowances in Europe and tax benefits from the exercise of stock options. For the nine months ended September 30, 2010, the difference between the effective tax rate and the statutory rate of 35% was primarily due to factors similar to those noted above as well as the impact of state and local taxes.

On August 10, 2010, The Education Jobs and Medicaid Assistance Act was signed into law. The Act contains various provisions that could limit our ability to use foreign tax credits. There was no material impact on us in the third quarter of 2010. While we continue to assess the future impact of this Act on us, we do not expect a material impact to our effective or cash tax rates in the near future.

For the three and nine months ended September 30, 2009, the difference between the effective tax rate and the statutory rate of 35% was primarily due to the recognition of previously unrecognized tax benefits and the recognition of tax benefits on partially worthless securities, partially offset by losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances and the establishment of valuation allowances in the Asia Pacific region. For the nine months ended September 30, 2009, the difference between the effective tax rate and the statutory tax rate is also due to the write-off of deferred tax assets related to restricted stock.

### EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share available to common stockholders for the three and nine months ended September 30, 2010 was \$0.09 and \$0.16, respectively, compared to \$0.04 and (\$0.08) for the three and nine months ended September 30, 2009, respectively. Diluted earnings (loss) per share was \$0.08 and \$0.11 for the three and nine months ended September 30, 2010, respectively, compared to \$0.03 and (\$0.08) for the three and nine months ended September 30, 2009, respectively.

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

Basic earnings per share for the nine months ended September 30, 2010, includes a benefit from the repurchase of a portion of our 5 1/4% Series B Cumulative Convertible Perpetual Preferred Stock (the "Series B Preferred Stock"). For the three months ended September 30, 2010, we paid quarterly dividends of \$2.9 on our Series B Preferred Stock that remains outstanding. See Note 4 to the unaudited Consolidated Financial Statements for further information.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**Segment Results of Operations Three and Nine Months Ended September 30, 2010 Compared to Three and Nine Months Ended September 30, 2009**

As discussed in Note 11 to the unaudited Consolidated Financial Statements, we have two reportable segments as of September 30, 2010: Integrated Agency Networks ( IAN ) and Constituency Management Group ( CMG ). We also report results for the Corporate and other group.

**IAN****REVENUE**

	Three months ended September 30, 2009	Foreign currency	Components of change Net acquisitions/ (divestitures)	Organic	Three months ended September 30, 2010	Organic	Change Total
<b>Consolidated</b>	\$ 1,191.9	\$ (7.1)	\$ 9.1	\$ 105.4	\$ 1,299.3	8.8%	9.0%
<b>Domestic</b>	664.5	0.0	(0.8)	63.4	727.1	9.5%	9.4%
<b>International</b>	527.4	(7.1)	9.9	42.0	572.2	8.0%	8.5%

During the third quarter of 2010, IAN revenue increased by \$107.4 compared to the third quarter of 2009, primarily consisting of an organic revenue increase of \$105.4. The organic revenue increase was primarily attributable to higher spending from existing clients and net client wins in nearly all sectors of our business and in most regions, at various of our advertising and media businesses. The sectors that primarily contributed to the organic increase were auto and transportation and financial services. The largest increase was in the domestic market. The international organic increase occurred throughout most regions, most notably in the Latin America region, primarily in Brazil, as well as South Africa. The Continental Europe region had a slight organic decrease.

	Nine months ended September 30, 2009	Foreign currency	Components of change Net acquisitions/ (divestitures)	Organic	Nine months ended September 30, 2010	Organic	Change Total
<b>Consolidated</b>	\$ 3,555.0	\$ 57.8	\$ 8.7	\$ 173.1	\$ 3,794.6	4.9%	6.7%
<b>Domestic</b>	1,998.5	0.0	(3.8)	159.6	2,154.3	8.0%	7.8%
<b>International</b>	1,556.5	57.8	12.5	13.5	1,640.3	0.9%	5.4%

During the first nine months of 2010, IAN revenue increased by \$239.6 compared to the first nine months of 2009, primarily consisting of an organic increase of \$173.1 and a favorable foreign currency impact of \$57.8. The domestic organic increase was driven by factors similar to those noted above for the third quarter of 2010. The international organic increase was at various of our advertising and media businesses and primarily in the Latin America region, mostly in Brazil. The international organic increase was partially offset by organic decreases in the Continental Europe region, which includes the effect of a weakened economic climate, and impacted by spending declines and lost assignments, primarily in 2009, in the technology and telecom sector across several regions.

