

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

October 28, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2009

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
incorporation or organization)

13-1024020

(I.R.S. Employer
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.

Yes x No ..

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

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 16, 2009 was 486,118,123.

Table of Contents

INDEX

| | Page No. |
|---|-----------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements (Unaudited)</u> | |
| <u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008</u> | 2 |
| <u>Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u> | 3 |
| <u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u> | 4 |
| <u>Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Nine Months Ended September 30, 2009 and 2008</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> | 23 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 40 |
| Item 4. <u>Controls and Procedures</u> | 40 |
| <u>PART II. OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 41 |
| Item 1A. <u>Risk Factors</u> | 41 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 41 |
| Item 6. <u>Exhibits</u> | 42 |
| <u>SIGNATURES</u> | 43 |
| <u>INDEX TO EXHIBITS</u> | 44 |

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;

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)

| | Three months ended September 30, 2009 | | September 30, 2008 | |
|--|---|------------|-----------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| REVENUE | \$ 1,426.7 | \$ 1,740.0 | \$ 4,226.4 | \$ 5,060.9 |
| OPERATING EXPENSES: | | | | |
| Salaries and related expenses | 943.5 | 1,093.5 | 2,908.4 | 3,261.5 |
| Office and general expenses | 425.4 | 526.3 | 1,245.4 | 1,529.1 |
| Restructuring and other reorganization-related (reversals) charges | (0.5) | 3.9 | (0.7) | 11.2 |
| Total operating expenses | 1,368.4 | 1,623.7 | 4,153.1 | 4,801.8 |
| OPERATING INCOME | 58.3 | 116.3 | 73.3 | 259.1 |
| EXPENSES AND OTHER INCOME: | | | | |
| Interest expense | (37.8) | (53.2) | (117.7) | (163.9) |
| Interest income | 7.6 | 23.3 | 28.0 | 75.0 |
| Other income (expense), net | 1.0 | (1.0) | (17.4) | 3.9 |
| Total (expenses) and other income | (29.2) | (30.9) | (107.1) | (85.0) |
| Income (loss) before income taxes | 29.1 | 85.4 | (33.8) | 174.1 |
| Provision for (benefit of) income taxes | 3.7 | 35.5 | (18.0) | 90.9 |
| Income (loss) of consolidated companies | 25.4 | 49.9 | (15.8) | 83.2 |
| Equity in net income (loss) of unconsolidated affiliates | 0.5 | 0.5 | (0.5) | 2.1 |
| NET INCOME (LOSS) | 25.9 | 50.4 | (16.3) | 85.3 |
| Net (income) loss attributable to noncontrolling interests | (1.8) | (4.7) | 1.2 | (7.3) |
| NET INCOME (LOSS) ATTRIBUTABLE TO IPG | 24.1 | 45.7 | (15.1) | 78.0 |
| Dividends on preferred stock | (6.9) | (6.9) | (20.7) | (20.7) |
| Allocation to participating securities | | (0.1) | | (0.6) |
| NET INCOME (LOSS) AVAILABLE TO IPG COMMON STOCKHOLDERS | \$ 17.2 | \$ 38.7 | \$ (35.8) | \$ 56.7 |

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

| | | | | |
|---|---------|---------|-----------|---------|
| Earnings (loss) per share available to IPG common stockholders: | | | | |
| Basic | \$ 0.04 | \$ 0.08 | \$ (0.08) | \$ 0.12 |
| Diluted | \$ 0.03 | \$ 0.08 | \$ (0.08) | \$ 0.12 |
| Weighted-average number of common shares outstanding: | | | | |
| Basic | 470.5 | 462.8 | 467.3 | 460.8 |
| Diluted | 513.8 | 519.4 | 467.3 | 499.9 |

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, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 1,761.5 | \$ 2,107.2 |
| Marketable securities | 10.6 | 167.7 |
| Accounts receivable, net of allowance of \$65.0 and \$63.9 | 3,067.7 | 3,746.5 |
| Expenditures billable to clients | 1,135.1 | 1,099.5 |
| Other current assets | 307.3 | 366.7 |
| Total current assets | 6,282.2 | 7,487.6 |
| Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,145.3 and \$1,055.8 | 503.2 | 561.5 |
| Deferred income taxes | 438.9 | 416.8 |
| Goodwill | 3,310.2 | 3,220.9 |
| Other assets | 443.8 | 438.4 |
| TOTAL ASSETS | \$ 10,978.3 | \$ 12,125.2 |
| LIABILITIES: | | |
| Accounts payable | \$ 3,283.5 | \$ 4,022.6 |
| Accrued liabilities | 2,230.8 | 2,521.6 |
| Short-term debt | 88.2 | 332.8 |
| Total current liabilities | 5,602.5 | 6,877.0 |
| Long-term debt | 1,866.9 | 1,786.9 |
| Deferred compensation and employee benefits | 559.4 | 549.8 |
| Other non-current liabilities | 333.7 | 378.9 |
| TOTAL LIABILITIES | 8,362.5 | 9,592.6 |
| Redeemable noncontrolling interests (see Note 5) | 262.4 | 288.4 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock | 525.0 | 525.0 |
| Common stock | 47.0 | 46.4 |
| Additional paid-in capital | 2,424.5 | 2,413.5 |
| Accumulated deficit | (461.2) | (446.1) |
| Accumulated other comprehensive loss, net of tax | (199.4) | (318.5) |
| | 2,335.9 | 2,220.3 |
| Less: Treasury stock | (14.0) | (14.0) |
| Total IPG stockholders' equity | 2,321.9 | 2,206.3 |
| Noncontrolling interests | 31.5 | 37.9 |

| | | |
|-------------------------------------|-------------|-------------|
| TOTAL STOCKHOLDERS' EQUITY | 2,353.4 | 2,244.2 |
| TOTAL LIABILITIES AND EQUITY | \$ 10,978.3 | \$ 12,125.2 |

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, | |
|---|------------------------------------|---------|
| | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$ (16.3) | \$ 85.3 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization of fixed assets and intangible assets | 126.5 | 130.5 |
| Provision for bad debt | 13.6 | 6.3 |
| Amortization of restricted stock and other non-cash compensation | 37.7 | 64.4 |
| Amortization of bond discounts and deferred financing costs | 13.0 | 21.1 |
| Loss on early extinguishment of debt | 25.8 | |
| Deferred income tax (benefit) provision | (9.4) | 3.9 |
| Other | 9.8 | 6.9 |
| Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash: | | |
| Accounts receivable | 812.9 | 465.4 |
| Expenditures billable to clients | (18.8) | (205.2) |
| Prepaid expenses and other current assets | 14.2 | (14.1) |
| Accounts payable | (863.4) | (325.2) |
| Accrued liabilities | (272.1) | (80.1) |
| Other non-current assets and liabilities | (72.0) | (13.1) |
| Net cash (used in) provided by operating activities | (198.5) | 146.1 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net sales and maturities (purchases) of short-term marketable securities | 157.9 | (3.6) |
| Acquisitions, including deferred payments, net of cash acquired | (71.2) | (101.0) |
| Capital expenditures | (43.7) | (82.8) |
| Other investing activities | 4.3 | (10.9) |
| Net cash provided by (used in) investing activities | 47.3 | (198.3) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Purchase of long-term debt | (770.7) | (190.8) |
| Proceeds from issuance of 10.0% Senior Notes due 2017 | 587.7 | |
| Issuance costs | (19.2) | (11.0) |
| Net decrease in short-term bank borrowings | (12.1) | (23.3) |
| Distributions to noncontrolling interests | (21.1) | (10.3) |
| Preferred stock dividends | (20.7) | (20.7) |
| Other financing activities | (6.5) | (7.0) |
| Net cash used in financing activities | (262.6) | (263.1) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 68.1 | (9.8) |

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

| | | |
|--|------------|------------|
| Net decrease in cash and cash equivalents | (345.7) | (325.1) |
| Cash and cash equivalents at beginning of period | 2,107.2 | 2,014.9 |
| Cash and cash equivalents at end of period | \$ 1,761.5 | \$ 1,689.8 |

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**

(Amounts in Millions)

(Unaudited)

| | Common Stock | | | Additional | Accumulated | | Treasury | Total IPG | Noncontrolling | Total |
|--|--------------|--------|---------|------------|-------------|------------|-----------|---------------|----------------|---------------|
| | Preferred | Shares | Amount | Paid-in | Accumulated | Other | Stock | Stockholders' | Interests | Stockholders' |
| | Stock | | | Capital | Deficit | Loss | | Equity | | 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 |
| Comprehensive income: | | | | | | | | | | |
| Net loss | | | | | (15.1) | | | (15.1) | (1.2) | (16.3) |
| Foreign currency translation adjustment, 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 | | | | | | | | | | |
| 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 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 | | 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**THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (CONTINUED)**

(Amounts in Millions)

(Unaudited)

| | Common Stock | | | Additional | Accumulated | | Treasury | Total IPG | Noncontrolling | Total |
|---|--------------|--------|---------|------------|-------------|------------|-----------|--------------|----------------|--------------|
| | Preferred | Shares | Amount | Paid-in | Accumulated | Other | Stock | Stockholders | Interests | Stockholders |
| | Stock | | | Capital | Deficit | Loss | | Equity | | Equity |
| Balance at December 31, 2007 | \$ 525.0 | 471.7 | \$ 45.9 | \$ 2,541.2 | \$ (741.1) | \$ (118.6) | \$ (14.0) | \$ 2,238.4 | \$ 36.7 | \$ 2,275.1 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | 78.0 | | | 78.0 | 7.3 | 85.3 |
| Foreign currency translation adjustment, net of tax | | | | | | (37.5) | | (37.5) | (0.9) | (38.4) |
| Changes in market value of securities available-for-sale, net of tax | | | | | | (2.5) | | (2.5) | | (2.5) |
| Recognition of previously unrealized gains on securities available-for-sale, net of tax | | | | | | (0.4) | | (0.4) | | (0.4) |
| Unrecognized losses, transition obligation and prior service cost, net of tax | | | | | | 3.0 | | 3.0 | | 3.0 |
| Total comprehensive income | | | | | | | | \$ 40.6 | \$ 6.4 | \$ 47.0 |
| Reclassifications to redeemable noncontrolling interests | | | | | | | | | (6.9) | (6.9) |
| Noncontrolling interest transactions | | | | | | | | | 7.6 | 7.6 |
| Distributions to noncontrolling interests | | | | | | | | | (10.3) | (10.3) |
| Change in redemption value of redeemable noncontrolling interests | | | | (170.9) | | | | (170.9) | | (170.9) |
| Preferred stock dividends | | | | (20.7) | | | | (20.7) | | (20.7) |
| Stock-based compensation | | | | 65.2 | | | | 65.2 | | 65.2 |
| Restricted stock, net of forfeitures | | 5.0 | 0.4 | (11.2) | | | | (10.8) | | (10.8) |
| Other | | 0.4 | 0.1 | 4.6 | | | | 4.7 | (0.4) | 4.3 |
| Balance at September 30, 2008 | \$ 525.0 | 477.1 | \$ 46.4 | \$ 2,408.2 | \$ (663.1) | \$ (156.0) | \$ (14.0) | \$ 2,146.5 | \$ 33.1 | \$ 2,179.6 |

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. (together with its subsidiaries, the Company, Interpublic, we, us or our) in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC or the Commission) 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 accordance 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 those estimates. The consolidated results for interim periods are not necessarily indicative of results for the full year and should be read in conjunction with our 2008 Annual Report on Form 10-K as filed on February 27, 2009 and the revisions made on Form 8-K dated as of June 8, 2009.

In the opinion of management, these unaudited Consolidated Financial Statements include all adjustments of a normal and recurring nature necessary for a fair statement of the information for each period contained therein. We have evaluated subsequent events through the filing of this Form 10-Q on October 28, 2009 with the SEC, and determined there have not been any events that have occurred that would require adjustments to our unaudited Consolidated Financial Statements. Certain reclassifications have been made to prior periods to conform to the current period presentation.