**SEGMENT OPERATING INCOME**

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	Change	2010	2009	Change
Segment operating income	\$ 113.6	\$ 78.7	44.3%	\$ 270.1	\$ 135.7	99.0%
Operating margin	8.7%	6.6%		7.1%	3.8%	

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Operating income increased during the third quarter of 2010 when compared to the third quarter of 2009 due to an increase in revenue of \$107.4, partially offset by increases in salaries and related expenses of \$56.8 and increases in office and general expenses of \$15.7. The increase in salaries and related expenses was primarily due to higher base salaries, benefits and temporary help to support our increase in revenue, as well as higher incentive award expense due to improved operating results. These increases were partially offset by lower severance expense resulting from work force reductions in 2009 across all agencies within IAN. Office and general expenses increased primarily due to higher production expenses and, to a lesser extent, higher discretionary spending to support business growth.

Operating income increased during the first nine months of 2010 when compared to the first nine months of 2009 due to an increase in revenue of \$239.6, partially offset by increases in salaries and related expenses of \$59.0 and office and general expenses of \$46.2, driven by factors similar to those noted above for the third quarter of 2010, as well as a foreign currency exchange translation loss of approximately \$5.0 in the first quarter of 2010 related to our Venezuela agencies transitioning to inflationary accounting as of January 1, 2010. Operating income was benefitted by lower occupancy costs, which were partly due to lease terminations we initiated in 2009.

**CMG****REVENUE**

	Components of change				Change		
	Three months ended September 30, 2009	Foreign currency	Net acquisitions/ (divestitures)	Organic	Three months ended September 30, 2010	Organic	Total
<b>Consolidated</b>	\$ 234.8	\$ (2.2)	\$ 0.1	\$ 28.8	\$ 261.5	12.3%	11.4%
<b>Domestic</b>	169.8	0.0	0.0	19.8	189.6	11.7%	11.7%
<b>International</b>	65.0	(2.2)	0.1	9.0	71.9	13.8%	10.6%

During the third quarter of 2010, CMG revenue increased by \$26.7 compared to the third quarter of 2009, primarily due to an organic revenue increase of \$28.8. The organic revenue increase was due to an increase in client spending and net client wins in all major disciplines. The organic revenue increase includes higher revenue attributable to certain projects where we act as principal. The international organic increase occurred in all regions, primarily in the United Kingdom and Asia Pacific regions. Revenues in the events marketing business can fluctuate due to the timing of completed projects where we act as principal, as revenue is typically recognized when the project is complete.

	Components of change				Change		
	Nine months ended September 30, 2009	Foreign currency	Net acquisitions/ (divestitures)	Organic	Nine months ended September 30, 2010	Organic	Total
<b>Consolidated</b>	\$ 671.4	\$ 5.4	\$ 0.1	\$ 48.4	\$ 725.3	7.2%	8.0%
<b>Domestic</b>	464.1	0.0	0.0	62.4	526.5	13.4%	13.4%
<b>International</b>	207.3	5.4	0.1	(14.0)	198.8	(6.8)%	(4.1)%

During the first nine months of 2010, CMG revenue increased by \$53.9 compared to the first nine months of 2009, due to an organic revenue increase of \$48.4 and a favorable foreign currency rate impact of \$5.4. The domestic organic increase was driven by factors similar to those noted above for the third quarter of 2010. The international organic decrease was primarily due to the completion of several projects with existing clients in the first nine months of 2009 that did not recur in the first nine months of 2010 in our events marketing business, predominantly in the United Kingdom, partially offset by growth in the Asia Pacific region.





**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**SEGMENT OPERATING INCOME**

	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	Change	2010	2009	Change
<b>Segment operating income</b>	\$ 21.7	\$ 18.2	19.2%	\$ 51.4	\$ 43.5	18.2%
<b>Operating margin</b>	8.3%	7.8%		7.1%	6.5%	

Operating income increased during the third quarter of 2010 when compared to the third quarter of 2009 due to an increase in revenue of \$26.7 partially offset by increases in office and general expenses of \$13.8 and salaries and related expenses of \$9.4. Office and general expenses increased primarily due to higher production expenses and salaries and related expenses increased primarily due to higher base salaries, benefits and temporary help to support growth, as well as an increase in incentive awards.

Operating income increased during the first nine months of 2010 when compared to the first nine months of 2009 due to an increase in revenue of \$53.9, partially offset by increases in office and general expenses of \$29.9, and salaries and related expenses of \$16.1, driven by factors similar to those noted above for the third quarter of 2010.

**CORPORATE AND OTHER**

Certain corporate and other charges are reported as a separate line item within total segment operating income and include corporate office expenses and shared service center expenses, as well as certain other centrally managed expenses that are not fully allocated to operating divisions. Salaries and related expenses include salaries, long-term incentives, bonuses and other miscellaneous benefits for corporate office employees. Office and general expenses primarily include professional fees related to internal control compliance, financial statement audits and legal, information technology and other consulting services, which are engaged and managed through the corporate office. In addition, office and general expenses also include rental expense and depreciation of leasehold improvements for properties occupied by corporate office employees. A portion of these expenses are allocated to operating divisions based on a formula that uses the planned revenues of each of the operating units. Amounts allocated also include specific charges for information technology-related projects, which are allocated based on utilization.

Corporate and other expenses decreased during the third quarter of 2010 by \$5.4 to \$33.7 compared to the third quarter of 2009, and decreased by \$5.4 to \$101.2 during the first nine months of 2010 compared to the first nine months of 2009, primarily due to lower base salaries, benefits and temporary help and a decline in professional fees. During the first nine months of 2010, the decrease in corporate and other expenses was partially offset by an increase in incentive award expense. The decrease in base salaries, benefits and temporary help was primarily related to work force reductions in 2009. The increase in incentive award expense is primarily due to improved operating results.

**LIQUIDITY AND CAPITAL RESOURCES****CASH FLOW OVERVIEW**

Our key liquidity metrics are operating cash flow and changes in working capital. The following tables summarize key financial data relating to our liquidity, capital resources and uses of capital.

<b>Cash Flow Data</b>	<b>Nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Net cash used in operating activities	\$ (161.8)	\$ (198.5)
Net cash (used in) provided by investing activities	(83.6)	47.3
Net cash used in financing activities	(327.7)	(262.6)
Net working capital usage (included in operating activities)	\$ (376.3)	\$ (327.2)

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

<b>Balance Sheet Data</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>	<b>September 30, 2009</b>
Cash, cash equivalents and marketable securities	\$ 1,939.0	\$ 2,506.1	\$ 1,772.1
Short-term borrowings	\$ 124.3	\$ 93.4	\$ 85.0
Current portion of long-term debt	231.0	215.2	3.2
Long-term debt	1,588.9	1,638.0	1,866.9
<b>Total debt</b>	<b>\$ 1,944.2</b>	<b>\$ 1,946.6</b>	<b>\$ 1,955.1</b>

*Operating Activities*

Net cash used in operating activities during the first nine months of 2010 was \$161.8, which is an improvement of \$36.7 as compared to the first nine months of 2009, primarily the result of an increase in net income \$74.7 partially offset by higher working capital usage of \$49.1. Net cash used in operating activities primarily reflects working capital cash usage of \$376.3, partially offset by net adjustments to reconcile net income of \$174.2. Net adjustments to reconcile net income primarily include depreciation and amortization of fixed assets and intangible assets, amortization of restricted stock and other non-cash compensation and deferred income tax benefits. Cash generated or used by working capital reflects changes in accounts receivable, expenditures billable to clients, other current assets, accounts payable and accrued liabilities. Due to the seasonality of our business, we typically generate cash from working capital in the second half of a year and use cash from working capital in the first half of a year, with the largest impacts in the first and fourth quarters. The net working capital usage in the first nine months of 2010 was primarily attributable to certain of our advertising and marketing services businesses, partially offset by our media businesses.

The timing of media buying on behalf of our clients affects our working capital and operating cash flow. In most of our businesses, our agencies enter into commitments to pay production and media costs on behalf of clients. To the extent possible we pay production and media charges after we have received funds from our clients. The amounts involved substantially exceed our revenues, and primarily affect the level of accounts receivable, expenditures billable to clients, accounts payable and accrued media and production liabilities. Our assets include both cash received and accounts receivable from clients for these pass-through arrangements, while our liabilities include amounts owed on behalf of clients to media and production suppliers.

Our accrued liabilities are also affected by the timing of certain other payments. For example, while cash incentive awards are accrued throughout the year, they are generally paid during the first quarter of the subsequent year.

*Investing Activities*

Net cash used in investing activities during the first nine months of 2010 primarily reflects payments for acquisitions and capital expenditures, partially offset by net proceeds from the sales of investments. Payments for acquisitions of \$63.0 relate to new acquisitions, primarily DLKW, as well as deferred payments on prior acquisitions. Capital expenditures of \$49.7 relate to leasehold improvements, computer hardware and furniture and fixtures.