Note 2: Debt and Credit Arrangements**Long-Term Debt**

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

| | | September 30, 2009 | | December 31, 2008 | |
|--|-------------------------------|-----------------------|----------------------------|----------------------|----------------------------|
| | Effective Interest Rate | Book Value | Fair Value ² | Book Value | Fair Value ² |
| 5.40% Senior Unsecured Notes due 2009 | 5.43% | \$ | \$ | \$ 249.9 | \$ 230.0 |
| Floating Rate Senior Unsecured Notes due 2010 (less unamortized discount of \$2.5) | 8.65% | 211.2 | 206.2 | 245.1 | 225.0 |
| 7.25% Senior Unsecured Notes due 2011 | 7.25% ¹ | 36.4 | 36.5 | 501.8 | 315.0 |
| 6.25% Senior Unsecured Notes due 2014 (less unamortized discount of \$0.5) | 6.29% ¹ | 354.9 | 329.0 | 350.2 | 185.5 |
| 10.00% Senior Unsecured Notes due 2017 (less unamortized discount of \$12.0) | 10.38% | 588.0 | 645.0 | | |
| 4.75% Convertible Senior Notes due 2023 (plus unamortized premium of \$7.8) | 3.50% | 207.8 | 214.1 | 209.5 | 137.4 |
| 4.50% Convertible Senior Notes due 2023 | 4.50% | 8.7 | 8.6 | 8.7 | 5.7 |
| 4.25% Convertible Senior Notes due 2023 (plus unamortized premium of \$35.5) | 0.58% | 435.5 | 418.1 | 446.3 | 288.0 |
| Other notes payable and capitalized leases | | 27.6 | | 29.4 | |
| Total long-term debt | | 1,870.1 | | 2,040.9 | |
| Less: Current portion | | 3.2 | | 254.0 | |
| Long-term debt, excluding current portion | | \$ 1,866.9 | | \$ 1,786.9 | |

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

²

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

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.

Senior Notes due 2017

On June 15, 2009 we issued \$600.0 in aggregate principal amount of 10.00% Senior Unsecured Notes due 2017 (the 2017 Notes) at 97.958% of par through a private placement. As a result, the 2017 Notes were reflected on our unaudited Consolidated Balance Sheet at their fair value at issuance, or \$587.7. The discount of \$12.3 will be amortized through the

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

maturity date, July 15, 2017, using the effective interest method. Interest is payable semi-annually in arrears on January 15th and July 15th of each year, commencing on January 15, 2010. Capitalized direct fees of \$15.8 related to the issuance of the 2017 Notes will be amortized in interest expense through the maturity date. Consistent with our other debt securities, the 2017 Notes include covenants that, among other things, limit our liens and the liens of our consolidated subsidiaries, but do not require us to maintain any financial ratios or specified levels of net worth or liquidity.

We used the proceeds of the 2017 Notes primarily to fund our tender offers, described below, to purchase outstanding 7.25% Notes due 2011 (the 2011 Notes) and Floating Rate Notes due 2010 (the 2010 Notes).

At any time prior to July 15, 2013, we may, at our option, redeem all or some of the 2017 Notes at their principal amount plus a make-whole premium and accrued and unpaid interest. At any time on or after July 15, 2013, we may, at our option, redeem the 2017 Notes, in whole or in part, at the following redemption prices, expressed as a percentage of principal amount, plus accrued and unpaid interest, if redeemed during the twelve-month period beginning on July 15th of the years indicated below.

| Year | Percentage of Principal |
|---------------------|------------------------------------|
| 2013 | 105.00% |
| 2014 | 102.50% |
| 2015 and thereafter | 100.00% |

If we have a change of control event, each holder of the 2017 Notes will have the right to require us to repurchase all or any part of that holder's notes for cash equal to 101.00% of the aggregate principal amount of the 2017 Notes repurchased plus accrued and unpaid interest to the date of repurchase.

On October 26, 2009, we exchanged \$600.0 principal amount of the 2017 Notes for an equal amount of new 2017 Notes with substantially identical terms as the original notes, except the new notes have no transfer restrictions under the federal securities laws. Completion of the exchange offer will not affect any of the financial terms of the outstanding 2017 Notes.

Tender Offers

On June 8, 2009, we launched tender offers to purchase, for cash, (i) any and all of our \$250.0 5.40% Notes due 2009 (the 2009 Notes) and (ii) up to \$500.0 in aggregate principal amount of our outstanding 2011 Notes and 2010 Notes with an early tender date of June 19, 2009 and an expiration date of July 6, 2009. We used the proceeds from the offering of the 2017 Notes first to purchase tendered 2011 Notes, and then to purchase on a pro-rated basis tendered 2010 Notes. We used cash on hand to purchase the tendered 2009 Notes. The tendered notes that were accepted for purchase received accrued and unpaid interest to, but not including, the settlement date. The purchase price for our tendered notes per \$1,000 aggregate principal amount in whole dollars is listed below.

| | Early Tender Price ¹ | Tender Offer Price |
|------------|--|---------------------------|
| 2009 Notes | \$ 1,010 | \$ 980 |
| 2011 Notes | \$ 1,040 | \$ 1,010 |
| 2010 Notes | \$ 1,000 | \$ 970 |

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

Includes an early tender premium of \$30 per \$1,000 principal amount of notes paid only to holders that validly tendered such notes during the early tender period that were accepted for purchase. Holders of notes tendered after the early tender period but before the end of the tender period did not receive the early tender premium.

On June 22, 2009, we settled early tenders of the 2009 Notes and the 2011 Notes. We purchased \$213.9 aggregate principal amount of the 2009 Notes and \$463.7 aggregate principal amount of the 2011 Notes. Cash paid to purchase the 2009 Notes and 2011 Notes that were tendered during the early tender period, including accrued and unpaid interest, was \$711.4. The 2010 Notes tendered during the early tender period that were accepted for purchase received the early tender

Table of Contents

Notes to Consolidated Financial Statements (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

price; they were not, however, considered for purchase until the final settlement date. Holders who did not tender the 2009 Notes, 2011 Notes or 2010 Notes during the early tender period were able to tender their notes before the expiration of the tender period on July 6, 2009, but did not receive an early tender premium.

In accordance with authoritative guidance regarding the extinguishment of liabilities and debt modifications and extinguishments, the settlement of our tender offers was treated as a debt extinguishment because we were relieved of our debt obligation upon settlement. We compared the proportionate share of the net carrying amount, which includes the carrying amount due at maturity, adjusted for unamortized discounts, debt issuance costs and gains and losses on interest rate swaps, if applicable, to the reacquisition price for each of the tendered 2009 Notes and 2011 Notes. Since the reacquisition price was greater than the net carrying amount for the 2009 Notes and the 2011 Notes, we recorded a charge of \$24.6 reflected in other income (expense), net in the unaudited Consolidated Statement of Operations during the second quarter of 2009.

On July 7, 2009, we settled tenders for the 2009 Notes, 2011 Notes and 2010 Notes that had not been settled at the early settlement date. We purchased less than \$0.1 aggregate principal amount of the 2009 Notes and 2011 Notes, as well as \$36.3 aggregate principal amount of the 2010 Notes. Cash paid to purchase the 2009 Notes, 2011 Notes and 2010 Notes that were purchased at the end of the final tender period, including accrued and unpaid interest, was \$36.5. As a result of the final settlement of our tender offers, we recorded a debt extinguishment charge of \$0.9 reflected in other income (expense), net in the unaudited Consolidated Statement of Operations during the third quarter of 2009.

Redemption

On September 14, 2009, we redeemed all of our 2009 Notes that remained outstanding and that were scheduled to mature on November 15, 2009. Cash paid to redeem the \$36.0 aggregate principal amount of the 2009 Notes, including accrued and unpaid interest, was \$37.0. As a result of the redemption, we recorded a debt extinguishment charge of \$0.3 reflected in other income (expense), net in the unaudited Consolidated Statement of Operations during the third quarter of 2009.

Interest Rate Swaps

In July and August of 2009, we entered into a series of interest rate swap agreements related to our 6.25% Senior Unsecured Notes due 2014 (the 6.25% Notes) to convert \$250.0 notional amount of our \$350.0 6.25% Notes from fixed rate to floating rate debt. We enter into interest rate swaps for risk management purposes, and not for speculative purposes, to manage our exposure to changes in interest rates and to maintain an appropriate mix of fixed and floating rate debt. The interest rate swap agreements mature on November 15, 2014, coinciding with the maturity of the 6.25% Notes. We pay a variable interest rate based upon the three-month U.S. LIBOR rate plus a fixed spread and receive a fixed interest rate of 6.25%. The variable interest rate is reset quarterly, and we make our interest payments on February 15th, May 15th, August 15th and November 15th. We receive fixed payments semi-annually on May 15th and November 15th. The interest rate swap agreements have qualified for hedge accounting as a fair value hedge, and we will continue to evaluate these agreements for the appropriateness of hedge accounting throughout the hedge period. We recognize the changes in the fair value of the swap as well as the changes in the fair value of the underlying debt in interest expense. As of September 30, 2009, the financial statement impact of these swap agreements was negligible.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Credit Arrangements

A summary of our credit facilities is listed below.

| | September 30, 2009 | | | | December 31, 2008 | | | |
|-----------------------|--------------------|-----------------------|----------------------|--------------------|-------------------|-----------------------|----------------------|--------------------|
| | Total Facility | Amount Outstanding | Letters of Credit | Total Available | Total Facility | Amount Outstanding | Letters of Credit | Total Available |
| Committed | | | | | | | | |
| 2006 Credit Agreement | \$ | \$ | \$ | \$ | \$ 750.0 | \$ | \$ 128.1 | \$ 621.9 |
| 2008 Credit Agreement | \$ 335.0 | \$ | \$ 94.1 | \$ 240.9 | \$ 335.0 | \$ | \$ | \$ 335.0 |
| Uncommitted | \$ 400.3 | \$ 85.0 | \$ 0.8 | \$ 314.5 | \$ 386.3 | \$ 78.8 | \$ 1.1 | \$ 306.4 |

On June 15, 2009, our \$750.0 Three-Year Credit Agreement, dated as of June 13, 2006 (the 2006 Credit Agreement) expired. As of the expiration date, there was no outstanding principal, and the outstanding letters of credit were replaced with letters of credit issued under our \$335.0 Three-Year Credit Agreement, dated as of July 18, 2008 (the 2008 Credit Agreement). In connection with the 2006 Credit Agreement we issued 67.9 warrants, consisting of 29.1 capped warrants (the Capped Warrants) and 38.8 uncapped warrants (the Uncapped Warrants) with a stated exercise date of June 15, 2009. For the Capped Warrants, the exercise price was \$9.89 per warrant, but the amount deliverable upon exercise was capped so a holder would not benefit from appreciation of the common stock above \$12.36 per share. For the Uncapped Warrants, the exercise price was \$11.91 per warrant. The stated exercise price of capped and uncapped warrants was greater than the market price of one share of our common stock calculated over a 30-trading-day period between June 18, 2009 and July 29, 2009, so we did not have to make any cash payments or issue any common stock to settle the capped or uncapped warrants.

On May 13, 2009, we entered into Amendment No. 1 to the 2008 Credit Agreement to preserve our ability to use the 2008 Credit Agreement in the event of any bankruptcy or related event with respect to General Motors Corporation (GM) and/or any of its affiliates. Amendment No. 1 modifies the definition of earnings before interest, taxes, depreciation and amortization (EBITDA) under the 2008 Credit Agreement to exclude from the determination of consolidated EBITDA any effects arising from any bankruptcy or other adverse event with respect to GM and/or any of its affiliates, limited to an aggregate amount of \$150.0 of cash charges and an aggregate amount of \$100.0 of non-cash charges.

On June 5, 2009, we entered into Amendment No. 2 to the 2008 Credit Agreement to modify terms of the financial covenants. As of the end of each fiscal quarter, we will be required to maintain (i) an interest coverage ratio (EBITDA to net interest expense plus cash dividends on convertible preferred stock) for the four quarters then ended of not less than 3.75 to 1, (ii) a leverage ratio (debt as of such date to EBITDA) for the four quarters then ended of not greater than 3.25 to 1, and (iii) minimum EBITDA for the four quarters then ended of not less than \$550.0 through June 30, 2010 and not less than \$600.0 thereafter. As of September 30, 2009, we were in compliance with all applicable covenants.

As of September 30, 2009 and December 31, 2008, there were no borrowings under our committed credit facilities. However, there were borrowings under the uncommitted facilities made by several of our international subsidiaries. We have guaranteed the repayment of some of these borrowings made by certain subsidiaries. The weighted-average interest rate on outstanding balances under the uncommitted short-term facilities as of September 30, 2009 and December 31, 2008 was approximately 1% and 3%, respectively.

Table of Contents

Notes to Consolidated Financial Statements (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Note 3: 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 and interest expense related to potentially dilutive securities calculated using the effective interest rate, 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.

In periods when we generate income, we calculate basic earnings per share available to IPG common stockholders using the two-class method, pursuant to authoritative guidance for earnings per share. The two-class method is required as our 4.50% Convertible Senior Notes qualify as participating securities, having the right to receive dividends or dividend equivalents should dividends be declared on common stock. Under this method, earnings for the period (after deduction for contractual preferred stock dividends) are allocated on a pro-rata basis to the common stockholders and to the holders of participating securities based on their right to receive dividends. We do not use the two-class method in periods when we generate a loss as the holders of the 4.50% Convertible Senior Notes do not participate in losses.