*Financing Activities*

Net cash used in financing activities during the first nine months of 2010 primarily reflects the repurchase of a portion of our Series B Preferred Stock of \$265.9 and our 2010 Notes of \$21.4, distributions to noncontrolling interests of \$18.2 and dividend payments of \$16.7 on our Series B Preferred Stock.

*Foreign Exchange Rate Changes*

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

The effect of foreign exchange rate changes on cash and cash equivalents included in the unaudited Consolidated Statements of Cash Flows resulted in an increase of \$5.6 during the first nine months of 2010. This increase primarily reflects the weakening of the U.S. Dollar against several foreign currencies during this period.

## **Table of Contents**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

#### ***LIQUIDITY OUTLOOK***

We expect our cash flow from operations, cash and cash equivalents to be sufficient to meet our anticipated operating requirements at a minimum for the next twelve months. We also have a committed corporate credit facility available to support our operating needs. While we believe the economic climate has improved in certain regions, we believe macroeconomic conditions remain uncertain and could challenge our level of cash generation from operations. We continue to maintain a conservative approach to liquidity, which provides us with maximum flexibility over significant uses of cash, including our capital expenditures and cash used for new acquisitions. We are closely managing our spending and will defer or limit discretionary spending where appropriate, while continuing to position ourselves for growth.

From time to time we evaluate market conditions and financing alternatives for opportunities to raise additional financing or otherwise improve our liquidity profile and enhance our financial flexibility. Our ability to access the capital markets depends on a number of factors, which include those specific to us, such as our credit rating, and those related to the financial markets, such as the amount or terms of available credit. There can be no guarantee that we would be able to access new sources of liquidity on commercially reasonable terms.

#### ***Funding Requirements***

Our most significant funding requirements include: our operations, non-cancelable operating lease obligations, capital expenditures, debt service, acquisitions, taxes and contributions to pension and postretirement plans. Additionally, we may be required to make payments to minority owners if they exercise put options related to prior acquisitions. Notable funding requirements include:

**Debt service** Our \$192.3 aggregate principal amount of 2010 Notes outstanding mature on November 15, 2010, and our \$36.3 aggregate principal amount of 2011 Notes outstanding mature on August 15, 2011. We expect to use available cash to retire the outstanding 2010 Notes and the 2011 Notes. The remainder of our outstanding debt is primarily long-term, with maturities scheduled through 2023.

**Acquisitions** We expect to continue to evaluate strategic opportunities to grow and to increase our ownership interests in current investments, particularly in our digital and marketing services offerings, and to expand our presence in high-growth and key strategic world markets. In addition to cash expenditures for new acquisitions, we expect to pay approximately \$1.0 in the fourth quarter of 2010 and approximately \$47.0 in 2011 related to acquisitions we completed in previous periods. We may also be required to pay approximately \$37.0 related to put options that are exercisable over the next twelve months.

**Contributions to pension and postretirement plans** Our funding policy regarding our pension plans is to contribute amounts necessary to satisfy minimum pension funding requirements, plus such additional amounts as we consider appropriate to improve the plans' funded status. For the nine months ended September 30, 2010, we contributed \$20.5 to our foreign pension plans and \$9.6 to our domestic pension plans. In the fourth quarter of 2010, we expect to contribute approximately \$8.0 to our foreign pension plans, and we do not expect to make any contributions to our domestic pension plans. A significant portion of our contributions to the foreign pension plans relates to the Interpublic Pension Plan in the U.K.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

**FINANCING AND SOURCES OF FUNDS**

Substantially all of our operating cash flow is generated by our agencies. Our cash balances are held in numerous jurisdictions throughout the world, primarily at the holding company level and at our largest subsidiaries. Below is a summary of our sources of liquidity.

	Total Facility	September 30, 2010 Amount Outstanding	September 30, 2010 Letters of Credit <sup>1</sup>	Total Available
Cash, cash equivalents and marketable securities				\$ 1,939.0
Committed credit agreement	\$ 650.0	\$ 0.0	\$ 16.4	\$ 633.6
Uncommitted credit arrangements	\$ 450.5	\$ 124.3	\$ 0.1	\$ 326.1

<sup>1</sup> We are required from time to time to post letters of credit, primarily to support obligations of our subsidiaries. These letters of credit have historically not been drawn upon.