The two-class method could also be required for our redeemable noncontrolling interests, which have been reflected as mezzanine equity in the unaudited Consolidated Balance Sheets as a result of our adoption of authoritative guidance for classification and measurement of redeemable securities. Each reporting period, redeemable noncontrolling interests will be 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 not 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.

| | Three months ended September 30, 2009 | | September 30, 2008 | |
|---|---|---------|-----------------------|---------|
| | 2009 | | 2008 | |
| Net income (loss) available to IPG common stockholders basic | \$ 17.2 | \$ 38.7 | \$ (35.8) | \$ 56.7 |
| Add: Effect of dilutive securities | | | | |
| Interest on 4.25% Convertible Senior Notes | 0.3 | 0.4 | | 1.0 |
| Interest on 4.75% Convertible Senior Notes | | 1.0 | | |
| Net income (loss) available to IPG common stockholders diluted | \$ 17.5 | \$ 40.1 | \$ (35.8) | \$ 57.7 |
| Weighted-average number of common shares outstanding basic | 470.5 | 462.8 | 467.3 | 460.8 |
| Effect of dilutive securities: | | | | |
| Restricted stock and stock options | 11.1 | 8.3 | | 6.9 |
| 4.25% Convertible Senior Notes | 32.2 | 32.2 | | 32.2 |
| 4.75% Convertible Senior Notes | | 16.1 | | |
| Weighted-average number of common shares outstanding diluted | 513.8 | 519.4 | 467.3 | 499.9 |

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

| | | | | | |
|--|---------|---------|---------|-----------|---------|
| Earnings (loss) per share available to IPG common stockholders | basic | \$ 0.04 | \$ 0.08 | \$ (0.08) | \$ 0.12 |
| Earnings (loss) per share available to IPG common stockholders | diluted | \$ 0.03 | \$ 0.08 | \$ (0.08) | \$ 0.12 |

Table of Contents

Notes to Consolidated Financial Statements (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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 because the effect of including these potential shares would be antidilutive.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------|------------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Stock options and non-vested restricted stock awards | | | 7.7 | |
| 4.75% Convertible Senior Notes | 16.1 | | 16.1 | 16.1 |
| 4.25% Convertible Senior Notes | | | 32.2 | |
| 4.50% Convertible Senior Notes | 0.7 | 0.7 | 0.7 | 5.0 |
| Series B Preferred Stock | 38.4 | 38.4 | 38.4 | 38.4 |
| Total | 55.2 | 39.1 | 95.1 | 59.5 |
| Securities excluded from the diluted earnings (loss) per share calculation because the exercise price was greater than the average market price: | | | | |
| Stock options ¹ | 21.6 | 27.1 | 21.6 | 27.1 |
| Warrants ² | | 67.9 | 67.9 | 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 is 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. See Note 2 for further discussion.

Note 4: Goodwill and Other Intangible Assets

The deterioration of global economic conditions has adversely affected the demand for advertising and marketing services in 2009, which has presented a challenge in meeting the revenue and profit growth projections for certain of our reporting units. We determined that the projected decrease in profitability for 2009 of five of our reporting units was an event that more likely than not could reduce the fair value of each of these reporting units below its carrying value. We assessed the recoverability of goodwill at these five reporting units as of August 31, 2009 and determined in each case that the fair value was greater than the carrying value, and as such we did not have an impairment charge in the third quarter of 2009.

Note 5: Supplementary Data

Accrued Liabilities

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Media and production expenses | \$ 1,709.1 | \$ 1,708.3 |
| Salaries, benefits and related expenses | 321.7 | 466.5 |

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

| | | |
|-----------------------------|------------|------------|
| Office and related expenses | 53.4 | 69.6 |
| Professional fees | 17.7 | 24.7 |
| Interest | 30.0 | 30.6 |
| Acquisition obligations | 12.8 | 53.9 |
| Other | 86.1 | 168.0 |
| Total accrued liabilities | \$ 2,230.8 | \$ 2,521.6 |

Table of Contents**Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)****2004 Restatement Liabilities**

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Vendor discounts and credits | \$ 121.0 | \$ 126.0 |
| Internal investigations (includes asset reserves) | 2.6 | 2.2 |
| International compensation arrangements | 4.0 | 5.8 |
| Total 2004 restatement liabilities | \$ 127.6 | \$ 134.0 |

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. Also, as part of the 2004 Restatement, we recognized liabilities related to internal investigations and international compensation arrangements.

Redeemable Noncontrolling Interests

Many of our acquisitions include provisions under which the noncontrolling equity owners can require us to purchase additional interests in a subsidiary at their discretion. Payments for these redeemable noncontrolling interests are contingent upon achieving projected operating performance targets and satisfying other conditions specified in the related agreements and are subject to revisions as the earn-out periods progress. As a result of revisions made to the authoritative guidance for classification and measurement of redeemable securities, which are effective for the Company January 1, 2009, we reflect these obligations for redeemable noncontrolling interests as mezzanine equity in the unaudited Consolidated Balance Sheets. The following table presents changes in redeemable noncontrolling interests.

| | |
|--|----------|
| Balance as of December 31, 2007 | \$ 101.2 |
| Noncontrolling interest balance related to redeemable noncontrolling interests | 11.7 |
| Changes in redemption value of redeemable noncontrolling interests: | |
| Redeemable noncontrolling interests related to current year transactions | 203.2 |
| Redemptions | (17.1) |
| Redemption value adjustments ¹ | (10.6) |
| Balance as of December 31, 2008 | 288.4 |
| Noncontrolling interest balance related to redeemable noncontrolling interests | (12.1) |
| Changes in redemption value of redeemable noncontrolling interests: | |
| Redeemable noncontrolling interests related to current year transactions | 0.5 |
| Redemptions | (5.3) |
| Redemption value adjustments ¹ | (9.1) |
| Balance as of September 30, 2009 | \$ 262.4 |

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

- 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)

Other income (expense), net

Results of operations for the three and nine months ended September 30, 2009 and 2008 include certain items which are either non-recurring or are not directly associated with our revenue producing operations.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Loss on early extinguishment of debt ¹ | \$ (1.2) | \$ | \$ (25.8) | \$ |
| Gains (losses) on sales of businesses and investments | 0.7 | (0.1) | (2.1) | 3.9 |
| Vendor discounts and credit adjustments ² | 1.5 | 2.4 | 7.7 | 12.6 |
| Litigation settlement ³ | | | | (12.0) |
| Other (expense) income, net | | (3.3) | 2.8 | (0.6) |
| Total other income (expense), net | \$ 1.0 | \$ (1.0) | \$ (17.4) | \$ 3.9 |

1 During the second quarter of 2009, we recorded a charge of \$24.6 related to the settlement of our early tender offers for the 2009 Notes and 2011 Notes. During the third quarter of 2009, we recorded a charge of \$0.9 related to the final settlement of our tender offers for the 2009 Notes, 2011 Notes and 2010 Notes, as well as a charge of \$0.3 related to the redemption of all of our outstanding 2009 Notes. See Note 2 for further information.

2 We are in the process of settling our liabilities related to vendor discounts and credits established during 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.

3 During May 2008, the SEC concluded its investigation that began in 2002 into our financial reporting practices, resulting in a settlement charge of \$12.0, which was accrued in the first quarter of 2008.

Note 6: Income Taxes

For the three and nine months ended September 30, 2009, the difference between the effective tax rate and the statutory rate of 35% is primarily due to the recognition of previously unrecognized tax benefits, the recognition of tax benefits on partially worthless securities, 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.

In August 2009, we finalized our proceeding with the IRS appeals division for the 2003-2004 audit cycle and our IRS examination for the 2005-2006 audit cycle. As a result, we recognized previously unrecognized tax benefits and related interest (net of federal benefit) of \$26.8. The \$26.8 includes a decrease of \$23.3 in gross unrecognized tax benefits resulting from tax positions taken in prior periods and a decrease of \$5.4 in gross interest on unrecognized tax benefits. Nearly offsetting this amount was the establishment of valuation allowances in the Asia Pacific region, where we determined it was more likely than not a deferred tax asset will not be realized.

In May 2009, we finalized our proceeding with the IRS appeals division for the 1997-2002 IRS audit cycle. As a result, we recognized previously unrecognized tax benefits and related interest (net of federal benefit) of \$23.4 and received a cash refund of approximately \$27.0 in July 2009.

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

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

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 \$35.0 and \$45.0 in the next

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

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 have effectively settled the 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 the years prior to 1999 or non-U.S. income tax audits for the years prior to 2000.

In April 2009, the Obama administration proposed new corporate income tax provisions as part of the administration's 2010 budget outline. Included in those proposals are changes to U.S. federal income taxation of international operations of U.S.-based multinational corporations. As a U.S.-based multinational corporation, we could be impacted by a number of the tax proposals if such proposals were to become law as currently proposed. While we have not yet determined the extent of the impact of any such proposals on our effective and cash tax rates, we expect that if such proposals were to become law there would be a negative impact to our effective and cash tax rates.

Note 7: Comprehensive Income (Loss)

| | Three months ended September 30, | |
|---|---|-------------|
| | 2009 | 2008 |
| Net income | \$ 25.9 | \$ 50.4 |
| Foreign currency translation adjustment, net of tax | 62.6 | (78.2) |
| Adjustments to pension and other postretirement plans, net of tax | 3.3 | 4.8 |
| Net unrealized holding losses on securities, net of tax | (0.2) | (1.1) |
| Total comprehensive income (loss) | 91.6 | (24.1) |
| Comprehensive income attributable to noncontrolling interests | 3.0 | 3.8 |
| Comprehensive income (loss) attributable to IPG | \$ 88.6 | \$ (27.9) |

Comprehensive income for the nine months ended September 30, 2009 and 2008 is displayed in the unaudited Consolidated Statements of Stockholders' Equity and Comprehensive Income.

Note 8: Incentive Compensation Plans**2009 Performance Incentive Plan**

We issue stock and cash based incentive 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. In May 2009, our shareholders approved the 2009 Performance Incentive Plan (the "2009 PIP"), which replaced the 2006 Performance Incentive Plan (the "2006 PIP") and previous incentive plans. The number of shares of common stock initially available for granting new stock options and stock appreciation rights under the 2009 PIP is 8.1. The number of shares of common stock initially available for performance-based awards and other stock-based awards under the 2009 PIP is 26.5. Subject to the terms of the 2009 PIP, there are limits on the number of shares that may be awarded to any one participant for each type of award. The vesting period of awards granted is generally commensurate with the requisite service period. We generally issue new shares to satisfy the exercise of stock options or the distribution of other stock-based awards. Additionally, we have the ability to issue performance cash awards. The performance cash awards are granted to certain employees who otherwise would have been eligible to receive performance-based stock awards. These awards have a service period vesting condition and a performance vesting condition. The amount of the

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

performance cash award received by an employee with a performance vesting condition can range from 0% to 200% of the target amount of the original grant value. Performance cash awards generally vest in three years. A committee of the Board of Directors may grant performance cash awards to any eligible employee; however, no employee can receive more than \$6.0 during a performance period.

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

In March 2009 the Compensation Committee approved the Interpublic Restricted Cash Plan (the "Cash Plan"). Under the Cash Plan, the Board of Directors, the Compensation Committee or the Plan Administrator may grant cash awards to certain employees eligible to receive stock-settled and cash-settled awards. Cash awards are generally granted on an annual basis, have a service period vesting condition and generally vest in three years. During the nine months ended September 30, 2009 the Compensation Committee granted awards under the Cash Plan with a total value of \$28.4, and we recognized \$2.8 in salaries and related expenses in our unaudited Consolidated Statement of Operations.

The 2006 PIP was amended to grant performance cash awards in March 2009. During the nine months ended September 30, 2009, the Compensation Committee granted new performance cash awards under the 2006 PIP and the 2009 PIP with a total target value of \$31.7, and we recognized \$2.7 in salaries and related expenses in our unaudited Consolidated Statement of Operations.

We amortize the present value of the amount expected to vest for cash awards and performance cash awards over the vesting period using the straight-line method, less an assumed forfeiture rate. Cash awards do not fall within the scope of the authoritative guidance for stock compensation as they are not paid in equity and the value of the award is not correlated with our stock price. Due to the cash nature of the payouts and the vesting period, we account for these awards in accordance with authoritative guidance for deferred compensation arrangements.

Stock-Based Compensation

We issued the following stock-based awards under the 2006 PIP and the 2009 PIP during the nine months ended September 30, 2009.

| | Awards | Weighted-average grant-date fair value (per award) |
|--|---------------|---|
| Stock options | 3.8 | \$ 2.69 |
| Stock-settled awards | 7.7 | \$ 4.19 |
| Cash-settled awards | 1.4 | \$ 4.36 |
| Performance-based awards | 1.7 | \$ 6.25 |
| Total stock-based compensation awards | 14.6 | |

Stock options are granted with the exercise price equal to the fair market value of our common stock on the grant date, are generally exercisable between two and four years from the grant date and expire ten years from the grant date (or earlier in the case of certain terminations of employment).