**Credit Facilities**

We maintain a committed corporate credit facility to increase our financial flexibility. In April 2010, we amended and restated our credit agreement originally dated as of July 18, 2008 (the "Credit Agreement"), which increased commitments of the lenders to \$650.0 from \$335.0, added five new lenders and extended the Credit Agreement's expiration. We have not drawn on any of our corporate credit facilities since 2003, although we use them for letters of credit primarily to support obligations of our subsidiaries. The Credit Agreement is a revolving facility expiring July 18, 2013, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of \$650.0 or the equivalent in other currencies. The aggregate available amount of letters of credit outstanding may decrease or increase, subject to a limit on letters of credit of \$200.0 or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured. See Note 3 to the unaudited Consolidated Financial Statements for further information.

We were in compliance with all applicable restrictive and financial covenants in the Credit Agreement as of September 30, 2010, as seen in the table below.

Financial Covenants	Four Quarters Ended September 30, 2010	EBITDA Reconciliation	Four Quarters Ended September 30, 2010
Interest coverage ratio (not less than)	3.75x	Operating income	\$ 485.9
Actual interest coverage ratio	5.47x	Add:	
		Depreciation and amortization	205.3
Leverage ratio (not greater than)	3.75x	Non-cash charges	1.7
Actual leverage ratio	2.81x	EBITDA	\$ 692.9

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

EBITDA (not less than)	\$	550.0
Actual EBITDA	\$	692.9

If we were unable to comply with our financial covenants in the future, we would seek an amendment or waiver from our lenders, but there is no assurance that our lenders would grant an amendment or waiver. If we do not comply with these financial covenants and were unable to obtain the necessary amendment or waiver, the Credit Agreement could be terminated and our lenders could accelerate payments of any outstanding principal. In addition, under those circumstances we could be required to deposit funds with one of our lenders in an amount equal to any outstanding letters of credit under the Credit Agreement.

In December 2009, we entered into a letter of credit agreement (the "2009 LC Agreement"). The face amount of letters of credit outstanding under the 2009 LC Agreement is subject to an aggregate limit at any one time of £45.0 (equivalent as of

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

September 30, 2010 to \$71.1). As of September 30, 2010, we have the equivalent of \$66.4 of letters of credit outstanding under the 2009 LC Agreement. IPG has guaranteed any obligations of our subsidiaries under this facility.

We also have uncommitted credit facilities with various banks that permit borrowings at variable interest rates. We use our uncommitted credit lines for working capital needs at some of our operations outside the United States, and the amount outstanding as of September 30, 2010 was \$124.3. We have guaranteed the repayment of some of these borrowings made by certain subsidiaries. If we were to lose access to these credit lines, we would have to provide funding directly to some of our international operations. The weighted-average interest rate on outstanding balances under the uncommitted credit facilities as of September 30, 2010 was approximately 1.0%.

*Cash Pooling*

We aggregate our net domestic cash position on a daily basis. Outside the United States we use cash pooling arrangements with banks to help manage our liquidity requirements. In these pooling arrangements, several IPG agencies agree with a single bank that the cash balances of any of the agencies with the bank will be subject to a full right of setoff against amounts the other agencies owe the bank, and the bank provides for overdrafts as long as the net balance for all the agencies does not exceed an agreed-upon level. Typically, each agency pays interest on outstanding overdrafts and receives interest on cash balances. Our unaudited Consolidated Balance Sheets reflect cash, net of bank overdrafts, under all of our pooling arrangements, and as of September 30, 2010, the amount netted was \$908.4.

**DEBT CREDIT RATINGS**

Our long-term debt credit ratings as of October 15, 2010 are listed below.

	<b>Moody's Investor Service</b>	<b>Standard and Poor's</b>	<b>Fitch Ratings</b>
Rating	Ba2	BB	BB+
Outlook	Positive	Stable	Positive

The most recent changes in our credit ratings occurred in May 2010 when Standard and Poor's upgraded our rating from B+ to BB and changed our outlook from positive to stable. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning credit rating agency. The rating of each credit rating agency should be evaluated independently of any other rating. Credit ratings could have an impact on liquidity, either adverse or favorable, including, among other things, because they could affect funding costs in the capital markets or otherwise. For example, our Credit Agreement fees and borrowing rates are based on a credit ratings grid.