We grant other stock-based compensation awards such as stock-settled awards, cash-settled awards and performance-based awards (settled in cash or shares) to certain key employees. The number of shares or units received by an employee for performance-based awards depends on Company performance against specific performance targets and could range from 0% to 200% of the target amount of shares originally granted. Incentive awards are subject to certain restrictions and vesting requirements as determined by the Compensation Committee. The fair value of the shares on the grant date is amortized over the vesting period, which is generally three years. Upon completion of the vesting period for cash-settled awards, the grantee is entitled to receive a payment in cash based on the fair market value of the corresponding number of shares of common stock. No monetary consideration is paid by a recipient for any incentive award. The fair value of cash-settled awards is adjusted each quarter based on our share price and amortized over the vesting period. The holders of cash-settled and performance-based awards have no ownership interest in the underlying shares of common stock until the awards vest and the shares of common stock are issued.

Table of Contents

Notes to Consolidated Financial Statements (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

In conjunction with our annual grant of long-term incentive compensation awards we reviewed our estimates and assumptions in the first quarter of 2009, which resulted in an increase to our estimated forfeiture rate, as our review of our actual forfeitures indicated a higher level of forfeitures than previously assumed.

Note 9: Employee Benefits

We have a defined benefit plan which covers substantially all regular U.S. employees employed through March 31, 1998. In addition, some of our agencies have other 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 tables 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.

| Three months ended September 30, | Domestic pension plans | | Foreign pension plans | | Postretirement benefit plans | |
|---------------------------------------|------------------------|--------|-----------------------|--------|------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ | \$ | \$ 2.8 | \$ 4.0 | \$ 0.1 | \$ |
| Interest cost | 1.9 | 2.1 | 6.0 | 6.8 | 0.7 | 0.6 |
| Expected return on plan assets | (1.7) | (2.6) | (3.7) | (6.1) | | |
| Amortization of: | | | | | | |
| Transition obligation | | | | 0.1 | | |
| Prior service cost | | | 0.1 | 0.1 | | |
| Unrecognized actuarial losses (gains) | 2.1 | 1.4 | 0.6 | 0.2 | | (0.5) |
| Curtailment loss | | | | 0.1 | | |
| Net periodic cost | \$ 2.3 | \$ 0.9 | \$ 5.8 | \$ 5.2 | \$ 0.8 | \$ 0.1 |

| Nine months ended September 30, | Domestic pension plans | | Foreign pension plans | | Postretirement benefit plans | |
|---------------------------------|------------------------|--------|-----------------------|---------|------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ | \$ | \$ 8.1 | \$ 12.3 | \$ 0.3 | \$ 0.3 |
| Interest cost | 6.0 | 6.3 | 17.0 | 20.9 | 2.3 | 2.4 |
| Expected return on plan assets | (5.5) | (7.8) | (10.2) | (18.6) | | |
| Amortization of: | | | | | | |
| Transition obligation | | | | 0.1 | 0.1 | 0.1 |
| Prior service cost (credit) | | | 0.2 | 0.3 | (0.1) | (0.1) |
| Unrecognized actuarial losses | 7.3 | 4.3 | 1.8 | 0.5 | | |
| Curtailment gain | | | | (0.2) | | |
| Settlement loss | | | 1.5 | | | |
| Net periodic cost | \$ 7.8 | \$ 2.8 | \$ 18.4 | \$ 15.3 | \$ 2.6 | \$ 2.7 |

During the three and nine months ended September 30, 2009, we made contributions of \$7.5 and \$21.6, respectively, to our foreign pension plans and contributions to the domestic pension plans were negligible. For the remainder of 2009, we expect to contribute approximately \$6.0 to

our foreign pension plans and make no contributions to our domestic pension plans.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Note 10: Segment Information

We have two reportable segments: Integrated Agency Networks (IAN), which is comprised of Draftfcb, Lowe, McCann Worldgroup, Mediabrands and our domestic integrated agencies, and Constituency Management Group (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 our operating divisions and assessing operating division performance is operating income, excluding the impact of restructuring and other reorganization-related (reversals) charges and long-lived asset impairment and other charges, if applicable. Segment information is presented consistently with the basis described in our 2008 Annual Report on Form 10-K as filed on February 27, 2009 and Form 8-K dated as of June 8, 2009. Summarized financial information concerning our reportable segments is shown in the following table.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|----------------|------------------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | |
| IAN | \$ 1,191.9 | \$ 1,450.1 | \$ 3,555.0 | \$ 4,229.7 |
| CMG | 234.8 | 289.9 | 671.4 | 831.2 |
| Total | \$ 1,426.7 | \$ 1,740.0 | \$ 4,226.4 | \$ 5,060.9 |
| Segment operating income: | | | | |
| IAN | \$ 78.7 | \$ 144.0 | \$ 135.7 | \$ 344.5 |
| CMG | 18.2 | 23.8 | 43.5 | 56.2 |
| Corporate and other | (39.1) | (47.6) | (106.6) | (130.4) |
| Total | 57.8 | 120.2 | 72.6 | 270.3 |
| Restructuring and other reorganization-related reversals (charges) | 0.5 | (3.9) | 0.7 | (11.2) |
| Interest expense | (37.8) | (53.2) | (117.7) | (163.9) |
| Interest income | 7.6 | 23.3 | 28.0 | 75.0 |
| Other income (expense), net | 1.0 | (1.0) | (17.4) | 3.9 |
| Income (loss) before income taxes | \$ 29.1 | \$ 85.4 | \$ (33.8) | \$ 174.1 |
| Depreciation and amortization of fixed assets and intangible assets: | | | | |
| IAN | \$ 32.7 | \$ 34.6 | \$ 98.8 | \$ 99.3 |
| CMG | 3.6 | 3.7 | 10.8 | 12.1 |
| Corporate and other | 5.7 | 5.9 | 16.9 | 19.1 |
| Total | \$ 42.0 | \$ 44.2 | \$ 126.5 | \$ 130.5 |

Capital expenditures:

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

| | | | | |
|---------------------|---------|---------|---------|---------|
| IAN | \$ 9.5 | \$ 20.4 | \$ 30.4 | \$ 69.1 |
| CMG | 1.6 | 3.0 | 3.8 | 9.4 |
| Corporate and other | 4.9 | 0.6 | 9.5 | 4.3 |
| Total | \$ 16.0 | \$ 24.0 | \$ 43.7 | \$ 82.8 |

| | September 30, 2009 | December 31, 2008 |
|----------------------|-----------------------|----------------------|
| Total assets: | | |
| IAN | \$ 8,953.1 | \$ 9,712.2 |
| CMG | 892.4 | 929.1 |
| Corporate and other | 1,132.8 | 1,483.9 |
| Total | \$ 10,978.3 | \$ 12,125.2 |

Table of Contents**Notes to Consolidated Financial Statements (continued)****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)****Note 11: Fair Value Measurements**

Authoritative guidance on fair value measurements and disclosures 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.

The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 and indicates the level of input utilized to determine such fair value.

| | Level 1 | Level 3 | Total |
|--|----------------|----------------|--------------|
| Assets | | | |
| Cash equivalents | \$ 1,106.0 | \$ | \$ 1,106.0 |
| Short-term marketable securities | 10.6 | | 10.6 |
| Long-term investments ¹ | 15.7 | 6.7 | 22.4 |
| Foreign currency derivatives | | 0.7 | 0.7 |
| Total | \$ 1,132.3 | \$ 7.4 | \$ 1,139.7 |
| As a percentage of total assets | 10.3% | 0.1% | 10.4% |
| Liabilities | | | |
| Mandatorily redeemable noncontrolling interests ² | \$ | \$ 42.3 | \$ 42.3 |

¹ Level 3 investments relate to \$12.5 in par value of asset-backed auction rate securities. Since August 2007, auctions have failed due to insufficient bids from buyers, which required us to adjust the securities to a book value of \$6.7 during the fourth quarter of 2007. We intend to hold our auction rate securities until we can recover the full principal and have classified the auction rate securities as long-term investments within other assets in our unaudited Consolidated Balance Sheets.

² Relates to obligations to purchase noncontrolling equity shares of consolidated subsidiaries, valued pursuant to authoritative guidance on mandatorily redeemable financial instruments. Fair value measurements of the obligation were based upon the amount payable as if the forward contracts were settled as of September 30, 2009.

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

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis utilizing Level 3 inputs.

Three months ended September 30, 2009

| | Balance as of June 30, 2009 | Level 3 additions | Realized losses included in net income | Balance as of September 30, 2009 |
|---|--------------------------------|-------------------|--|-------------------------------------|
| Assets | | | | |
| Long-term investments | \$ 6.7 | \$ | \$ | \$ 6.7 |
| Foreign currency derivatives | 0.8 | | (0.1) | 0.7 |
| Liabilities | | | | |
| Mandatorily redeemable noncontrolling interests | \$ 37.2 | \$ 2.4 | \$ (2.7) | \$ 42.3 |

Nine months ended September 30, 2009

| | Balance as of December 31, 2008 | Level 3 additions | Realized gains (losses) included in net loss | Balance as of September 30, 2009 |
|---|------------------------------------|-------------------|--|-------------------------------------|
| Assets | | | | |
| Long-term investments | \$ 6.7 | \$ | \$ | \$ 6.7 |
| Foreign currency derivatives | 0.8 | | (0.1) | 0.7 |
| Liabilities | | | | |
| Mandatorily redeemable noncontrolling interests | \$ 21.6 | \$ 22.5 | \$ 1.8 | \$ 42.3 |

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

Note 12: Commitments and Contingencies***Legal Matters***

We are or have been 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 or claims will have a material adverse effect on our financial condition, results of operations or cash flow.

Guarantees

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

As discussed in our 2008 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 \$269.0 and \$255.7 as of September 30, 2009 and December 31, 2008, respectively.

Table of Contents

Notes to Consolidated Financial Statements (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Note 13: Recent Accounting Standards

In September 2009, the Emerging Issues Task Force reached a consensus related to revenue arrangements with multiple deliverables. The consensus will be issued by the Financial Accounting Standards Board (FASB) as an update to authoritative guidance for revenue recognition and will be effective for the Company January 1, 2011. The updated guidance will revise 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 revised guidance will require additional disclosures about the methods and assumptions used to evaluate multiple element arrangements and to identify the significant deliverables within those arrangements. We are currently evaluating the potential impact of the amended guidance on our Consolidated Financial Statements.

In August 2009, the FASB amended authoritative guidance for determining the fair value of liabilities, which will be effective for the Company October 1, 2009. The amended guidance reiterates that the fair value measurement of a liability (1) should be based on the assumption that the liability was transferred to a market participant on the measurement date and (2) should include the risk of nonperformance. In addition, the guidance establishes a hierarchy for determining the fair value of liabilities. Specifically, an entity must first determine whether a quoted price, from an active market, is available for identical liabilities before utilizing an alternative valuation technique. We do not expect the adoption of this guidance to have a significant impact on our Consolidated Financial Statements.

In June 2009, the FASB issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (the FASB Codification), which is effective for the Company July 1, 2009. The FASB Codification does not alter current U.S. GAAP, but rather integrates existing accounting standards with other authoritative guidance. Under the FASB Codification there is a single source of authoritative U.S. GAAP for nongovernmental entities and this has superseded all other previously issued non-SEC accounting and reporting guidance. The adoption of the FASB Codification did not have any impact on our Consolidated Financial Statements.

In June 2009, the FASB issued amendments to authoritative guidance on consolidation of variable interest entities, which will be effective for the Company January 1, 2010. The amended 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 and risk exposure. We are currently evaluating the potential impact of the amended guidance on our Consolidated Financial Statements.

In May 2009, the FASB issued authoritative guidance on subsequent events, which is effective for the Company June 30, 2009. This guidance addresses the disclosure of events that occur after the balance sheet date, but before financial statements are issued or available to be issued. The adoption of this guidance did not have a significant impact on our Consolidated Financial Statements.

In April 2009, the FASB amended authoritative guidance on disclosures about the fair value of financial instruments, which is effective for the Company June 30, 2009. The amended guidance requires a publicly traded company to include disclosures about fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, the guidance requires an entity to disclose either in the body or the accompanying notes of its summarized financial information the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position. The adoption of this guidance did not have a significant impact on our unaudited Consolidated Financial Statements.

In December 2007, the FASB issued authoritative guidance on noncontrolling interests which requires a noncontrolling interest in a subsidiary to be reported as equity on our unaudited Consolidated Balance Sheets separate from the parent's equity. The guidance also requires transactions that do not result in the deconsolidation of the subsidiary be recorded as equity transactions, while those transactions that do result in a change from noncontrolling to controlling ownership or a

Table of Contents

Notes to Consolidated Financial Statements (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

deconsolidation of the subsidiary be recorded in net income (loss) with the gain or loss measured at fair value. This guidance is effective January 1, 2009 and has been applied prospectively with the exception of presentation and disclosure requirements which have been applied retrospectively for all periods presented.

In December 2007, the FASB issued authoritative guidance on business combinations. Under the guidance, an acquiring entity is required to record assets acquired and liabilities assumed in a business combination at fair value on the date of acquisition. Earn-out payments and other forms of contingent consideration are also required to be recorded at fair value on the acquisition date. Fair value measurements are also required to be used when recording noncontrolling interests and contingent liabilities. In addition, all costs associated with the business combination, including restructuring costs, are required to be expensed as incurred. For the Company, this revised guidance is effective prospectively for business combinations having an acquisition date on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to January 1, 2009 would apply this revised guidance.

The FASB issued additional authoritative guidance on business combinations in March 2009, specifically, for the initial recognition and measurement, subsequent measurement, and disclosures of assets and liabilities arising from contingencies in a business combination as well as for pre-existing contingent consideration assumed as part of the business combination. This guidance is effective for the Company January 1, 2009.

The adoption of the authoritative guidance for business combinations did not have a significant impact on our unaudited Consolidated Financial Statements. However, any business combinations entered into in the future may impact our Consolidated Financial Statements as a result of the potential earnings volatility due to the changes described above.

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 subsidiaries (the Company, Interpublic, 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, the 2008 Annual Report on Form 10-K as filed on February 27, 2009 and the revisions made on Form 8-K dated as of June 8, 2009, as well as our other reports on Form 8-K and other 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.

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.

CRITICAL ACCOUNTING ESTIMATES provides an update to the discussion of our accounting policies that require critical judgment, assumptions and estimates in our 2008 Annual Report on Form 10-K.

RECENT ACCOUNTING STANDARDS, by reference to Note 13 to the unaudited Consolidated Financial Statements, provides a discussion of certain accounting standards that have been adopted during 2009 and certain accounting standards which 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 marketing programs for clients to achieve or improve their business results, which in turn, generates sales, earnings and cash flow for us. Our agencies deliver services across the full spectrum of marketing disciplines and specialties, including advertising, direct marketing, public relations, events marketing, mobile marketing, internet and search engine marketing, social media marketing and media buying and planning. Major global brands in our portfolio of companies include Draftfcb, FutureBrand, GolinHarris, Initiative, Jack Morton, Lowe, McCann Erickson, Momentum, MRM, R/GA, Octagon, UM and Weber Shandwick. Leading domestic brands include Campbell-Ewald, Carmichael Lynch, Deutsch, Hill Holliday, The Martin Agency and Mullen.

Our strategic outlook is for our high-quality, comprehensive global services to remain critical to the competitiveness of our clients for the remainder of 2009 and beyond as they look to build brands and market share in an increasingly complex and fragmented media landscape. Our business objectives are to continue to strengthen our full range of marketing expertise, while focusing our investment on the fastest growing geographic regions and marketing channels. Our long-term financial objectives include organic revenue growth at competitive levels while achieving operating margin expansion, ultimately to the level of our global peer group. Accordingly, we remain focused on cost control, effective resource utilization, including the productivity of our employees, real estate, and information technology, and reduction of certain discretionary expenses.

The global economic recession has made business conditions extremely challenging for nearly all companies during 2009. These conditions adversely affect the demand for advertising and marketing services and present a challenge to the revenue and profit growth of our Company and our sector as a whole for as long as the difficult economic conditions persist. Due to general economic conditions and their effect on our revenue, we initiated significant severance actions in the fourth

Table of Contents

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

quarter of 2008, which have continued through the first nine months of 2009. The expense benefits from these actions will continue to be recognized in future periods. While we cannot predict the continuing magnitude and duration of the economic downturn or its impact on the demand for our services, we believe that we will continue to derive benefits from our diversified client base, global presence and broad range of services. In addition, improvements in our financial reporting and business information systems provide us with timely and actionable insights from our businesses around the world, which allows us to more effectively manage our business. Our internal reporting improvements over the past several years have strengthened our ability to effectively manage our expenses.

Our balance sheet and liquidity are important sources of financial flexibility. We have taken recent measures to strengthen our debt maturity profile by issuing notes due in 2017 and repurchasing notes maturing in 2009, 2010 and 2011.

As a result of the challenging economic conditions and their impact on the projected profitability of certain reporting units, we performed an interim evaluation with respect to the recoverability of our goodwill at certain reporting units during the third quarter of 2009. Based on the interim analysis, we concluded that there was no impairment in the third quarter of 2009. Our annual impairment review of goodwill is as of October 1, 2009, and our review of our reporting units financial projections and assumptions in estimating fair value could result in an impairment charge in the fourth quarter of 2009. See the Critical Accounting Estimates section within this MD&A and Note 4 to the unaudited Consolidated Financial Statements for further information.

On October 15, 2009, we announced the alignment of Deutsch and Lowe in order to build on the complementary strengths of the two agencies to create a more powerful offering and accelerate our growth. We anticipate that Lowe will be strengthened by adding a dynamic U.S. agency to its strong global network, and that Deutsch will benefit from the multinational reach of Lowe. Deutsch will now be referred to as Deutsch, Inc., a Lowe & Partners Company. The combined entity will remain in the Integrated Agency Network (IAN) segment. We are formalizing our plans and expect to incur certain reorganization charges in the fourth quarter of 2009 and into 2010 as we implement those plans.

Third Quarter and First Nine Months of 2009 and 2008 Highlights

| % decrease | Three months ended September 30, 2009 | | Nine months ended September 30, 2009 | |
|--------------------------------------|--|---------|---|---------|
| | Total | Organic | Total | Organic |
| Revenue | (18.0%) | (14.2%) | (16.5%) | (11.8%) |
| Salaries and related expenses | (13.7%) | (10.0%) | (10.8%) | (6.5%) |
| Office and general expenses | (19.2%) | (15.1%) | (18.6%) | (13.4%) |

| | Three months ended September 30, 2009 | | Nine months ended September 30, 2009 | |
|---|---|---------|--|---------|
| | 2009 | 2008 | 2009 | 2008 |
| Operating margin | 4.1% | 6.7% | 1.7% | 5.1% |
| Expenses as % of revenue: | | | | |
| Salaries and related expenses | 66.1% | 62.8% | 68.8% | 64.4% |
| Office and general expenses | 29.8% | 30.2% | 29.5% | 30.2% |
| Net income (loss) available to IPG common stockholders | \$ 17.2 | \$ 38.7 | \$ (35.8) | \$ 56.7 |

Earnings (loss) per share available to IPG common stockholders:

| | | | | |
|---------|---------|---------|-----------|---------|
| Basic | \$ 0.04 | \$ 0.08 | \$ (0.08) | \$ 0.12 |
| Diluted | \$ 0.03 | \$ 0.08 | \$ (0.08) | \$ 0.12 |

When we analyze period-to-period changes in our operating performance we determine the portion of the change that is attributable to exchange rates and to the net effect of acquisitions and divestitures and the remainder, which we call organic

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

change, 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 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 consolidated revenues, and geographic region.

The change in our operating performance attributable to foreign currency rates is determined by converting the prior-period results using the current period exchange rates and comparing the prior-period adjusted amounts to the prior-period 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 will continue to affect our consolidated results of operations. For the three months ended September 30, 2009, foreign currency fluctuations resulted in decreases of approximately 4% in revenues, salaries and related expenses and office and general expenses, which contributed to a net decrease in operating income of approximately 4% compared to the prior-year period. For the nine months ended September 30, 2009, foreign currency fluctuations resulted in decreases of approximately 6% in revenues and salaries and related expenses and approximately 7% in office and general expenses, which contributed to a net decrease in operating income of approximately 4% compared to the prior-year period. Since the second half of 2008 the U.S. Dollar has strengthened against several foreign currencies, which had a negative impact on our consolidated results of operations. However, in recent months the U.S. Dollar has weakened against several foreign currencies, and if this trend continues, it could have a positive impact on our consolidated results of operations.

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 that are not consistent with our strategic plan. For the third quarter of 2009, the net effect of acquisitions and divestitures had a minimal impact on revenue and operating expenses compared to the prior-year period. For the first nine months of 2009, the net effect of acquisitions and divestitures increased revenue and operating expenses compared to the prior-year period.

RESULTS OF OPERATIONS

Consolidated Results of Operations Three and Nine Months Ended September 30, 2009 compared to Three and Nine Months Ended September 30, 2008

REVENUE

| | Components of change | | | | Change | | |
|----------------------|--|---------------------|--|------------|--|---------|---------|
| | Three months ended September 30, 2008 | Foreign currency | Net acquisitions/ (divestitures) | Organic | Three months ended September 30, 2009 | Organic | Total |
| Consolidated | \$ 1,740.0 | \$ (67.9) | \$ 1.6 | \$ (247.0) | \$ 1,426.7 | (14.2%) | (18.0%) |
| Domestic | 963.8 | | (0.3) | (129.4) | 834.1 | (13.4%) | (13.5%) |
| International | 776.2 | (67.9) | 1.9 | (117.6) | 592.6 | (15.2%) | (23.7%) |
| United Kingdom | 158.2 | (23.2) | | (30.8) | 104.2 | (19.5%) | (34.1%) |
| Continental Europe | 257.1 | (22.0) | (1.0) | (43.2) | 190.9 | (16.8%) | (25.7%) |
| Asia Pacific | 157.0 | (3.7) | 2.9 | (15.3) | 140.9 | (9.7%) | (10.3%) |
| Latin America | 95.6 | (13.4) | | (8.9) | 73.3 | (9.3%) | (23.3%) |
| Other | 108.3 | (5.6) | | (19.4) | 83.3 | (17.9%) | (23.1%) |

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

During the third quarter of 2009, our revenue decreased by \$313.3, or 18.0%, compared to the third quarter of 2008, primarily consisting of an organic revenue decrease of \$247.0, or 14.2%, and an adverse foreign currency impact of \$67.9. The decrease is primarily attributable to the impact of global economic conditions on nearly all sectors of our business. Of our organic decrease, more than one-third was attributable to declines from several of our largest clients in the technology and telecom and auto and transportation sectors, which had contributed to our increase in 2008, primarily in the IAN segment.

Our revenue is directly impacted by our ability to win new clients and the retention and spending levels of existing clients. Revenue is also subject to fluctuations related to seasonal spending by our 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 holiday 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. Approximately 2% of our organic revenue decrease was related to prior-year project assignments in our events marketing discipline that, due to economic conditions, did not recur or were substantially curtailed. These projects are reflected in various sectors and geographic regions.

| | Components of change | | | | Change | | |
|----------------------|----------------------|------------------|-------------------------------------|------------|--------------------|---------|---------|
| | Nine months ended | | Net acquisitions/ (divestitures) | Organic | Nine months ended | | Total |
| | September 30, 2008 | Foreign currency | | | September 30, 2009 | Organic | |
| Consolidated | \$ 5,060.9 | \$ (306.2) | \$ 68.3 | \$ (596.6) | \$ 4,226.4 | (11.8%) | (16.5%) |
| Domestic | 2,803.8 | | 15.1 | (356.3) | 2,462.6 | (12.7%) | (12.2%) |
| International | 2,257.1 | (306.2) | 53.2 | (240.3) | 1,763.8 | (10.6%) | (21.9%) |
| United Kingdom | 469.1 | (101.4) | | (50.7) | 317.0 | (10.8%) | (32.4%) |
| Continental Europe | 799.6 | (101.8) | 1.9 | (94.7) | 605.0 | (11.8%) | (24.3%) |
| Asia Pacific | 465.8 | (29.3) | 2.9 | (50.0) | 389.4 | (10.7%) | (16.4%) |
| Latin America | 254.0 | (43.3) | | (4.4) | 206.3 | (1.7%) | (18.8%) |
| Other | 268.6 | (30.4) | 48.4 | (40.5) | 246.1 | (15.1%) | (8.4%) |

During the first nine months of 2009, our revenue decreased by \$834.5, or 16.5%, compared to the first nine months of 2008, primarily consisting of an organic revenue decrease of \$596.6, or 11.8%, and an adverse foreign currency impact of \$306.2. The organic decrease was driven by factors similar to those noted above for the third quarter of 2009.