**CRITICAL ACCOUNTING ESTIMATES**

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2009 included in our 2009 Annual Report on Form 10-K. As summarized in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report, we believe that certain of these policies are critical because they are important to the presentation of our financial condition and results of operations, and they require management's most difficult, subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain. These critical estimates relate to revenue recognition, income taxes, goodwill and other intangible assets, and pension and postretirement benefits. We base our estimates on historical experience and various other factors that we believe to be relevant under the circumstances. Estimation methodologies are applied consistently from year to year, and there have been no significant changes in the application of critical accounting estimates since December 31, 2009. Actual results may differ from these estimates under different assumptions or conditions.



**RECENT ACCOUNTING STANDARDS**

See Note 14 to the unaudited Consolidated Financial Statements for further information of certain accounting standards that have been adopted during 2010 and certain accounting standards that we have not yet been required to implement and may be applicable to our future operations.

## **Table of Contents**

### **Item 3.      *Quantitative and Qualitative Disclosures about Market Risk***

In the normal course of business, we are exposed to market risks related to interest rates, foreign currency rates and certain balance sheet items. There has been no significant change in our exposure to market risk during the nine months ended September 30, 2010. For a further discussion of our exposure to market risk, refer to Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in our 2009 Annual Report on Form 10-K.

### **Item 4.      *Controls and Procedures* **Disclosure Controls and Procedures****

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2010, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

### **Changes in Internal Control Over Financial Reporting**

There has been no change in internal control over financial reporting in the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

Information about our current legal proceedings is set forth in Note 13 to the unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

**Item 1A. Risk Factors**

In the third quarter of 2010, there have been no material changes in the risk factors we have previously disclosed in Item 1A, *Risk Factors*, in our 2009 Annual Report on Form 10-K.

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

- (c) The following table provides information regarding our purchases of our equity securities during the period from July 1, 2010 to September 30, 2010.

	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit) <sup>2</sup>	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 31	15,466	\$ 8.99		
August 1 31	2,470	\$ 8.50		
September 1 30	968	\$ 10.06		
Total <sup>1</sup>	18,904	\$ 8.98		

<sup>1</sup> Consists of restricted shares of our common stock, par value \$0.10 per share, withheld under the terms of grants under employee stock-based compensation plans to offset tax withholding obligations that occurred upon vesting and release of restricted shares (the "Withheld Shares").

<sup>2</sup> The average price per month of the Withheld Shares was calculated by dividing the aggregate value of the tax withholding obligations for each month by the aggregate number of shares of our common stock withheld in such month.

**Working Capital Restrictions and Other Limitations on the Payment of Dividends**

The Credit Agreement contains certain covenants that, among other things, and subject to certain exceptions, restrict us from making cash acquisitions, making capital expenditures, repurchasing our common stock and declaring or paying cash dividends on our common stock, in excess of an aggregate basket of \$600.0 million in any fiscal year, of which we may carry forward unused amounts of up to \$200.0 million to the next fiscal year, provided that (a) if we have a leverage ratio of greater than 2.75 to 1 at the end of any fiscal year, we may not carry forward unused amounts, and cash common stock dividends and net share repurchases not otherwise permitted will be restricted to \$400.0 million for the next fiscal year, and (b) if we have a leverage ratio of 2.75 to 1 or less at the end of any fiscal year, in the next fiscal year the aggregate basket will be \$800.0 million and cash common stock dividends and net share repurchases not otherwise permitted may not exceed \$600.0 million. In addition, the aggregate basket in any fiscal year, but not the amount for cash common stock and net share repurchases, may be increased, subject

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES, INC. - Form 10-Q

to certain limitations, by up to \$100.0 million of net cash proceeds from dispositions made during such fiscal year.

In addition, the terms of our outstanding series of preferred stock do not permit us to pay dividends on our common stock unless all accumulated and unpaid dividends on our preferred stock have been or contemporaneously are declared and paid or provision for the payment thereof has been made.

---

**Table of Contents**

**Item 6.     *Exhibits***

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
12.1	Computation of Ratios of Earnings to Fixed Charges.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended.
101	Interactive Data File, for the period ended September 30, 2010.

**Table of Contents**

**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.

THE INTERPUBLIC GROUP OF COMPANIES, INC.

By */s/ Michael I. Roth*  
Michael I. Roth

Chairman and Chief Executive Officer

Date: October 29, 2010

By */s/ Christopher F. Carroll*  
Christopher F. Carroll

Senior Vice President, Controller and

Chief Accounting Officer

(Principal Accounting Officer)

Date: October 29, 2010

**Table of Contents**

**INDEX TO EXHIBITS**

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
12.1	Computation of Ratios of Earnings to Fixed Charges.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended.
101	Interactive Data File, for the period ended September 30, 2010.