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

OPERATING EXPENSES

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Salaries and related expenses | \$ 943.5 | \$ 1,093.5 | \$ 2,908.4 | \$ 3,261.5 |
| Office and general expenses | 425.4 | 526.3 | 1,245.4 | 1,529.1 |
| Restructuring and other reorganization-related (reversals) charges | (0.5) | 3.9 | (0.7) | 11.2 |

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

| | | | | |
|--------------------------|------------|------------|------------|------------|
| Total operating expenses | \$ 1,368.4 | \$ 1,623.7 | \$ 4,153.1 | \$ 4,801.8 |
| Operating income | \$ 58.3 | \$ 116.3 | \$ 73.3 | \$ 259.1 |

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 | | | | Change | | |
|---|----------------------|-----------|---------------------------------|------------|----------|---------|---------|
| | | Foreign | Net | | | | |
| | 2008 | currency | acquisitions/ (divestitures) | Organic | 2009 | Organic | Total |
| Three months ended September 30, | \$ 1,093.5 | \$ (40.2) | \$ (0.9) | \$ (108.9) | \$ 943.5 | (10.0%) | (13.7%) |
| Nine months ended September 30, | 3,261.5 | (190.3) | 48.4 | (211.2) | 2,908.4 | (6.5%) | (10.8%) |

Salaries and related expenses in the third quarter of 2009 decreased by \$150.0 compared to the third quarter of 2008, primarily consisting of an organic decrease of \$108.9 and a favorable foreign currency rate impact of \$40.2. The organic decrease was due to lower base salaries, benefits and temporary help of \$88.1, primarily related to work force reductions that were initiated in the fourth quarter of 2008 through the first nine months of 2009 to respond to the difficult economic conditions. Our work force reductions resulted in an organic increase in severance charges of \$9.0 in the third quarter of 2009 when compared to the prior year. The largest components of our severance charges in the third quarter of 2009 were related to our advertising and media businesses in the IAN segment, primarily in the U.S. and Continental Europe regions. We expect additional work force reductions in the fourth quarter of 2009, which will contribute to further declines in base salaries and benefits through the remainder of the year and into 2010. Also contributing to the organic decrease were a reduction in incentive award expense of \$23.3, resulting from lower annual bonus award accruals in 2009 due to reduced operating results, and, to a lesser extent, lower headcount when compared to the prior year.

Salaries and related expenses in the first nine months of 2009 decreased by \$353.1 compared to the first nine months of 2008, primarily consisting of an organic decrease of \$211.2 and a favorable foreign currency impact of \$190.3. We had an organic decrease in base salaries, benefits and temporary help of \$177.0, primarily due to the reasons noted above for the third quarter of 2009. There was an organic increase in severance charges for the first nine months of 2009 of \$56.9, primarily in our advertising businesses within our IAN segment. In total, the work force reductions we initiated since the fourth quarter of 2008 have decreased headcount by approximately 5,100 employees, representing approximately 11% of our work force. Our organic decline in incentive award expense of \$63.6 is primarily due to lower accruals related to reduced operating results and reductions in expected long-term incentive award expense due to an increase to our forfeiture rate as a result of higher actual forfeitures compared to estimates.

Changes in our incentive awards mix can impact future-period expense, as 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 and the change in our stock price. Additionally, changes can occur based on projected results and could impact trends between various periods in the future. See Note 8 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 consolidated revenue.

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Salaries and related expenses | 66.1% | 62.8% | 68.8% | 64.4% |
| Base salaries, benefits and tax | 56.3% | 52.7% | 58.6% | 54.0% |
| Incentive expense | 2.7% | 3.6% | 2.9% | 3.8% |
| Severance expense | 1.6% | 0.9% | 2.2% | 0.8% |
| Temporary help | 2.9% | 3.1% | 2.7% | 3.3% |

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

| | | | | |
|---|------|------|------|------|
| All other salaries and related expenses | 2.6% | 2.5% | 2.4% | 2.5% |
|---|------|------|------|------|

Our staff cost ratio, defined as salaries and related expenses as a percentage of revenue, increased to 66.1% from 62.8% in the third quarter of 2009 and to 68.8% from 64.4% in the first nine months of 2009 from the comparable prior-year

Table of Contents

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

periods, primarily driven by lower revenues and increased severance expense, partially offset by lower base salaries, benefits, temporary help and incentive award expense.

Office and General Expenses

| | Components of change | | | | Change | | |
|---|----------------------|---------------------|--|-----------|----------|---------|---------|
| | 2008 | Foreign currency | Net acquisitions/ (divestitures) | Organic | 2009 | Organic | Total |
| Three months ended September 30, | \$ 526.3 | \$ (22.3) | \$ 0.9 | \$ (79.5) | \$ 425.4 | (15.1%) | (19.2%) |
| Nine months ended September 30, | 1,529.1 | (103.8) | 24.7 | (204.6) | 1,245.4 | (13.4%) | (18.6%) |

Office and general expenses in the third quarter of 2009 decreased by \$100.9 compared to the third quarter of 2008, primarily consisting of an organic decrease of \$79.5 and a favorable foreign currency rate impact of \$22.3. The organic decrease was largely due to our cost containment efforts, which resulted in lower discretionary spending, primarily related to travel and entertainment, office supplies and employment costs. Additionally, we incurred lower production expenses related to pass-through costs for certain prior-year projects where we acted as principal that did not recur or decreased in size during the third quarter of 2009. Production expenses can vary significantly between periods depending upon 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 2009 decreased by \$283.7 compared to the first nine months of 2008, primarily consisting of an organic decrease of \$204.6 and a favorable foreign currency rate impact of \$103.8. The organic decrease was due to factors similar to those noted above for the third quarter of 2009.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Office and general expenses | 29.8% | 30.2% | 29.5% | 30.2% |
| Professional fees | 1.9% | 1.9% | 2.0% | 2.0% |
| Occupancy expense (excluding depreciation and amortization) | 9.0% | 7.6% | 9.0% | 7.8% |
| Travel & entertainment, office supplies and telecommunications | 3.5% | 4.2% | 3.6% | 4.4% |
| All other office and general expenses | 15.4% | 16.5% | 14.9% | 16.0% |

Our office and general expense ratio, defined as office and general expenses as a percentage of revenue, decreased to 29.8% from 30.2% in the third quarter of 2009 and to 29.5% from 30.2% in the first nine months of 2009 from the comparable prior-year periods. The improvement in the office and general expense ratio was driven by reductions in the major expense categories listed in the table above, partially offset by lower revenue.

Restructuring and Other Reorganization-Related (Reversals) Charges

Restructuring and other reorganization-related charges of \$3.9 and \$11.2 for the three and nine months ended September 30, 2008, respectively, primarily relate to the realignment of our global media operations into a new management entity called Mediabrands in the second quarter of 2008. In addition, the charges for the nine months ended September 30, 2008 relate to the restructuring program announced at Lowe during the third quarter of 2007. Net charges primarily consist of leasehold amortization and additional severance expense.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

EXPENSES AND OTHER INCOME

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|-------------------------------------|-----------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Cash interest on debt obligations | \$ (34.9) | \$ (45.8) | \$ (105.4) | \$ (142.8) |
| Non-cash interest | (2.9) | (7.4) | (12.3) | (21.1) |
| Interest expense | (37.8) | (53.2) | (117.7) | (163.9) |
| Interest income | 7.6 | 23.3 | 28.0 | 75.0 |
| Net interest expense | (30.2) | (29.9) | (89.7) | (88.9) |
| Other income (expense), net | 1.0 | (1.0) | (17.4) | 3.9 |
| Total (expenses) and other income | \$ (29.2) | \$ (30.9) | \$ (107.1) | \$ (85.0) |

Net Interest Expense

For the three and nine months ended September 30, 2009, cash interest expense and interest income decreased when compared to the respective prior-year periods, primarily due to declining interest rates, mainly in the United Kingdom, Continental Europe and the U.S. The change in non-cash interest expense for the three and nine months ended September 30, 2009 compared to the respective prior-year periods was primarily due to a decline in amortization of deferred warrant costs and debt issuance costs in connection with the expiration of our \$750.0 Three-Year Credit Agreement, dated as of June 13, 2006 (the "2006 Credit Agreement") in June 2009. Additionally, for the three months ended September 30, 2009, the decrease in non-cash interest expense was partially offset by changes in the value of obligations to purchase noncontrolling equity shares of consolidated subsidiaries. See Note 11 to the unaudited Consolidated Financial Statements for further information.

Other Income (Expense), net

Results of operations for the three and nine months ended September 30, 2009 and 2008 include certain items which are either non-recurring or are not directly associated with our revenue producing operations.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Loss on early extinguishment of debt ¹ | \$ (1.2) | \$ | \$ (25.8) | \$ |
| Gains (losses) on sales of businesses and investments | 0.7 | (0.1) | (2.1) | 3.9 |
| Vendor discounts and credit adjustments ² | 1.5 | 2.4 | 7.7 | 12.6 |
| Litigation settlement ³ | | | | (12.0) |
| Other (expense) income, net | | (3.3) | 2.8 | (0.6) |
| Total other income (expense), net | \$ 1.0 | \$ (1.0) | \$ (17.4) | \$ 3.9 |

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

- 1 During the second quarter of 2009, we recorded a charge of \$24.6 related to the early settlement of our tender offers for the 5.40% Notes due 2009 (the 2009 Notes) and 7.25% Notes due 2011 (the 2011 Notes). During the third quarter of 2009, we recorded a charge of \$0.9 related to the final settlement of our tender offers for the 2009 Notes, 2011 Notes and Floating Rate Notes due 2010 (the 2010 Notes), as well as a charge of \$0.3 related to the redemption of all of our outstanding 2009 Notes. See Note 2 to the unaudited Consolidated Financial Statements for further information.
- 2 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.
- 3 During May 2008, the SEC concluded its investigation that began in 2002 into our financial reporting practices, resulting in a settlement charge of \$12.0.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

INCOME TAXES

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Income (loss) before income taxes | \$ 29.1 | \$ 85.4 | \$ (33.8) | \$ 174.1 |
| Provision for (benefit of) income taxes | \$ 3.7 | \$ 35.5 | \$ (18.0) | \$ 90.9 |

The effective tax rate for the third quarter of 2009 is 12.7%, compared to 41.6% in the third quarter of 2008, and for the first nine months of 2009 is 53.3%, compared to 52.2% in the first nine months of 2008. 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 and nine months ended September 30, 2009, the difference between the effective tax rate and the statutory rate of 35% is primarily due to the recognition of previously unrecognized tax benefits, the recognition of tax benefits on partially worthless securities, 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. See Note 6 to the unaudited Consolidated Financial Statements for further information.

For the three and nine months ended September 30, 2008, the difference between the effective tax rate and the statutory rate of 35% is primarily due to state and local taxes, losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances and, for the nine months ended September 30, 2008, the SEC settlement provision for which we received no tax benefit and the release of valuation allowances in jurisdictions where we believed it was more likely than not that we will realize our deferred tax assets.

Segment Results of Operations Three and Nine Months Ended September 30, 2009 compared to Three and Nine Months Ended September 30, 2008

As discussed in Note 10 to the unaudited Consolidated Financial Statements, we have two reportable segments as of September 30, 2009: IAN and Constituency Management Group (CMG). We also report results for the Corporate and other group.

IAN**REVENUE**

| | Three months ended September 30, 2008 | Foreign currency | Components of change Net acquisitions/ (divestitures) | | Organic | Three months ended September 30, 2009 | Organic | Change Total |
|----------------------|--|------------------|---|--|------------|--|---------|-----------------|
| Consolidated | \$ 1,450.1 | \$ (59.2) | \$ 1.6 | | \$ (200.6) | \$ 1,191.9 | (13.8%) | (17.8%) |
| Domestic | 770.1 | | (0.3) | | (105.3) | 664.5 | (13.7%) | (13.7%) |
| International | 680.0 | (59.2) | 1.9 | | (95.3) | 527.4 | (14.0%) | (22.4%) |

During the third quarter of 2009, our revenue decreased by \$258.2 compared to the third quarter of 2008, primarily consisting of an organic revenue decrease of \$200.6 and an adverse foreign currency impact of \$59.2. The organic revenue decrease was primarily driven by a pullback of existing client business throughout all agencies within IAN due to challenging economic conditions, most predominantly in the technology and telecom and auto and transportation sectors. The international organic decrease occurred throughout all regions, with the largest impact in

Continental Europe and the United Kingdom.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

| | Components of change | | | | Change | | |
|----------------------|----------------------|------------------|-------------------------------------|------------|--------------------|---------|---------|
| | Nine months ended | Foreign currency | Net acquisitions/ (divestitures) | Organic | Nine months ended | Organic | Total |
| | September 30, 2008 | | | | September 30, 2009 | | |
| Consolidated | \$ 4,229.7 | \$ (263.0) | \$ 68.3 | \$ (480.0) | \$ 3,555.0 | (11.3%) | (16.0%) |
| Domestic | 2,263.3 | | 15.1 | (279.9) | 1,998.5 | (12.4%) | (11.7%) |
| International | 1,966.4 | (263.0) | 53.2 | (200.1) | 1,556.5 | (10.2%) | (20.8%) |

During the first nine months of 2009, our revenue decreased by \$674.7 compared to the first nine months of 2008, primarily consisting of an organic revenue decrease of \$480.0 and an adverse foreign currency impact of \$263.0. The domestic and international organic decrease was driven by factors similar to those noted above for the third quarter of 2009.

SEGMENT OPERATING INCOME

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---------------------------------|-------------------------------------|----------|---------|------------------------------------|----------|---------|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Segment operating income | \$ 78.7 | \$ 144.0 | (45.3%) | \$ 135.7 | \$ 344.5 | (60.6%) |
| Operating margin | 6.6% | 9.9% | | 3.8% | 8.1% | |

Operating income decreased during the third quarter of 2009 when compared to the third quarter of 2008 due to a decrease in revenue of \$258.2, partially offset by decreases in salaries and related expenses of \$122.5 and office and general expenses of \$70.4. The decrease in salaries and related expenses was primarily due to lower base salaries, benefits and temporary help related to work force actions taken during the fourth quarter of 2008 and during 2009 in response to the difficult economic conditions that began in the latter part of 2008. Incentive award expense was lower during the third quarter of 2009 consistent with the explanations provided in the consolidated Salaries and Related Expenses section. These reductions were partially offset by higher severance charges incurred for work force actions taken in the third quarter of 2009, which affected all regions, with the largest impact in the U.S. and Continental Europe. Lower office and general expenses were primarily due to cost containment measures that reduced discretionary expenses, primarily related to travel and entertainment and employment costs, as well as lower production expenses associated with reduced project work where we acted as principal.

Operating income decreased during the first nine months of 2009 when compared to the first nine months of 2008 due to a decrease in revenue of \$674.7, partially offset by decreases in salaries and related expenses of \$270.2 and office and general expenses of \$195.7, driven by factors similar to those noted above for the third quarter of 2009.

CMG**REVENUE**

| | Components of change | | | | Change | | |
|----------------------|----------------------|------------------|-------------------------------------|-----------|--------------------|---------|---------|
| | Three months ended | Foreign currency | Net acquisitions/ (divestitures) | Organic | Three months ended | Organic | Total |
| | September 30, 2008 | | | | September 30, 2009 | | |
| Consolidated | \$ 289.9 | \$ (8.8) | \$ | \$ (46.3) | \$ 234.8 | (16.0%) | (19.0%) |
| Domestic | 193.7 | | | (23.9) | 169.8 | (12.3%) | (12.3%) |
| International | 96.2 | (8.8) | | (22.4) | 65.0 | (23.3%) | (32.4%) |

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

During the third quarter of 2009, revenue decreased by \$55.1 compared to the third quarter of 2008, consisting of an organic revenue decline of \$46.3 and an adverse foreign currency impact of \$8.8. The domestic and international organic revenue decreases were primarily due to the completion of several projects with existing clients in 2008 that did not recur or

Table of Contents

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

were substantially curtailed in the third quarter of 2009 in our events marketing business and the pullback of existing client business in certain of our public relations and branding businesses due to broader economic difficulties. The international organic decrease occurred primarily in the United Kingdom and the Asia Pacific region. Revenues in the events marketing business can fluctuate due to 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, 2008 | Foreign currency | Net acquisitions/ (divestitures) | Organic | Nine months ended September 30, 2009 | Organic |
| Consolidated | \$ 831.2 | \$ (43.2) | \$ | \$ (116.6) | \$ 671.4 | (14.0%) |
| Domestic | 540.5 | | | (76.4) | 464.1 | (14.1%) |
| International | 290.7 | (43.2) | | (40.2) | 207.3 | (13.8%) |

During the first nine months of 2009, revenue decreased by \$159.8 compared to the first nine months of 2008, consisting of an organic revenue decrease of \$116.6 and an adverse foreign currency impact of \$43.2, and was driven by factors similar to those noted above for the third quarter of 2009.

SEGMENT OPERATING INCOME

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---------------------------------|-------------------------------------|---------|---------|------------------------------------|---------|---------|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Segment operating income | \$ 18.2 | \$ 23.8 | (23.5%) | \$ 43.5 | \$ 56.2 | (22.6%) |
| Operating margin | 7.8% | 8.2% | | 6.5% | 6.8% | |

Operating income decreased during the third quarter of 2009 when compared to the third quarter of 2008 due to a decrease in revenue of \$55.1, partially offset by a decrease in office and general expenses of \$27.6 and salaries and related expenses of \$21.9. Office and general expenses decreased primarily due to lower production expenses in the events marketing business and, to a lesser extent, reductions in certain discretionary expenses. Salaries and related expenses decreased primarily due to a decrease in base salaries, benefits and temporary help of \$18.3 as a result of lower headcount from severance actions.

Operating income decreased during the first nine months of 2009 when compared to the first nine months of 2008 due to a decrease in revenue of \$159.8, partially offset by decreases in office and general expenses of \$82.7 and salaries and related expenses of \$64.4, and were driven by factors similar to those noted above for the third quarter of 2009.

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, bonus 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.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Corporate and other expenses for the third quarter of 2009 decreased by \$8.5 to \$39.1 compared to the third quarter of 2008, primarily due to lower long-term incentive award expense and the impact of unfavorable foreign currency changes on certain balance sheet items in the third quarter of 2008 that did not recur in the current year. The reduction in long-term incentive award expense primarily relates to changes in our assumptions on achieving certain performance targets. For the first nine months of 2009, corporate and other expenses decreased by \$23.8 to \$106.6 compared to the first nine months of 2008, primarily due to lower incentive award expense, the impact of foreign currency changes and reductions in professional fees. The changes in incentive award expense and foreign currency changes are similar to those noted above for the third quarter of 2009. The decline in professional fees is primarily due to reduced audit and legal fees.

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.

| | Nine months ended September 30, | | |
|--|------------------------------------|----------------------|-----------------------|
| | 2009 | 2008 | |
| Cash Flow Data | | | |
| Net cash (used in) provided by operating activities | \$ (198.5) | \$ 146.1 | |
| Net cash provided by (used in) investing activities | 47.3 | (198.3) | |
| Net cash used in financing activities | (262.6) | (263.1) | |
| Working capital usage (included in operating activities) | \$ (327.2) | \$ (159.2) | |
| | | | |
| | September 30, 2009 | December 31, 2008 | September 30, 2008 |
| Balance Sheet Data | | | |
| Cash, cash equivalents and marketable securities | \$ 1,772.1 | \$ 2,274.9 | \$ 1,707.6 |
| Short-term debt | \$ 88.2 | \$ 332.8 | \$ 81.9 |
| Long-term debt | 1,866.9 | 1,786.9 | 2,043.1 |
| Total debt | \$ 1,955.1 | \$ 2,119.7 | \$ 2,125.0 |

Cash, cash equivalents and marketable securities decreased by \$502.8 during the first nine months of 2009.

Operating Activities

Cash used in operating activities during the first nine months of 2009 increased by \$344.6 as compared to the first nine months of 2008, primarily the result of an increased use of working capital of \$168.0. Net cash used in operating activities in the first nine months of 2009 primarily reflects net loss of \$16.3 and working capital usage of \$327.2, partially offset by net adjustments to reconcile net loss of \$217.0. Net adjustments to reconcile net loss primarily include depreciation and amortization of fixed assets and intangible assets, deferred income tax benefits, amortization of restricted stock and other non-cash compensation and the loss on early extinguishment of debt. Cash generated or used by working capital reflects changes in accounts receivable, expenditures billable to clients, prepaid expenses and other current assets, accounts payable and accrued liabilities. In the first nine months of 2009 we used working capital of \$327.2 compared to a use of working capital of \$159.2 in the first nine months of 2008. The increase in working capital usage is primarily due to the combined effect of strong growth in the latter part of 2008 at certain of our businesses and decreases in client spending due to economic conditions in the first nine months of 2009,

partially offset by improvements in working capital management at certain of our 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 costs and media costs on behalf of clients. To the extent

Table of Contents

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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

Cash provided by investing activities during the first nine months of 2009 includes net sales and maturities of short-term marketable securities partially offset by deferred payments on prior acquisitions and capital expenditures. Net sales and maturities of short-term marketable securities of \$157.9 primarily relates to a redemption of a time deposit.

Financing Activities

Cash used in financing activities during the first nine months of 2009 reflects proceeds, uses and fees related to our debt transactions. We issued \$600.0 in aggregate principal amount of our 2017 Notes at 97.958% of par and incurred related debt issuance costs. We settled tenders of our 2009 Notes, 2011 Notes and 2010 Notes. As a result, we paid cash of \$734.7, which includes early tender premiums, to purchase \$214.0 aggregate principal amount of the 2009 Notes, \$463.7 aggregate principal amount of the 2011 Notes and \$36.3 aggregate principal amount of the 2010 Notes. Additionally, during the third quarter of 2009, we paid \$36.0 of cash to redeem the remaining \$36.0 aggregate principal amount of the 2009 Notes. Total net cash used related to these debt transactions, including issuance costs and discounts, was \$202.2.

Additionally, cash used in financing activities reflects distributions to noncontrolling interests of \$21.1 and dividend payments of \$20.7 on our Series B Preferred Stock.

Foreign Exchange Rate Changes

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 \$68.1 during the nine months ended September 30, 2009. This increase primarily reflects the strengthening of the Euro against the U.S. Dollar during this period.

LIQUIDITY OUTLOOK

Based on our cash flow forecasts 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. In addition, we have a committed credit facility available to support our operating needs. Our policy is to maintain a conservative approach to liquidity, which we believe is appropriate for our Company in view of the current conditions in the economy. As a result, we are closely managing our spending and will defer or limit discretionary spending where possible, while continuing to position ourselves for growth in the future.

The difficult global economic conditions have made business conditions extremely challenging for us during the first nine months of 2009, and should market conditions continue to adversely affect our clients, it could continue to challenge our level of cash generation from operations. Economic conditions have caused a decrease in demand for advertising and marketing services, which led to a decrease in our revenue during the first nine months of 2009. We have accounts receivable related to revenues earned and for pass-through costs incurred on behalf of our clients as well as expenditures billable to clients related to costs incurred and fees earned that have not yet been billed. Although we have not experienced a material increase in client defaults, current market conditions increase the likelihood that we could experience future losses.

General

Table of Contents

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Motors Corporation (GM) and certain of its U.S. affiliates filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code on June 1, 2009, and completed their reorganization in July. We did not incur any charges related to outstanding amounts due from GM during the first nine months of 2009.

We maintain a committed corporate credit facility to increase our financial flexibility. We have not drawn on any of our corporate credit facilities since 2003, although we use them to issue letters of credit primarily to support commitments on behalf of certain clients. Our 2006 Credit Agreement expired in June 2009. Prior to the expiration of our 2006 Credit Agreement, we replaced a portion of this facility in July of 2008 with our \$335.0 Three-Year Credit Agreement (the 2008 Credit Agreement), and we do not currently plan on replacing the full amount. The outstanding letters of credit under the 2006 Credit Agreement were replaced with letters of credit issued under the 2008 Credit Agreement in the second quarter of 2009. The 2008 Credit Agreement includes commitments from a syndicate of financial institutions, and if any of the financial institutions in the syndicate were unable to perform and no other bank assumed that institution's commitment, the total size of the facility would be reduced by the size of that institution's commitment. Additionally, during the second quarter of 2009 we amended the terms of our 2008 Credit Agreement to improve our financial flexibility.

We recently took measures to improve our debt profile. See Financing and Sources of Funds below and Note 2 to the unaudited Consolidated Financial Statements for further information. If, however, our business is adversely impacted by further deterioration in the economic environment, it could lead us to seek new or additional sources of liquidity to fund our working capital needs or 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 capital markets, such as the amount or terms of available credit. 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. 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, acquisitions, capital expenditures, payments related to vendor discounts and credits, debt service, preferred stock dividends, contributions to pension and postretirement plans and taxes. Additionally, we may be required to make payments to minority owners if certain put options related to prior acquisitions are exercised. In any twelve-month period, we maintain substantial flexibility over significant uses of cash, including our capital expenditures and cash used for new acquisitions. Notable funding requirements include:

Debt service The remaining aggregate principal amount of \$213.7 related to our 2010 Notes expect to be settled with available cash upon maturity on November 15, 2010. The remainder of our debt is primarily long-term, with maturities scheduled from 2011 to 2023.

Acquisitions During the first nine months of 2009 we paid \$64.2 of deferred payments related to acquisitions completed in previous years, and we expect to pay approximately \$3.0 in the fourth quarter of 2009 and approximately \$20.0 in 2010. We also expect to continue to evaluate potential new strategic acquisitions.

Contributions to pension and postretirement plans Our funding policy regarding our pension plan is to contribute amounts necessary to satisfy minimum pension funding requirements plus such additional amounts from time to time as determined to be appropriate to improve the plans' funded status. For the three and nine months ended September 30, 2009, we made contributions of \$7.5 and \$21.6, respectively, to our foreign pension plans and contributions to the domestic pension plans were negligible. For the remainder of 2009, we expect to contribute approximately \$6.0 to our foreign pension plans and make no contributions to our domestic pension

plans.

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 locations 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, 2009 Amount Outstanding | Letters of Credit ¹ | Total Available |
|--|-------------------|---|-----------------------------------|--------------------|
| Cash, cash equivalents and marketable securities | | | | \$ 1,772.1 |
| <u>Committed</u> | | | | |
| 2008 Credit Agreement | \$ 335.0 | \$ | \$ 94.1 | \$ 240.9 |
| Uncommitted | \$ 400.3 | \$ 85.0 | \$ 0.8 | \$ 314.5 |

¹ We are required from time to time to post letters of credit, to support our commitments, or those of our subsidiaries, primarily to purchase media placements, mostly in locations outside the U.S., or to satisfy other obligations. These letters of credit have historically not been drawn upon. The following are recent debt actions that have impacted our liquidity:

Long-Term Debt

On June 8, 2009, we launched tender offers to purchase, for cash, (i) any and all of our \$250.0 2009 Notes and (ii) up to \$500.0 in aggregate principal amount of our outstanding 2011 Notes and 2010 Notes. The \$500.0 maximum aggregate principal amount was first applied towards the purchase of all of the tendered 2011 Notes and then towards the purchase of the 2010 Notes on a pro-rated basis.

On June 15, 2009, we issued \$600.0 in aggregate principal amount of 2017 Notes at 97.958% of par. The net proceeds were approximately \$572.0 after deducting discounts, commissions and offering expenses. We used the proceeds of the 2017 Notes to fund our tender offer to purchase up to \$500.0 aggregate principal amount of outstanding 2011 Notes and 2010 Notes.

On June 22, 2009, we settled our early tenders of the 2009 Notes and the 2011 Notes. We purchased \$213.9 aggregate principal amount of the 2009 Notes using cash on hand and \$463.7 aggregate principal amount of the 2011 Notes. Cash paid to purchase the early tendered 2009 Notes and 2011 Notes, including accrued and unpaid interest, was \$711.4.

On July 7, 2009, we settled tenders for the 2009 Notes, 2011 Notes and 2010 Notes that had not been settled at the early settlement date. We purchased less than \$0.1 additional aggregate principal amount of the 2009 Notes and 2011 Notes, as well as \$36.3 aggregate principal amount of the 2010 Notes. Cash paid to purchase the 2009 Notes and the 2011 Notes that were tendered during the final tender period and the 2010 Notes that were accepted for purchase, including accrued and unpaid interest, was \$36.5.

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

In July and August of 2009 we entered into a series of interest rate swap agreements related to our 6.25% Senior Unsecured Notes due 2014 (the 6.25% Notes). These swap agreements convert \$250.0 notional amount of our \$350.0 6.25% Notes from fixed rate to floating rate debt. Please refer to Note 2 in our unaudited Consolidated Financial Statements for additional information.

On September 14, 2009, we redeemed all of our 2009 Notes that remained outstanding and that were scheduled to mature on November 15, 2009. Cash paid to redeem the \$36.0 aggregate principal amount of the 2009 Notes, including accrued and unpaid interest, was \$37.0.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Credit Facilities

The 2008 Credit Agreement is a revolving facility expiring July 18, 2011, under which amounts borrowed by us or any of our subsidiaries designated under the 2008 Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of \$335.0 or the equivalent in other currencies, and 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 2008 Credit Agreement are unsecured.

On May 13, 2009, we entered into Amendment No. 1 to the 2008 Credit Agreement to preserve our ability to use the 2008 Credit Agreement in the event of any bankruptcy or related event with respect to GM and/or any of its affiliates. Amendment No. 1 modifies the definition of earnings before interest, taxes, depreciation and amortization (EBITDA) under the 2008 Credit Agreement to exclude from the determination of consolidated EBITDA any effects arising from any bankruptcy or other adverse event with respect to GM and/or any of its affiliates, limited to an aggregate amount of \$150.0 of cash charges and an aggregate amount of \$100.0 of non-cash charges.

On June 5, 2009, we entered into Amendment No. 2 to the 2008 Credit Agreement to modify certain terms of the financial covenants. As of the end of each fiscal quarter, we will be required to maintain (i) an interest coverage ratio (EBITDA to net interest expense plus cash dividends on convertible preferred stock) for the four quarters then ended of not less than 3.75 to 1, (ii) a leverage ratio (debt as of such date to EBITDA) for the four quarters then ended of not greater than 3.25 to 1, and (iii) minimum EBITDA for the four quarters then ended of not less than \$550.0 through June 30, 2010 and \$600.0 thereafter.

On June 15, 2009, our 2006 Credit Agreement expired and as of the expiration date, there was no outstanding principal. In connection with the 2006 Credit Agreement we issued 67.9 warrants, consisting of 29.1 capped warrants and 38.8 uncapped warrants with a stated exercise date of June 15, 2009. Based on the market price of our common stock and stated exercise prices of the warrants, we did not have to make any cash payments or issue any common stock to settle the warrants. See Note 2 to the unaudited Consolidated Financial Statements for further information.

The 2008 Credit Agreement includes restrictive covenants and financial covenants, and as of September 30, 2009, we were in compliance with all applicable covenants, as seen in the table below.

| Covenants | Four Quarters Ended September 30, 2009 | EBITDA Reconciliation | Four Quarters Ended September 30, 2009 |
|---|--|-------------------------------|--|
| Interest coverage ratio (not less than) | 3.75x | Operating income | \$ 404.0 |
| Actual interest coverage ratio | 4.63x | Add: | |
| | | Depreciation and amortization | 222.7 |
| Leverage ratio (not greater than) | 3.25x | Non-cash charges | 0.2 |
| Actual leverage ratio | 3.12x | EBITDA | \$ 626.9 |
| EBITDA (not less than) | \$ 550.0 | | |

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

| | | |
|---------------|----|-------|
| Actual EBITDA | \$ | 626.9 |
|---------------|----|-------|

If we believed we would not be able to comply with these financial covenants in the future, we would seek an amendment and/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 are unable to obtain the necessary amendment or waiver, the 2008 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. As of September 30, 2009, there was no outstanding principal and \$94.1 in outstanding letters of credit.

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

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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 U.S., and the amount outstanding as of September 30, 2009 was \$85.0. We have guaranteed the repayment of some of these borrowings made by certain subsidiaries. If we 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, 2009 was approximately 1%.

We aggregate our net domestic cash position on a daily basis. Outside the U.S. we use cash pooling arrangements with banks to help manage our liquidity requirements. In these pooling arrangements, several Interpublic 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 overdrafts, under all of our pooling arrangements, and as of September 30, 2009, the amount netted was \$939.3.

DEBT RATINGS

Our long-term debt credit ratings as of October 16, 2009 is listed below.

| | Moody's Investor Service | Standard and Poor's | Fitch Ratings |
|---------|-----------------------------|------------------------|---------------|
| Rating | Ba3 | B+ | BB+ |
| Outlook | Positive | Stable | Positive |

The most recent change in our credit ratings occurred on March 5, 2009 when Standard and Poor's 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.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2008 included in our 2008 Annual Report on Form 10-K as filed on February 27, 2009 and our Form 8-K dated as of June 8, 2009. 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 on other factors that we consider reasonable 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, 2008. Actual results may differ from these estimates under different assumptions or conditions.

Goodwill and Other Intangible Assets

We review goodwill and other intangible assets with indefinite lives not subject to amortization as of October 1st each year or whenever events or significant changes in circumstances indicate that the carrying value may not be recoverable. The deterioration of global economic conditions has adversely affected the demand for advertising and marketing services in 2009, which has presented a challenge in meeting the revenue and profit growth projections for certain of our reporting units. As a result of our review of updated projected operating results for 2009, we determined that the projected decrease in profitability for 2009 of five of our reporting units was an event that more likely than not could reduce

the fair value 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)

each of these reporting units below its carrying value. As the fair value of these reporting units did not exceed their carrying value by a substantial margin during our last annual test as of October 1, 2008, we assessed the recoverability of goodwill at these reporting units as of August 31, 2009.

In determining the fair value of our tested reporting units, we used a combination of the income approach, which incorporates the use of the discounted cash flow method, and the market approach, which incorporates the use of earnings and revenue multiples based on market data. We have applied more weight to the income approach as the market approach is still affected by the challenging economic environment. For the income approach, we used projections, which require the use of significant estimates and assumptions for each reporting unit as to matters such as revenue growth, profit margins, terminal value growth rates, capital expenditures, assumed tax rates and discount rates. For the market approach, we used judgment in identifying the relevant comparable company market multiples. These estimates and assumptions vary between each reporting unit depending on the facts and circumstances specific to that unit. The discount rate for each reporting unit is influenced by general market conditions as well as factors specific to the reporting unit. The discount rates we used for our reporting units for the interim test were between 11.5% and 15.0%. We believe that the estimates and assumptions we made are reasonable, but they are susceptible to change from period to period. Actual results of operations, cash flows and other factors will likely differ from the estimates used in our valuation, and it is possible that differences and changes could be material.

We have performed a sensitivity analysis to detail the impact that changes in assumptions may have on the outcome of the first step of the impairment test. Our sensitivity analysis provides a range of fair value for each reporting unit, where the low end of the range reduces growth rates by 0.5% and increases discount rates by 0.5% and the high end of the range increases growth rates by 0.5% and decreases discount rates by 0.5%. For purposes of our comparison between carrying value and fair value for the first step of the impairment test, we use the average of our fair values.

Using the average fair value, the individual fair values of the five reporting units that were tested were greater than their carrying values and no impairment charge was necessary in the third quarter of 2009. The excess fair value, when compared to the respective carrying value, was not greater than 10% for each of our five tested reporting units. The related goodwill associated with these reporting units was approximately \$570.0 as of the testing date.

We perform our annual impairment review as of October 1, 2009, in which we will review our financial projections and assumptions in estimating fair value at all of our reporting units, including the five reporting units tested during the third quarter. Additional deterioration in profitability and continued adverse market conditions could have a significant impact on the estimated fair value of our reporting units, which could result in an impairment charge in the fourth quarter of 2009.

RECENT ACCOUNTING STANDARDS

Please refer to Note 13 to the unaudited Consolidated Financial Statements for a discussion of certain accounting standards that have been adopted during 2009 and certain accounting standards which 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*

There has been no significant change in our exposure to market risk during the nine months ended September 30, 2009. Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. As of September 30, 2009 and December 31, 2008, approximately 84% of our debt obligations bore interest at fixed interest rates. We have used interest rate swaps to manage the mix of our fixed and floating rate debt obligations, and, in the third quarter of 2009, we entered into interest rate swap agreements that convert \$250.0 million notional amount of our \$350.0 million 6.25% Notes from fixed rate to floating rate debt. We enter into interest rate swaps for risk management purposes, and not for speculative purposes, to manage our exposure to changes in interest rates and to maintain an appropriate mix of fixed and floating rate debt. See Note 2 to the unaudited Consolidated Financial Statements for more information. We are not dependent on short-term funding, and the uncertainty in the credit market has not materially impacted our funding costs. Our pension plan assets are also exposed to market risk. The fair value of our pension plan assets may appreciate or depreciate during the year and can result in lower or higher pension expense and funding requirements in future periods. For a further discussion of our exposure to market risk, refer to Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in our 2008 Annual Report on Form 10-K as filed on February 27, 2009. For further discussion regarding current economic conditions, see the Executive Summary and Liquidity and Capital Resources sections in Item 2, *Management's Discussion and Analysis of Financial Conditions and Results of Operations*.

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 such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2009, 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 Securities and Exchange Commission 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, 2009 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 12 to the unaudited Consolidated Financial Statements included in this Quarterly Report.

Item 1A. Risk Factors

In the third quarter of 2009, there have been no material changes in the risk factors we have previously disclosed in Item 1A, Risk Factors, in our 2008 Annual Report on Form 10-K as filed on February 27, 2009.

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, 2009 to September 30, 2009:

| | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) ² | 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 | 6,627 shares | \$ 4.76 | | |
| August 1-31 | 50,715 shares | \$ 5.55 | | |
| September 1-30 | 41,045 shares | \$ 6.97 | | |
| Total ¹ | 98,387 shares | \$ 6.09 | | |

1 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 during each month of the third quarter of 2009 (the Withheld Shares).

2 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 common stock withheld each month.

Working Capital Restrictions and Other Limitations on the Payment of Dividends

The 2008 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 amount of \$600.0 million in any fiscal year. If we maintain a leverage ratio not greater than 2.75 to 1 at the end of any fiscal year, we may carry forward to the next fiscal year unused amounts of up to \$200.0 million of the \$600.0 million. If our leverage ratio is 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. 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*

| EXHIBIT NO. | DESCRIPTION |
|--------------------|---|
| 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. |

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 28, 2009

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

Senior Vice President, Controller and

Chief Accounting Officer

(Principal Accounting Officer)

Date: October 28, 2009

Table of Contents

INDEX TO EXHIBITS

| EXHIBIT NO. | DESCRIPTION |
|--------------------|---|
| 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. |